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 1989-90	$5,501,000
Estimated 1988-89	4,575,000
Actual 1987-88	4,580,000
Requested increase $926,000 (excluding amount for salary increases) (+20 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal	$5,501,000
4110-001-001—Area Boards on Developmental Disabilities	Reimbursements	(2,378,000)

GENERAL PROGRAM STATEMENT

The State Council on Developmental Disabilities operates pursuant to 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 have 52.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $5.5 million from federal funds for support of the state council and area boards in 1989-90. This is an increase of $926,000, or 20 percent, above estimated current-year expenditures. This increase results from (1) an augmentation to the federal grant received by the state council and (2) unspent grant funds from prior years that are being carried over for expenditure in the budget year.

The budget proposes a total of 52.3 personnel-years for these programs in 1989-90. Table 1 displays how federal funds are allocated to the state council, program development, and area boards in the past, current, and budget years.

Table 1
State Council and Area Boards
Budget Summary—Federal Funds
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
State council	11.8	12.4	12.7	$784	$1,021	$953	−6.7%
Program development	—	—	—	1,740	1,322	2,170	64.1
Area boards	36.2	39.8	39.6	2,056	2,232	2,378	6.5
Totals	48.0	52.2	52.3	$4,580	$4,575	$5,501	20.2%

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $953,000 for the council in 1989-90, a reduction of $68,000, or 6.7 percent, from estimated current-year expenditures. This decrease reflects the net effect of elimination of one-time contracts authorized in the current year, technical adjustments, and two separate augmentations of $15,000 each for (1) clerical staff and (2) support for the two council members added by both federal law and Ch 1011/88 (AB 4230).

The budget proposes an appropriation of $2.4 million for the area boards, an increase of $146,000, or 6.5 percent, over estimated current-year expenditures. The increase is due primarily to proposals for augmentations of (1) $66,000 to continue 1.8 limited-term positions associated with the revised process for administering Program Development Fund monies and (2) $25,000 ($11,000 in one-time funds) to relocate Area Boards IX and X.

The remaining funds available from the federal grant are scheduled for program development activities. Due to increases in the grant and the availability of rollover funds, the total amount scheduled for program development is budgeted to increase by $848,000, or 64 percent.

Health and Welfare Agency
EMERGENCY MEDICAL SERVICES AUTHORITY

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

Requested 1989-90	$5,776,000
Estimated 1988-89	5,782,000
Actual 1987-88	4,702,000
Requested decrease (excluding amount for salary increases) $6,000 (−0.1 percent)	
Total recommended reduction	None

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4120-001-001—Department support	General	$1,014,000
4120-001-890—Department support	Federal	260,000
4120-101-001—Local assistance	General	2,857,000
4120-101-890—Local assistance	Federal	1,493,000
Reimbursements	—	152,000
Total		$5,776,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Statewide Paramedics Testing. Recommend that the Legislature adopt Budget Bill language to restrict expenditure of $76,000 in reimbursements for statewide paramedics testing pending enactment of legislation. 385

GENERAL PROGRAM STATEMENT

The Emergency Medical Services 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 (EMS) 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, (4) developing regulations and reviewing local plans to implement trauma care systems, and (5) designating and monitoring regional poison control centers.

The authority has 20 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $3,871,000 from the General Fund for support of the authority's programs in 1989-90. This is an increase of $75,000, or 2 percent, above estimated current-year expenditures. This increase in General Fund expenditures is due primarily to increased lease payments and other operating expenses.

The proposed appropriation from federal funds is $1,753,000, which is an increase of $8,000, or 0.5 percent, above estimated current-year expenditures. The budget proposes reimbursements of $152,000, which is a decrease of $89,000, or 37 percent, below estimated current-year expenditures. The decrease in reimbursements reflects the reduction of a one-time grant from the Office of Emergency Services for emergency response to hazardous materials disasters training.

The budget proposes to continue the authority's staffing at 20 personnel-years in 1989-90.

recommend approval 3-16-89

ANALYSIS AND RECOMMENDATIONS

Paramedics Testing Proposal Premature

We recommend that the Legislature adopt Budget Bill language to restrict expenditure of $76,000 in reimbursements until legislation is enacted that clarifies funding arrangements for statewide testing of paramedics.

The budget proposes $152,000 in reimbursements (federal funds) from the Office of Traffic Safety (OTS) to implement Ch 312/86 (AB 3057). This legislation requires the authority to "establish criteria for the statewide recognition of the certification or authorization of pre-hospital emergency medical care personnel."

During the current year, the authority obtained authorization through Section 28 of the 1988 Budget Act to spend $151,000 from the same funding source to develop a statewide written and skills examination for paramedics. The authority intends to use the amount proposed in the budget year for staff needed to implement statewide testing of paramedics. The OTS funds would not be used for test administration; these costs would be funded from fees collected from paramedics.

The budget does not identify any fee revenues nor any costs associated with administering the tests. This is because the authority is proposing legislation that will (1) clarify its authority to implement statewide testing, (2) allow it to designate a contractor to collect testing fees, and (3) establish a special fund for the fees.

We believe that it is premature to provide funding for implementation of testing before the legislation proposed by the authority is enacted. However, we believe it is reasonable for the authority to continue with its testing development activities until that time. In order to limit the authority's ability to spend funds on implementation before the proposed legislation is enacted, we recommend that the Legislature adopt Budget Bill language that places restrictions on one-half of the OTS grant funds ($76,000). This is the amount that would be spent in the period January through June 1990. Specifically, we recommend that the Legislature add the following language to Item 4120-001-001:

> The Emergency Medical Services Authority is authorized to spend $76,000 of its grant from the Office of Traffic Safety on developing statewide tests for paramedics. The authority shall not spend any of its remaining Office of Traffic Safety funds for implementation of testing statewide until legislation is enacted that clarifies funding arrangements for this activity.

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

Item 4130 from the Health and Welfare Data Center Revolving Fund — Budget p. HW 71

Requested 1989-90	$69,024,000
Estimated 1988-89	60,067,000
Actual 1987-88	41,883,000
Requested increase (excluding amount for salary increases) $8,957,000 (+15 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Health and Welfare Agency 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 210.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $69,024,000 from the Health and Welfare Agency Data Center Revolving Fund to support the data center's operations in 1989-90. This is an increase of $8,957,000, or 15 percent, above estimated current-year expenditures. The increase is primarily due to increased workload and equipment for two of the data center's user departments:

- ***Employment Development Department (EDD).*** The EDD is requesting an additional $4.6 million for several projects, most significantly the continuation of the automation of its Job Service field offices and the increased data processing needs of the Unemployment Insurance program.
- ***Department of Rehabilitation (DOR).*** The DOR is requesting an additional $3.6 million to implement a statewide computer assisted case service system.

Our analysis indicates that the amounts requested by the data center are consistent with the amounts proposed in the budgets for its user departments.

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 1989-90	$28,289,000
Estimated 1988-89	30,776,000
Actual 1987-88	24,804,000
Requested decrease (excluding amount for salary increases) $2,487,000 (−8.1 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4140-001-001—Support	General	$2,029,000
4140-001-121—Support	Hospital Building Account, Architecture Public Building	17,093,000
4140-001-143—Support	California Health Data and Planning	6,721,000
4140-001-181—Support	Registered Nurse Education	600,000
Carry-over from previous years	General	700,000
Health and Safety Code Section 436.26	Health Facility Construction Loan Insurance	819,000
Education Code Section 69800	Minority Health Professions Education	214,000
Reimbursements	—	113,000
Total		$28,289,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Recommend that the Office of Statewide Health Planning and Development and the Department of Health Services report to the fiscal committees during budget hearings on their plans to coordinate their small and rural hospital programs. 390

GENERAL PROGRAM STATEMENT

The Office of Statewide Health Planning and Development (OSHPD) is responsible for (1) developing state health plans, (2) administering demonstration projects, (3) operating health professions development programs, (4) reviewing plans and inspecting health facilities construction projects, and (5) collecting health cost and utilization data from health facilities.

The office has 303.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Expenditures for support of the office from all funds are proposed at $28.3 million in 1989-90. This is a decrease of $2.5 million, or 8.1 percent, below estimated current-year expenditures. The budget proposes expenditures of $2.7 million from the General Fund to support the OSHPD in

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

1989-90. This is a decrease of $2.4 million, or 47 percent, below estimated current-year 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
1987-88 through 1989-90
(dollars in thousands)

	Personnel-years			*Expenditures*			
	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change from 1988-89*
Health projects and analysis	14.9	12.4	7.4	$1,225	$901	$735	−18.4%
Demonstration projects	5.9	15.1	17.9	452	1,084	1,243	14.7
Health professions development	11.2	14.3	14.7	3,744	5,762	2,756	−52.2
Facilities development and financing	124.3	147.5	153.5	15,554	17,574	17,912	1.9
Health facilities data	35.9	46.3	44.5	3,669	5,342	5,530	3.5
Administration—undistributed	65.5	67.8	67.1	160	113	113	—
Totals	257.7	303.4	305.1	$24,804	$30,776	28,289	−8.1%
Funding Sources							
General Fund				*$4,125*	*$5,146*	*$2,729*	*−47.0%*
Hospital Building Account, Architecture Public Building Fund				*14,871*	*16,875*	*17,093*	*1.3*
California Health Data and Planning Fund				*4,965*	*6,383*	*6,721*	*5.3*
Health Facilities Construction Loan Insurance Fund				*683*	*1,899*	*819*	*−56.9*
Minority Health Professions Education Fund				—	—	*214*	—[a]
Registered Nurse Education Fund				—	—	*600*	—[a]
Reimbursements				*160*	*473*	*113*	*−76.1*

[a] Not a meaningful figure.

Table 2
Office of Statewide Health Planning and Development
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (Budget Act)	$4,690	$28,948
Adjustments, 1988-89:		
Retirement contribution reduction	−13	−182
Employee compensation adjustment	11	142
Carry-over appropriation for Family Physician Training program	460	460
Rural health care (Ch 67/88)	—	360
Loans for nurses (Ch 887/88)	—	50
Telephone rate reduction	−2	−22
Carry-over appropriation for Minority Health Professions Education Foundation	—	1,020
1988-89 expenditures (revised)	$5,146	$30,776

Baseline adjustments, 1989-90:		
Pro-rata adjustment	—	−237
Full-year effect of salary increases	53	753
Price increases	—	183
One-time cost reductions:		
Loans for nurses (Ch 887/88)	—	−50
Expiration of seismic safety limited-term positions	—	−125
Expiration of senior citizens needs assessment	—	−225
Minority Health Professions Education Foundation	—	−180
Reduction in Family Physician Training program	−2,880	−2,880
Carry-over appropriation for Family Physician Training program (net)	240	240
Carry-over appropriation for Minority Health Professions Education Foundation	—	−1,020
Program change proposals:		
Demonstration projects	170	170
Expansion of the Cal-Mortgage program (Ch 691/88)	—	81
Evaluation of cardiac services (Ch 883/88)	—	15
Registered Nurse Education Fund (Ch 252/88)	—	600
Minority Health Professions Education Foundation (Ch 1307/88)	—	188
1989-90 expenditures (proposed)	$2,729	$28,289
Change from 1988-89 (revised):		
Amount	−$2,417	−$2,487
Percent	−47.0%	−8.1%

The decrease in expenditures from all sources and from the General Fund is due primarily to a reduction of $2.9 million from the General Fund resulting from eliminating the Song-Brown Family Physician Training program.

The budget proposes a total of 305.1 personnel-years for 1989-90, an increase of 1.7 personnel-years from the current-year level.

Table 2 identifies the major budget changes proposed for 1989-90.

ANALYSIS AND RECOMMENDATIONS

Song-Brown Family Physician Training Program Eliminated

The budget proposes to eliminate funding for the Song-Brown Family Physician Training program, for a General Fund savings of $2.9 million, "in order to fund other higher-priority General Fund programs." The proposed reduction will not affect funding of training programs until 1990-91, because under program procedures, funds appropriated in one fiscal year are actually spent during the next fiscal year. In addition, there is $700,000 in carry-over funding from the current year that is available for expenditure in 1989-90.

The Song-Brown program was established in 1974 in response to the shortage of primary care medical personnel noted in the 1960s. It provides financial support for training family physicians, family physician assistants, and family nurse practitioners. In the current year, the program is budgeted $2.9 million to support training for 85 family physicians, 115 family physician assistants, and 75 family nurse practitioners. Twenty-two hospital-based family physician residency programs receive Song-Brown funds. These include 11 county hospitals, 4 University of California hospitals, and 7 private hospitals.

Our review of two studies suggests that eliminating the Song-Brown program may reduce access to primary health care services for residents of medically underserved areas. In 1979 the OSHPD conducted an evaluation of the Song-Brown program for the Joint Legislative Budget

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Committee. The study found that, since enactment of the program, (1) the number of family practice residents, family nurse practitioners, and physician assistants trained in California had increased dramatically, (2) the number and percentage of California medical students choosing family practice residency programs had increased, and (3) retention of graduates from family practice residency programs, especially in underserved areas, had increased. In addition, a 1986 study of recent Song-Brown-funded family practice graduates by the California Area Health Education Center System showed that 46 percent of the study population practiced in underserved areas. These findings are also consistent with OSHPD data which show that 59 percent of Song-Brown-funded graduates from 10 county hospital programs between 1980 and 1986 practiced in medically underserved areas in California.

At the time this analysis was prepared (January 1989), the University of California, which receives approximately $700,000 annually from the Song-Brown program, had not completed its assessment of the impact of the administration's proposal on its training programs. The university indicated that it would provide its assessment prior to budget hearings.

The OSHPD and the Department of Health Services Should Work Together on Small and Rural Hospitals

We recommend that the OSHPD and the Department of Health Services (DHS) report to the fiscal committees during budget hearings on (1) their plans to coordinate their small and rural hospital programs, (2) the feasibility of meeting both of their reporting requirements by January 1, 1992, and (3) whether or not legislative changes clarifying their responsibilities towards small and rural hospitals are necessary.

Chapter 67, Statutes of 1988 (AB 2148, Jones), was intended to address the concern that unduly burdensome licensure standards contribute to small and rural hospital closures. The legislation requires the OSHPD to:

- Undertake a comprehensive evaluation of small and rural hospital regulations using pilot projects.
- Adopt alternative standards for such hospitals through emergency regulations.
- Submit a report to the Legislature and to the DHS that assesses the alternative standards and the pilot projects and recommends whether or not the standards should be adopted permanently.

In the current year, the OSHPD has $360,000 from the California Health Data and Planning Fund to implement Ch 67/88. With these funds, the OSHPD has hired staff and has formed a technical advisory committee to recommend temporary alternative standards. The budget proposes to continue funding at this level in 1989-90.

Department of Health Services Responsibilities. The DHS also has responsibility for implementing programs related to small and rural hospitals. Chapter 1332, Statutes of 1978 (SB 1814, Garamendi), authorized the DHS to conduct demonstration projects in which small and rural acute care hospitals receive exemption from licensing standards. Chapter 1476, Statutes of 1987 (SB 1458, Keene), and Ch 1209/88 (SB 2549, Keene) provided the DHS with additional authority to address small and rural hospital closures. Chapter 1476 and Chapter 1209 require the DHS to:

- Conduct two demonstration projects to identify the appropriate mix and level of services, personnel, funding, and statutory and regulatory changes for the safe and efficient operation of rural hospitals.
- Provide technical assistance to rural hospitals that are at high risk of closing.
- Adopt regulations establishing the "rural alternative hospital" as a licensed health facility or explain to the Legislature why such a category should not be established.

The DHS has recently taken steps towards implementing Chapters 1476 and 1209. In December 1988, DHS staff met with "organizations of interest" to begin discussing how it should implement an alternative rural hospital project. It has also met with the federal Health Care Financing Administration to discuss Medicaid and Medicare waiver requirements.

The DHS advises that it will establish two demonstration projects and implement a reporting system by January 1, 1990. However, the DHS has not developed a detailed outline of its plans and has not requested additional staff for these activities. The DHS is not able to identify which staff, if any, it intends to redirect for this purpose.

Overlapping Responsibilities and Minimal Coordination. Our review of the legislation indicates that the OSHPD and the DHS have overlapping responsibilities in this area. Specifically, both the OSHPD and the DHS have statutory authority to grant waivers of small and rural hospital licensing requirements. In addition, both agencies have authority to use demonstration projects to develop alternative rural hospital models.

However, our discussions with the two agencies indicate that they have not made significant efforts to coordinate their responsibilities. Specifically, we identified the following issues:

- *Demonstration Projects.* The OSHPD and the Licensing and Certification Division of the DHS informed us that they are evaluating the feasibility of concurrent administration of the alternative rural hospital demonstration project. However, the Rural and Community Health Branch of the DHS appears to be making plans for its own demonstration project, without coordinating with the OSHPD.
- *Reporting Requirements.* By April 1, 1993, the OSHPD is required to recommend to the Legislature and the DHS whether or not to permanently adopt new standards for small and rural hospitals. The DHS is required to report similar information by January 1, 1992. So far, the departments have not discussed the possibility of reporting at the same time.

In light of these issues, we recommend that the OSHPD and the DHS report to the fiscal committees during budget hearings on how they plan to avoid duplication of effort, including how they could share resources. These plans should address concurrent administration of alternative rural hospital demonstration projects, as well as potentially consolidating the reporting requirements. Finally, they should report on whether or not legislative changes are necessary to clarify their responsibilities.

Health and Welfare Agency

CALIFORNIA DEPARTMENT OF AGING

Item 4170 from the General Fund and various funds — Budget p. HW 17

Requested 1989-90	$134,248,000
Estimated 1988-89	134,339,000
Actual 1987-88	131,868,000
Requested decrease (excluding amount for salary increases) $91,000 (−0.1 percent)	
Total recommended reduction	None
Recommendation pending	2,162,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4170-001-001—Support	General	$4,889,000
4170-001-890—Support	Federal	3,068,000
4170-101-001—Local assistance	General	32,327,000
4170-101-890—Local assistance	Federal	79,637,000
Reimbursements	—	14,327,000
Total		$134,248,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Long-Term Care Programs—Legislative Reports. Withhold recommendation on $2.2 million for the Linkages and Respite Care pilot projects and on the proposed elimination of the Community Care Facilities for the Elderly project, pending receipt of the department's reports on these pilot projects. 395
2. Management Information Systems (MIS). Recommend adoption of supplemental report language to require the California Department of Aging to provide specified information regarding the department's MIS as part of its annual report on long-term care programs. 398

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 the 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.

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 (PSA).

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 (ADCRCs).

The department has 150.7 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $134 million for the CDA in 1989-90. This includes $37 million from the General Fund, $83 million in federal funds, and $14 million in reimbursements. Total expenditures proposed for 1989-90 are $91,000 lower than estimated current-year expenditures.

The budget proposes $37 million from the General Fund for support of the CDA's activities in 1989-90. This is a decrease of $486,000, or 1.3 percent, from estimated current-year expenditures. The proposed General Fund amount includes $4.9 million for support of the department and

Table 1
California Department of Aging
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Change from 1988-89*	
				Amount	*Percent*
State administration	$9,051	$9,327	$9,802	$475	5.1%
Older Americans Act (OAA) programs:					
Local assistance:					
Congregate nutrition	$39,751	$45,239	$45,093	−$146	−0.3%
Home-delivered meals	20,220	16,510	16,553	43	0.3
Employment services	5,123	5,120	5,175	55	1.1
Social services	26,485	25,145	25,146	1	—
Ombudsman	2,671	2,533	2,533	—	—
Special projects	2,696	3,807	3,717	−90	−2.4
Subtotals, OAA	($96,946)	($98,354)	($98,217)	(−$137)	(−0.1%)
Long-term care programs:					
Local assistance:					
MSSP	$20,349	$21,037	$20,749	−$288	−1.4%
Linkages/Alzheimers/respite	4,761	5,510	5,480	−30	−0.5
Adult day health care	761	111	—	−111	−100.0
Subtotals, long-term care programs	($25,871)	($26,658)	($26,229)	(−$429)	(−1.6%)
Totals, all expenditures	$131,868	$134,339	$134,248	−$91	−0.1%
Unexpended balance (estimated savings)	$165	—	—	—	—
Balance available in subsequent year	266	—	—	—	—
Funding Sources					
General Fund	*$36,799*	*$37,702*	*$37,216*	*−$486*	*−1.3%*
Federal funds	*81,929*	*82,169*	*82,705*	*536*	*0.7*
Reimbursements	*13,140*	*14,468*	*14,327*	*−141*	*−1.0*

CALIFORNIA DEPARTMENT OF AGING—Continued

$32 million for local assistance. Table 1 presents a summary of the department's funding and expenditures for the prior, current, and budget years.

Table 2 identifies, by funding source, the significant changes in expenditure levels proposed for 1989-90. As the table shows, the major changes in the budget are: (1) the elimination of one-time federal funds for special grant programs (–$257,000), (2) a reduction of $103,000 from the California Seniors Fund, (3) a reduction of $288,000 ($144,000 General Fund and $144,000 federal funds) due to the discontinuation of the Community Care Facilities for the Elderly (CCFE) demonstration projects, scheduled to sunset June 30, 1989, and (4) a reduction of $122,000 in ADHC start-up grants expended in the current year.

Table 2
California Department of Aging
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Reim-bursements*	*Total*
1988-89 expenditures (revised)	$37,702	$82,169	$14,468	$134,339
Cost adjustments:				
Employee compensation increases	$192	$101	$57	$350
Price increase	—	12	9	21
Statewide cost allocation plan increase	—	5	30	35
Subtotals, cost adjustments	($192)	($118)	($96)	($406)
Workload adjustments:				
California Seniors Fund—direct projects	—	—	–$102	–$102
Senior nutrition and senior community employment services	–413	468	—	53
Elimination of one-time federal grants	—	–257	—	–257
Senior bond support reduction	–56	—	—	–56
Full-year cost of new positions	—	45	—	45
USC grant—community-based systems of care	—	—	24	24
Adjustments for indirect costs	—	—	–15	–15
Financial legislation:				
ADHC Ch 1218/84, 1305/85, 1600/84	–122	—	—	–122
MSSP Ch 1626/84	–144	—	–144	–288
Subtotals, workload adjustments	(–$735)	($256)	(–$237)	(–$716)
Program change proposals:				
Alzheimer program expansion	$57	—	—	$57
Ombudsman workload	—	$56	—	56
Federal Title V workload	—	33	—	33
Accounting workload	—	73	—	73
Subtotals, program change proposals	($57)	($162)	(—)	($219)
1989-90 expenditures (proposed)	$37,216	$82,705	$14,327	$134,248
Change from 1988-89:				
Amount	–$486	$536	–$141	–$91
Percent	–1.3%	0.7%	–1.0%	–0.1%

Table 3 presents a summary of personnel-years for the department in the prior, current, and budget years. The increase in personnel-years for administration is primarily due to proposed staff increases in the budget and accounting sections. The net change in the OAA program is due to proposed staff increases for the ombudsman and the Senior Employment Services program and staff decreases for the Senior Bond Act program. In addition, the budget proposes to redirect a position from the MSSP program to administration and to add one position in the ADCRC program.

Table 3
California Department of Aging
Personnel-Years
1987-88 through 1989-90

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Administration	81.0	86.0	90.2	4.9%
Older Americans Act	26.7	29.7	30.0	1.0
Long-term care	33.2	35.0	35.0	—
Totals	140.9	150.7	155.2	3.0%

ANALYSIS AND RECOMMENDATIONS

Poor Response to Legislative Reporting Requirements

We withhold recommendation on $2.2 million for the Linkages and the Respite Care pilot projects, and the proposed elimination of the CCFE project, pending receipt of the department's reports on these pilot projects.

The CDA administers a number of long-term care pilot programs that have been established by the Legislature over the last several years. The authorizing legislation for these pilot programs usually specifies program guidelines, establishes criteria for grant awards, and requires the CDA to submit periodic performance evaluation reports to the Legislature, including recommendations for continuing or revising the programs. The program guidelines and requirements assist the Legislature in reviewing program performance and controlling the use of state funds. The Legislature can use the information gained during the pilots to act on the budget or on legislation to continue, eliminate, or revise the program. Two pilot programs are scheduled to sunset during 1989-90 and another will sunset on June 30, 1989. We discuss each of these pilot programs below.

Linkages. The budget proposes full-year funding ($4.2 million) for the Linkages program. The Linkages program was established by Ch 1637/84 (AB 2226, Felando) to provide various levels of assessment, referral, and case management to elderly and disabled adults to help them avoid premature institutionalization. The CDA estimates that the 13 Linkages sites will serve 4,126 clients in the current year. Under current law, the Linkages program will sunset on January 1, 1990.

Chapter 1637 required the department to submit annual reports to the Legislature on the Linkages program beginning March 1, 1986. The statute required that the reports include a cost comparison between the Linkages program and acute care/nursing facilities, as well as recommendations for changes in the long-term care service delivery system. The department submitted the first two annual reports (1986 and 1987), but has not submitted the required March 1988 report. In its March 1987

CALIFORNIA DEPARTMENT OF AGING—Continued

report, the department concluded that it would have been premature to seek any changes in the Linkages program model at that time and made recommendations for areas of further study. In 1988, the CDA sponsored legislation, Ch 16/88 (AB 1616, Duplissea), which extended the sunset of the program from the original date of January 1, 1989 to the current January 1, 1990 date. The department indicated that the extension of the program was warranted because another year of data was needed to evaluate it.

In a separate report on home- and community-based long-term care programs, submitted to the Legislature in December 1987, the CDA reported that it would make programmatic and policy changes in the Linkages program, effective January 1, 1988, based on an independent consultant's recommendations. The department advised the Legislature that it would discuss these changes in the required March 1988 report. Despite the department's failure to submit the required March 1988 report, the budget includes full-year funding for the program. The department implemented two of the consultant's recommendations—monthly caseload revisions and length-of-service requirements—even though it has never submitted the consultant's findings to the Legislature. The CDA advises that it will seek legislation to eliminate the Linkages program sunset early in the 1989-90 legislative session.

Respite Care Projects. The local respite care registries and pilot projects are scheduled to sunset on January 1, 1990. The budget proposes to discontinue the projects and to redirect $46,000 (half-year funding) to the department's support budget for state staff to provide assistance to the AAAs and long-term care contractors to improve their understanding of respite care and to help them meet respite needs with existing resources.

Chapter 446, Statutes of 1986 (SB 173, Mello), appropriated $50,000 to provide respite care assessment and referral services through selected Linkages sites and to study the cost-effectiveness of respite care provided both in and out of the home. (Respite care is the substitute care of elderly and disabled adults to relieve their primary caregivers for limited periods of time.) The statute required the department to report, by July 1, 1988, on the demand for respite care, its effectiveness in delaying or preventing permanent institutional placement, and recommendations for future respite care funding. Chapter 1349, Statutes of 1986 (AB 2391, Filante), appropriated $50,000 for respite care registries to match providers in the community with prospective recipients through screening and referral and required the CDA to report by March 1, 1988 on the number of clients served and the need for respite care.

At the time this analysis was prepared, the department had not submitted either of the required reports. In the back-up material it submitted with its budget proposal, the department indicates that the "information" that it gained from the pilot projects resulted in the proposal to eliminate the pilots and use the freed-up funds to provide assistance to existing programs. Since the department has never submitted the required respite care reports to the Legislature, however, it is not clear what "information" the department has gained from the pilot projects.

Community Care Facilities for the Elderly (CCFE) Demonstration Projects. The budget assumes that the CCFE demonstration projects will sunset on June 30, 1989, consistent with existing law. Therefore, the budget does *not* include funding specifically for these projects for 1989-90. Our analysis indicates that the projects could continue in the budget year without additional funding. This is because the budget proposes $22 million to fund 6,000 MSSP slots and the projects could be funded as part of the MSSP.

Chapter 1626, Statutes of 1984 (AB 3900, Margolin), appropriated $595,000 to provide case management and a higher level of personal care services to low-income, frail elderly persons in community care facilities, who would otherwise require nursing facility placement. Two MSSP providers currently serve up to 60 CCFE clients each, as part of the MSSP caseload. The statute required the department to submit a final report on the projects by July 1, 1988 and provided for the projects to sunset on December 31, 1988. The statute also stated the Legislature's intent to extend or expand the projects *only* if the department's report showed them to be cost-effective.

The 1988 Governor's Budget proposed to eliminate the CCFE projects on December 31, 1988, consistent with the original sunset date. The department, however, failed to submit the required report on the projects and the Legislature extended the sunset date to June 30, 1989. At the time this analysis was prepared, the department had not submitted its report on the projects. The budget proposes to eliminate the projects, effective June 30, 1989.

Recommendation. The Legislature has funded a number of long-term care pilot projects through the CDA in recent years, for the purpose of gaining information about effective methods of providing services to seniors and the disabled. Without the information that would be included in the required performance reports, we have no basis on which to recommend that the Legislature approve the budget proposals for these projects. We therefore withhold recommendation on $2.2 million proposed for the continuation of the Linkages and Respite Care projects and on the proposed elimination of the CCFE projects, pending receipt of the department's reports on these pilot projects.

Legislative Oversight

The *Supplemental Report of the 1987 Budget Act* required the Health and Welfare Agency (HWA) to submit a report to the Legislature on California's publicly funded long-term care services delivery system. The HWA submitted the required report in September 1988.

The HWA report provides extensive background data on existing programs serving disabled persons of all ages, demographic data and projections regarding the long-term care population, and discussions of alternative funding options for long-term care, including expanded Medi-Cal coverage, social/health maintenance organizations, additional levels of institutional care, and private long-term care insurance. In addition, the HWA reported that costs for 36 existing publicly funded long-term care programs totaled $3 billion in 1986-87. The HWA projected that these costs would grow to $5.4 billion by the year 2020 (in 1986-87 dollars), exclusively due to population increases.

The HWA report did not make any recommendations to the Legislature, but did include several "policy statements." Specifically, the report indicates that the HWA:

CALIFORNIA DEPARTMENT OF AGING—Continued

- Supports alternatives to institutional placement for disabled and elderly persons and will consider quality of life issues as well as program cost-effectiveness in long-term care programs.
- Supports programs that encourage family and friends to continue to provide care to disabled loved ones.
- Will encourage the development of alternative housing options for elderly and disabled adults.
- Will consider incentives to increase private sector involvement in developing additional nursing facility services.
- Will explore the feasibility of developing uniform reporting requirements for long-term care programs so that programs could voluntarily participate in a statewide information management program.

The CDA Should Take the Lead in Improving Long-Term Care Data Systems

We recommend the adoption of supplemental report language to require the department to provide specified information regarding the department's MIS as part of its annual report on long-term care programs.

Although the HWA did not make any recommendations or outline the specific actions that it will take, the report identified the need for improved program data collection and reporting systems. The HWA indicates that it is currently impossible to calculate the actual number of clients served by the 36 long-term care programs highlighted in the report. Specifically, the HWA was often unable to obtain unduplicated client counts from the departments that administer various long-term care programs. Moreover, since many individuals receive services from more than one department or even from more than one program in a given year, the agency was not able to develop unduplicated counts across programs and departments.

The HWA concluded that a uniform client identifier is needed to "permit informed decisions to be made on the appropriation and allocation of limited public resources." According to the HWA, a uniform client identifier would provide policymakers with data that "identifies: who is using the system by age, gender, disability, race, ethnicity; the frequency, duration, and number of program services used by the individual; and the movement of the client between community-based and institutional programs." We agree that this information would be useful to the Legislature in planning long-term care programs.

The CDA currently operates a number of separate data systems for its long-term care programs. For example, the Linkages, ADHC, MSSP, ADCRC, and OAA programs each has its own data collection and reporting system. According to the department, this is primarily because of the different state and federal reporting requirements for each of these programs and because some of these programs were originally located in other state agencies.

The department advises that it is currently in the process of making major revisions to a number of its management information systems, including the MSSP, OAA, and ADCRC programs' data collection systems. In addition, the department plans to establish standardized data elements within each of its programs and thereby develop a department-wide data system within three to five years.

These activities present the department with an opportunity to take a lead role in the integration of data systems across departments. Specifically, the terminology, reporting requirements, and uniform client identifier that the department will have to develop for its own programs could ultimately be used to integrate the data systems of other departments as well. It is therefore important for the CDA to coordinate with the other departments that provide long-term care, in particular the Departments of Health Services and Social Services, to avoid developing terminology and reporting requirements that would be incompatible with other long-term care data.

To permit legislative oversight of the CDA's MIS activities and coordination efforts, we therefore recommend the adoption of supplemental report language requiring the CDA to include an MIS progress report as part of its annual report on long-term care programs. Current law requires the department to submit the annual report in January of each year. The following supplemental report language is consistent with this recommendation:

> The department shall include in its annual report to the Legislature on long-term care programs, a progress report on the department's Management Information Systems (MIS) activities, including staff allocated and costs for each project. The report shall detail the department's activities during the previous year and its plans for the subsequent years, to coordinate MIS development with other state departments that provide long-term care programs.

Health and Welfare Agency
COMMISSION ON AGING

Item 4180 from the General Fund, Federal Trust Fund, and California Seniors Fund — Budget p. HW 26

Requested 1989-90	$838,000
Estimated 1988-89	914,000
Actual 1987-88	912,000
Requested decrease (excluding amount for salary increases) $76,000 (−8.3 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4180-001-001—Support	General	$248,000
4180-001-890—Support	Federal	232,000
4180-001-983—Support	California Seniors	358,000
Total		$838,000

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

COMMISSION ON AGING—Continued

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 Legislature. The Senior Legislature is composed of 120 seniors who hold an annual legislative session to develop legislation that addresses the needs and concerns of older Californians. The Senior Legislature, in turn, seeks enactment of its legislative proposals through the State Legislature.

The commission has 8.6 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the expenditure of $838,000 [$248,000 General Fund, $232,000 federal funds, and $358,000 from the California Seniors Fund (CSF)] to support the CCA in 1988-89. This is a reduction of $76,000, or 8.3 percent, from estimated current-year expenditures. Table 1 displays CCA funding for the prior, current, and budget years.

Table 1
Commission on Aging
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89 Amount	Change from 1988-89 Percent
Commission	$445	$452	$480	$28	5.8%
Service contracts through CDA	142	103	—	−103	−100.0
Senior Legislature, operations	325	325	358	33	10.0
Senior Legislature, elections	—	34	—	−34	−100.0
Totals	$912	$914	$838	−$76	−8.3%
Funding Sources					
General Fund	*$236*	*$240*	*$248*	*$8*	*3.3%*
Federal funds	*209*	*212*	*232*	*20*	*5.2*
California Seniors Fund	*467*	*462*	*358*	*−104*	*−22.5*

The table shows that total proposed expenditures are $76,000, or 8.3 percent less than estimated current-year expenditures. As the table shows, the major change is the reduction of $103,000 in proposed expenditures from the CSF for service contracts with the CDA. Based on revenues to the CSF over the last three years, we expect that revenues to the fund for 1989-90 will be greater than the $358,000 anticipated in the budget. Assuming 1989-90 revenues are comparable to revenues reported in the current year, the commission would receive $462,000 from the fund in 1989-90—$104,000 more than is proposed in the budget.

Under state law, any revenues to the CSF in 1989-90 in excess of the $358,000 must be used by the commission to provide services to seniors through contracts with the CDA. The commission selects these contracts once the level of excess revenues is known, usually by December of each year. In the current year, the commission will use the $103,000 to pay for respite care and peer counseling projects as well as emergency monitoring and telemetry equipment for isolated seniors.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 4200 from the General
Fund and various funds Budget p. HW 28

Requested 1989-90	$178,535,000
Estimated 1988-89	157,459,000
Actual 1987-88	134,763,000
Requested increase (excluding amount for salary increases) $21,076,000 (+13 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4200-001-001—Support	General	$7,361,000
4200-001-139—Support	Drinking Driver Program Licensing	611,000
4200-001-236—Support	Cigarette and Tobacco Products Surtax	54,000
4200-001-243—Support	Methadone Program	523,000
4200-001-816—Support	Audit Repayment Trust	100,000
4200-001-890—Support	Federal	10,442,000
4200-101-001—Local assistance	General	73,095,000
4200-101-236—Local assistance	Cigarette and Tobacco Products Surtax	4,946,000
4200-101-890—Local assistance	Federal	73,293,000
Reimbursements	—	8,110,000
Total		$178,535,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Anti-Drug Abuse Act of 1988, Public Law (PL) 100-690. Recommend that prior to budget hearings, the department report to the Legislature on how it will (a) administer the revolving loan fund established by PL 100-690, (b) assist counties in obtaining waivers to construct or rehabilitate treatment facilities, (c) ensure that the federal funds are obligated and spent within the reduced time frames enacted by PL 100-690, (d) address the data collection requirements of the new law, (e) coordinate the counties' applications for one-time waiting list reduction funds, and (f) ensure that treatment for intravenous drug users (IVDUs) is provided upon request within seven days. 405
2. Increased Emphasis on Treatment for IVDUs. Recommend that prior to budget hearings, the department report to the Legislature on the options available for ensuring the expenditure of funds targeted to IVDUs including the feasibility of (a) revising the Department of Alcohol and Drug Program's (DADP) reporting methods to obtain a more accurate count of the IVDU population, (b) changing its formula for allocating IVDU funds, (c) using a request-for-proposal 407

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

process to distribute a portion of the IVDU funds, and (d) relaxing methadone licensing requirements to facilitate the creation of more clinics.

3. Unallocated Federal Funds. Recommend that prior to budget hearings, the department report to the Legislature on (a) its plans to spend the $21 million in unallocated federal funds and (b) the Legislature's options for using some of these funds for treatment of crack-cocaine abusers. 409
4. Comprehensive Services for Drug and Alcohol Dependent Women and Their Infants. Recommend that prior to budget hearings, the department report to the fiscal committees on (a) the extent to which local agencies will be allowed to tailor their pilot programs to suit local needs and conditions, (b) the administrative details of their plans for the pilot projects, and (c) the Department of Health Service's and DADP's plans for evaluating the projects. 410

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 has 183.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $179 million from all funds for alcohol and drug programs in 1989-90. This includes $80 million from the General Fund, $84 million from federal funds, $8.1 million in reimbursements, $5 million from the Cigarette and Tobacco Products Surtax (C&T) Fund, and $1.2 million from the Drinking Driver, Audit Repayment Trust, and Methadone Program Licensing Trust Funds. Total expenditures proposed for 1989-90 are $21.1 million, or 13 percent, above estimated total expenditures in the current year, as shown in Table 1.

Table 1
Department of Alcohol and Drug Programs
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Alcohol—local assistance	—	—	—	$56,419	$59,792	$58,830	−1.6%
Drugs—local assistance	—	—	—	64,856	81,723	77,207	−5.5
Unallocated ADMS block grant funds	—	—	—	—	—	22,547	—[a]
Subtotals, local assistance	—	—	—	($121,275)	($141,515)	($158,584)	(12.1%)
Administration—state operations	85.7	82.6	89.8	$4,675	$5,281	$5,921	12.1%
Alcohol—state operations	49.4	54.5	57.5	4,509	4,583	4,689	2.3
Drugs—state operations	42.5	46.2	48.5	4,304	6,080	9,341	53.6
Subtotals, state operations	(177.6)	(183.3)	(195.8)	($13,488)	($15,944)	($19,951)	(25.1%)
Totals	177.6	183.3	195.8	$134,763	$157,459	$178,535	13.4%

Funding Sources				
General Fund	*$78,489*	*$79,938*	*$80,456*	*0.6%*
Federal funds	*50,764*	*68,008*	*83,735*	*23.1*
Drinking Driver Program Licensing Trust Fund	*339*	*597*	*611*	*2.3*
Methadone Program Licensing Trust Fund	*327*	*407*	*523*	*28.5*
Audit Repayment Trust Fund	—	*414*	*100*	*−75.8*
Reimbursements	*4,844*	*8,095*	*8,110*	*0.2*
Cigarette and Tobacco Products Surtax	—	—	*5,000*	—[a]

[a] Not a meaningful figure.

The budget proposes an appropriation of $80 million from the General Fund for the DADP in 1989-90. This is an increase of $518,000 over estimated current-year expenditures. This increase reflects adjustments in salaries and benefits for state operations. The proposed General Fund appropriation includes $7.4 million for support of the department and $73 million for local assistance.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1989-90. The major increases proposed in the budget are (1) a $22.5 million increase in the Alcohol, Drug Abuse, and Mental Health Services (ADMS) block grant, (2) the addition of $5 million in new funds from the C&T Fund for the Comprehensive Services for Drug and Alcohol Dependent Women and Their Infants pilot project, and (3) a $3.3 million increase in federal funding available under the Drug Free Schools and Communities (DFSC) block grant. These increases are offset by a reduction of $10.2 million in federal funds carried over from 1987-88 to 1988-89 that will not be available in the budget year. At this time, the department is unable to estimate how much of the 1988-89 federal dollars will be carried over into the budget year, however, it estimates the carryover will be less than the current-year amount of $10 million.

The budget also includes a number of proposals funded by redirecting General Fund resources and federal funds from local assistance to the department's support budget. In particular, the budget proposes the following redirections:

- $901,000 in ADMS block grant funds to establish (1) eight positions to implement Ch 983/88 (SB 2599, Seymour), the State Master Plan to Reduce Alcohol and Drug Abuse, (2) two AIDS coordinator positions, one each in the alcohol and drug programs, (3) one position to implement Ch 766/88 (AB 2904, Speier), the alcohol and drug program consolidation pilot project, and (4) two fiscal management positions and one data management position to handle administrative workload increases.
- $137,000 in DFSC block grant funds to support two positions in the Friday Night Live program. Friday Night Live is an alcohol and drug prevention program that operates in high schools.
- $59,000 ($29,000 General Fund and $30,000 reimbursements from the Department of Health Services (DHS)) to establish one additional analyst position for the Drug/Medi-Cal unit, primarily to handle workload increases in the methadone program.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Table 2
Department of Alcohol and Drug Programs
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Other Funds*	*Total*
1988-89 expenditures (revised)	$79,938	$68,008	$9,513	$157,459
Cost adjustments:				
Employee compensation	197	103	48	348
Operating expense price increase	—	42	14	56
Workload adjustments:				
Increase Drug/Medi-Cal program	—	—	30	30
Program changes:				
1987-88 carry-over reduction	—	−10,231	—	−10,231
Alcohol, drug abuse, and mental health services block grant increase	—	22,547	—	22,547
Drug-free schools and communities block grant increase	—	3,266	—	3,266
Comprehensive Services for Drug and Alcohol Dependent Women and Their Infants pilot project	—	—	5,000	5,000
Transfer from Audit Repayment Trust Fund to General Fund	314	—	−314	—
Increase in Methadone program—Ch 1081/88 (SB 2444, Davis)	—	—	104	104
Reimbursement expenditure authority reduction	—	—	−35	−35
Other changes	7	—	−16	−9
1989-90 expenditures (proposed)	$80,456	$83,735	$14,344	$178,535
Change from 1988-89:				
Amount	$518	$15,727	$4,831	$21,076
Percent	0.6%	23.1%	50.8%	13.4%

ANALYSIS AND RECOMMENDATIONS

REVIEW OF MAJOR FEDERAL LEGISLATION: THE ANTI-DRUG ABUSE ACT OF 1988

Overview. On November 18, 1988, the President signed into law the Anti-Drug Abuse Act of 1988 (Public Law (PL) 100-690). The measure reauthorizes three groups of anti-drug abuse grant programs: (1) the justice assistance formula grants, (2) the DFSC block grant, and (3) the ADMS block grant. The new law represents a marked change in federal policy in this area in that it provides less money for law enforcement and increases funding targeted for education and treatment. PL 100-690 has several major effects on programs administered by the DADP. We have grouped these into four categories—increased federal funds, policy and administrative changes, increased emphasis on treatment for intravenous drug users (IVDUs), and options for using unallocated federal ADMS funds. We discuss each of these changes below.

Increased Federal Funds

The DADP administers 30 percent of the federal funds provided through the DFSC block grant, the alcohol and drug abuse portion of the ADMS block grant, and until October 1, 1989, will continue to administer all of the Alcohol and Drug Treatment and Rehabilitation (ADTR) block grant. PL 100-690 eliminated the ADTR block grant, which was created by the Anti-Drug Abuse Act of 1986 and included additional funds in the ADMS block grant to replace the ADTR funds. Table 3 shows how PL 100-690 affects the amounts available from these block grants for the DADP's programs in federal fiscal year 1989 (FFY 89). As the table shows, the major fiscal effects of the new law on the programs administered by the DADP are to (1) increase the DFSC block grant by $3.3 million, (2) eliminate the ADTR block grant, and (3) increase the DADP's share of the ADMS block grant by $37 million.

Table 3
Effect of PL 100-690 on Federal Funds Administered by the Department of Alcohol and Drug Programs (dollars in thousands)

Funding Sources	*FFY 88*	*FFY 89*	*Difference*
ADMS block grant	$32,628	$70,055 [a]	$37,427
ADTR block grant	16,399	—	−16,399
DFSC block grant	5,700	9,000	3,300
Totals	$54,727	$79,055	$24,328

[a] Does not include $1.5 million available for the Department of Mental Health.

Policy and Administrative Changes

We recommend that prior to budget hearings, the department report to the Legislature on how it will (1) administer the revolving loan fund established by PL 100-690, (2) assist counties in obtaining waivers to construct or rehabilitate treatment facilities, (3) ensure that the federal funds are obligated and spent within the reduced time frames enacted by PL 100-690 requirements, (4) address the data collection requirements of the new law, (5) coordinate the counties' applications for one-time waiting list reduction funds, and (6) ensure that treatment for IVDUs is provided upon request within seven days.

PL 100-690 makes various policy changes to the ADMS block grant. We discuss the major changes separately below.

1. ***Revolving Loan Fund.*** PL 100-690 requires states to establish a revolving loan fund of not less than $100,000 and to make available loans not exceeding $4,000 to enable groups of four or more persons to set up group homes for recovering alcoholics and other substance abusers. The department advises that it will address this issue in a Department of Finance letter, which it expects to submit in February.

2. ***Construction and Rehabilitation of Treatment Facilities.*** PL 100-690 allows states to use ADMS funds for the construction and rehabilitation of treatment facilities, under certain conditions. The measure requires states to provide a 50 percent match to federal funds used for these purposes. The department has yet to specify the sources of funds that it or the counties will use for the required match or how it will assist the counties in obtaining federal permission to use ADMS funds for this purpose.

3. ***Obligating and Expending Funds.*** PL 100-690 reduces from two to one year the period of time for which unobligated ADMS funds are available. Once obligated, the funds remain available for expenditure for an additional year. Federal funds that are either not obligated in the first

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

year or not spent by the close of the second year will be reverted to the federal government. Previously, states had two years to obligate the funds and then an additional year in which to spend them. The department has not yet determined what steps it will take to ensure that the state does not lose any federal funds as a result of this reduction in the time frames for obligating and spending federal funds.

4. ***Data Collection.*** PL 100-690 makes two major changes related to data collection. First, it requires states to collect data on the number and demographic characteristics of individuals seeking treatment. Second, it requires states to expand the collection of data on individuals who actually receive treatment. Currently, neither the alcohol nor the drug program collects comprehensive data on individuals who are seeking treatment and only the drug program collects demographic data on those who actually receive treatment. These changes in the law will require the alcohol program to collect comprehensive data on its clients and the changes will require both the alcohol and drug programs to institute some sort of system to enable them to report on those seeking treatment. The federal government is developing a new national data collection program that the department will either have to adopt or conform to. However, it is unclear when this system will be completed or what it will entail. The department advises that it is currently working with the federal government to identify the state's options for implementing the new data collection requirements.

5. ***Reduction of Waiting Lists.*** PL 100-690 provides $75 million nationwide in FFY 89 to reduce waiting lists for drug treatment. Public and nonprofit private entities may apply for these funds if they can show that the waiting time for their treatment program is more than one month. They must also be able to show that after they have used this funding to reduce their waiting times, they will be able to maintain the increased number of treatment slots. California's counties will be competing against other entities across the country for these funds. One county, San Francisco, has already changed its data collection methods to be in a better position to apply for the funds. The department advises that it has notified county drug program administrators to start updating their waiting lists and that it will request counties who apply for the federal waiting list reduction funds to send their requests to the department so that it can send in one aggregated application for all interested counties. The department also advises that it is currently investigating its other options for taking a leadership role in assisting counties to apply for these funds.

6. ***Ensuring Treatment to IVDUs.*** PL 100-690 requires treatment programs for IVDUs that receive ADMS money, to notify the state when they have reached 90 percent of their capacity. In turn, the state must ensure that "to the maximum extent practicable," each individual who requests treatment is admitted to a program within seven days. Currently, many counties have waiting lists for these treatment programs and will be unable to meet this requirement unless they add treatment slots. The department has not yet developed a plan for fulfilling this requirement.

7. ***Women's Set-Aside.*** PL 100-690 increases from 5 percent to 10 percent the amount of the state's ADMS grant that it must use for programs and services designed for women. The act goes on to state that

special consideration should be given to pregnant women and women with dependent children. In addition, the funds can also be used for demonstration projects to provide residential treatment to pregnant women. The department advises that it plans to distribute the increase in the same way as it has distributed the set-aside in the past. Specifically, the drug program will allocate the drug share of the increased set-aside to all counties, while the alcohol program will request counties to submit proposals for the use of the alcohol share.

PL 100-690 will have a major impact on how states address the alcohol and drug treatment needs of their communities. The new law raises several policy and fiscal issues regarding how the DADP will manage its programs. At the time we prepared this analysis, the department had not determined how it would implement several requirements of the new law. For this reason, we recommend the department report to the fiscal committees prior to budget hearings on how it will (1) administer the new revolving loan fund, (2) assist counties in obtaining waivers to construct or rehabilitate treatment facilities, (3) ensure that federal funds are obligated and spent within the reduced time frames provided by PL 100-690, (4) address the data collection requirements of the new law, (5) coordinate the counties applications for the waiting list reduction funds, and (6) ensure that IVDU treatment is provided upon request within seven days.

Increased Emphasis on Treatment for Intravenous Drug Users

We recommend that prior to budget hearings, the department advise the Legislature on the options available for ensuring the expenditure of funds targeted to IVDUs including the feasibility of (1) revising DADP's reporting methods to obtain a more accurate count of the IVDU population, (2) changing its formula for allocating the IVDU funds, (3) using a request-for-proposal process to distribute a portion of the IVDU funds, and (4) relaxing methadone licensing requirements to facilitate the creation of more clinics.

One of the most significant changes of PL 100-690 is to target some of the ADMS block grant funds to IVDUs. Congress' concern that adequate treatment is available for IVDUs reflects its concern over the AIDS crisis. The IVDUs are now the fastest growing group of patients with AIDS. For FFY 89, PL 100-690 designates a portion of the total ADMS block grant as the substance abuse supplement and requires states to use at least 50 percent of the supplement for services to IVDUs. California's substance abuse supplement is $13.6 million. Thus, for 1989-90, the state will have to spend at least $6.8 million of the ADMS funds on IVDUs. Beginning in FFY 90, there will be no separate substance abuse supplement, but the state will be required to use at least 50 percent of the ADMS block grant funds allocated to drug abuse programs for services to IVDUs. The department estimates that PL 100-690 will require the state to spend at least $20 million of its ADMS funds on services to IVDUs in 1990-91.

This large 1990-91 increase in funding for services to IVDUs could present a challenge to the department. This is because counties have had difficulty absorbing sudden large increases in funds in the past. For example, in the current year, the DADP carried over $2.4 million in funds targeted for IVDUs from 1987-88, the first year in which the Legislature required the DADP to spend federal funds ($5 million) on preventing the spread of AIDS among IVDUs. Our analysis indicates that the

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

carryover occurred because (1) the counties received their awards late in the budget year, (2) the federal government originally indicated that these additional funds would be provided on a one-time only basis, and (3) the counties had difficulty quickly absorbing such a large increase in funds targeted to only IVDUs.

The shorter time frames enacted by PL 100-690 for using ADMS funds could also make it difficult for the state to use all of these funds. We therefore believe that the department should investigate options for improving the chances that California will be able to use all of the new IVDU funds within the tighter time frames enacted by PL 100-690, including the following:

- Improving its reporting methods to ensure that all the IVDUs the programs are serving are counted. For example, the California Drug Abuse Data System (CAL-DADS) reporting form that providers are required to fill out includes a question on how the client administers the *primary* drug that he or she is using, but it does not ask how the client administers other drugs.
- Changing its formula for allocating IVDU funds so that the counties that can most effectively absorb the funds receive the largest allocations. In the past, the department has allocated these funds based on the number of AIDS cases and IVDUs in the counties. However, the department has some information on the relative ability of counties to absorb these funds. For example, the department knows the amount of 1987-88 IVDU funds that were rolled over to 1988-89 by each county. The department could better ensure that IVDU funds are obligated and spent within the new federal time frames by taking counties' past expenditure histories into account when allocating the new funds.
- Using a request-for-proposal (RFP) process to distribute a portion of the funds. Currently, there are no reliable data on the number of individuals seeking treatment in each county, although some county administrators have very accurate assessments of the demand for treatment in their counties. An RFP process would let the state direct more funds to the counties that could make a case for spending the additional funds on IVDUs.
- Enabling more counties to treat IVDUs through methadone clinics by relaxing the existing methadone clinic licensing requirements. Currently, in order to meet the overhead costs incurred as a result of existing licensing requirements (such as the requirement to have a physician on staff), most methadone clinics need to have about 100 clients. This represents a much larger clientele than most rural counties can provide. We believe that this is one of the major reasons that there are no methadone clinics between Sacramento and the Oregon border. This is a problem particularly for pregnant opiate-addicts who, in many cases, are advised to go on methadone instead of entering a drug-free treatment program (heroine withdrawal can be very harmful or fatal to a fetus). Urban counties would also be able to make their methadone clinics more accessible if they could open additional, smaller clinics. For this reason, Santa Clara and Alameda Counties have been exploring lower cost alternatives for dispensing methadone. One example which the two counties have been exploring, is to dispense methadone through pharmacies while

performing the counseling portion of the treatment in already-established drug-free treatment centers. This alternative would, however, require a change in the current licensing requirements.

The department needs to start developing new policies to make sure it will be able to spend approximately $20 million in 1990-91 on IVDUs. Consequently, the department will need to begin to prepare in 1989-90 for this increase in IVDU funds. Therefore, we recommend that the department report to the Legislature prior to budget hearings on the options available for ensuring the expenditure of the IVDU funds, including the four options that we identify above.

Options for Using Unallocated Federal Funds

We recommend that the DADP report to the fiscal committees prior to budget hearings on how it plans to spend $21 million in unallocated federal funds and on the Legislature's options for using some of these funds for treatment of crack-cocaine abusers.

The budget includes $22,547,000 in unallocated ADMS block grant funds in 1989-90. The department advises that of the $22.5 million, approximately $1.5 million is the DMH's share of the increase in the ADMS block grant. At the time we prepared this analysis, the DADP had not prepared an expenditure plan for its $21 million in unallocated ADMS funds.

Table 4 shows how the unallocated funds can be used under federal law. Specifically, the table shows that (1) $1.5 million is the mental health share of the grant increase, (2) $6.3 million is the increase in the women's set-aside, and (3) $6.8 million is the amount that must be spent on IVDUs. This leaves $8 million of discretionary funds that can be spent on programs for all substance abusers, not just for IVDUs.

Table 4
Federal Requirements for Department of Alcohol and Drug Program's Unallocated ADMS Block Grant Funds Targeted and Discretionary Funds (dollars in thousands) 1989-90

Department of Mental Health share of ADMS increase (estimate)	$1,500
Increase in women's set-aside	6,315
IVDU money, new federal law requirement	6,777
Discretionary funds	7,955
Total, unallocated ADMS (Governor's Budget)	$22,547

Our analysis indicates that the Legislature has two basic options for using the $8 million in unallocated discretionary funds shown on Table 4. First, it could allocate the funds to the counties and let the counties decide what programs are most needed in their areas. Second, it could target all or a portion of the funds to a statewide concern of high priority to the Legislature.

One area of particular concern is the increase in cocaine and crack-cocaine abuse. Medical examiners throughout the state report that, from 1981 to 1986 deaths from cocaine overdose increased 271 percent in California. Furthermore, from 1983 to 1987 there was an increase of 169 percent in the number of persons admitted to the DADP's treatment programs whose primary drug problem was cocaine. In addition, cocaine abusers are a high-risk group for contracting AIDS. The Center for AIDS Prevention Studies reports that individuals under the influence of alcohol or drugs are five times more likely to engage in unsafe sex. The county drug program administrators we spoke with echoed this concern and indicated that it is common practice within crack houses to exchange sex for drugs. The Legislature may wish to consider targeting some of the unallocated funds on services to cocaine and crack-cocaine abusers because of (1) the large increase in cocaine abuse and (2) cocaine's connection to the spread of AIDS.

We therefore recommend that the DADP report to the fiscal committees prior to budget hearings on how it plans to spend the $21 million in unallocated funds and on the options available to the Legislature for using some of these funds to provide treatment to crack-cocaine abusers.

COMPREHENSIVE SERVICES FOR DRUG AND ALCOHOL DEPENDENT WOMEN AND THEIR INFANTS

We recommend that prior to budget hearings the Departments of Health Services (DHS), Alcohol and Drug Programs (DADP), and Social Services (DSS) report to the fiscal committees on (1) the extent to which local agencies will be allowed to tailor their pilot programs to suit local needs and conditions, (2) the administrative details of their plans for the pilot projects, and (3) the DHS and the DADP's plans for evaluating the pilot projects.

The budget proposes $8 million for a pilot project to provide comprehensive services to drug and alcohol dependent women and their infants. Under the pilot project, four counties—Sacramento, Alameda, Los Angeles, and San Diego—would provide case management, drug treatment, medical care, and specialized foster care to approximately 1,000 women and their infants. The departments advise that they selected the four counties because they had the highest incidence of substance-exposed newborns, based on a two-week survey conducted by the Medi-Cal program. The pilot project would be jointly administered by the DADP, the DHS, and the DSS.

Table 5 shows how the money will be used by each of these departments. As the table shows, the budget proposes:

- $5 million from the C&T Fund for the DADP to provide alcohol and drug residential and outpatient treatment to approximately 348 women. The department proposes to use $179,000 of this amount for four referral coordinators, one in each county.
- $1.8 million from the General Fund for the DHS (1) to provide training to state staff and local contractors on how to identify substance-abusing women, (2) to augment three programs that provide assessment, follow-up, prenatal care, and case management services so that these programs can serve the women and infants in the pilot project, and (3) to evaluate the effectiveness of the pilots.
- $1.2 million from the General Fund for the DSS to (1) recruit and train foster families and (2) provide respite care for the foster families to care for infants who are substance-exposed or who test positive for the virus that causes AIDS. (Respite care is the substitute care of infants to relieve the foster families for limited periods of time.)

Table 5
Comprehensive Services for Drug/Alcohol Dependent Mothers and Their Substance-Exposed Infants
Proposed Funding by Department
1989–90

Alcohol and Drug Programs		
Department support		
(Item 4200-001-236)	$54,000	Project coordination, one position
Local assistance		
(Item 4200-101-236)	1,708,200	Residential, drug-free treatment, 72 beds
	1,445,400	Residential alcohol recovery centers, 72 beds
	1,175,300	Outpatient alcohol and drug-free recovery centers, 92 slots
	438,000	Transition houses, 40 beds
	179,000	Referral coordination, one coordinator for each of the four pilot counties
Subtotal, DADP	($4,999,900)	
Health Services		
Department support		
(Item 4260-001-001)	$227,000	Training, consultation, and project evaluation
	116,000	Interagency coordination and project consultation, two positions
Local assistance		
(Item 4260-111-001)	375,000	Comprehensive Perinatal Services program
	750,000	Adolescent Family Life program
	375,000	High-Risk Infant Follow-Up program
Subtotal, DHS	($1,843,000)	
Social Services		
Department support		
(Item 5180-001-001)	$90,000	Evaluation and monitoring, two positions
Local assistance		
(Item 5180-151-001)	1,066,000	Recruitment, training, and support services for foster parents of drug-exposed and HIV positive infants
Subtotal, DSS	($1,156,000)	
Total, all departments	$7,998,900	
Funding Sources		
Cigarette and Tobacco Products Surtax Fund	*$4,999,900*	
General Fund	*2,999,000*	

The department's proposal identifies the following model for service delivery:

- The *state* would contract to train state staff and local contractors to identify substance-abusing women, particularly those who are of child-bearing age and those who are pregnant.
- *Community service providers* would refer substance-abusing women to the referral coordinator in each county.
- *Referral coordinators* would assess the client's treatment and case management needs and refer her to a case manager located in a treatment center or the Comprehensive Perinatal Services, the Community-Based Perinatal Services, High-Risk Infant Follow-Up, or Adolescent Family Life programs. The referral coordinator would also assemble the data collected by both the treatment center and case manager and forward it to the state.
- The *case manager* would encourage the client to attend her prenatal care appointments and assist her in locating other social services.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

- The *California Children's Services program (CCS)* would designate centers for treating infants who are substance-exposed or who test positive for the virus that causes AIDS.
- *Child Welfare Services (CWS)* staff in the four counties would recruit and train foster families to care for infants who are substance-exposed or who test positive for the virus that causes AIDS and who need foster family home care. The CWS staff would arrange for support services and respite care for these families. In addition, the CWS staff would work with a medical team to develop and monitor a medical plan for each infant in foster care.
- *Local perinatal councils* would develop, implement, and coordinate the pilot programs in each county. The DHS advises that it will work to "encourage" the development of these councils.

We commend the administration for taking the initiative to serve substance-abusing pregnant women and their infants by proposing this pilot project. In our review of how state and local programs serve this population (please see the *1989-90 Budget: Perspectives and Issues*), we identified many of the same problems that the administration is addressing in its proposal. In general, we believe that the thrust of the proposal—to take a comprehensive approach to serving these women and infants—is appropriate. However, we have three general concerns that we believe the departments need to address in order for the Legislature to thoroughly evaluate the proposal. We discuss each of these concerns below.

Amount of Local Flexibility Unclear. The administration advises that local agencies will be given some flexibility in designing their own pilot programs. The department could not, however, specify exactly which decisions would be left to local discretion. For example, the proposal does not specify whether the choice of which local agency will provide case management will be left to local decisionmakers. It also does not specify whether local agencies could shift funds between alcohol and drug treatment programs to accommodate local needs.

Proposal Needs More Detail. The proposal provides a general description of how the pilot program would work. There are, however, a variety of questions regarding the specific implementation of the pilot that the proposal leaves unanswered. For example:

- *The role of the coordinating council is unclear.* The DHS advises that pilot counties would be encouraged to create these councils to design, implement, and coordinate the pilots. The proposal does *not*, however, include any funds for the councils. In addition, it is unclear how councils would coordinate their activities with the Early Intervention Councils, which receive federal funds through the Department of Developmental Services (DDS).
- *The role of a proposed new task force on perinatal substance abuse is unclear.* The DHS requests an additional position to staff an interagency task force on perinatal substance abuse. However, the proposal does not explain the responsibilities of this task force or how it and the requested staff would differ from the existing Interagency Coordinating Council supported with federal Early Intervention Services funds through the DDS.
- *The proposal does not include funding for the medical training for foster parents of substance-exposed infants.* The DSS proposal refers

to a medical team that will work with the infant's physician to provide additional training to the foster parents, if necessary, regarding the infant's medical in-home care needs. However, the proposal does not state who will be on the medical teams or include funding for these medical teams.

Evaluation. Because this proposal is for a pilot program, which the Legislature may ultimately be asked to expand statewide, the results need to be accurately evaluated. In order to accomplish this, the evaluation will have to include an assessment of the program's effect on the mothers and infants that it serves, an analysis of the costs of the services provided, and an assessment of the extent to which the program can be replicated elsewhere in the state. We have three concerns about the evaluation plan for the proposed pilot program. First, the DHS has not clearly outlined what it intends to evaluate or how it will collect these data. The proposal includes $124,000 for the DHS to evaluate the pilot projects by hiring an outside contractor. At the time this analysis was prepared, however, the DHS had not specified the questions that its evaluation would address or the specific data that it would collect.

Second, the proposal does not include any funds for the DADP to evaluate its proposed treatment programs. The DADP advises that it intends to collect data in addition to what it currently collects through its CAL-DADS system. The department has not, however, specified the additional data that it will collect, how it will use the data to compare the treatment outcomes of pilot program clients to similar clients served by existing treatment programs, or how it will pay for the additional data collection activities.

Lastly, we are concerned about the administration's choice of the pilot counties. Specifically, the proposed pilot counties do not include a rural county. The problem of pregnant women using alcohol and drugs and giving birth to substance-exposed infants is not limited to urban areas. For example, the DHS found that substance-exposed infants admitted to CCS-approved Neonatal Intensive Care Units (NICU) in Tulare, Fresno, and Stanislaus Counties during August 1988 constituted between 11 percent and 15 percent of all NICU admissions to those facilities. This compares to rates ranging between 8 percent and 18 percent for the counties chosen for the pilot. Including a rural county in the pilot would allow the program to test how the proposed comprehensive system would work in areas of the state that do not have the extensive treatment and service infrastructures that exist in urban counties.

Recommendation. In order to provide the Legislature with the information that it will need to assess the administration's proposal, we recommend that prior to budget hearings the DADP, the DHS, and the DSS report to the fiscal committees on the three general concerns that we have raised above.

Health and Welfare Agency

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE

Item 4220 from the General Fund — Budget p. HW 36

Requested 1989-90	$245,000
Estimated 1988-89	237,000
Actual 1987-88	217,000
Requested increase (excluding amount for salary increases) $8,000 (+3.4 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 27-member committee is staffed with 3.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $245,000 from the General Fund for the committee's support during 1989-90. This amount is $8,000, or 3.4 percent, more than estimated current-year expenditures. The increase is due to (1) a proposed $10,000 increase in personnel costs and (2) a proposed $2,000 net reduction in operating expenses and equipment.

Legislative Oversight: Child Abuse Services Directory Available

In recent years, the Legislature has created or expanded several programs to assist abused or neglected children. In June 1988, the committee published the *Child Abuse Services Directory: Guide to California's Child Abuse Services*. This directory, which provides a comprehensive description of these programs and related federal and local services, has been well-received by state and local organizations.

Health and Welfare Agency

DEPARTMENT OF HEALTH SERVICES

Item 4260 from the General Fund and various funds — Budget p. HW 37

Requested 1989-90	$9,172,226,000
Estimated 1988-89	8,715,327,000
Actual 1987-88	7,355,008,000
Requested increase (excluding amount for salary increases) $456,899,000 (+5.2 percent)	
Total recommended increase	25,857,000
Recommendation pending	6,976,949,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4260-001-001—Department support	General	$153,599,000
4260-001-014—Department support	Hazardous Waste Control	8,342,000
4260-001-044—Department support	Motor Vehicle	325,000
4260-001-129—Department support	Water Device Certification	118,000
4260-001-137—Department support	Vital Records Improvement Project	4,325,000
4260-001-177—Department support	Food Safety	2,812,000
4260-001-179—Department support	Environmental Laboratory Improvement	1,545,000
4260-001-203—Department support	Genetic Disease Testing	27,502,000
4260-001-236—Department support	Unallocated Account, Cigarette and Tobacco Products Surtax (C&T)	1,104,000
4260-001-335—Department support	Sanitarian Registration	132,000
4260-001-388—Department support	Site Mitigation	4,249,000
4260-001-455—Department support	Hazardous Substance	1,318,000
4260-001-478—Department support	Mosquitoborne Disease Surveillance	27,000
4260-001-890—Department support	Federal	102,989,000
4260-001-900—Department support	Local Health Capital Expenditure	147,000
4260-005-890—Department support	Federal—special projects	284,880,000
4260-011-014—Department support—toxics	Hazardous Waste Control	35,564,000
4260-011-428—Department support—toxics	Hazardous Waste Management Planning	1,015,000
4260-011-455—Department support—toxics	Hazardous Substance	7,025,000
4260-011-890—Department support—toxics	Federal	6,012,000
4260-020-455—Department support—toxics	Hazardous Substance	3,400,000
4260-021-890—Department support—toxics	Federal—special projects	28,250,000
4260-101-001—Medi-Cal local assistance	General	3,240,750,000
4260-101-890—Medi-Cal local assistance	Federal	3,440,809,000
4260-105-001—Medi-Cal abortions	General	12,933,000
4260-103-890—Medi-Cal refugees	Federal	26,372,000
4260-111-001—Public health local assistance	General	795,165,000
4260-111-137—Public health local assistance	Vital Records Improvement Project	640,000

DEPARTMENT OF HEALTH SERVICES—Continued

4260-111-231—Public health local assistance	Health Education Account, C&T	175,583,000
4260-111-232—Public health local assistance	Hospital Services Account, C&T	200,846,000
4260-111-233—Public health local assistance	Physicians' Services Account, C&T	58,138,000
4260-111-236—Public health local assistance	Unallocated Account, C&T	78,925,000
4260-111-890—Public health local assistance	Federal	29,072,000
4260-121-001—Alzheimer's disease	General	3,564,000
Control Section 23.50—Support	State Legalization Impact Assistance Grant (SLIAG)	4,364,000
Control Section 23.50—Local assistance	SLIAG	341,125,000
Health and Safety Code Section 25330.5	Hazardous Site Operations and Maintenance	608,000
Welfare and Institutions Code Section 16707	County Health Services	2,450,000
Ch 376/84	Superfund Bond Trust	5,512,000
Ch 1130/87	General	12,000
Ch 1177/87	General	73,000
Ch 1282/87	General	36,000
Ch 1316/87	AIDS Vaccine Research and Development	83,000
Proposed legislation	Site Mitigation	62,875,000
Prior-year balance available—toxics	General	171,000
Prior-year balance available—toxics	Special Account for Capital Outlay	2,000,000
Reimbursements		14,137,000
Family repayments		1,303,000
Total		$9,172,226,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Licensing and Certification

1. Los Angeles County Contract. Recommend that prior to budget hearings, the department submit information to the fiscal committees regarding the costs and savings associated with the proposed state takeover of the Los Angeles County licensing and certification contract. 424

4-4-89
336,000

2. ***"Patient Dumping" Legislation Workload. Reduce Item 4260-001-001 by $407,000 and Item 4260-001-890 by $193,000.*** Recommend a reduction of $600,000 ~~($407,000 General Fund) and~~ seven positions because the workload resulting from "patient dumping" legislation has been lower than expected and the department's federal funding ratios have changed. 425

Revised
-93,000

3. ***Attorney General Interdepartmental Contract. Reduce Item 4260-001-001 by $562,000.*** Recommend a reduction of $562,000 from the General Fund to reflect expected workload of the Attorney General related to health facilities citation and administrative actions. 427

Public Health

4. Clinic Reimbursements for IRCA-Related Services. Recommend that the department report prior to budget hearings regarding its methods for reimbursing clinics for IRCA-related services. 438

5. ***Vital Records Improvement Project. Reduce Item 4260-001-137 by $852,000 and Item 4260-111-137 by $40,000.*** Recommend that the Legislature delete funds from the Vital Records Improvement Project Fund in order to reflect the department's current plans for the project. 439
6. Alternative Test Site (ATS) Program Reimbursement System. Recommend that the Legislature adopt Budget Bill language that requires the Office of AIDS to revise the reimbursement system for the ATS program so that it reimburses separately for (a) pre-test counseling and (b) testing and post-test counseling. 444
7. ***ATS Funding. Reduce Item 4260-111-001 by $412,000.*** Recommend that the department report at budget hearings on its plans to redirect funds in the current year from the ATS program to other programs. Further recommend a reduction of $412,000 from the General Fund requested for the ATS program because the department's utilization data do not justify the level of spending it requests. 445
8. AIDS Medi-Cal Waiver. Recommend that the Legislature require the department to report at budget hearings on (a) discrepancies in the proposed budget and (b) the effect of a federal policy change on the waiver program. 447
9. Hospice Funding. Recommend that the department include funding for the Barlow Hospice with funding for other home health, attendant, and hospice programs and have the Barlow Hospice compete for funding with these programs. 447
10. San Francisco General Hospital. Recommend that the department report at budget hearings on its intent with respect to the research center project. 448
11. Federal Maternal and Child Health (MCH) Block Grant Needs Oversight. Recommend that the department report during budget hearings on how it intends to improve its tracking of federal block grant funds. 449
12. ***General Fund Augmentation for MCH Programs Not Needed. Reduce Item 4260-111-001 by $3.2 million.*** Recommend that the Legislature delete a proposed General Fund augmentation of $3.2 million because federal MCH block grant funds are available—and, due to a technical error, already budgeted—to support these program expenditures. 449
13. ***Federal Block Grant Funds Available for Services to Drug-Exposed Infants. Reduce Item 4260-111-001 by $1.8 million and increase Item 4260-111-890 by $1.8 million.*** Recommend that the department submit additional information to the fiscal committees prior to budget hearings regarding the proposal to support four pilot projects targeting pregnant substance abusers and their substance-exposed infants. Also recommend that the Legislature reduce $1.8 million from the General Fund proposed for this program and replace it with federal block grant funds. 450
14. Unbudgeted Block Grant Funds. Recommend that the department provide to the fiscal committees, prior to budget hearings, its proposal to spend $4.1 million in unbudgeted federal funds. 450

DEPARTMENT OF HEALTH SERVICES—Continued

15. Expenditures for Newly Legalized Persons. Recommend that prior to budget hearings, the department submit to the fiscal committees revised estimates of the SLIAG expenditures for the Community-Based Perinatal Services and the Adolescent Family Life programs during the current and budget years. 451
16. California Children's Services (CCS) Estimates. Withhold recommendation on the $68.2 million budgeted for the CCS program pending receipt of the department's 1986 assets study. Also recommend that in its May revision of the budget, the administration reconcile inconsistent estimates of the impact of immigration-related changes to CCS expenditures. 452
17. ***Office of Family Planning Funding. Augment Item 4260-001-001 by $1,575,000 and Item 4260-111-001 by $34,655,000.*** Recommend that the Legislature restore the budget for the Office of Family Planning because the services are cost-beneficial. 454
18. Smoking Prevention Education Proposal. Recommend that the department submit to the fiscal committees, prior to budget hearings, a detailed plan for implementing its smoking prevention education program. 455
19. Sickle Cell Screening Program. Withhold recommendation on $4.4 million from the Genetic Disease Testing Fund proposed for the Sickle Cell Screening program pending receipt of (a) an expenditure plan and (b) a status report on the program's implementation during the current year. 456
20. Small Water Systems Requirements. Recommend enactment of legislation that (a) requires counties to develop consolidation plans for small water systems, (b) requires the DHS to promote consolidation in the Safe Drinking Water bond program, and (c) establishes financial responsibility requirements for new water systems. 461
21. Small Water Systems Oversight and Enforcement. Recommend enactment of legislation that (a) expands the state's authority and establishes minimum county requirements for regulating small water systems and (b) revises the funding mechanism for the state and county water system regulatory programs. 462
22. Small Water System Water Treatment Operators. Recommend enactment of legislation requiring the DHS to revise existing regulations to ensure that water treatment operators have the necessary expertise. 464
23. Environmental Health Surveys for Prisons. Recommend the department and the California Department of Corrections report at budget hearings on their plans for funding additional environmental health surveys at prisons. 465
24. Proposition 65 Workload Justification. Withhold recommendation on $3 million requested for activities related to the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65) pending receipt of workload justification. 465

25. ***Hazardous Waste Cleanup Funds. Reduce Item 4260-001-388 by $4,249,000.*** Recommend deletion of $4.2 million from the proposed new Site Mitigation Fund because these funds should be appropriated in legislation establishing the fund. 466
26. Analysis of Cancer Registry Data. Recommend that the department, prior to budget hearings, submit its plan for analyzing cancer incidence data collected by the cancer registry. 467
27. Toxic Air Contaminant Risk Assessments. Recommend the department report at budget hearings on the delays in developing health risk assessments in the toxic air contaminant program. 468
28. Prenatal Water Exposure Studies. Recommend that the department report at budget hearings regarding the final contract amount for the prenatal water exposure study. 469
29. Environmental Laboratory Inspections. Recommend that the Legislature adopt Budget Bill language requiring the department to perform unannounced inspections at environmental laboratories, except when it is conducting initial certification inspections. 470
30. Laboratory Program Debt. Recommend the department and the State Water Resources Control Board report to the fiscal committees prior to budget hearings on repaying General Fund monies the board spent to establish the wastewater laboratory accreditation program. 470
31. Fee Adjustments. Recommend that the Legislature amend the Budget Bill to correct proposed laboratory license fee adjustment language. 471

Toxic Substances Control

32. Hazardous Waste Control Account. Recommend the division report at budget hearings on the status of proposed legislation for continuing the hazardous waste fees in the budget year. 474
33. Hazardous Waste Fee Positions. Withhold recommendation on $173,000 and four positions requested for administration of the hazardous waste fee program pending receipt of information justifying the positions. 474
34. State-Only Hazardous Waste. Recommend (a) that the Legislature adopt Budget Bill language requiring the division to implement an interim status permit program for state-only waste facilities and (b) the division report prior to budget hearings on its enforcement program. 474
35. ***Technical Overbudgeting Error. Reduce Item 4260-011-014 by $106,000.*** Recommend reduction of $106,000 in the Hazardous Waste Resources and Research Coordination program to eliminate overbudgeting. 477
36. ***Hazardous Waste Contracts. Reduce Item 4260-011-014 by $101,000 and Item 4260-011-455 by $251,000.*** Recommend deletion of $352,000 in contract funds to eliminate overbudgeting. Withhold recommendation on $1,176,000 requested for nine contracts for hazardous waste management and cleanup activities, pending receipt of justification for the contracts. 477

DEPARTMENT OF HEALTH SERVICES—Continued

37. Site Mitigation Program. Recommend that the division report at budget hearings on (a) the funding shortfall in the current year and the impact of the shortfall on the site mitigation program and (b) the administration's proposal to fund the site mitigation program in 1989-90. 478
38. Responsible-Party Cost Recovery Program. Recommend the department report at budget hearings on the status of the responsible-party cost recovery program. 480

Medi-Cal

39. Medi-Cal Estimates. Withhold recommendation on $6.8 billion ($3.3 billion General Fund) requested for local assistance, pending review of the May revision of expenditure estimates. 484
40. Unfunded 1989-90 Medi-Cal Program Costs. Recommend that in its May revision of expenditure estimates, the department (a) incorporate estimates of costs resulting from long-term care COLAs and (b) adjust the savings estimate associated with its insurance recoveries proposal to reflect the actual collection record. 489
41. Savings from Medicare Crossover Proposal. Recommend that the department report during budget hearings on its estimates of savings from its Medicare crossover claims proposal. 490
42. Drug Cost Containment Proposals. Recommend that the department report during budget hearings on its proposal for drug cost containment. 490
43. Redwood Health Foundation Contract. Recommend that the department report during budget hearings on its efforts to encourage providers to continue to provide health care for Medi-Cal beneficiaries in Lake, Sonoma, and Mendocino Counties. 492
44. Immigration-Related Court Injunctions. Recommend that the department report during budget hearings on the effects of the preliminary injunctions on Medi-Cal costs and implementation of Ch 1441/88. 493
45. Medicare Catastrophic Coverage Act. Recommend that prior to budget hearings, the department submit to the fiscal committees additional information about (a) the costs and savings to the Medi-Cal program related to the Medicare Catastrophic Coverage Act (MCCA) and (b) the department's plans to pursue legislation to implement MCCA requirements affecting the Medi-Cal program. 495

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 has 4,988.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $9.2 billion from all funds for support of Department of Health Services programs in 1989-90, which is an increase of $457 million, or 5.2 percent, above estimated current-year expenditures. The largest proposed budget change is an increase of $321.4 million ($160.7 million General Fund) for Medi-Cal caseload and cost adjustments.

Table 1 shows the proposed budget, by program category, for 1989-90 and the two previous years.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 1
Department of Health Services
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

Expenditures	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change Amount*	*Change Percent*
State operations					
Support—excluding toxics	$267,741	$317,455	$325,710	$8,255	2.6%
Support—toxics	76,541	128,759	152,432	23,673	18.4
Distributed departmental services—toxics	−2,337	−2,984	−3,071	−87	2.9
Special projects—excluding toxics	169,053	246,395	289,480	43,085	17.5
Public health local assistance	1,264,418	1,602,486	1,640,275	37,789	2.4
Medi-Cal local assistance	5,579,592	6,423,216	6,767,400	344,184	5.4
Totals	$7,355,008	$8,715,327	$9,172,226	$456,899	5.2%
Funding Sources					
General Fund	*$4,061,195*	*$4,508,533*	*$4,206,303*	*−$302,230*	*−6.7%*
Federal funds	*3,057,033*	*3,639,023*	*3,918,384*	*279,361*	*7.7*
Hazardous Substance Cleanup (Bond)	*25,317*	*52,624*	—	*−52,624*	*−100.0*
Hazardous Substance Account	*13,869*	*13,671*	*13,343*	*−328*	*−2.4*
Hazardous Substance Account, responsible parties	*942*	*2,753*	*3,400*	*647*	*23.5*
Hazardous Waste Control Account	*30,914*	*43,654*	*43,906*	*252*	*0.6*
Genetic Disease Testing Fund	*21,046*	*24,862*	*27,502*	*2,640*	*10.6*
County Health Services	*2,450*	*2,450*	*2,450*	—	—
Local Health Capital Expenditure Account	*16*	*160*	*147*	*−13*	*−8.1*
State Legalization Impact Assistance Grant	*88,831*	*196,396*	*345,489*	*149,093*	*75.9*
Health Education Account, Cigarette and Tobacco Products Surtax (C&T) Fund	—	—	*175,583*	*175,583*	—[a]
Hospital Services Account, C&T Fund	—	*99,750*	*200,846*	*101,096*	*101.3*
Physicians' Services Account, C&T Fund	—	*28,500*	*58,138*	*29,638*	*104.0*
Unallocated Account, C&T Fund	—	*71,250*	*80,029*	*8,779*	*12.3*
Reimbursements	*43,770*	*18,446*	*14,137*	*−4,309*	*−23.4*
Other funds	*9,625*	*13,255*	*82,569*	*69,314*	*522.9*

[a] Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes expenditures for department support—excluding toxics—of $325.7 million (all funds) in 1989-90. These expenditures account for 3.6 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 4,352.8 personnel-years in the budget year (excluding those assigned to toxics and special projects), an increase of 256.5 personnel-years, or 6.3 percent, above the number authorized for the current year. Table 2 shows the expenditures and personnel-years proposed for department support by major program category.

Table 2
Department of Health Services Support—Excluding Toxics
Expenditures and Personnel-Years—All Funds
1987-88 through 1989-90
(dollars in thousands)

Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change From 1988-89 Amount	Change From 1988-89 Percent
Expenditures					
Public health	$115,332	$136,028	$138,040	$2,012	1.5%
Medical assistance	60,078	68,365	72,005	3,640	5.3
Licensing and certification	20,903	29,658	32,280	2,622	8.8
Audits and investigations	16,988	19,798	20,990	1,192	6.0
Administration and Director's office	54,440	63,606	62,395	−1,211	−1.9
Totals	$267,741	$317,455	$325,710	$8,255	2.6%
Personnel-years					
Public health	1,291.3	1,525.4	1,566.3	40.9	2.7%
Medical assistance	986.2	1,055.2	1,093.9	38.7	3.7
Licensing and certification	255.0	373.4	548.4	175.0	46.9
Audits and investigations	334.3	365.3	379.3	14.0	3.8
Administration and Director's office	683.9	777.0	764.9	−12.1	−1.6
Totals	3,550.7	4,096.3	4,352.8	256.5	6.3%

Table 3 identifies the main components of the changes proposed in the department's support budget for 1989-90, excluding toxics and special projects. The request for 1989-90 is $8.3 million, or 2.6 percent, above estimated 1988-89 expenditures.

Table 3
Department of Health Services Support
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	All Funds
1988-89 expenditures (Budget Act)	$146,743	$303,828
Adjustments, 1988-89:		
Chaptered legislation	6,050	10,438
Retirement reduction	−1,254	−2,243
Control Section 23.5—State Legalization Impact Assistance Grant (SLIAG) funds	—	4,630
Medicaid match for SLIAG	—	9
Public drinking water restoration	2,987	2,987
Unallocated reduction adjustment	—	36
Telephone rate reduction	−13	−37
Board of Control adjustment	−9	−9
Vital Records Improvement project delay	—	−3,850
Allocation for employee compensation	949	1,670
Medicaid funds to other departments	—	−471
Statewide cost allocation plan adjustment	—	467
1988-89 expenditures (revised)	$155,453	$317,455
Baseline adjustments, 1989-90:		
Back out chaptered legislation	−6,050	−10,438
Add back Board of Control adjustment	9	9
Add back Vital Records Improvement project	—	3,850
Chaptered legislation	−51	−51
Sickle-cell screening	—	3,482

DEPARTMENT OF HEALTH SERVICES—Continued

Back out one-time equipment	−1,779	−3,639
Expiration of limited-term positions	−795	−6,415
Full-year effect of 1988-89 costs	482	1,225
Price increase	—	608
Pro-rata adjustment	—	−24
Back out SLIAG	—	−516
Medicaid funds to other departments	—	420
Proposition 65 workload adjustment	—	−2,202
Medicaid match for SLIAG	—	174
Technical adjustments	−854	−716
Miscellaneous adjustments:		
Overhead/data processing reallocation	−79	—
Full-year effect of 1988-89 employee compensation increases	4,172	7,328
Equipment fund shift	−441	—
Budget change proposals:		
Public health	−685	9,113
Medical assistance	825	2,588
Licensing and certification	3,070	2,760
Audits and investigations	242	466
Administration and Director's office	201	233
1989-90 expenditures (proposed)	$153,720	$325,710
Change from 1988-89 expenditures (revised):		
Amount	−$1,733	$8,255
Percent	−1.1%	2.6%

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. Activities related solely to licensing are funded 100 percent from the General Fund. Health facility licensing fees are assessed to reimburse the General Fund costs of the division.

The budget proposes expenditures of $37 million ($21.6 million General Fund) for support of the Licensing and Certification program (including administrative overhead) in 1989-90. This is an increase of $3.7 million, or 11 percent, above estimated current-year expenditures.

The division has 373.4 personnel-years in the current year. The budget proposes an increase of 175 personnel-years, or 47 percent, in the budget year.

Department Proposes to Take Over the Los Angeles County Contract

We recommend that prior to budget hearings, the department submit information to the fiscal committees regarding the costs and savings associated with the proposed state takeover of the Los Angeles County licensing and certification contract.

The DHS contracts with the Los Angeles County Health Services Department to perform state licensing and certification functions in the county. This contract represents approximately one-third of the health facilities licensing and certification workload statewide.

The budget proposes to terminate the county's contract effective January 1990 and add 148 state positions to perform the work currently performed by the county. The DHS projects that this proposal will result in savings of $1,009,000 ($454,000 General Fund) during the budget year and $1,057,000 ($582,000 General Fund) annually thereafter.

The department's plan calls for a phased-in takeover process, starting with a transition team to conduct negotiations and to make logistical arrangements. The DHS expects five Los Angeles County management staff and 70 percent of the rest of the Los Angeles County staff to transfer to state civil service by December 1989. The contract would be fully phased out by January 1990. Total staff would be reduced from the 164 currently employed by the county to 148. The proposed state staffing level is based on the department's workload standards. The department anticipates needing fewer staff than needed by the county because the department plans to consolidate the five county offices into three.

Our review of the proposal suggests that the department's savings estimate is optimistic. Specifically:

- ***Salary Savings.*** We believe the department's salary savings projections may be unrealistic. The proposal projects a 12.6 percent salary savings rate. This rate may be too high, because Los Angeles County's current salary savings rate is 8.4 percent.
- ***Rental Costs.*** The department's proposal underestimates its rental costs. By January 1990, it envisions a streamlined Los Angeles County licensing and certification program in three of the five existing locations. These three facilities have a combined total of less than 7,500 square feet of space. During our review of the proposal, the department indicated that it underestimated these space requirements for 148 people. It advised us that the Department of General Services estimates that the DHS will need approximately 26,000 square feet.

In addition, during the transition period, the department may experience difficulties staffing the Los Angeles County program. The department estimates that 70 percent of Los Angeles County staff will transfer to state employment by January 1990. The department does not have an analytical basis for its projection. We believe that the estimate may be too high because the wages the department is proposing are below the wages that the county currently offers. If Los Angeles County staff are unwilling to transfer to state civil service, the department will have to (1) fill the positions from the community through the regular recruitment process, (2) bring in staff from other licensing and certification field offices, or (3) retain the contract for at least certain functions on a month-to-month basis. For these reasons, the state could either incur increased costs or reduce its level of service.

For these reasons, we believe that the proposal does not present a realistic estimate of the savings associated with the takeover. Therefore, we recommend that, prior to budget hearings, the department submit to the fiscal committees a revised estimate of the savings from the proposed state takeover of the Los Angeles County contract.

"Patient Dumping" Legislation Workload Overestimated

We recommend a reduction of $600,000 ($407,000 General Fund) and seven positions because (1) the workload resulting from "patient dumping" legislation has been lower than expected and (2) the

DEPARTMENT OF HEALTH SERVICES—Continued

department's federal funding ratio has changed. (Reduce Item 4260-001-001 by $407,000 and Item 4260-001-890 by $193,000.)

The budget contains $1.5 million ($704,000 General Fund) and 17 positions to implement Ch 1240/87 (SB 12, Maddy) and Ch 1225/87 (AB 214, Margolin), which address inappropriate transfers of emergency room patients, or "patient dumping." This is the same amount as in the current-year budget. "Patient dumping" occurs when a hospital emergency room transfers a patient to another hospital for treatment because the patient cannot pay for services. Patient dumping is particularly a problem when the patient's condition is not stabilized prior to transfer.

Among other things, these measures (1) specify the conditions under which hospitals may transfer emergency room patients, (2) require hospital personnel to notify the department if they believe that an inappropriate transfer has been made, and (3) require hospitals to post a sign in emergency rooms advising patients of their rights and recommending they notify the department if they believe their rights have been violated.

We identified two problems with the department's budget proposal:

Workload. The 17 positions added in the current-year budget for this program investigate the complaints that result either from hospital personnel or citizens who have utilized the referral signs in the emergency rooms. The staffing level was based on the following assumptions regarding workload:

- One out of every 10,000 emergency room visits would result in a complaint. This would result in 710 additional complaints a year.
- Signs posted in emergency rooms would not result in a significant number of complaints that are unrelated to patient transfers.
- Patient transfer complaints would take twice as long for the department to investigate as other complaints because there would always be at least two hospitals involved.
- Patient transfer complaints would have to be investigated by doctors, rather than by nurses, because the relevant issues are related to determining appropriate medical judgment.

The department now has a full year of data regarding the effect of these measures. Based on these data, the department's estimates of the length of time it takes and the staff involved to investigate each complaint were correct. However, the actual number of complaints it received was much lower than expected. Rather than 710 complaints, the department only investigated 180 cases during the 1988 calendar year. Thus, actual workload has been 25 percent of the expected workload.

These data indicate that the department's staffing level could be reduced significantly below the level budgeted based on the current workload. However, the department advises that it anticipates an increase in its workload resulting from:

- Reviewing hospital emergency room protocols. Currently, the department is reviewing the emergency protocols of all the hospitals in the state. After this review, its investigators will follow up to make sure that the hospitals are complying with the protocols.
- Establishing a citation program. The department anticipates that the average time spent for each investigation will increase once the department starts issuing citations.

- Potential federal legislation. The department is anticipating new federal legislation that may have an impact on its workload.

Our review indicates that the department may experience an increase in workload during the budget year to follow up on hospital emergency protocols. However, the citation program should not result in a significant workload increase because the department cannot implement the program without approved regulations, and the department does not expect to complete the regulations until the end of the budget year. The impact of potential federal legislation cannot be determined because the department does not have enough information about its contents or its chances of passing.

Our analysis indicates that the increase in the department's workload in the budget year will not be significant enough to justify continued funding at the current level. Our review indicates that the department will require a total of $900,000—$500,000 for its current workload and $400,000 for the new workload resulting from review and follow-up of hospital emergency protocols.

Funding Ratios. The budget proposes funding for this program based on a ratio of 53 percent federal funds and 47 percent General Fund dollars. However, the department advises that it is currently receiving 67 percent federal reimbursement for this program and that it anticipates this level of reimbursement to continue. Using these funding ratios, the department would need a total of $297,000 from the General Fund and $603,000 from federal funds.

Accordingly, we recommend that the Legislature reduce the department's budget by $600,000 ($407,000 General Fund).

Attorney General Interdepartmental Contract Overbudgeted

We recommend a reduction of $562,000 from the General Fund to reflect expected workload of the Attorney General related to health facilities citations and administrative actions. (Reduce Item 4260-001-001 by $562,000.)

The budget proposes an increase of $883,000 from the General Fund to reimburse the Attorney General (AG) for workload related to health facilities citations. The AG represents the DHS in litigation that results from citations and administrative actions issued to health facilities that do not comply with state and federal regulations.

The department's proposal projects workload consisting of 22,693 attorney hours and 9,779 paralegal hours in the budget year. These figures were provided to the department by the AG in October 1988. However, the AG's January 1989 *Supplementary Schedule of Legal Services* estimates 15,500 attorney hours and 8,810 paralegal hours for health facilities citation and administrative actions in the budget year.

We believe that the *Supplementary Schedule of Legal Services* is more reliable based on our review of the methodology used for both projections. (Please see Item 0820.) Adjusting the number of attorney and paralegal hours according to the schedule results in a savings of $562,000 from the General Fund. Therefore, we recommend that the Legislature reduce the department's budget by $562,000.

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:

DEPARTMENT OF HEALTH SERVICES—Continued

1. The *Rural and Community Health Division* distributes funds to local health agencies and clinics.

2. The *Family Health Services Division* addresses the special needs of women and children.

3. The *Office of AIDS* is responsible for providing, contracting for, and coordinating services related to the AIDS epidemic.

4. The *Preventive Medical Services Division* is responsible for infectious and chronic disease programs and epidemiological studies.

5. The *Laboratory Services Division* maintains two state laboratories and regulates other public and private laboratories.

6. The *Environmental Health Division* operates programs to control environmental hazards.

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 $152.8 million for department support attributable to public health programs in 1989-90. (This amount excludes funding for special projects.) The requested amount is $3 million, or 2 percent, more 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.

Table 4
Public Health Support
Budget Summary—All Funds
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Percent Change From 1988-89
Rural and community health	198.8	220.1	229.7	$12,801	$15,700	$19,003	21.0%
Family health services	194.8	222.1	200.2	21,267	23,926	23,610	−1.3
AIDS	59.6	95.6	90.1	11,392	7,819	5,927	−24.2
Preventive medical services	181.1	218.0	224.6	25,457	33,778	32,701	−3.2
Environmental health	281.8	327.2	379.8	22,199	27,744	27,236	−1.8
Laboratory services	375.2	442.4	441.9	34,832	40,858	44,370	8.6
Subtotals	(1,291.3)	(1,525.4)	(1,566.3)	($127,948)	($149,825)	($152,847)	(2.0%)
Special projects	205.4	482.5	606.8	169,533	246,395	289,480	17.5
Totals	1,496.7	2,007.9	2,173.1	$297,481	$396,220	$442,327	11.6%

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

- Implement the Vital Records Improvement project ($4.1 million from the Vital Records Improvement Fund).
- Expand sickle cell screening ($3.5 million from the Genetic Disease Testing Fund).
- Implement the Food Manufacturers Inspection program as required by Ch 1107/88 (AB 4108, Jones) ($2.5 million from the Food Safety Fund).

- Increase state oversight and quality control of statewide cancer registry ($858,000 from the Cigarette and Tobacco Products Surtax Fund).

The major reductions in department support reflect:

- Elimination of the Office of Family Planning (−$1.6 million General Fund).
- Shifting immunization funding from support to local assistance (−$1.1 million).
- Elimination of a technical assistance program for county environmental health departments (−$400,000).

Table 5 details the budget changes proposed for each public health program in 1989-90.

Table 5
Department of Health Services
Public Health Support
Proposed 1989-90 Budget Changes
(dollars in thousands)

	Positions	General Fund	All Funds
1988-89 expenditures (Budget Act)	1,676.4	$87,686	$139,818
Adjustments, 1988-89:			
Rural and community health			
Control Section 23.5—State Legalization Impact Assistance Grant (SLIAG)	12.0	—	1,296
Vital Records Improvement project delay	—	—	−3,850
Unallocated reduction adjustment	—	−381	−381
Family health			
Control Section 23.5—SLIAG	8.3	—	481
Unallocated reduction adjustment	—	−382	−5
Office of AIDS			
Unallocated reduction adjustment	—	−9	−9
Preventive medical services			
Control Section 23.5—SLIAG	8.0	—	416
Unallocated reduction adjustment	—	−407	−407
Public drinking water restoration	—	313	313
Environmental health			
Unallocated reduction adjustment	—	−40	−40
Public drinking water restoration	0.3	2,665	2,665
Food manufacturer inspections	3.0	−152	87
Mosquito and vector control	0.5	—	11
Nuclear emergency response planning	2.5	—	94
Laboratories			
Control Section 23.5—SLIAG	5.0	—	260
Unallocated reduction adjustment	—	−336	−336
Environmental laboratory accreditation	8.0	−34	313
Chaptered legislation	—	4,942	9,462
Administrative adjustments	−1.0	−267	−363
1988-89 expenditures (revised)	1,723.0	$93,598	$149,825
Adjustments, 1989-90:			
Rural and community health			
SLIAG adjustment	9.5	—	610
Vital Records Improvement project	5.0	—	4,092

DEPARTMENT OF HEALTH SERVICES—Continued

Family health			
SLIAG adjustment	—	—	21
Sickle cell screening	—	—	455
Elimination of Office of Family Planning	−28.0	−1,575	−1,633
Smoking prevention education	2.0	—	93
Newborn screening program	2.5	—	−9
Drug-exposed women and infants	2.0	343	343
Office of AIDS			
Contract funding for local assistance	—	200	200
HIV inmate testing	1.0	40	40
Preventive medical services			
SLIAG reduction	−5.0	—	−258
Air toxic risk assessments	6.0	—	—
Cancer registry	4.0	—	858
Air toxic hot spots	2.0	—	102
Prenatal water exposure study	—	729	729
Proposition 65 scientific functions	4.0	—	—
Immunization—shift funding to local assistance	—	−1,079	−1,079
Environmental health			
Low-level radioactive waste	5.0	—	561
Water device certification	2.5	—	114
Radiation materials and machine control	—	199	199
Nuclear emergency response	—	—	81
Environmental health prison surveys	3.5	—	215
Review and approval of drugs for AIDS	—	83	83
Mosquito and vector control	—	—	8
Food manufacturer inspections	56.0	−16	2,546
Environmental health county assistance	−7.0	−400	−400
Laboratories			
SLIAG reduction	−4.0	—	−204
Sickle cell screening	—	—	3,027
Prenatal water exposure study	—	87	87
Low-level radioactive waste	1.0	—	38
Landfill gas chemical detection	—	42	42
Environmental laboratory accreditation	7.0	−31	568
Back out chaptered legislation	—	−4,942	−9,462
Chaptered legislation (Ch 1130/87)	—	12	12
Administrative adjustments	−14.0	1,201	943
1989-90 expenditures (proposed)	1,778.0	$88,491	$152,847
Change from 1988-89 (revised):			
Amount	55.0	−$5,107	$3,022
Percent	3.2%	−5.5%	2.0%

Local Assistance. The budget proposes $1.6 billion (all funds) in local assistance for public health services in 1989-90. This represents an increase of $38 million, or 2.4 percent, above estimated current-year expenditures. Table 6 presents local assistance expenditures, by program, for 1987-88 through 1989-90.

Table 6
Department of Health Services
Public Health Local Assistance
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

	Fund	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change from 1988-89* Amount	Percent
Family health						
Family planning	All	$35,945	$37,855	—	−$37,855	−100.0%
Maternal and child health	All	33,029	31,197	$36,576	5,379	17.2
Genetically handicapped persons	All	7,786	8,334	8,744	410	4.9
California children's services	All	60,312	63,724	68,183	4,459	7.0
Child health and disability prevention	All	21,470	20,942	21,251	309	1.5
Genetic disease prevention	All	1,679	4,479 [a]	2,741 [a]	−1,738 [a]	−38.8
Smoking prevention	C&T	—	—	175,583	175,583	— [b]
Subtotals	All	($160,221)	($166,531)	($313,078)	($146,547)	(88.0%)
Rural and community health						
Primary health care	All	$18,436	$21,134	$31,478	$10,344	48.9%
County health services	All	1,023,002	1,140,976	910,136	−230,840	−20.2
Vital Records Improvement project	VRIP	—	520	640	120	23.1
California Health Care for Indigents program	C&T	—	199,500	331,324	131,824	66.1
Subtotals	All	($1,041,438)	($1,362,130)	($1,273,578)	(−$88,552)	(−6.5%)
Office of AIDS	All	$32,492	$51,645	$40,124	−$11,521	−22.3%
Preventive medical services						
Infectious diseases	All	$25,029	$14,111	$6,702	−$7,409	−52.5%
Chronic diseases	General	5,238	7,769	6,793	−976	−12.6
Subtotals	All	($30,267)	($21,880)	($13,495)	(−$8,385)	(−38.3%)
Division of laboratories	SLIAG	—	$300	—	−$300	−100.0%
Totals	All	$1,264,418	$1,602,486	$1,640,275	$37,789	2.4%
Funding Sources						
General Fund		*$1,141,260*	*$1,197,728*	*$798,729*	*−$398,999*	*−33.3%*
Federal funds (excluding SLIAG)		*31,048*	*29,072*	*29,072*	—	—
State Legalization Impact Assistance Grant (SLIAG)		*88,550*	*169,211*	*294,589*	*125,378*	*74.1*
Miscellaneous reimbursements (audit recoupments)		*114*	—	—	—	—
Family repayments		*996*	*1,152*	*1,303*	*151*	*13.1*
County Health Services Fund		*2,450*	*2,450*	*2,450*	—	—
County Medical Services Program Account		—	*2,853*	—	*−2,853*	*b*
Vital Records Improvement Project (VRIP) Fund		—	*520*	*640*	*120*	*23.1*
Cigarette and Tobacco Products Surtax (C&T) Fund		—	*199,500*	*513,492*	*313,992*	*157.4*

[a] Both 1988-89 and 1989-90 figures should be $1,679,000. The remaining funds should actually be reflected in the maternal and child health budget. The department proposes to use this money to provide prenatal care to recently legalized women.
[b] Not a meaningful figure.

The changes proposed for local assistance are primarily due to:

- The elimination of the Office of Family Planning (a reduction of $35 million General Fund).
- A net increase in various programs for services to newly legalized persons ($125 million from State Legalization Impact Assistance Grant funds).
- The creation of a smoking prevention program ($176 million from the Cigarette and Tobacco Products Surtax—C&T—Fund).

DEPARTMENT OF HEALTH SERVICES—Continued

Table 7
Department of Health Services
Public Health Local Assistance
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (Budget Act)	$1,188,666	$1,221,860
Baseline adjustments, 1988-89:		
State Legalization Impact Assistance Grant (SLIAG)—Section 23.50	—	170,250
1988 Budget Act augmentations (Ch 974/88)	5,175	5,175
Reappropriation for lupus	200	200
Reappropriation for AIDS	3,121	3,121
Reappropriation for AIDS research center	5,700	5,700
AIDS—AZT subsidy program (Ch 977/88)	2,500	2,500
California Health Care for Indigents program	—	199,500
Subtotals	$16,696	$386,446
Caseload adjustments:		
California Children's Services program	−$3,007	−$4,046
Genetically Handicapped Persons' program	61	61
Child Health and Disability Prevention program	−1,835	−1,835
County Medical Services program	−2,853	—
Subtotals	−$7,634	−$5,820
1988-89 expenditures (revised)	$1,197,728	$1,602,486
Baseline adjustments, 1989-90:		
Back out reappropriations	−9,021	−9,021
Back out AIDS—AZT subsidy program	−2,500	−2,500
Increase family repayments	—	151
Transfer immunization assistance from support	1,079	1,079
Transfer AIDS funds to support	−200	−200
Subtotals	−$10,642	−$10,491
Caseload, cost, and population adjustments:		
California Children's Services program	3,007	3,380
Genetically Handicapped Persons' program	−61	409
Child Health and Disability Prevention program	309	309
County Medical Services program	2,853	4,204
AB 8 local government relief	—	1,538
Subtotals	$6,108	$9,840
Program change proposals:		
Maternal and child health restoration	$3,200	$3,200
Pilot projects for pregnant substance abusers and substance-exposed infants	1,500	1,500
Vital Records Improvement Project	—	120
SLIAG	—	125,378
Reduce medically indigent services	−358,734	−358,734
Reduce county medical services	−4,000	−4,000
Reduce preventive health services to the aged	−776	−776
Reduce primary health care services	−1,000	−1,000
Eliminate Office of Family Planning	−34,655	−34,655 [a]
California Health Care for Indigents program	—	131,824
Smoking prevention program	—	175,583
Subtotals	−$394,465	$38,440
1989-90 expenditures (proposed)	$798,729	$1,640,275
Change from 1988-89 (revised):		
Amount	−$398,999	$37,789
Percent	−33.3%	2.4%

[a] General Fund amount only. The budget also proposes eliminating the program's SLIAG allocation.

- An increase in a proposed new California Health Care for Indigents program ($132 million C&T Fund). The budget reflects expenditures of $200 million in the current year for this program.
- A decrease in the Medically Indigent Services program ($359 million General Fund).

Table 7 reflects proposed budget changes affecting local assistance expenditures in 1989-90.

Cigarette and Tobacco Products Surtax Fund

Last November the voters of California approved the "Tobacco Tax and Health Protection Act of 1988," commonly referred to as "Proposition 99." This act (1) places a surtax on cigarettes and other tobacco products, (2) creates the Cigarette and Tobacco Products Surtax (C&T) Fund, and (3) allocates C&T funds among categories of programs relating to health and natural resources. Proposition 99 specifies that at least 20 percent of C&T revenues be used for "tobacco-related school and community health education programs," and at least 45 percent be used for "medical and hospital care and treatment" of patients who cannot afford to pay for those services and lack insurance coverage.

The budget proposes expenditures of $514.6 million from the C&T Fund in 1989-90 for a variety of public health programs. Of this amount, $513.5 million would be for local assistance and $1.1 million would be for support. In the current year, the budget reflects expenditures of $200 million, all for local assistance, for a proposed new California Health Care for Indigents program (CHIP).

The proposed local assistance budget for 1989-90 includes:

- $331.3 million for the proposed new CHIP program.
- $175.6 million for a proposed new smoking prevention program.
- $4.2 million for caseload increases for the County Medical Services program.
- $1.5 million for population increases for AB 8 local government relief.
- $370,000 for caseload increases for the California Children's Services program.
- $470,000 for caseload increases for the Genetically Handicapped Persons' program.

The proposed support budget includes:

- $858,000 for the California Cancer Registry.
- $93,000 to administer the proposed new smoking prevention program.
- $153,000 to administer the C&T Fund.

For a more detailed discussed of the proposed new CHIP program and smoking prevention program, please see the Family Health and Rural and Community Health sections of the *Analysis*.

A. RURAL AND COMMUNITY HEALTH

Medically Indigent Services

Proposal to Restructure Funding for Indigent Health Care Services

The budget proposes major changes for county health care services that are currently funded through the Medically Indigent Services

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program (MISP). The proposal does not affect funding provided to counties through the AB 8 program.

Current Year. The budget reflects expenditures of $825 million in the current year. This is $263 million, or 47 percent, higher than in the 1988 Budget Act. This increase is due to two changes. First, the administration has increased its estimate of expenditures of State Legalization Impact Assistance Grant (SLIAG) funds by county MISPs by $63 million, an increase of 93 percent above the amount included in the 1988 Budget Act. Second, the budget reflects expenditures of $199.5 million for a proposed new California Health Care for Indigents program (CHIP) funded from the Cigarette and Tobacco Products Surtax (C&T) Fund. This program would be established in legislation. Under the CHIP, counties would receive allocations to support health services for indigents. The CHIP would be similar to the MISP except in two respects: the allocation formula would be different and counties would be required to pay private providers for emergency services.

Table 8 shows proposed changes in the budget for county medically indigent services.

Table 8
Department of Health Services
Changes Related to the Medically Indigent Services Program (MISP)
Proposed 1989-90 Budget Changes
(dollars in millions)

	General Fund	*C&T Fund*[a]	*SLIAG*[b] *(federal)*	*Total*
1988-89 expenditures (Budget Act)	$494.9	—	$67.6	$562.5
Adjustments, 1988-89:				
Revision in estimates related to immigration reform	—	—	63.0	63.0
Proposed new program: California Health Care for Indigents program (CHIP)	—	199.5	—	199.5
1988-89 expenditures (revised)	$494.9	$199.5	$130.6	$825.0
Proposed changes, 1989-90:				
Revision in estimates related to immigration reform	—	—	108.3	108.3
Full-year cost of the CHIP	—	131.8	—	131.8
Reduce MISP due to availability of SLIAG funds	−100.0	—	—	−100.0
Reduce MISP	−258.8	—	—	−258.8
1989-90 expenditures (proposed)	$136.1	$331.3	$238.9	$706.3
Change from 1988-89 (Budget Act):				
Amount	−$358.8	$331.3	$171.3	$143.8
Percent	−72.5%	—[c]	253.4%	25.6%
Change from 1988-89 (revised):				
Amount	−$358.8	$131.8	$108.3	−$118.7
Percent	−72.5%	66.1%	82.9%	−14.4%

[a] Cigarette and Tobacco Products Surtax Fund, established by Proposition 99.
[b] State Legalization Impact Assistance Grant.
[c] Not a meaningful figure.

Budget Year. The budget proposes $706 million for county medically indigent services in 1989-90. This is a decrease of $118.7 million, or 14 percent, from estimated expenditures in the current year and an increase of $143.8 million, or 26 percent, from the 1988 Budget Act. Table 8 shows that the decrease from current-year expenditures is due to the following changes:

- Increase of $108 million, or 83 percent, in SLIAG funding due to revisions in the estimates of the impact of immigration reform on county health programs.
- Increase of $132 million, or 66 percent, in C&T funding for the CHIP to reflect full-year costs of the program.
- Reduction of $100 million in the MISP due to the administration's decision to use SLIAG funds to offset General Fund costs for the MISP. Previously, the administration had not proposed any reductions to existing programs due to the availability of SLIAG funds.
- Reduction of an additional $259 million from the MISP to "fund other high-priority programs." In total, the MISP would be reduced by $359 million, or 73 percent.

Policy Concerns. The administration's proposal raises a number of policy concerns. In general, our concerns are related to the short- and long-term reliability of the funding sources to serve this population and the impact of the changes on counties. We detail our concerns below.

1. SLIAG Funds May Not Materialize. SLIAG funds assist state and local governments in funding the services provided to undocumented persons legalized under the Immigration Reform and Control Act (IRCA) of 1986. (For a detailed discussion of issues associated with the IRCA, please see *The 1989-90 Budget: Perspectives and Issues*, Part Four.)

Our review of the department's funding proposal indicates that counties may not be able to utilize these funds to the degree the department has estimated. This is because the department's estimates of SLIAG funds needed for county indigent health services may not be reliable. Specifically, the estimate is full of assumptions about the newly legalized population that are little more than educated guesses. These assumptions involve their needs for health services and willingness to identify themselves for purposes of claiming SLIAG funds. The department has not processed any claims for the current year, or completed processing claims for 1987-88. As a result, there are very little actual data with which to compare the estimates.

2. $100 Million Reduction in the MISP May Not Be Justified. In the past, many counties have used MISP and other state and local funds to provide health care services to indigent undocumented persons. However, there are no data available to substantiate the administration's estimate that $100 million in General Fund dollars can be replaced with SLIAG funds. If counties' claims fall short of the administration's estimates, then withdrawing their General Fund dollars means that they will be able to provide fewer services. Counties have a limited ability to do this under current law.

3. Funding Source for CHIP Questionable. The administration proposes to fund the CHIP from the C&T Fund established by Proposition 99. Proposition 99 specifies that C&T funds must be used to supplement, rather than supplant, existing levels of service.

Our analysis indicates that the CHIP proposal combined with the MISP reduction is problematic for two reasons. First, the CHIP is likely to be used to supplant existing levels of service. Second, if the CHIP is *not* used to replace MISP funding, then the MISP reduction would leave an unfunded mandate.

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There are two reasons that we believe CHIP funds are likely to be used to supplant existing service levels:

- *The CHIP and the MISP are virtually identical programs*: (a) the same counties are affected, (b) they serve the same population, and (c) counties would have essentially the same discretion over what services are provided, who is eligible, and how services are funded that they currently have under the MISP. The only major differences in the two programs are the allocation formula among counties and a requirement that counties pay private providers for emergency services.

  The emergency services requirement proposed by the administration may result in counties paying for a broader range of emergency medical services than they do currently. Use of C&T funds for this purpose would probably be considered a supplement. To the extent counties use the C&T funds in this manner, however, there would be less funding available to replace MISP dollars. The administration's proposed legislation gives counties a significant amount of discretion in determining how to implement the emergency services requirement.
- *The reduction in MISP funding proposed for the budget year leaves counties virtually no alternative but to supplant.* This is because there would be a 40 percent reduction in their other funding from the state (MISP and SLIAG combined). In order to maintain existing levels of service, counties would have two options: (a) increase their own share of costs or (b) use CHIP monies to replace the lost state funds. Because most counties already spend more county funds on health services than required, we believe the administration's proposal leaves counties no alternative but to supplant.

Our conclusion that the MISP reduction would leave an unfunded mandate if the CHIP funding is *not* used to replace MISP funding is based on our review of a mandate claim submitted by Los Angeles County to the Commission on State Mandates. Los Angeles County sought reimbursement for the costs of providing health care services to medically indigent adults. In our review, we concluded that the Legislature's action in eliminating Medi-Cal eligibility for medically indigent adults effective January 1983 imposed a reimbursable mandate on counties. The state currently reimburses the costs of this mandate through MISP funding. If the state reduces the MISP, counties could come to the state through the mandate process to seek additional funds.

4. C&T and SLIAG Funds Will Erode Over Time. Under the budget proposal, C&T funds would be 47 percent of funds counties receive for medically indigent services; SLIAG funds would be 34 percent.

Revenues from the existing cigarette and tobacco tax have declined from $290 million in 1979-80 to $245 million in 1988-89, a 16 percent reduction overall, or about 1.6 percent per year. As we discuss in *The 1989-90 Budget: Perspectives and Issues*, revenues deposited to the C&T Fund are also likely to decrease over time as fewer individuals buy cigarettes and other tobacco products. To the extent that the budget proposes to fund continuing program costs from these funds, a gap between available revenues and actual program costs will gradually develop as program costs go up and revenues decline.

In addition, SLIAG funds are generally available to states and local governments for a period of five years, ending in 1991-92. When these funds disappear, there will be increased pressure for alternative sources of funding.

*5. **The Administration's Proposal Will Result in Significant Disruptions in County Funding.*** Currently, MISP funds are distributed among counties based on the number of individuals who were eligible for Medi-Cal as medically indigent adults (MIAs) in the three-year period 1979-80 through 1981-82. The state provides MISP funds to counties in a block grant. The state allocates SLIAG funds to counties for planning purposes based on the number of applicants for legalized status in each county. The state actually distributes SLIAG funds based on county claims for the services they provide. The administration proposes to allocate the CHIP funds using a new allocation formula based on the percentage of persons below the federal poverty standard living in each county.

Because the SLIAG funds and the CHIP funds would be distributed through different mechanisms than existing MISP funds, the funding of individual counties will change significantly. For example, although there would be an overall increase of 26 percent in funding between the amount appropriated in the 1988 Budget Act for the current year and the amount proposed in the budget for 1989-90, our review indicates that four counties will have reduced allocations. These are Lake (1 percent), Sacramento (8 percent), Mendocino (9 percent), and San Francisco (23 percent).

The Legislature's Options. Proposition 99 provides the Legislature with an opportunity to make comprehensive changes to the health services safety net. In *The 1988-89 Budget: Perspectives and Issues*, we highlighted three basic options for providing better and more uniform access to health care services for the medically indigent:

- ***Strengthen existing county systems*** by providing additional funding for health services and, possibly, imposing standards and data collection requirements on county services in order to assure more uniform access among counties.
- ***Establish a funding source for uncompensated care*** (or a system for reallocating the costs of uncompensated care among providers). These funds could be allocated to public and private providers based on the level of uncompensated care they provide.
- ***Extend coverage to persons who do not now have it.*** This could be achieved by (1) providing incentives to employers to cover employees (mandating coverage is infeasible due to federal laws), (2) subsidizing purchase of insurance by individuals, (3) providing state coverage similar to Medi-Cal for additional categories of individuals (for example, by reinstituting the MIA program), or (4) establishing a risk pool for uninsurable persons.

The administration's proposal for funding indigent health care services, however, does not appear to improve safety net coverage due to all the problems we identify above.

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Other Issues

Clinic Reimbursements for IRCA-Related Services Appear Unjustified

We recommend that the department report prior to budget hearings regarding its methods for reimbursing clinics for IRCA-related services.

The Primary Health Care Services Branch contracts with primary care clinics to provide health services to low-income individuals. In 1987-88, the branch also began contracting with existing clinics to provide health services to persons who were legalized under the Immigration Reform and Control Act (IRCA) with funds from the State Legalization Impact Assistance Grant (SLIAG).

In order to receive SLIAG funds, clinics enter into a contract with the branch. The contract specifies the projected number of visits and the average cost per visit. Once the contract is approved, clinics submit monthly invoices detailing the services provided. The branch reimburses clinics based on their monthly invoices. The branch entered into contracts with over 60 clinics to provide SLIAG-funded health services in 1987-88. (As of January 1989, the request for proposals for 1988-89 contracts had not yet been released. Clinics providing services to newly legalized persons in the current year are doing so with the expectation they will be reimbursed on the basis of new contracts.) Overall, the total amount of these contracts is $9.5 million. The branch has reimbursed these clinics a total of $5.4 million to date.

Our review of the documentation supporting these reimbursements reveals unjustified amounts that may result in federal audit exceptions. Specifically:

- *We cannot determine the basis for the department's cost adjustments.* The branch indicates that when it negotiates the clinics' contracts, it generally adjusts the average cost per visit to take into account (1) other reimbursements, such as patient fees, and (2) the branch's historical understanding of each clinics' costs. The branch has been unable to provide (1) a breakdown of clinic costs versus adjustments and (2) specific documentation supporting its adjustments.
- *Reimbursements above clinic costs appear to be unjustified.* In 21 of the 43 contracts, the amount paid to the clinic exceeds the total cost of visits as reflected in the department's accounting system. The average difference is 18 percent and is as high as 25 percent. The branch indicates that this difference is due to clinics' administrative costs, but it has been unable to substantiate this assertion by providing specific documentation. Moreover, it could not explain why this "administrative cost" is not factored in for all clinics. Twenty-two clinics have received less than, or equal to, their costs.

In light of these concerns, we recommend that the branch provide the fiscal committees with additional information prior to budget hearings to support the level of reimbursement to clinics. The information should document (1) their adjustments to clinic costs and (2) the reasons for reimbursing clinics above their costs.

Lack of Coordination in Addressing Problems of Small and Rural Hospitals

Many small and rural hospitals face financial problems that place them at risk of closure. These problems appear to be related to a number of factors, including reimbursement policies and licensure regulations. In recognition of these problems, the Legislature enacted Ch 1476/87 (SB 1458, Keene) and Ch 1209/88 (SB 2549, Keene), which (1) authorize the DHS to provide grants and technical assistance to rural hospitals at high risk of closing and (2) require the DHS to conduct a demonstration project to evaluate the feasibility of an alternative rural hospital licensure category. At the same time, the Legislature enacted Ch 67/88 (AB 2148, Jones), which authorized the Office of Statewide Health Planning and Development (OSHPD) to conduct a comprehensive evaluation of small and rural hospital regulations using demonstration projects.

Our review indicates there is substantial overlap between the responsibilities given to the DHS and OSHPD, yet little coordination between the two agencies. For our analysis concerning this issue, please see Item 4140.

Vital Records Improvement Project Needs a Pilot Project

We recommend that the Legislature delete $892,000 from the Vital Records Improvement Project (VRIP) Fund in order to reflect the department's current plans for the project. (Reduce Item 4260-001-137 by $852,000 and Item 4260-111-137 by $40,000.)

Chapter 1072, Statutes of 1986 (AB 3829, Rogers), established the VRIP Fund. This fund is supported by an additional fee collected from applicants who request certified copies of birth, death, and marriage (vital) records. Chapter 1072 provides that the fund is to be used for (1) establishing a new medium for permanent storage of state vital records and (2) improving and automating state and local processing of vital records. The fee collection authority expires on December 31, 1990. The department estimates that the VRIP Fund will receive a total of $16 million in fee revenue by that time.

The budget proposes to spend $4.7 million in VRIP funds for (1) a contract to begin establishing a new storage medium ($3.8 million), (2) vital records improvement at the local level ($640,000), and (3) state staff ($240,000). According to the budget change proposal submitted to support the project, this is the first-year installment of a five-year $16 million program to develop a highly advanced technology for reading and retrieving both new and existing state vital records.

However, our discussions with the department indicate that its actual plans for the project are different. First, the department plans to allocate only $600,000 in local assistance funds, rather than $640,000. Second, at the time we prepared this analysis (February 1989), the department was requesting the Department of General Services' approval for a sole-source contract for an 18-month pilot project that would test the new technology. The proposal had already been approved by the Office of Information Technology (OIT) in the Department of Finance. The pilot project involves developing the necessary software and converting 10 percent of the state vital records to the new system. This pilot project would cost the state an estimated $3 million. The vendor would contribute matching in-kind contributions.

Following the completion of the pilot project, the department would evaluate the efficiency and accuracy of the technology. If the evaluation is favorable, the department informs us that it would prepare a new feasibility study report and undertake a competitive bidding process.

Given that the proposed technology has not been tested, we agree that a pilot project is the appropriate next step for the VRIP. This is because there is a risk that the technology could fall short of VRIP requirements. A pilot project would allow the state to test and evaluate the feasibility of

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the advanced technology before deciding to proceed with the proposed approach. If the technology did not perform up to expectations, the department could reevaluate its options and submit an alternative proposal to the Legislature. Moreover, our discussions with the OIT staff suggest that they may be reluctant to approve a full-scale automation project of this kind unless there were provisions for a pilot or more limited-scope project prior to full development of the system.

We recommend that the Legislature reduce the budget by $892,000 to conform with the department's current plans for this project. Specifically, we recommend that the Legislature reduce the amounts proposed (1) for local assistance from $640,000 to $600,000 to reflect the department's planned local assistance allocations and (2) for contracts from $3,852,000 to $3 million, which is the amount needed for the pilot project.

B. OFFICE OF AIDS

As of January 1989, almost 17,000 Californians have been diagnosed with AIDS, and almost 10,000 have died. This is 5,000, or 40 percent, more diagnosed cases than had been diagnosed one year ago. Although the rate of increase in AIDS cases has declined from a year ago, the number of AIDS cases will continue to grow. AIDS is currently concentrated in specific groups and geographic areas. Over time, however, it is likely to become more pervasive throughout the general population.

The Office of AIDS (OA) is responsible for funding information and education programs, conducting pilot projects, administering a testing program, analyzing the spread of the epidemic, providing technical assistance, coordinating the activities of different state agencies, and promoting AIDS vaccine research and development.

The budget proposes expenditures of $46.1 million, excluding federal special projects, in 1989-90 for the OA. This is a decrease of $13.4 million, or 23 percent, below estimated spending levels in the current year. Table 9 displays expenditures from all funds in the past, current, and budget years.

Table 9
Department of Health Services
Office of AIDS
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change from 1988-89* *Amount*	*Percent*
Department support					
Office of AIDS program support activities	$3,914	$4,873	$5,503	$630	12.9%
San Francisco General Hospital research center	1,360	—	—	—	—
Chaptered legislation					
Ch 23/85 (AB 488, Roos)—alternative test sites	3,037	—	—	—	—
Ch 767/85 (SB 1251, Roberti)—various projects	60	—	—	—	—
Ch 1462/86 (AB 2404, Filante)—vaccine research grants	3,493	—	—	—	—
Ch 1463/86 (AB 4250, Vasconcellos)—vaccine clinical trials	50	2,000	—	−2,000	−100.0
AIDS Medi-Cal waiver [a]	—	424	424	—	—
Reappropriation of 1987-88 savings	−522	522	—	−522	−100.0
Subtotals, department support	($11,392)	($7,819)	($5,927)	(−$1,892)	(−24.2%)

Local assistance					
Information and education grants and evaluation	$11,643	$15,828	$15,828	—	—
Minority treatment and counseling [b]	600	—	—	—	—
Block grants to counties	5,488	5,488	5,488	—	—
Epidemiological study	400	1,199	1,199	—	—
Confidential testing and education [c]	—	2,400	2,200	−$200	−8.3%
California children's services	1,100	1,100	1,100	—	—
Pilot care					
Community support (treatment pilot projects)	4,824	6,224	6,224	—	—
Barlow hospice	—	225	225	—	—
Prevention and follow-up centers	—	1,500	1,500	—	—
Alternative test sites	3,797	5,412	5,412	—	—
San Francisco General Hospital research center	—	5,700	—	−5,700	−100.0
Special studies	125	—	—	—	—
AIDS Medi-Cal waiver [d]	—	227	227	—	—
Homeless shelters	—	721	721	—	—
AZT treatment	7,636	2,500	—	−2,500	−100.0
Reappropriation of 1987-88 savings [e]	−3,121	3,121	—	−3,121	−100.0
Subtotals, local assistance	($32,492)	($51,645)	($40,124)	(−$11,521)	(−22.3%)
Totals, excluding special projects	$43,884	$59,464	$46,051	−$13,413	−22.6%
Federally funded special projects					
Preventive services	$459	—	—	—	—
Surveillance and seroprevalence	745	$6,036	$6,000	−$36	−0.6%
Information and education	1,885	4,830	4,300	−530	−11.0
Testing and counseling	—	4,108	9,700	5,592	136.1
Alternative treatment projects	—	—	12,000	12,000	[f]
Subtotals, special projects	($3,089)	($14,974)	($32,000)	($17,026)	(113.7%)
Totals, all funds	$46,973	$74,438	$78,051	$3,613	4.9%
Funding Sources					
General Fund	*$32,755*	*$59,245*	*$45,832*	*($13,413)*	*−22.6%*
Federal funds	*10,725*	*15,193*	*32,219*	*17,026*	*112.1*
AIDS Vaccine Research and Development Fund	*3,493*	—	—	—	—

[a] $205,000 from the General Fund and $219,000 from federal funds.

[b] In 1988-89 and 1989-90, funds for the minority treatment and counseling project are folded into the community support projects.

[c] This $200,000 decrease adjusts for a technical error in 1988-89.

[d] The amount for the Medi-Cal waiver is $454,000 in local assistance. The 1988-89 and 1989-90 Office of AIDS budget reflects only the General Fund portion of this amount. The remaining $227,000 is federal funding, reflected in the Medi-Cal estimate.

[e] Of this amount, $2.1 million is for community support projects, $521,000 for confidential testing and education, and $500,000 for information and education grants.

[f] Not a meaningful figure.

DEPARTMENT OF HEALTH SERVICES—Continued

The $13.4 million decrease is due to the net effect of a variety of changes. The major changes are:

- A reduction of $5.7 million in funds available in the current year for the San Francisco General Hospital AIDS research center.
- A reduction of $2.5 million in one-time General Fund money available in the current year for AZT.
- A reduction of $3.1 million in funds reappropriated from 1987-88 available in the current year for local assistance.
- A reduction of $2 million in funds available in the current year for vaccine clinical trials.

In addition, the budget details $32 million in federal special project funds. This is an increase of $17 million, or 114 percent, over current-year federal expenditures. Because of the uncertainty of the level of AIDS funding that will be available in the federal fiscal year beginning on October 1, 1989, the DHS informs us that it is not able to estimate the amount that will actually be available in the budget year.

Alternative Test Site Program

Chapter 23, Statutes of 1985 (AB 488, Roos), established the Alternative Test Site (ATS) program so that people who suspect they may be infected with the AIDS virus can receive blood tests for antibodies to the virus at locations other than blood banks or plasma centers. The legislation specified that tests be performed free of charge and required each site to provide, within funds available, information and referral services to individuals who seek testing.

In the following sections, we respond to various Budget Act reporting requirements and identify ways in which the ATS program could improve its effectiveness and efficiency.

High-Risk Populations and Access to Testing

The 1988 Budget Act required our office to comment on the extent to which alternative test sites are accessible and are serving high-risk populations. This requirement stemmed from a concern that the test sites were increasingly serving individuals at very low risk of infection, as suggested by a dramatic decline in the percentage of persons testing positive (the positivity rate) for HIV. This low positivity rate is a concern because Chapter 23 mandated that the ATS program provide access to testing for those individuals at high risk of infection.

In this analysis, we (1) review ATS program data in order to see whether individuals at high risk of infection are going to alternative test sites, (2) examine whether the number, location, hours of operation, or waiting times affect access to the sites, (3) review other testing programs, and (4) make recommendations to improve access to test sites for high-risk individuals.

Who Goes to Alternative Test Sites? Why Do They Go? The percentage of persons seeking tests at ATS programs who test positive (the positivity rate) dropped from 19 percent in 1985-86 to 6.5 percent in 1987-88.

Our review indicates that the reduction in positivity rates in the ATS program is due to increases in the proportion of persons seeking HIV tests who are at low risk of infection. The proportion of individuals seeking tests who are at low risk of infection has increased steadily, from about 10 percent in 1985-86 to about 40 percent in 1987-88. Positivity rates in low-risk individuals tested have consistently been less than 1 percent, whereas positivity rates in high-risk groups tested range from about 4 percent for intravenous drug users (IVDUs) to almost 27 percent for gay men.

Our discussion with ATS programs indicates that the ATS program mostly serves individuals who (1) fear they may have been exposed to the AIDS virus, (2) are motivated to go to a test site, and (3) are concerned with maintaining their anonymity. The ATS programs indicate that many gay and bisexual men are particularly concerned with maintaining anonymity because they fear discrimination if their risk status is revealed. It appears that there may also be an overrepresentation of educated, middle-class individuals at test sites. For example, in San Diego County, individuals tested at test sites have an average of 14 years of education. However, no statewide data exist to confirm this.

The program does *not* reach those individuals who (1) do not know they may be at risk and should be tested and (2) are in some way inhibited from going to a test site, either by geographical distance or fear of association with AIDS or the gay community. Although data on minority representation at test sites are limited (the OA began collecting this information in April 1988), they suggest that blacks and Hispanics are underrepresented at test sites.

Our review of the data indicates that most individuals being tested at these sites are gay or bisexual men and heterosexuals with little risk of infection.

What Influences Access to Alternative Test Sites? We examined the characteristics of county programs—number of sites, their location, their hours of operation, and waiting times—in order to determine if they affect access to test sites for high-risk individuals. Our review suggests that while no single characteristic significantly affects access, the way a county chooses to implement its ATS program overall *may* affect access.

For example, it does not appear that additional sites necessarily provide better access for high-risk groups. Although the increase in the number of sites corresponds with an increase in the number of people tested, the percentage of high-risk individuals tested overall has *not* grown as test sites have increased.

Similarly, location alone does not appear to be an important factor affecting access to high-risk groups. Our discussions with ATS program staff indicate that individuals often travel to other areas to be tested, in order to avoid being identified at a test site by people who know them.

Instead, it appears that counties providing anonymous testing as part of a comprehensive AIDS prevention program may be more successful in reaching high-risk groups. For example, Long Beach maintains three test sites (one at the public health department, one at the university, and one at a community-based organization), with varying hours of operation. Additionally, the health department has health educators doing street and community outreach to high-risk individuals and has recently initiated a follow-up and prevention program. With about 2 percent of the state's population, the Long Beach ATS program performs almost 8 percent of the ATS tests in the state, and has a 13 percent positivity rate compared to an 8.7 percent average statewide.

DEPARTMENT OF HEALTH SERVICES—Continued

Where Else Can High-Risk People Be Tested? The OA funds two other testing programs designed to reach some of the populations at highest risk of infection with the AIDS virus:

1. *Confidential testing through family planning, maternal and child health, and primary care clinics.* These programs were initiated on a pilot basis with 16 clinics in 1987-88 and have been expanded to 131 clinics in the current year. They primarily serve women of child-bearing age who are sexually active and may be at risk of infection because they are drug abusers or sexual partners of high-risk individuals. Most of the population reached by these programs are at low risk of infection, as suggested by an overall positivity rate of 2.3 percent in family planning and maternal and child health clinics for the first six months of 1988. However, in the 10 percent of individuals testing who were at high risk of infection, the positivity rate was 13 percent.

2. *Confidential or anonymous testing through sexually transmitted disease (STD) clinics, jails, and drug treatment centers.* Generally, these programs are funded through counties' block grants from the OA and the federal government. The OA does not keep data on (1) the number of counties choosing to provide education and testing through these programs, (2) the number of individuals served, or (3) the positivity rates.

These programs reach some of the population most likely to be engaging in behavior that exposes them to risk of infection: (1) drug users who may engage in needle-sharing or unsafe sexual practices and (2) individuals who are practicing unsafe sex. Therefore, these programs provide the most direct approach to educating and testing some of the groups most at risk who may not realize their risk status or may not be motivated to go to a test site.

What Can the Legislature Do to Ensure Access to Testing for High-Risk Individuals? If the Legislature wants to expand access to IVDUs, minorities, and others at high risk who are the hardest to reach, we suggest the following:

- Expanding outreach to high-risk populations.
- Encouraging counties to expand confidential testing programs in STD clinics, jails, and drug treatment centers.
- Making expansion of confidential, rather than anonymous, testing a funding priority.

ATS Program Reimbursement System Encourages Unnecessary Testing

We recommend that the Legislature adopt Budget Bill language that requires the OA to revise the reimbursement system for the ATS program so that it reimburses separately for (1) pre-test counseling and (2) testing and post-test counseling.

The 1988 Budget Act required our office to evaluate the adequacy of reimbursement levels for the ATS program in our review of the 1989-90 budget.

Through the ATS program, the OA reimburses counties from $28 to $40 per test to cover the costs of initial laboratory tests and pre- and post-test counseling. The rate is based on cost estimates submitted by each county. Counties that conduct their own confirmatory tests are reimbursed an additional $4 per test. Currently, 18 counties do their own confirmatory testing. The state Viral and Rickettsial Disease Laboratory (VRDL) provides confirmatory testing for the remaining counties.

Although the reimbursement levels are based on cost estimates that the counties submit, how counties' reimbursement compares with their actual costs depends on (1) the proportion of positive test results (lab and counseling costs are higher for positive test results), (2) who is doing the counseling (some counties use community-based organizations or volunteers), and (3) the number of people returning for post-test counseling (reimbursement assumes a 100 percent return rate). Because of these variations in county programs, we are unable to determine what constitutes an "adequate" level of reimbursement for the ATS program.

However, our analysis suggests that the current reimbursement system is inefficient because it creates an incentive to test everyone who comes for pre-test counseling. This is because pre-test counseling costs are not reimbursed unless the actual test is performed. In contrast, the reimbursement system for the confidential testing program is a standard statewide per-person rate of $10 for pre-test counseling and an additional $25 for testing/post-test counseling.

The reimbursement structure used for the confidential testing program allows education and counseling regarding risk reduction, without necessarily encouraging testing. Adopting this reimbursement structure for alternative test sites could reduce the number of tests provided to low-risk individuals. In the long term, there may be some additional program savings over time that could be redirected into programs targeting high-risk individuals.

Accordingly, we recommend that the Legislature adopt Budget Bill language that requires the OA to change the ATS reimbursement structure to allow separate reimbursement for (1) pre-test counseling and (2) testing and post-test counseling. The following language is consistent with our recommendation:

> The OA shall establish separate reimbursement rates for (1) pre-test counseling and (2) testing and post-test counseling through its Alternative Test Site program.

ATS Funding More Than Adequate

We recommend that the department report at budget hearings on its plans to redirect funds in the current year from the ATS program to other programs. We further recommend a reduction of $412,000 from the General Fund requested for the ATS program because the department's utilization data do not justify the level of spending it requests. (Reduce Item 4260-111-001 by $412,000.)

The budget proposes $5,412,000 for the ATS program in 1989-90. This is the same level of funding as in the current year. Our review of the department's ATS utilization data from January 1985 through November 1988 indicates that this level of funding is too high in both years.

Prior to July 1987, test sites experienced a rapid increase in the number of tests they performed. However, utilization has stabilized since July 1987, with test sites performing an average of 9,900 tests per month. Apart from a high of 10,700 tests in July 1987 and a low of 7,500 in September 1988, this average has remained fairly steady.

Based on these data, we believe it is reasonable to assume that the ATS program will continue to test an average of 9,900 individuals per month. This number of tests costs about $5 million over one year. This means that the OA will have $412,000 more than it requires in the ATS program in both the current and budget years.

DEPARTMENT OF HEALTH SERVICES—Continued

1. *Current Year.* The 1988 Budget Act required the department to report to the fiscal committees by January 1, 1989 on the funding needed to support the ATS program. The Budget Act also required the OA to reallocate funds to (a) reduce waiting lists and (b) expand hours at the test sites or ensure access to testing. At the time we prepared this analysis (February 1989), the department could not inform us when it would submit its report. However, based on our review it appears that the OA will have $412,000 more than it requires in the current year for the ATS program.

We believe that the Legislature may not want to use these funds for the purposes that the Budget Act delineates. This is because our review indicates that (a) ATS programs do not have significant waiting lists and (b) expanding hours may not provide access to high-risk individuals. (Please see our previous write-up for more details.) Therefore, we recommend the department report at budget hearings on alternative ways of redirecting these funds in the current year.

2. *Budget Year.* Our review also indicates that there is a difference of $412,000 between what the Governor's Budget proposes and what the program will require in 1989-90. Accordingly, we recommend a reduction of $412,000 for the ATS program in the budget year.

AZT Program Not Fully Funded

In October 1987, the OA received $7.6 million in "one-time" federal funds to establish a program to provide the drug zidovudine (AZT) to low-income persons infected with Human Immunodeficiency Virus (HIV) who are not eligible for Medi-Cal. AZT is the only drug approved by the federal Food and Drug Administration for treatment of AIDS. Since that time, two other funding sources have become available. First, Ch 977/88 (AB 4437, Margolin) appropriated $2.5 million from the General Fund for the AZT program costs in 1988-89. Second, the OA recently received an additional $3 million in federal funds.

Program Utilization. Counties administer this program on the local level. Generally, the county health department verifies an applicant's eligibility (set at an income of $40,000 or less) and refers the applicant to the county hospital, clinic, or private pharmacy distributing the AZT. After approval of eligibility for the program, the only requirement for obtaining AZT is a monthly doctor's prescription.

During the first few months of the program, the number of AZT prescriptions filled increased by over 100 per month. The number of prescriptions has leveled off at approximately 1,000 per month in recent months. The OA estimates that the number of prescriptions will continue at this level through the remainder of 1988-89. The OA does not have data regarding the number of enrollees served in the program.

We were unable to determine why the number of prescriptions has leveled off. It is possible that the trend is a reflection of the underlying need for the program. It is also possible that the trend is a reflection of difficulties with access, lack of knowledge of the program among doctors, or hesitancy to enroll due to funding uncertainties.

Unfunded Costs in 1989-90: $3.5 Million. The budget indicates that the $10.6 million in federal funds and $2.5 million from the General Fund will be entirely spent by the end of the current year. Our analysis indicates that the budget display is inaccurate. We have identified approximately

$2.5 million of the federal funds that will be left at the end of June 1989 for carry-over into 1989-90 based on (1) OA data indicating that $3.9 million had been spent by the end of October 1988 and (2) current utilization trends. This amount would be sufficient to fund the program through November 1989. The remaining 1989-90 costs—approximately $3.5 million—are not funded in the budget. The Chapter 977 appropriation is not available for this purpose because the funds are scheduled to revert to the General Fund in June 1989.

Budget for AIDS Medi-Cal Waiver Raises Questions

We recommend that the department report at budget hearings on (1) discrepancies in the proposed budget and (2) the effect of a federal policy change on the waiver program.

The OA budget includes $651,000 ($432,000 General Fund and $219,000 federal funds) to administer the AIDS Medi-Cal waiver at the state and local levels. This is the same as the amount budgeted in the current year. The OA budget includes General Fund and federal funding for state administration and the General Fund portion for local administration. The Medi-Cal budget contains $454,000 in federal funds for local administration and approximately $10 million ($5 million General Fund and $5 million federal funds) for services provided under the waiver.

The AIDS Medi-Cal waiver was approved for a three-year period by the federal government in November 1988. The waiver program allows the state to reimburse providers for in-home services provided to Medi-Cal-eligible persons with AIDS. The waiver was conditioned on (1) the program costing no more than Medi-Cal would have spent had these persons been hospitalized and (2) eligibility being limited to those persons discharged directly from a hospital or acute care facility.

We have two concerns about the budget for the AIDS Medi-Cal waiver. First, our review indicates that the amounts included in the OA budget reflect half-year costs. Funding the program for a full year would require an additional $651,000 ($432,000 General Fund and $219,000 in federal funds). The department could not explain why the budget does not include full-year funding for the program.

Second, the department advises that there has been a federal policy change regarding waiver programs that could affect the costs of the waiver. The Tax Corrections Act of 1988 specifies that recipients are not required to be discharged directly from a facility in order to qualify for waiver programs. As a result of this change, more individuals could qualify for waiver services if the department revises its eligibility requirements. We believe the Legislature could benefit from more information about the possible implications of this change on the costs of, and services provided under, the AIDS Medi-Cal waiver.

For these reasons, we recommend that the department report at budget hearings on (1) the discrepancies in the proposed budget and (2) the effect of the federal policy change on the costs of waiver services.

Hospice Funding Questionable

We recommend that the department include funding for the Barlow Hospice with funding for other home health, attendant, and hospice programs and have the Barlow Hospice compete for funding with these programs.

The budget includes $225,000 for the Barlow Hospice in Los Angeles County. This is the same amount included in the current-year budget.

DEPARTMENT OF HEALTH SERVICES—Continued

The budget also includes $6.2 million for other home health, attendant, and hospice projects. The $6.2 million is distributed using a competitive request for proposals process.

The OA has been unable to explain any distinction between the Barlow Hospice and other OA-funded home health, attendant, and hospice care projects. The department advises that the Barlow Hospice uses its OA funds to provide treatment and support services for persons with AIDS. These are similar to services provided by other OA-funded home health, attendant, and hospice care projects.

We see no justification for exempting the Barlow Hospice from competing with other proposals. Therefore, we recommend that the department fold funding currently identified for the Barlow Hospice into funding for other home health, attendant, and hospice programs and have the Barlow Hospice compete for funding with these programs.

No Funds Included for San Francisco AIDS Research Center

We recommend that the DHS report to the Legislature, prior to budget hearings, on its intent to (1) submit project preliminary plans required by Budget Act language and (2) request the balance of funds needed to start construction.

In the 1986 Budget Act, the Legislature appropriated $1.5 million from the General Fund to the DHS for allocation to the City/County of San Francisco for preliminary plans and working drawings for an AIDS research center at San Francisco General Hospital. In the 1987 Budget Act, the Legislature appropriated $5.7 million from the General Fund as the first of two installments to construct the project. For various reasons, the project fell one year behind schedule, prompting the administration to request reappropriation of the first-phase construction installment in the 1988 Budget Act. The Legislature approved the reappropriation request and repeated previous Budget Act language (1) requiring legislative review of the preliminary plans prior to allocation of construction funds to the city/county and (2) stipulating legislative intent that the balance of needed construction funds (an estimated $4.8 million) be included in the 1989 Budget Act.

The budget does not include the balance of construction funding. Moreover, at the time this analysis was prepared, the preliminary plans had not been submitted to the Legislature, as required by the Budget Act language. It is our understanding that preliminary plans were completed in October 1988. Furthermore, under the project schedule, working drawings were to be completed by February 1989. Without both the submittal of the preliminary plans to the Legislature *and* the budgeting of the balance of construction funds, the project will *not be able to proceed* beyond the preparation of working drawings. Accordingly, we recommend that the DHS report to the Legislature, prior to budget hearings, on its intent to (1) submit project preliminary plans required by Budget Act language and (2) request the balance of funds needed to start construction.

C. FAMILY HEALTH

Federal Maternal and Child Health Block Grant Needs Oversight

We recommend that the department report during budget hearings on how it intends to improve its tracking of federal block grant funds.

Since 1981, California has received a block grant from the federal government to support a variety of maternal and child health (MCH) services. Table 10 details funds available and expenditures in 1988-89 and 1989-90. Table 10 shows that the DHS has been carrying over a large portion of the block grant. In the beginning of the current year, the DHS had available $10.5 million in federal funds carried over from 1987-88. At the end of the current year, the DHS proposes to carry over to 1989-90 $7.9 million, or 21 percent of the total funds available. At the end of 1989-90, the DHS proposes to carry over $5.9 million, or 16 percent of the available funds.

Table 10
Department of Health Services
Federal Maternal and Child Health Block Grant
Funds Available and Expenditures
1988-89 and 1989-90
(dollars in thousands)

	Est. 1988-89	*Prop. 1989-90*	*Change from 1988-89*	
			Amount	*Percent*
Funds available				
Carry-over from prior fiscal year	$10,495	$7,924	−$2,571	−24.5%
Block grant award	27,806	28,290	484	1.7
Total available	$38,301	$36,214	−$2,087	−5.4%
Expenditures				
Support	$1,890	$1,875	−$15	−0.8%
Local assistance				
Maternal and child health programs	23,783	23,783	—	—
California Children's Services	4,704	4,704	—	—
Total expenditures	$30,377	$30,362	−$15	—
Carry-over to next fiscal year	$7,924	$5,852	−$2,072	−26.1%

Problems Tracking Funds. The department appears to be having difficulty tracking its federal block grant funds. Last year in the *Analysis*, we identified $4 million in unspent federal funds. The department agreed that these funds should be spent to provide additional services to address unmet needs and subsequently submitted a spending proposal to the fiscal committees. Again this year, we have identified large amounts of unspent federal funds. The department has again failed to propose spending the full amount available. In fact, it has requested $3.2 million from the General Fund on the basis that its federal funds were running out. (Due to a technical error, the budget does not reflect any reductions in spending from federal funds. We discuss this issue in the next section.)

We recommend that the department explain at budget hearings how it intends to improve its tracking of federal funds to ensure that it identifies available funds and proposes to utilize them for MCH services. We address the $5.9 million in unbudgeted federal funds later in this analysis.

General Fund Augmentation for MCH Programs Not Needed

We recommend that the Legislature delete the department's proposed General Fund augmentation of $3.2 million because federal MCH block

DEPARTMENT OF HEALTH SERVICES—Continued

grant funds are available—and, due to a technical error, already budgeted—to support these program expenditures. (Reduce Item 4260-111-001 by $3.2 million.)

The budget proposes a General Fund augmentation of $3.2 million in order to replace one-time federal MCH block grant funds being used in the current year for various maternal and child health services.

Our review indicates that there are sufficient block grant funds to continue to support these expenditures in 1989-90. Therefore, we recommend that the Legislature delete the proposed General Fund augmentation of $3.2 million.

An increase in federal funds is not necessary because, due to a technical error, the department already budgeted sufficient federal funds to support these expenditures.

Federal Block Grant Funds Available for Pilot Projects

We recommend that the department submit additional information to the fiscal committees prior to budget hearings regarding the proposal to support four pilot projects targeting pregnant substance abusers and their substance-exposed infants. In order to make maximum use of federal funds, we also recommend that the Legislature reduce $1.8 million from the General Fund proposed for this program and replace it with federal block grant funds. (Reduce Item 4260-111-001 by $1.8 million and increase Item 4260-111-890 by $1.8 million.)

The budget proposes $8 million ($3 million General Fund) in three departments to fund a four-county pilot to provide comprehensive, multidisciplinary drug and alcohol treatment and medical and social services targeting pregnant substance abusers and their substance-exposed infants. As part of this proposal, the DHS budget includes $1.8 million from the General Fund for training, assessment, follow-up, prenatal care, and case management services through a variety of different programs.

In our detailed analysis of this proposal (please see Item 4200), we recommend that the three departments involved submit additional information regarding the proposal to the fiscal committees prior to budget hearings.

The department is proposing to carry over $5.9 million in federal MCH block grant funds. (Please see our write-up on the carry-over funds for more detail.) Our analysis indicates that the department could use a portion of these funds to support the four pilot projects. In order to make maximum use of federal funds, we recommend that the Legislature reduce $1.8 million from the General Fund budgeted for this program and replace it with federal block grant funds.

Budget Fails to Reflect Expenditures of $4.1 Million in Available Funds

We recommend that the department provide to the fiscal committees, prior to budget hearings, its proposal to spend $4.1 million in unbudgeted federal funds.

In earlier sections, we (1) point out that the department plans to carry over into 1989-90 $5.9 million in unspent federal MCH funds and (2) recommend that the Legislature make maximum use of federal funds by spending $1.8 million of this $5.9 million on pilot projects serving pregnant substance abusers and their substance-exposed infants (in lieu of the General Fund monies currently budgeted for these projects). Assuming the Legislature accepts our recommendation, this leaves $4.1 million in unbudgeted federal funds.

We recommend that the department provide to the fiscal committees, prior to budget hearings, its proposal to spend the remaining $4.1 million in unbudgeted federal funds.

Department Overestimates its Expenditures for Newly Legalized Persons

We recommend that prior to budget hearings, the department submit to the fiscal committees revised estimates of the SLIAG expenditures for the Community-Based Perinatal Services and the Adolescent Family Life programs during the current and budget years.

The budget proposes $2,061,000 in SLIAG funds for services through the Community-Based Perinatal Services (CBPS) program and the Adolescent Family Life program (AFLP) during 1989-90. This represents a reduction of $1.2 million, or 60 percent, below estimated expenditures from SLIAG funds for these programs in the current year. The reduction is the net effect of a decrease of $1.7 million in SLIAG funds available for the CBPS program and an increase of $500,000 in SLIAG funds available for the AFLP.

The department reports that it is not likely to spend its entire SLIAG appropriation for these programs in either the current or the budget years for three reasons:

- The department does not plan to tell providers how to bill for SLIAG funds until March 1989. As a result, the department has not yet spent *any* of the funds budgeted for the CBPS program and the AFLP during 1988-89.
- The department believes that fewer recently legalized persons will request services from the CBPS program and the AFLP than it had originally estimated. In addition, the department believes that when these individuals *do* utilize services in these programs, they will be unlikely to identify themselves. (Identification is generally necessary for SLIAG reimbursement.)
- Preliminary data from CBPS and AFLP providers indicate that the department underestimated the number of newly legalized persons currently receiving services supported by federal MCH block grant funds. Because the federal government restricts programs from supplanting other federal funds with SLIAG funds, the department reports that it will have to reduce the services provided through these programs with SLIAG funds.

Any funds not needed for the CBPS program and the AFLP could be rolled over for expenditure in future years or reallocated to other programs eligible for SLIAG funding, including various health, welfare, and education programs. In view of these factors, we recommend that the department submit revised estimates of SLIAG expenditures in the CBPS program and the AFLP for both 1988-89 and 1989-90 to the fiscal committees prior to budget hearings.

Prenatal Care Guidance Program Underway

We recommend approval.

The budget proposes to spend $1.2 million ($500,000 from the General Fund and $700,000 in federal funds) on the Prenatal Care Guidance program during 1989-90. The department established the Prenatal Care

DEPARTMENT OF HEALTH SERVICES—Continued

Guidance program in the current year using $500,000 from the General Fund that the Legislature appropriated for outreach. The purpose of the program is to provide prenatal care case management services to Medi-Cal-eligible women.

The Prenatal Care Guidance program operates like the Child Health and Disability Prevention (CHDP) program, which pays for (1) health screening for Medi-Cal-eligible children and children whose families have incomes under 200 percent of the poverty level and (2) related outreach and case management services. Through the Prenatal Care Guidance program, the department allocates funds to counties, and counties are required to submit plans that indicate how they will target the funds to improve access to early prenatal care for Medi-Cal beneficiaries. The funds are used to inform women of the availability of prenatal care during their Medi-Cal eligibility determinations and provide them with additional case management services.

The department's proposal meets the Legislature's objectives for this program. Therefore, we recommend approval.

California Children's Services Estimates Reflect Inconsistencies

We withhold recommendation on the $68.2 million budgeted for the California Children's Services (CCS) program pending receipt of the department's 1986 assets study. We also recommend that in its May revision of the budget, the administration reconcile inconsistent estimates of the impact of immigration-related changes on CCS expenditures.

The CCS program provides medical diagnosis, treatment, and therapy to financially eligible children with specific handicapping conditions. The program is jointly operated by the state and the counties. Medi-Cal pays for services provided to children who are also eligible for Medi-Cal.

The budget estimates current-year expenditures for CCS local assistance at $63.7 million. In 1989-90 the budget proposes to spend a total of $68.2 million for CCS local assistance, an increase of $4.5 million, or 7.1 percent, over estimated expenditure levels in the current year. This increase is due to rising service costs and increased utilization.

We have identified several problems in the assumptions contained in the CCS budget. Specifically:

1. *The department's estimates are inconsistent with its budget proposal.* The Immigration Reform and Control Act (IRCA) established a program to allow undocumented aliens who have lived in the United States for a long period of time to become legal residents. The IRCA makes available State Legalization Impact Assistance Grant (SLIAG) funds to assist state and local governments in paying for health, welfare, and education costs associated with aliens legalized under the IRCA. (Please see our discussion of issues related to the IRCA in *The 1989-90 Budget: Perspectives and Issues*.)

In documentation submitted to support the budget, the department estimates that the CCS program will serve 160 newly legalized children at a cost of $516,000 during 1988-89. The department estimates that it will serve the same number of legalized children during 1989-90, at the same cost. However, the budget reflects SLIAG expenditures of $1.6 million for CCS local assistance in the current year and proposes expenditures of $2.5 million in 1989-90. The department indicates that the CCS program will not spend these SLIAG funds and indicates that it will probably propose reallocation of these funds to other programs in the May revision of the budget.

2. *The budget may overestimate savings resulting from Medi-Cal legislation.* The budget assumes that the CCS program will save $600,000 in 1989-90 because more undocumented persons will be eligible for Medi-Cal as a result of Ch 1441/88 (SB 175, Maddy), which implemented Medi-Cal changes required by IRCA and other federal legislation. In deriving its estimate, the department assumed that all eligible individuals would apply for Medi-Cal. However, the department's Medi-Cal estimate assumes that only 75 percent of these eligible persons will apply for Medi-Cal due to their fear of being deported. As a result, we estimate that the department may have overestimated savings to the CCS program by approximately $150,000.

3. *The budget estimate relies on a report that the Legislature has not received.* The department cites its *1986 CCS Assets Study* as the basis for its assumptions on how certain changes to the Medi-Cal program will affect the CCS budget.

The 1985 Budget Act required the department to (a) conduct a pilot project to test a method for including assets when determining a family's financial eligibility and repayment obligation and (b) submit a final evaluation and recommendations regarding the pilot by April 1, 1987. The department has completed the pilot but has not submitted the report.

During hearings on the 1988 Budget Bill, department staff indicated that the report was under review. They could not estimate when the department would submit the report to the Legislature. At the time we prepared this analysis (February 1989), the department still could not tell us when it would submit the report.

Because the department based some of its budget assumptions on information contained in a report the Legislature has never received, we were unable to complete our review of the CCS program's budget. Accordingly, we withhold recommendation on the $68.2 million proposed for the CCS program until the department releases the report.

We also recommend that in its May revision of the budget, the administration reconcile problems we identified in its estimates.

HIV-Infected Children

The 1988 Budget Act appropriated $1.1 million for providing medical care and treatment to children infected with HIV, the virus that causes AIDS. It also included language requiring the department to (1) project, by January 1, 1989, the costs of treating HIV-infected children, (2) reallocate the $1.1 million if the projected costs of treating these children are less than the amount budgeted, and (3) present at hearings on the 1989-90 budget its analysis of the advantages and disadvantages of incorporating the treatment program for HIV-infected children into the CCS program.

The department indicates that it does not yet know what proportion of the $1.1 million it will spend by the end of the current year because counties have submitted expenditure claims for only the first quarter of 1988-89. As a result, it has been unable to conduct its required cost projection. The department indicates that it will provide preliminary cost projections and an analysis regarding incorporating the treatment program into the CCS program during budget hearings.

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Office of Family Planning Funding Should Be Restored

We recommend that the Legislature restore the budget for the Office of Family Planning because the services are cost-beneficial. (Augment Item 4260-001-001 by $1,575,000 and Item 4260-111-001 by $34,655,000.)

The budget proposes to eliminate the Office of Family Planning (OFP), for a savings of $36.2 million from the General Fund. The proposed reduction would eliminate 27.5 positions and $1.6 million from state support and $34.6 million in local assistance. The department advises that it will propose legislation to eliminate the program.

Background. The OFP currently administers 182 contracts with local agencies. Under these contracts, the agencies provide clinical services (primarily related to contraceptives) and information and education services.

The department estimates that OFP contracts will support clinical services for approximately 475,000 clients during 1988-89. According to departmental data for 1986-87, OFP contracts pay for 81 percent of the visits for family planning purposes made to OFP-funded clinics. Other funding sources include patient payments (11 percent), Medi-Cal (5 percent), and miscellaneous sources (3 percent). The department's data indicate that 30 percent of clients supported with OFP funds are under 19 years old, 54 percent are between 20 and 29 years old, and 16 percent are over 30 years old. In addition, 74 percent of OFP-funded clients are white, 6 percent are black, and 4 percent are Asian. (The department does not have data on the race of the remaining 16 percent of clients.)

Eliminating the OFP May Result in a Variety of Problems. Our analysis indicates that eliminating the family planning program may result in several negative short- and long-term effects. Specifically:

- *Family Planning Services Appear to be Cost-Beneficial.* In a study conducted in 1983, the University of California, San Francisco, found that for every dollar spent on family planning services in California, $6.60 was saved in AFDC, Medi-Cal, food stamps, and social service costs. For Medi-Cal beneficiaries receiving family planning services, the savings averaged $89 for every dollar spent.
- *Losing OFP Funds May Threaten the Financial Stability of Community Clinics.* To the extent that OFP grants constitute a substantial proportion of the total budget supporting certain community clinics providing primary health care services, eliminating OFP funds could threaten their financial stability. As a result, some of them could close. This would reduce access to other needed health services in those communities.
- *Eliminating OFP Grants May Reduce the Effectiveness of Other Programs.* For example, the Adolescent Family Life program (AFLP) provides case management services to pregnant and parenting teens to ensure that they receive needed services. Research indicates that the AFLP is effective in helping pregnant and parenting teens to remain in school, become employed, and avoid repeat pregnancies. The department reports that eliminating OFP funds could reduce the AFLP's effectiveness. This is because many of the AFLP clients might not receive contraceptives, making it more difficult for the clients to avoid repeat pregnancies, become employed, or stay in school.

For these reasons, we conclude that the services provided by the OFP are valuable and cost-beneficial. Accordingly, we recommend that the Legislature restore $36.2 million in General Fund support for the OFP.

Women, Infants, and Children Special Supplemental Food Program

The Women, Infants, and Children Special Supplemental Food (WIC) program provides food vouchers and nutrition services to low-income pregnant or lactating women and children. The program serves approximately 325,000 women and children per month. Estimated expenditures for this program are $166.2 million in the current year (all federal funds).

The *Supplemental Report of the 1988 Budget Act* required the department to report to the fiscal committees by December 1, 1988 on the feasibility of implementing volume purchasing of infant formula under the WIC program. The department has not submitted the report. However, on December 30, 1988, the department entered into a sole-source contract for infant formula. The contract will provide a rebate of $1.32 for every can of infant formula the WIC program purchases, for a total rebate of an estimated $57 million annually. *The department estimates that these rebated funds will allow the program to serve an additional 135,000 women and children every month.*

We believe that the department should be commended for implementing a rebate contract. By doing so, it not only went beyond the Legislature's request, but also will be able to serve a significant number of additional women and children.

The Department's Smoking Prevention Education Proposal is Hazy

We recommend that the department submit to the fiscal committees, prior to budget hearings, a detailed plan for implementing its smoking prevention education program.

The budget proposes to spend $175.7 million from the Cigarette and Tobacco Products Surtax (C&T) Fund to create a smoking prevention education program. This program is part of the administration's proposal to implement the Tobacco Tax and Health Protection Act of 1988 (Proposition 99). Proposition 99 allocates 20 percent of the revenues to the C&T Fund for programs aimed at preventing and reducing tobacco use, primarily among children, through school and community health agencies.

To accomplish these objectives, the department proposes to award a single master contract in June 1990 to an organization that would implement a statewide smoking prevention education program. The contractor would be responsible for funding, monitoring, and evaluating local agencies; providing technical assistance; and collecting and evaluating data related to smoking and its effects. The department proposes to establish an analyst and a clerical position to work with the contractor.

We identified the following major concerns related to the department's proposal:

The Department's Proposal Lacks Substance. The department's proposal does not include many details. For example, it does not contain information regarding (1) what the program will accomplish, (2) the types of agencies that will receive funds and for what purpose, and (3) the data collection and evaluation activities the department and contractor will conduct.

Master Contract Approach is Unjustified. We do not believe the department has entirely thought through its proposal to use a master

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contract to administer these funds. This is primarily because our review indicates that a master contract would require a great deal more state staff.

We identified one example of a master contract for services that are similar to the types of services envisioned in the smoking education program: the information and education (I&E) portion of the Office of Family Planning's (OFP's) master contract with the Los Angeles Regional Family Planning Council (LARFPC). The LARFPC is responsible for overseeing $8.4 million in clinical services and $1.1 million in I&E projects in Los Angeles County. The OFP reports that its clinical services contracts are straightforward and require little oversight. However, the department provides the LARFPC with detailed direction on how the $1.1 million in I&E funds should be administered. Specifically, the department delineates (1) the specific agencies with which LARFPC must contract to provide I&E services, (2) their grant amounts, and (3) what is to be included in their line-item budgets.

The smoking education program would probably require the same level of state direction and scrutiny because they are similar types of services. This is not consistent with the staffing level proposed by the department. We believe it is ludicrous to expect that one analyst can direct and monitor a $175 million contract.

We believe that the Legislature deserves a substantive proposal from the department before it can assess its plan for implementing the smoking prevention education program. Accordingly, we recommend that the department report to the fiscal committees, prior to budget hearings, with a detailed plan for administering the $176 million in C&T funds. In its report, we recommend that the department address how it can effectively implement this program through a master contract.

Sickle Cell Screening Program is Difficult to Assess

We withhold recommendation on $4.4 million from the Genetic Disease Testing Fund proposed for the Sickle Cell Screening program pending receipt of an expenditure plan and a status report on the program's implementation during the current year.

The budget proposes a total of $4.4 million from the Genetic Disease Testing Fund ($1.1 million in the Family Health Division and $3.3 million in the Laboratories Division) in order to fully implement the sickle cell testing program as required by Ch 818/87 (SB 480, Leroy Greene). This is an increase of $2.6 million above estimated expenditures during the current year. The increase is due to full-year funding of testing and counseling, which is scheduled to be implemented in June 1989.

We have not been able to evaluate the $4.4 million proposed for the program because at the time we prepared this analysis (January 1989), the department had not provided an expenditure plan or justification for the funds. Furthermore, the department has not been able to provide information on the status of implementation of the program in the current year. Accordingly, we withhold recommendation on $4.4 million pending receipt of this information.

D. ENVIRONMENTAL HEALTH, PREVENTIVE MEDICAL SERVICES, AND LABORATORY SERVICES

Small Water Systems in California

Between 1976 and 1986, California voters approved $350 million in bond funds for grants and loans to improve drinking water systems. The majority of these funds went to small water systems—those serving fewer than 200 connections. (Proceeds from a fourth bond measure, approved in 1988, have not yet been distributed.) Despite the infusion of funds, the Department of Health Services (DHS) reports that 40 percent of all small water systems have had major violations with drinking water requirements as compared with a 5 percent rate for large water systems (200 connections or more). Noncompliance with state drinking water requirements can result in immediate health effects such as stomach ailments, dysentery, and hepatitis A, and long-term health effects such as cancer.

In this analysis, we (1) provide background on the California drinking water program, (2) review the reasons small water systems have a high rate of noncompliance with drinking water requirements, and (3) recommend improvements for California's small water system program.

Background—Large and Small Water Systems

Congress established the federal Safe Drinking Water (SDW) program in 1974 with the passage of the Safe Drinking Water Act. The act requires the Environmental Protection Agency (EPA) to regulate drinking water systems nationwide. States may regulate their own water systems instead of the EPA (obtain "primacy") if their laws and regulations are at least as stringent as the federal act.

California adopted its own SDW Act and was granted primacy in 1976. The state SDW Act defines a "public water system" as a system (operated by a public or private entity) that distributes water for human consumption which has 5 connections or more, or regularly serves an average of at least 25 individuals daily for 60 days a year. (The federal act defines a public water system as a system with 15 connections or more.) State law requires the DHS to regulate large water systems (200 connections or more) and delegates authority for regulating small water systems (fewer than 200 connections) to the counties. According to the DHS, there are approximately 1,400 large water systems, which serve approximately 26 million people, and approximately 12,450 small water systems, which serve approximately 700,000 people. *Thus, in California 10 percent of the water systems serve 98 percent of the population, while 90 percent of the systems serve 2 percent of the population.*

The large water systems primarily serve urban populations and are typically nonprofit entities operated by cities, counties, or special districts. Small water systems are operated by private as well as nonprofit entities and generally serve mobilehome parks, homeowner associations, restaurants, resorts, and camps.

Drinking Water Requirements. The SDW Act imposes numerous requirements on drinking water systems. In general, each water system must (1) meet water quality standards, (2) monitor water quality, (3) notify water users when it does not meet water quality standards, and (4) meet water system design and operation standards. In essence, the SDW program is designed as a self-monitoring, or "honor system," program that requires water systems to monitor their own systems on a specified

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schedule and report the results to the appropriate state or county regulatory agency.

In 1986 Congress amended the SDW Act to significantly expand the requirements imposed on drinking water systems. Specifically, the 1986 amendments require the EPA to adopt additional drinking water standards for up to 83 chemical substances by the early 1990s. Currently, there are only 20 standards. In addition, the 1986 amendments require *all* water systems using surface water (for example, lakes and rivers) to install treatment facilities. Currently, water systems are required to install treatment facilities only if the bacteriological standard is violated, or if the water source is exposed to significant recreational use or significant sewage contamination. As the new drinking water standards and treatment regulations are adopted, many water systems will have additional costs in order to comply with drinking water requirements.

Funding for Regulatory Programs. The DHS activities, including regulation of large water systems and oversight of county small water system programs, are supported by the General Fund (approximately $4 million in 1987-88) and a federal grant ($2.2 million in 1987-88). The source of funding for small water system regulatory programs varies between counties but is generally a mixture of local general fund monies and fee revenue. According to the DHS, 77 percent of counties charge an annual permit fee to small water systems.

Funding for Capital Improvements. SDW bond funds have been a significant source of funding for drinking water systems. These funds are used for loans and grants to fund capital improvements needed to meet drinking water standards. Four safe drinking water bond measures, totaling $425 million, were approved in 1976, 1984, 1986, and 1988. Funds from the first three bond measures, totaling $350 million, have been distributed to water systems. The majority of the water systems that have received bond funds to date have been small water systems.

Why Do Small Water Systems Have a High Rate of Noncompliance with Drinking Water Requirements?

Despite the large funding commitment from the SDW bond funds over the last 12 years, the DHS estimates that 40 percent of small water systems have major violations with drinking water requirements. The DHS is aware of the poor compliance rate of small water systems and is taking steps to evaluate the problem. Specifically, the DHS, as part of its EPA grant work plan, is developing proposals for (1) improving compliance and (2) a data system that tracks compliance and monitoring data for small water systems. Both proposals are scheduled to be completed by March 1989. In addition, the DHS is conducting, for the first time, an evaluation of each of the county programs. It expects the evaluations to be completed by June 1989.

Our review indicates that there are several reasons for the high rate of noncompliance. Specifically, (1) county permit and enforcement programs are weak, (2) the state does not oversee county programs or directly enforce small system violations, (3) the cost for systems to comply with drinking water requirements can be high, and (4) small system operators may not have the necessary expertise.

Inadequate County Oversight and Enforcement. Section 4010.8 of the Health and Safety Code gives primary enforcement authority to the counties for small water systems. According to the DHS, the majority of the county small water system programs do not provide the regulatory oversight needed to ensure compliance with federal and state drinking water requirements. Although the DHS's review of each county program will not be completed until June 1989, the DHS has preliminary data that indicate the basic inadequacies of many county programs. Specifically, many county programs:

- Do not routinely verify that water quality monitoring is performed and do not review monitoring data to determine if there are water quality problems.
- Do not regularly issue new and revised permits.
- Rarely conduct on-site inspections to determine if systems are violating water system operation and maintenance requirements.
- Seldom take enforcement actions against water systems that violate the drinking water requirements.

County environmental health directors we interviewed indicated there are two major reasons for not implementing more comprehensive water system programs: (1) county funding is inadequate and (2) there is a lack of political and community support for a strong enforcement program.

With respect to funding, the DHS estimates that the current county staffing level consists of 44 positions spread among 57 counties (all counties except San Francisco), an average of less than one full-time staff person per county. Although there are no standards to calculate the minimum staffing level counties need in order to implement an adequate program, it appears that current county staffing is insufficient. This is because (1) some of the primary components of a regulatory program, such as issuing permits and conducting on-site inspections, are staff-intensive activities and (2) most counties have a large number of small water systems to regulate. Each county regulates an average of 175 water systems.

With respect to support for enforcement, there appear to be two reasons for the lack of local support in some counties: either (1) the public and political leaders are not aware a problem exists or (2) the cost to comply with the drinking water requirements is more than the customers want to pay.

No State Oversight and Enforcement. Another reason small water systems have a high rate of noncompliance is that the DHS does not (1) oversee county programs to ensure they are implementing an adequate program nor (2) step in and enforce small water system violations when counties fail to take necessary actions.

Under the federal SDW Act, the DHS has obtained primary authority for regulating all water systems (with 15 or more connections). State law is not consistent with federal law in that it (1) delegates authority to counties to regulate small water systems without providing state oversight (Section 4010.8 of the Health and Safety Code) and (2) limits direct state enforcement authority for small water systems to only the most serious violations, such as violations that present an imminent and substantial danger (Section 4036.5 of the Health and Safety Code).

In terms of oversight, the DHS indicates that state law does not authorize it to monitor county programs or require counties to make improvements. In terms of state enforcement, it is the DHS's policy to defer to the counties for all small water system enforcement. As a result, the DHS has never taken an enforcement action against a small water

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system even though the DHS indicates that water systems often have serious violations.

Cost to Water Systems for Compliance is High. Compliance with drinking water requirements has been more difficult for small water systems than for large ones because (1) small systems don't have as many connections over which to spread costs, (2) until recently state law limited the fee that a water system (large or small) could charge to future users who are not "hooked-up" to the system, and (3) small systems are usually unable to obtain loans.

The cost to make system improvements and monitor water quality can impose an unreasonable burden on water users served by small water systems. For example, the DHS estimates that the cost to install a surface water treatment facility could be as much as $700,000. Assuming the water system had 100 connections, the cost per connection could be as high as $7,000—probably an unreasonable burden for many consumers. This problem will be exacerbated when the new federal drinking water requirements go into effect, probably in 1989-90, because all systems using surface water will be subject to these additional costs. The new federal requirements will also result in increased ongoing costs to monitor the 83 new federal water quality standards. The DHS estimates that in 1989-90, the first year the new standards are expected to go into effect, monitoring costs will be approximately $5,000 for each water system.

Until recently, state law limited the fee a water system could charge future users for capital improvements. To assess future water users for new capital improvements, water systems have been authorized to levy a "standby fee" (a fee paid by property owners who are not part of the water system) on all lots within its jurisdiction. The fee had been limited to $10 per acre per year. Recent legislation (Ch 834/88) authorizes water systems to revise and raise the standby fee if certain conditions are met and procedures are followed. This change in state law appears to enable water systems to distribute the cost of capital improvements to both existing and future water users, and thereby increase their ability to pay for the required improvements.

Obtaining loans to finance system improvements is also difficult for small water systems. Banks consider most of the small water systems a high-risk investment because they have a limited ability to repay loans due to the small number of connections. The state SDW bond program provides loans and grants for capital improvements, but the number of applicants requesting bond funds greatly exceeds the funding available. For example, under the 1984 bond act, funding requests totaled $826 million, but only $75 million was available.

Lack of Water Treatment Operator Expertise. Section 4082 of the Health and Safety Code requires anyone responsible for operating a water treatment facility to possess a certificate issued by the DHS. The DHS has established five grades for operators, and each grade requires an increasing level of education, knowledge, and experience. Applicants must meet minimum qualifications and pass an examination to receive a certificate.

We identified three problems with the current certification program. First, even though chemical contamination has recently been recognized as a problem in drinking water systems, the DHS indicates the minimum qualifications and exams have not been revised to reflect these changes.

Second, the DHS does not require operators to be retested or meet continuing education requirements to renew their certificates. It appears this may result in operators lacking up-to-date expertise because the DHS indicates water treatment technology has become more sophisticated since 1971, when operators were first certified.

Third, although the size of a system does not necessarily reflect the complexity of the treatment process, the education and knowledge requirement of each grade increases as the size of the water system being operated increases (size is measured by the quantity of water distributed per day). As a result, those smaller-quantity water systems which have complex treatment facilities may not have operators with adequate expertise to ensure a safe drinking water supply. New federal surface water treatment regulations will exacerbate these problems by requiring all surface water systems to install treatment facilities.

Recommendations for Improving Small Water System Compliance

In our review of the small water system program, we identified problems at the state, county, water system, and water treatment operator level. To address these problems, we recommend adoption of legislation to (1) enhance water systems' ability to pay for system improvements, (2) increase oversight and enforcement and revise the existing funding structure to support the increased workload, and (3) adopt more stringent qualifications for water treatment operators. Although these recommendations are presented separately, they are strongly related and therefore we view the recommended legislation as a package.

1. Increase Water System Ability to Pay for Drinking Water Requirements

We recommend enactment of legislation that (a) requires counties to develop consolidation plans for small water systems, (b) requires the DHS to promote consolidation in the SDW bond program, and (c) establishes financial responsibility requirements for new water systems.

Consolidation of Existing Systems. There are economies of scale in constructing and operating a water system because there are many fixed costs that do not vary significantly with the size of the system. As a result, consolidating small water systems that are in relatively close geographic proximity to one another can be an effective way to increase a water system's ability to pay for system improvements and operation and maintenance costs—and increase the likelihood that improvements are made.

Despite these benefits, the DHS indicates that small water systems generally resist consolidation because they do not want to lose control over the operation of their systems. In addition, there has been little incentive for water systems to consolidate because (a) counties have generally not enforced compliance with drinking water requirements and (b) the current procedures for issuing loans and grants under the SDW bond program do not result in a thorough evaluation of consolidation. As a result, SDW bond funds have been used for individual water system improvements rather than fostering the consolidation of water systems.

The counties, not the individual water systems, have the broad perspective and the incentive to adequately evaluate the feasibility of

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consolidation. Lake County has already taken the lead in this regard. It has developed a consolidation plan for an area of the county surrounding Clear Lake in which over 50 small water systems located next to one another take water from the lake. According to Lake County, the cost to develop a consolidation plan is approximately $10,000 to $15,000. The Lake County plan involves creating a special district, building a central treatment plant, and gradually connecting the distribution systems together.

Due to the significant benefits of consolidation, we recommend enactment of legislation that requires counties, as part of their local regulatory programs, to develop consolidation plans for areas where consolidation appears geographically feasible. (The funding for this activity is discussed in our next recommendation.) In addition, in order to promote consolidation in the SDW bond program, we recommend enactment of legislation requiring the DHS to evaluate and revise any SDW bond policies or regulations that may indirectly discourage rather than promote consolidation. We further recommend the enactment of legislation requiring (a) consolidation plans to be submitted at the time the final applications for loans and grants are submitted and (b) projects funded by the bond program to be consistent with the consolidation plan.

Financial Responsibility Requirements. The DHS and the counties issue permits to new water systems that distribute water for domestic uses. The permit review primarily consists of (a) an engineering evaluation of the proposed water system and its distribution network and (b) an evaluation of the water system's ability to pay for the construction and operation of the proposed system. The DHS and counties do not evaluate the system's ability to finance future water system improvements and maintenance.

The Public Utilities Commission (PUC), which regulates water rates for private water companies, has adopted a policy to require companies to demonstrate financial responsibility at the time they request a PUC certificate. For example, the PUC requires a company proposing a new water system to demonstrate how it will finance long-term improvements and requires the water system operator to have a state certificate. According to the PUC, this has effectively eliminated the formation of private water systems that are not financially stable.

To ensure that new publicly operated, as well as private, water systems have the financial ability to provide safe drinking water, the DHS and counties should adopt requirements similar to the PUC requirements as part of the permit process. We therefore recommend the enactment of legislation that requires (a) new water systems not regulated by the PUC to demonstrate financial responsibility as a condition for receiving a state or county permit and (b) the DHS to adopt regulations that specify the financial responsibility criteria to be used in the permit process.

2. Increase Oversight and Enforcement

We recommend the enactment of legislation that (a) expands the state's authority and establishes minimum county requirements for regulating small water systems and (b) revises the funding mechanism for the state and county water system regulatory programs.

Our analysis indicates that additional DHS oversight of county programs and enforcement of small water system regulations would improve small water systems' compliance with drinking water requirements. The lack of state oversight and enforcement is a result of both (a) the limitations on state authority contained in existing law and (b) the DHS policy to defer to the counties for enforcement of regulations affecting small water systems. To increase state involvement in regulating small water systems, state law needs to be revised to (a) require the DHS to establish minimum county program requirements and oversee county programs to ensure that they implement adequate regulatory programs and (b) expand the DHS's authority to take enforcement actions when necessary. A similar structure exists in other regulatory programs such as air pollution.

Increasing state oversight over county programs and establishing minimum county requirements for regulating small water systems will result in additional state and county costs. We address funding for these costs in the next section.

Funding for Regulatory Programs. We identified two major problems with the funding system for the existing drinking water regulatory programs: insufficient levels of funding for county programs and inconsistent funding arrangements among counties and between the state and the counties.

County funding currently appears to be insufficient to implement a small water system regulatory program that meets the requirements of federal and state law. For counties to adequately regulate a small water system program, the DHS has a preliminary estimate that counties need (a) an additional 70 positions above the 44 they currently have statewide to regulate existing drinking water requirements and (b) another 36 positions statewide in connection with the new federal requirements beginning in 1989-90. Assuming an average cost of $40,000 per position, funding the additional 106 positions would cost approximately $4.2 million annually; funding the existing 44 positions as well as the additional 106 positions would cost $6 million.

The final determination of the funding needed to implement the county programs will depend on the minimum program requirements established by the DHS. For example, this departmental estimate may be high because it assumes counties will conduct annual inspections for small systems. Annual inspections may not be necessary, however, because the EPA only requires the DHS to conduct biennial inspections for large water systems.

In addition to lacking sufficient funding for the small water system program, the current funding system for the large and small water system regulatory programs does not equitably distribute the funding burden between these systems. The majority of counties (77 percent) impose fees on small water systems to support a portion of their program costs. The DHS, however, relies entirely on the General Fund and federal funds for the large water system regulatory program. As a result, the water systems that can more easily pay a fee because they have many connections over which to spread costs do *not* pay any fees, while those systems which are more likely to need financial assistance in most cases pay a fee.

Recommendation. To improve oversight and enforcement of small water systems and to revise the funding structure to address funding inequities and increased regulatory activities, we recommend the enactment of legislation that:

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- Requires the DHS to adopt regulations establishing requirements for county programs. At a minimum, the requirements should provide for (a) timely and accurate small water system compliance data to the state, (b) conducting inspections according to a specified frequency, and (c) enforcement actions against violations within a specified timeframe.
- Requires the DHS to (a) oversee the adequacy of the county programs and take enforcement actions if a county fails to meet minimum requirements and (b) develop and implement a policy specifying how it will oversee county programs and under what conditions it will intervene in county programs.
- Requires the DHS to impose a fee on all large water systems to cover the cost of regulating those systems.
- Requires counties to impose fees on small water systems to cover the cost of their regulatory programs.

To fully cover the cost of the large water system regulatory program, currently supported by the General Fund, the DHS would be required to collect approximately $4 million annually in fee revenue from 1,400 large water systems. Collecting this level of fees would free $4 million in General Fund resources. The DHS will need a portion of the $4 million General Fund savings, probably less than $500,000 annually, to oversee county programs.

We do not believe that these fees would impose an unreasonable burden on large water systems. For example, the average fee for large systems would be approximately $3,800. Assuming a system had 10,000 connections (which is one of the smaller large systems) the annual cost per water user would only be $0.35.

Based on DHS preliminary estimates, the cost to fund a county small water system regulatory program could be up to $6 million statewide. Therefore, the average fee for each of the 12,450 small water systems would be $482. Assuming a system had 50 connections, the annual cost per water user would be approximately $10. This does not appear to be an unreasonable burden.

3. Increase Knowledge of Water Treatment Operators

We recommend the enactment of legislation requiring the DHS to revise existing regulations concerning water treatment operator certification requirements to ensure that operators have the necessary expertise to operate water treatment facilities.

We have identified three problems associated with water treatment operators. First, the DHS has not revised the minimum qualifications for the water treatment operator certification to reflect current water quality problems such as chemical contamination. Second, once certified, operators are not required to have expertise in new treatment technologies or processes. Third, the certification program allows less experienced and knowledgeable operators to operate small water systems, even if the water system has a complex treatment facility. As a result of these problems, small water systems may not have operators with the expertise to ensure a safe drinking water supply.

To reduce the likelihood of water system problems due to unqualified operators, we recommend the enactment of legislation that requires the DHS to adopt regulations that (a) revise the minimum qualifications and examinations for certification of water treatment operators to include education, knowledge, and experience in chemical contamination and treatment processes, (b) requires operators to reapply and be retested periodically to renew their certificate, and (c) require increasing qualifications for operation of more complex treatment facilities and processes. The DHS should establish the appropriate renewal period in regulations.

Other Issues

County Assistance Program Eliminated

The budget proposes to reduce seven positions and $400,000 from the General Fund associated with the Local Program Development Services Unit within the Environmental Health Division in order to "fund higher-priority uses." The unit serves as the state liaison for counties and coordinates assistance and training to counties in implementing their environmental health programs such as drinking water and hazardous waste.

Eliminating this unit may result in counties relying more on the state staff associated with the particular topic of concern. For example, county staff may need assistance more frequently from the Public Water Supply Branch, which is responsible for regulating drinking water. In many cases, the state staff in these programs have already been providing some assistance to counties. To the extent that other state programs do not pick up the additional workload, counties will receive less assistance and training to implement their programs.

Environmental Health Surveys for Prisons May Not Be Needed

We recommend the department and the California Department of Corrections report at budget hearings on their plans for funding additional environmental health surveys at prisons.

The budget requests 3.5 positions and $215,000 in reimbursements from the California Department of Corrections (CDC) for the Institution Surveillance program (ISP) in the Environmental Health Division. The ISP conducts environmental health surveys of state institutions in the areas of food service, water quality, solid and hazardous waste, and other general sanitation areas. The CDC contracts with the DHS for surveys at prisons and conservation camps.

The DHS proposes to use these additional reimbursements from the CDC for surveys at new prisons. The CDC, however, has not made a corresponding increase in its budget to fund the DHS request. At the time we prepared this analysis (February 1989), the CDC could not tell us if the DHS services would be needed. In order to resolve whether or not the DHS will need additional positions and reimbursement authority, we recommend that both departments report at budget hearings on their plans for environmental health surveys at prisons.

Proposition 65 Workload Justification Needed

We withhold recommendation on $3 million requested for activities related to the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65) pending receipt of workload justification.

The DHS budget requests $2,977,000 ($2,246,000 General Fund and $731,000 Hazardous Waste Control Account) for activities related to the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65). The amount requested in the budget is essentially the same as the

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amount budgeted in the current year. The funding is distributed between four divisions and supports activities such as scientific functions (for example, risk assessments of chemicals), technical assistance to industry, monitoring and enforcement, and department administration.

In the *Supplemental Report of the 1988 Budget Act*, the Legislature required the Health and Welfare Agency (HWA), which is the lead agency for Proposition 65 implementation, to submit updated workload information for the eight departments involved in the program to the fiscal committees and the Joint Legislative Budget Committee by January 10, 1989. Specifically, it directed the HWA to submit (1) a work plan for 1989-90, (2) revised budget change proposals for baseline funding and proposed augmentations, and (3) a plan for developing a policy on reproductive toxicants. The Legislature requested this information because it appeared that the program's actual workload differed from the original workload projections. For example, the workload for monitoring and enforcing Proposition 65 may be lower than originally anticipated because Proposition 65 regulations exempt drugs, cosmetics, and medical devices meeting existing standards from the warning requirements.

The HWA has submitted a revised Proposition 65 work plan and a plan for the reproductive toxicant policy. However, the HWA has not submitted the revised budget change proposals that provide workload justification for existing funding and proposed augmentations. In addition, the revised work plan is inconsistent with other information the DHS has provided. For example, the DHS information regarding the funding and positions allocated for risk assessments and support for the Scientific Advisory Panel is inconsistent with the work plan.

Without the workload justification and consistent workload information, we are unable to determine if the original level of resources devoted to the program is still needed. Therefore, we withhold recommendation on the $2,977,000 requested for DHS implementation of Proposition 65 pending submission of this information. In our analysis of the Department of Food and Agriculture (Item 8570) and the State Water Resources Control Board (Item 3940), we also withhold recommendation on Proposition 65 funding and positions.

Hazardous Waste Cleanup Funds

We recommend deletion of $4.2 million from the Site Mitigation Fund because these funds should be appropriated in legislation establishing the Site Mitigation Fund. (Reduce Item 4260-001-388 by $4,249,000.)

The budget reflects expenditures of $67.1 million in 1989-90 from a new Site Mitigation Fund. The $67.1 million consists of (1) $62.9 million to be appropriated through legislation for the Toxic Substances Control Division and (2) $4.2 million requested in the Budget Bill for other divisions in the department. Specifically, the $4.2 million is requested for hazardous waste site cleanup activities in the Preventive Medical Services Division ($604,000), the Laboratory Services Division ($3,265,000), the Environmental Health Division ($225,000), and for department administration ($155,000).

In the current year, the Site Mitigation program is supported by bond funds approved by the voters in 1984. The department estimates that these bond funds will be exhausted by the end of the current year. In order to continue the program in the budget year, the department is developing a legislative proposal to establish a Site Mitigation Fund.

Our analysis indicates that appropriating $4.2 million in the Budget Bill is premature because these funds should be appropriated in the legislation establishing the Site Mitigation Fund. In order to be consistent with the administration's proposal for appropriating the $62.9 million for the toxics division in its proposed legislation, we recommend deletion of $4.2 million. (Reduce Item 4260-001-388 by $4,249,000.)

Preventive Health Care for the Aging

The budget proposes to reduce the Preventive Health Care for the Aging program by $776,000 from the General Fund in order to "fund higher-priority uses." This reduction would eliminate 60 percent of the local assistance budget for this program.

This program funds local health departments to support public health nurses who visit senior centers and housing projects. The nurses counsel clients on health care in order to identify health problems at an early stage. Local health departments receiving funds through the program are required to match state funds through cash or in-kind support. In the current year, the department is contracting with 24 local health departments.

The department estimates that the funding reduction will require it to reduce (1) the number of local health departments receiving funds from 24 to possibly 10 and (2) the population being served from approximately 20,640 to 8,350. If local health departments continue the program using other funds, the funding reduction would have no effect. If local health departments do not continue the program, the funding reduction may result in increased costs for medical treatment to the extent this population does not seek preventive health care on its own. A portion of any increased costs would be funded through the Medi-Cal program.

Five Years Later and Still No Analysis of Cancer Registry Data

We recommend that the department, prior to budget hearings, submit its plan for analyzing cancer incidence data collected by the cancer registry.

The budget requests an increase of $858,000 from the Cigarette and Tobacco Products Surtax (C&T) Fund for the state's cancer registry program. The total funding for the program would be $7.7 million, including $6.8 million from the General Fund included in the department's base budget. The purpose of the cancer registry program, as mandated by Ch 841/85, is to collect cancer incidence data, "analyze data, and prepare reports and perform studies to identify cancer hazards to the public health and their remedies."

Focus Has Been Data Collection, Rather Than Analysis. By July 1, 1990, the department will have spent approximately $16 million to bring the regional registries and the central registry on line as required by Chapter 841. In the current year, the department is in the final phase of establishing 10 regional registries that will collect data on the incidence of cancer statewide. In the budget year, the department plans to continue collecting the cancer incidence data and refine its quality control process in order to ensure that the data from all the regional registries are complete and accurate.

The department has not begun to analyze the cancer incidence data. Although it has prepared descriptive statistics on the data collected, it has

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not begun any in-depth analysis to determine the causes and remedies of cancer. This type of analysis involves epidemiological case control studies that evaluate whether there is a link between a particular cancer and environmental factors such as toxic substances in drinking water or the air. The department could not indicate (1) when it would begin analyzing the incidence data, (2) what the scope of its analysis would be, or (3) who at the state or regional level would do the analysis. According to the department, it is premature to begin data analysis before all the registries are in place and the data being collected in each registry are reviewed for accuracy and completeness.

Data Analysis is Needed. The department cannot identify cancer causes and remedies as required by Chapter 841 if the department does not analyze the registry's data. Moreover, our review indicates that the department could have and should have already planned for and begun analysis of the cancer incidence data. Specifically:

- The department should have begun analysis of the data by now because early analysis of the data is necessary to determine if the department is collecting appropriate and usable data.
- The department could have begun data analysis by using the data available from the first registries established, instead of waiting until all of the registries are in place with accurate data. According to the department, the Bay Area Regional Registry has begun in-depth data analysis on its own by relying on nongovernmental grant funding.

In order to begin analysis of the cancer incidence data as soon as possible, the department needs to first develop a data analysis plan. Therefore, we recommend the department submit a data analysis plan prior to budget hearings that identifies the cancer registry program's data analysis needs and how and when those needs will be met. As part of the plan, we recommend the department (1) identify the existing epidemiological studies and data analysis being conducted by the regional registries and determine what role the central registry, DHS staff, and the regional registries should have in data analysis and (2) specify the level of funding it will need in the budget year to begin the data analysis process.

Toxic Air Contaminant Risk Assessments Behind Schedule

We recommend the department report at budget hearings on the delays in developing health risk assessments in the toxic air contaminant program.

Chapter 1047, Statutes of 1983, requires the Air Resources Board (ARB) to implement a program to identify and control toxic air contaminants. As part of the program, Chapter 1047 requires the DHS to assess the health risks of substances upon the request of the ARB. Currently, the DHS performs approximately 25 percent of the health risk assessments in-house and contracts for the remaining assessments.

The budget proposes an increase of six positions for the toxic air contaminant program. To pay for these positions, the budget proposes to redirect $358,000 in General Fund dollars that currently support the health risk assessment contracts. This amount represents approximately 70 percent of the contract funds. This change is proposed due to a determination by the State Personnel Board that because the toxic air contaminant program is an ongoing activity, the department should use state positions rather than contracting out for services.

Our review indicates that the DHS will not meet its requirements for completing risk assessments as required by Chapter 1047 in either the current or budget years. This is because the DHS exceeds the required time to complete each assessment and will not be able to process as many assessments as the ARB plans to request. Specifically:

- ***Risk Assessment Delays.*** In the last two years, the DHS has taken up to three years to complete one assessment. This is far longer than the four-month deadline Chapter 1047 requires. The DHS indicates that it has resolved the problems associated with the delays and will be developing its risk assessments on a more timely basis. However, the department's schedule for 1988-89 indicates that each risk assessment still will take 10 to 12 months, rather than the 4 months contemplated in statute.
- ***Insufficient Number of Assessments.*** The ARB estimates that it will request three to six risk assessments in 1989-90. Our review indicates that the DHS may not be able to process as many assessments as the ARB will request. First, the DHS has not completed more than two assessments per year since the program began. In fact, the program currently has a backlog.

  Second, the department indicates that the budget proposal to shift to in-house staff will cause a 20 percent reduction in productivity. According to the department, this is because the state positions are more costly than the contract positions. Therefore, fewer positions can be supported with the same level of funding.

Because of these problems, we recommend the department report at budget hearings on (1) the status of eliminating the backlog of risk assessments, (2) the schedule for developing risk assessments in the budget year, and (3) the impact of the DHS delays on the toxic air contaminant program.

Prenatal Water Exposure Studies

We recommend that the department report at budget hearings regarding the final contract amount for the prenatal water exposure study.

The budget requests an increase of $816,000 from the General Fund to fund the second year of a four-year study of the effects of drinking water on pregnancy outcomes in Santa Clara, Sacramento, and Los Angeles Counties. This amount includes $729,000 for contracts and $87,000 for administration. This study was prompted by recent DHS studies in Santa Clara County which showed that women who drink bottled or filtered tap water had unusually low rates of miscarriages. In order to analyze this issue, the DHS developed a four-year research study costing approximately $5 million—$2.5 million for contracts and $2.5 million for state staff, equipment, and laboratory analysis.

The department advises that it is currently determining what its final contract costs will be. Consequently, we cannot determine if the $729,000 requested for contracts is the right amount. The department expects to have more information by April 1989. Therefore, we recommend the department report at budget hearings on the final contract costs for the prenatal water exposure study.

DEPARTMENT OF HEALTH SERVICES—Continued

Environmental Laboratory Inspections

We recommend that the Legislature adopt Budget Bill language requiring the department to perform unannounced inspections at environmental laboratories, except when it is conducting initial certification inspections.

The budget proposes an increase of seven positions and $568,000 from the Environmental Laboratory Improvement Fund (ELIF) to implement the Environmental Laboratory Accreditation program authorized by Ch 894/88 (AB 3739, Jones). The accreditation program involves (1) developing laboratory performance standards, (2) issuing certificates to laboratories, and (3) conducting proficiency tests and on-site inspections to ensure compliance with performance standards. The DHS is responsible for regulating three types of laboratories—drinking water, wastewater, and hazardous waste laboratories.

As part of the department's regulatory program, it is planning to conduct biennial inspections at laboratories to ensure they meet performance standards. The department indicates that it intends to conduct these inspections on an appointment basis. According to the department, this is necessary in order for the laboratory records to be readily available.

Our review of the department's clinical laboratory accreditation program and other regulatory programs indicates that unannounced inspections can be significantly more effective in identifying violations. In addition, our review indicates that staff performing unannounced inspections do not have problems obtaining company files and records. The only situation in which it appears appropriate to notify laboratories of inspections is when they are initially inspected for certification.

In order to improve the effectiveness of the inspections, we recommend the Legislature adopt Budget Bill language that requires the department to conduct unannounced laboratory inspections. The following Budget Bill language is consistent with our recommendation:

> All of the department's environmental laboratory inspections shall be unannounced except for initial certification inspections.

Laboratory Program Debt

We recommend the department and the State Water Resources Control Board report to the fiscal committees prior to budget hearings on repaying General Fund monies the board spent to establish the wastewater laboratory accreditation program.

Chapter 894, Statutes of 1988 (AB 3739, Jones), established the environmental laboratory accreditation program by combining three existing laboratory accreditation programs. Two of the programs—the drinking water and hazardous waste laboratory accreditation programs—were administered by the DHS. The other program—the wastewater laboratory accreditation program—was under development at the State Water Resources Control Board.

Wastewater Laboratory Accreditation Program. Chapter 1520, Statutes of 1985, required the board to establish the wastewater laboratory accreditation program. To fund program development, Chapter 1520 authorized a $200,000 loan from the General Fund. Chapter 1520 provides for fees to repay the General Fund loan and support ongoing program costs. According to the board, the $200,000 loan was intended to cover the first-year costs for program development. The board indicates that it had planned to spend approximately $700,000 for program development and to have the program in place by early 1987-88.

Developing the accreditation program took longer than the board originally anticipated. The board contracted with the DHS to develop the program. According to the DHS, the delays were due to staff vacancies and redirection of staff to other programs. The board estimates that it probably will have spent up to a total of $1 million from the General Fund from 1985 through 1989 for developing the program. (The board expects to have a more accurate estimate of expenditures by April.) According to the board, it intended to repay the full $1 million start-up costs of the program, once fees were established, based on the requirement that the program be fully fee-supported.

The DHS May Not Repay the Full Start-Up Costs. Chapter 894, which transferred the water quality accreditation program to the DHS from the board, also transferred the requirement to repay the $200,000 General Fund loan. Accordingly, the DHS plans to repay this amount by January 1, 1992. Chapter 894, however, is silent on the additional $800,000 in General Fund costs incurred by the board. The DHS does not have any schedule or plan for repaying these costs.

We believe that these costs should be repaid using fees collected from regulated laboratories, as the Legislature intended in enacting Chapter 1520. To ensure that this occurs, we recommend the board and the DHS report to the fiscal committees prior to budget hearings on (1) the board's final estimate of its General Fund costs for the wastewater accreditation program and (2) the DHS's schedule for repaying these costs through its fee authority.

Fee Adjustments Should Reflect Budget Proposal

We recommend that the Legislature amend the Budget Bill to correct proposed laboratory license fee adjustment language.

Under current law, the Budget Act sets the annual clinical laboratory license fee adjustment based on formulas specified in statute. The 1989 Budget Bill includes language requiring increases of 4.1 percent in laboratory license fees.

Our analysis indicates that the clinical laboratory license fee adjustment proposed in the Budget Bill is incorrect because it is based on expenditures for the wrong program in the wrong year. We calculated the clinical laboratory license fee adjustment based on the 1988-89 and 1989-90 budget of the Laboratory Field Services Section, as required by statute. Our calculation shows a 3.3 percent *decrease* in fees. Therefore, we recommend that the Legislature amend the Budget Bill to reflect a 3.3 percent decrease in laboratory license fees. We will advise the Legislature if any additional changes are needed as a result of legislative actions on the budget.

The effect of this recommendation is to decrease General Fund revenues by about $12,000 in 1989-90.

In a separate report, *Summary of Recommended Legislation* (Report 89-4), we recommend that the Legislature adopt legislation increasing the license fees for clinical laboratories. Increasing fees would (1) pay for improving enforcement of laboratory quality standards and (2) ensure that fee revenues fully offset the General Fund costs of the regulatory program.

DEPARTMENT OF HEALTH SERVICES—Continued

4. TOXIC SUBSTANCES CONTROL

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

Table 11
Department of Health Services
Toxic Substances Control Division
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

Programs	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change from 1988-89*	
				Amount	*Percent*
Hazardous waste management and planning					
Hazardous Waste Control Account	$27,128	$35,666	$35,564	−$102	−0.3%
Hazardous Waste Management Planning Subaccount	2,249	2,833	1,015	−1,818	−64.2
Federal funds	5,707	5,759	5,751	−8	−0.1
Reimbursements	25	900	—	−900	−100.0
Subtotals	($35,109)	($45,158)	($42,330)	(−$2,828)	(−6.3%)
Site mitigation					
General Fund	$466	$5,363	$171	−$5,192	−96.8%
Hazardous Substance Account	13,518	15,140	15,425	285	1.9
Hazardous Substance Cleanup Fund (bond funds)	22,789	48,760	—	−48,760	−100.0
Hazardous Site Operations and Maintenance Account	525	56	608	552	—[a]
Superfund Bond Trust Fund	808	732	512	−220	−30.1
Special Account for Capital Outlay	—	—	2,000	2,000	—[a]
Federal funds	3,326	13,550	28,511	14,961	110.4
Site Mitigation Fund (pending legislation)	—	—	62,875	62,875	—[a]
Subtotals	($41,432)	($83,601)	($110,102)	($26,501)	(31.7%)
Totals	$76,541	$128,759	$152,432	$23,673	18.4%

[a] Not a meaningful figure.

The budget proposes expenditures of $152.4 million (all funds) for the toxics division in 1989-90. This is an increase of $23.7 million, or 18 percent, above estimated current-year expenditures. The increase consists primarily of projected increases in spending for site mitigation.

The division estimates that the $100 million in bond funds authorized in 1984 for site cleanup will be exhausted in the current year. To enable continued funding of the Site Mitigation program, the department proposes to establish a new Site Mitigation Fund in separate legislation. The budget reflects expenditures of $67.1 million from this new fund in 1989-90 ($62.9 million in the toxics division). At the time we prepared this analysis (January 1989), the department had developed a draft funding proposal in which existing and new fees would be used to support the new fund.

Table 12
Department of Health Services
Toxic Substances Control Division
Proposed 1989-90 Budget Changes
(dollars in thousands)

	Positions	*Amount*	*Fund*
1988-89 expenditures (Budget Act)	962.5	$101,684	Various
Baseline adjustments, 1988-89:			
Statutory appropriations	4.0	28,330	Various
Debt service for bond funds		5,732	Various
Federal funds for operations and maintenance of Stringfellow		56	HSOMA
Miscellaneous personal services and operating expense adjustments		720	Various
Federal special projects reduction		−7,763	Federal
1988-89 expenditures (revised)	966.5	$128,759	
Baseline adjustments, 1989-90:			
Reduction of one-time expenditures	−2.0	−$1,834	Various
Salary and benefit increase		1,971	Various
Pro-rata/SWCAP and operating expense adjustment		2,618	Various
Decrease in Board of Equalization contracts		−1,759	Various
Decrease in underground tanks		−2,752	Various
Decrease in debt service for bond funds		−220	Various
Increase in responsible parties fund (penalties)		647	HSA
Increase in federal special projects		14,641	Federal
Increase in site mitigation contracts		14,388	SM
Increase in site operations and maintenance of Stringfellow		513	HSOMA
Elimination of statutory appropriations:			
Ch 1428/85—cleanup of Stringfellow site		−4,534	General
Ch 1504/86—hazardous waste management planning	−13.0	−2,833	HWMPS
Ch 1376/88—hazardous waste fees	−4.0	−438	HWCA
Ch 1508/86—cleanup of ASARCO site		−829	General
Statutory appropriations:			
Ch 1508/86—cleanup of ASARCO site		171	General
Ch 1624/88—cleanup of ASARCO site		2,000	SAFCO
Subtotals	(−19.0)	($21,750)	
Program change proposals:			
Hazardous waste fee administration	4.0	$173	HWCA
Hazardous waste management planning	22.0	1,385	Various
Training	1.0	365	Various
Subtotals	(27.0)	($1,923)	
1989-90 expenditures (proposed)	974.5	$152,432	
Change from 1988-89 (revised):			
Amount	8.0	$23,673	
Percent	0.8%	18.4%	

HSCF—Hazardous Substance Cleanup Fund (bond funds)
HWCA—Hazardous Waste Control Account
HSOMA—Hazardous Site Operations and Maintenance Account
HSA—Hazardous Substance Account
HWMPS—Hazardous Waste Management Planning Subaccount
SAFCO—Special Account for Capital Outlay
SM—Site Mitigation Fund (proposed legislation)
SWCAP—Statewide Cost Allocation Plan

DEPARTMENT OF HEALTH SERVICES—Continued

The budget proposes a total of 974.5 positions for the division in 1989-90, which is an increase of 8 positions above the 1988-89 authorized staffing level. This increase reflects the budget's request for 27 new positions offset by a reduction of 19 limited-term positions.

Table 12 displays the changes proposed in the toxics division budget for 1989-90.

A. HAZARDOUS WASTE MANAGEMENT

Once Again, the Hazardous Waste Control Account is in Trouble

We recommend the division report to the Legislature at budget hearings on the status of proposed legislation for continuing the hazardous waste fees in the budget 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. Existing law (Ch 1376/88—AB 1196, Wright) requires 45 percent of the HWCA revenue to be derived from disposers of hazardous waste, 25 percent from facility operators, 25 percent from generators, and the remaining 5 percent from permit, variance, and closure fees. The Toxic Substances Control Division is responsible for collecting the permit, variance, and closure fees; the Board of Equalization collects all other fees.

The division's authority for collecting these fees will sunset on July 1, 1989 unless legislation is enacted to extend this date or establish a new fee schedule. The division is currently developing a new fee proposal; but, at the time this analysis was prepared, no legislation had been introduced. Because the state's hazardous waste regulatory activities are dependent on this funding source, we recommend the division report at budget hearings on the status of its proposed legislation to continue the hazardous waste fee program in the budget year.

Hazardous Waste Fee Positions Need Further Justification

We withhold recommendation on $173,000 and four positions requested for administration of the hazardous waste fee program pending receipt of information justifying the positions.

The budget requests four positions and $173,000 from the HWCA to administer a portion of the hazardous waste fee program. Specifically, the positions would be responsible for (1) collecting the permit, variance, and closure fees, (2) responding to fee questions from industry, and (3) managing the database that identifies the disposers and facilities subject to the fees.

The division has not provided workload information to justify the need for four additional positions to administer the program. Without this information, we have no basis to evaluate the proposal. Therefore, we withhold recommendation on $173,000 pending receipt of workload justification information.

State-Only Hazardous Waste

We recommend (1) that the Legislature adopt Budget Bill language requiring the division to implement an interim status permit program for state-only waste facilities and (2) the division report prior to

budget hearings on (a) its performance in meeting federal enforcement requirements for Resource Conservation and Recovery Act facilities and (b) the additional enforcement staff needed to ensure that state-only facilities are not posing significant public health or environmental risks.

The Congress enacted the Resource Conservation and Recovery Act (RCRA) in 1976 to regulate the management of hazardous waste and improve waste disposal practices. The Toxic Substances Control Division has received interim authorization from the Environmental Protection Agency (EPA) to administer the federal hazardous waste regulatory program in California.

State hazardous waste law is broader than federal law in that generally it regulates (1) facilities that handle smaller quantities of hazardous waste such as from recycling facilities and (2) more categories of hazardous waste such as oil drilling muds. Hazardous waste that is subject only to state law is known as state-only waste. The division estimates there are approximately 2,500 state-only storage, treatment, or disposal facilities compared to approximately 500 RCRA facilities.

We identified two problems with the division's regulatory program for state-only waste. First, based on the division's current schedule, all of the state-only waste facilities will not be permitted until 1994-95. Until facilities receive a permit, they are not subject to hazardous waste regulations. Second, the division is not meeting EPA enforcement requirements for RCRA facilities, and therefore it does not appear that the division can respond to the increased enforcement needed at state-only facilities once they are permitted. Due to these problems, many facilities may not be complying with hazardous waste regulations and may be posing a risk to public health and the environment. Although a state-only waste facility generally poses less of a risk to public health and the environment than an RCRA facility, the large number of state-only facilities and their close proximity to many populated areas increases their threat to public health and the environment.

Permitting State-Only Waste Facilities. Federal law establishes deadlines for processing RCRA facility permits. The division is required to meet these deadlines in order to retain interim authorization. As a result, in the past the division has focused on permitting RCRA facilities and generally ignored state-only facilities until this year.

To address the large number of state-only facilities requiring permits, the division has developed a permit streamlining program (PSP). The PSP appears to be an effective and efficient way to issue final permits for state-only facilities. Generally, the PSP consists of (1) developing a model permit for a specific category of waste such as waste generated by hazardous waste drum recyclers, (2) identifying facilities and requiring them to report to the division on the status of their operations, and (3) issuing the model permit to affected facilities. The division indicates that many of the state-only facilities are suited to model permits because requirements are often the same for each waste category. Under the PSP, there are no on-site inspections prior to issuing the model permit. Instead, follow-up inspections after the model permit is issued are necessary to ensure compliance. The division is planning to develop model permits for five categories of state-only waste by the end of 1989-90. The division indicates there are 30 state-only waste categories. Therefore, at this rate, it will take until 1994-95 (six years) to issue final

DEPARTMENT OF HEALTH SERVICES—Continued

permits for state-only waste facilities.

Although the PSP is an efficient method of issuing final permits, the PSP has one major problem: state-only facilities will not be subject to hazardous waste regulations until final permits are issued.

Our analysis indicates that establishing an interim status permit process for the state-only facilities similar to the RCRA process would significantly speed up the regulation of these facilities. At the beginning of the RCRA process, facilities were required to report to the appropriate federal or state regulatory agency on their operations. Facilities received "interim status" permits in order to be able to continue operation until final permits were issued. Facilities with an interim status permit were required to meet general requirements, such as reporting the amount of waste disposed or treated, emergency procedures, ground water monitoring, and design and operation requirements. The interim permit process provided a means of imposing regulations at facilities without waiting for final permits to be issued.

Establishing an interim status permit process would not impose a significant workload increase for the division. This is because the division is currently identifying state-only facilities in order to begin charging hazardous waste fees. Identifying facilities is a large part of the workload in issuing interim status permits. Therefore, we recommend the Legislature adopt the following Budget Bill language in Item 4260-011-014:

> The Toxic Substances Control Division shall issue interim status permits to state-only waste facilities and require those facilities to meet interim status requirements similar to the interim requirements for RCRA facilities.

Enforcement Workload. The division's enforcement program has also focused almost exclusively on RCRA facilities in order to meet EPA requirements. Although the division has made significant progress in the past few years to meet EPA enforcement requirements, the division is still not meeting a large percentage of its deadlines. For example, the EPA requires the division to issue an enforcement order, or refer the violation to the EPA, the Attorney General, or the appropriate county district attorney, within 135 days for all major (Class I) violations. In 1987-88 the division failed to meet the 135-day deadline 41 percent of the time. Considering the difficulty the division is having in meeting its existing enforcement workload, it appears unlikely that it can address the new enforcement workload associated with issuing final permits or interim permits to state-only facilities. This new enforcement workload will occur as the division begins to perform follow-up inspections, after facilities receive their permits. The division is aware of the increased workload but has not indicated how it will be addressed.

In order that the Legislature may ensure that the division has sufficient enforcement staff to monitor both RCRA facilities and state-only facilities, we recommend the division report prior to budget hearings on (1) its performance in meeting EPA enforcement requirements for RCRA facilities and (2) the enforcement staff needed to ensure that state-only facilities issued interim permits or final permits are not posing a significant public health or environmental risk.

Technical Overbudgeting Error

We recommend reduction of $106,000 in the Hazardous Waste Resources and Research Coordination program to eliminate overbudgeting. (Reduce Item 4260-011-014.)

In the current year, the budget included $158,000 and two positions from the HWCA for one-time costs to establish the Hazardous Waste Resources and Research Coordination program required by Ch 914/87 (AB 2489, Killea). Specifically, the funds were appropriated to (1) establish a database on hazardous waste research and (2) develop a pool of hazardous waste consultants.

The budget deletes the two limited-term positions and $52,000 but failed to delete the remaining funds. As a result, the HWCA is overbudgeted by $106,000. To eliminate overbudgeting, we recommend a reduction of $106,000 in Item 4260-011-014.

Hazardous Waste Contracts Not Justified

We withhold recommendation on $1,176,000 requested for nine contracts for hazardous waste management and cleanup activities, pending receipt of justification for the contracts. We recommend deletion of $352,000 in contract funds to eliminate overbudgeting. (Reduce Item 4260-011-014 by $101,000 and Item 4260-011-455 by $251,000.)

The division's current-year budget includes $14.9 million for contracts related to various hazardous waste management and cleanup activities. (This amount does not include site cleanup contracts funded by bond funds.) In 1989-90 the division proposes to enter into new contracts and eliminate or reduce other contracts no longer needed. Table 13 lists the contracts that (1) are new or have received significantly increased funding or (2) have been deleted or have received significant funding reductions.

Table 13
Department of Health Services
Toxic Substances Control Division
Significant Changes in Contract Funding
From 1988-89 to 1989-90
(dollars in thousands)

Proposed Contracts Lacking Justification	
Department of Justice—emergency legal services	$200
Administratively established positions	176
Analysis of waste stream reports	100
EPA temporary positions	245
Student assistants	60
Board of Control	45
Emergency response equipment	150
Site mitigation support	100
Community relations for demonstration project	100
Total	$1,176
Contract Reductions	
California Highway Patrol training on hazardous materials	−$77
Office of Emergency Services—emergency response	−135
EPA temporary position for enforcement	−62
Community relations advisors	−78
Total	−$352

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The division has not provided any justification to the Legislature for \$1,176,000 in increased funding for new contracts or for expanding existing contracts. In addition, the division has not reduced the proposed budget to reflect a reduction of \$352,000 for contracts that have been eliminated or significantly reduced. Therefore, we (1) withhold recommendation on \$1,176,000 (\$441,000 in Item 4260-011-014, \$553,000 in Item 4260-011-455, and \$182,000 in Item 4260-011-890) requested for new or expanded contracts pending receipt of justification for the contracts and (2) recommend deletion of \$352,000 (\$101,000 in Item 4260-011-014 and \$251,000 in Item 4260-011-455) to eliminate funding no longer needed for contracts.

B. SITE MITIGATION

Bond Expenditure Plan Submitted On Time

State law directs the division to prepare an expenditure plan for the use of bond act funds as part of the Governor's Budget each year. The Bond Expenditure Plan serves as the basis for the division's budget. It displays, for each site and for the program's general administrative functions, a detailed work plan and estimates of staffing and funding needs. The division submitted its Bond Expenditure Plan to the Legislature on time.

Lack of Funds for Site Mitigation Program in Current and Budget Years

We recommend that the division report at budget hearings on (1) the funding shortfall in the current year and the impact of the shortfall on the site mitigation program and (2) the administration's proposal to fund the site mitigation program in 1989-90.

The budget reflects expenditures of \$67.1 million in 1989-90 from a new Site Mitigation Fund to be established in proposed legislation. The \$67.1 million consists of \$62.9 million to be appropriated in the legislation for the Toxic Substances Control Division and \$4.2 million proposed to be appropriated in the Budget Bill for site mitigation activities in other units in the DHS. The new Site Mitigation Fund is being proposed because the division indicates that the \$100 million in bond funds that have supported the site mitigation program since 1985-86 will be exhausted in the current year.

There are two problems with the current-year funding for the site mitigation program: (1) the department is facing a funding shortfall and (2) the department may not be able to sell the second \$50 million in previously authorized bonds.

Current-Year Funding Shortfall. The budget shows that in the current year \$61 million is available from bond funds; and of that amount, \$53 million will be spent, and an \$8 million reserve will carry over into 1989-90. The budget is misleading in regard to both the amount of funds available and the amount of estimated expenditures.

First, in regard to the amount of bond funds available for expenditure in the current year, our review indicates that \$43.4 million is available for expenditure, not the \$61 million cited in the budget. Second, in regard to estimated expenditures, our review indicates that the \$53 million expenditure figure included in the budget is significantly below the amounts contained in two spending plans issued by the division.

Table 14 compares our estimates and the 1989-90 Governor's Budget estimates of (1) the amount of funds available for the site mitigation program and (2) the funding shortfall in the current year. Our analysis shows that there is a funding *shortfall* in the current year of $19 million to $35 million, depending on the amount actually needed for site mitigation contracts, *not* a reserve of $8 million.

Table 14
Department of Health Services
Site Mitigation Program
Availability of Bond Funds in 1988-89
(dollars in millions)

	Available Funds	*Proposed/Estimated Expenditures*	*Year-End Shortfall/Reserve*
LAO estimate	$43.4 [a]	$62.3 to $78.4 [b]	$18.9 to $35 shortfall
1989-90 budget	$61	$53	$8 reserve

[a] This consists of $61 million less two adjustments: (1) $8 million in interest earnings on the $100 million, which, according to the Department of Finance, has not been, and may not be, available for expenditure by the division and (2) $10 million that was actually committed in 1987-88.

[b] The Governor's Budget, as revised during the 1988-89 budget process, proposed expenditures of $62.3 million for the site mitigation program; and the 1989 Bond Expenditure Plan proposes expenditures of $78.4 million.

At the time this analysis was prepared, the department could not tell us what impact the shortfall would have on the site mitigation program.

Sale of $50 Million in Bond Funds Questionable. With regard to the selling of bonds, the department has sold $50 million of the $100 million authorized in 1984 for hazardous waste site mitigation. The sale of the remaining $50 million is being held up while (1) California's bond counsel determines if the bonds are exempt from federal taxes and (2) the Attorney General determines if the bonds can be sold if they are not exempt from federal taxes.

The Federal Tax Law of 1986 allows bonds to be tax-exempt if they are primarily used (90 percent) for governmental purposes rather than private activities. California's bond counsel is reviewing an Internal Revenue Service ruling concerning the tax-exempt status of hazardous waste cleanup bonds in New York State to determine if California meets the conditions for tax-exempt status. The bond counsel decision is expected in February 1989. At the same time, the Attorney General's Office is reviewing the issue of whether California can sell taxable bonds. The Attorney General's decision is expected in February or March of 1989. The inability of the department to sell the remaining bond funds would virtually bring the site mitigation program to a halt in the current year.

Budget-Year Proposal. To continue the site mitigation program in the budget year, the department is developing a legislative proposal to establish a new funding source. The budget proposes expenditures of $67.1 million in 1989-90 from the new fund. The department's draft proposal indicates the new fund may be a combination of the existing hazardous waste fees currently deposited in the Hazardous Waste Control Account, and new fees, to create one fund for both hazardous waste management and site mitigation programs. At the time this analysis was prepared, the department had not completed its funding proposal and legislation had not been introduced.

Our analysis indicates that the site mitigation program may be facing serious funding shortfalls in the current year, and faces an uncertain

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funding situation in the budget year. Consequently, we recommend the department report at budget hearings on (1) the current-year funding shortfall and the impact of the shortfall on the site mitigation program and (2) the status of selling the second $50 million in bond funds.

In our analysis of the Public Health portion of the department's budget, we recommend deletion of the $4.2 million requested from the Site Mitigation Fund because these funds should be appropriated in the legislation establishing the Site Mitigation Fund. This would be consistent with the administration's proposal for appropriating the $62.9 million for the toxics division in its proposed legislation.

Responsible-Party Cost Recovery Program Not Being Implemented

We recommend the department report at budget hearings on the status of the responsible-party cost recovery program and the need to continue the current funding level.

Under current law, responsible parties are liable for the costs of site cleanup and state oversight of hazardous waste site cleanup. Responsible parties can pay for state costs in advance or after the costs have been incurred. (Advance payments increase the availability of funds for cleanup at other sites, while post-expenditure recoveries decrease potential General Fund liabilities for bond repayments.) The DHS bills responsible parties for costs incurred; but when payments are not made by a responsible party, state law requires the costs to be recovered by the Attorney General's Office. The Governor's Budget does not reflect any revenues for either advance or post-expenditure recoveries.

The department received 14 positions and $718,000 in the current year to implement a post-expenditure cost recovery program. In its proposal for these positions, the department indicated that it would submit bills to the responsible parties associated with approximately 142 sites in which the department had been involved for two or more years. The department also estimated that it would refer 36 cases to the Attorney General's Office in the current year. The department selected the two-year period because existing law was unclear concerning the statute of limitations for recovering costs. According to the department, at the time the funding increase was requested, existing law provided for a three-year statute of limitations but did not say if the three-year period began at the time site cleanup began or was finished.

The department indicates that it has not, and may not, bill all of the responsible parties it had originally planned to bill because recently enacted legislation now allows the state three years from the time site cleanup is finished to recover costs. This significantly increased the timeframe for cost recovery. As a result of the extension, between July and December 1988, the department had billed the responsible parties for only 16 sites and no cases had been referred to the Attorney General's Office. The department could not say if it had billed all responsible parties for costs where the three-year statute of limitations was approaching.

Our analysis indicates that due to the additional time allowed to recover costs, a portion of the staff and funding provided in the current year may not be needed. Due to this change in workload, we recommend the department report at budget hearings on the division's current schedule for program implementation. Specifically, we recommend the department (1) identify how many responsible parties will be billed, (2) identify which sites are approaching the three-year statute of limitations, (3) provide an estimate of the number of cases that will be referred to the Attorney General's Office, and (4) justify the need to continue the 14 positions at a cost of $718,000 annually for this program.

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 $6.9 billion ($3.3 billion General Fund) in 1989-90, including $91.8 million ($28.6 million General Fund) for state administration. The total level of General Fund expenditures proposed for Medi-Cal in the budget year represents an increase of $103 million, or 3.2 percent, as compared with estimated expenditures in the current year.

Table 15 shows Medi-Cal expenditures for 1987-88 through 1989-90.

Table 15
Department of Health Services
Medi-Cal Program
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

	Fund	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Health care services	State	$2,733,619	$3,056,469	$3,154,951	3.2%
	All	5,382,022	6,183,238	6,526,009	5.5
County administration	State	70,686	80,430	86,123	7.1
	All	151,324	183,956	191,061	3.9
Claims processing	State	11,872	14,102	12,609	−10.6
	All	46,246	56,022	50,330	−10.2
Subtotals	State	$2,816,177	$3,151,001	$3,253,683	3.3%
	All	5,579,592	6,423,216	6,767,400	5.4
State administration	State	24,744	28,370	28,649	1.0
	All	79,637	88,428	91,801	3.8
Totals	State	$2,840,921	$3,179,371	$3,282,332	3.2%
	All	5,659,229	6,511,644	6,859,201	5.3

Federal, State, and County Responsibilities Under the Medi-Cal Program

The administration and funding of Medi-Cal are shared by the federal and state governments. Counties perform certain tasks on behalf of the state.

The state Department of Health Services (DHS) develops regulations, establishes rates of payment to health care providers, reviews requests for authorization of certain types of treatment prior to delivery, audits provider costs, recovers payments due from private insurance companies and other sources, reviews county eligibility determinations, and manages various contracts with private vendors for processing of provider claims. Other state agencies, including the California Medical Assistance

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Commission and the Department of Social Services, perform Medi-Cal-related functions under agreements with the 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 133 1/3 percent of the AFDC payment level specified for their household size. Medically needy beneficiaries who reside in long-term 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 1989-90

Eligibles. Table 16 shows the average number of persons per month that were eligible for Medi-Cal in each eligibility category in 1987-88 and the number that the budget estimates will be eligible in 1988-89 and 1989-90. The table shows that an average of 3,251,600 persons will be eligible for Medi-Cal benefits each month during 1989-90. This is 67,200 individuals, or 2.1 percent, more than the average number of beneficiaries eligible in the current year.

Table 16
Department of Health Services
Average Monthly Medi-Cal Program Eligible Recipients
By Eligibility Category
1987-88 through 1989-90

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Change from 1988-89 Amount*	*Change from 1988-89 Percent*
Categorically needy					
AFDC	1,874,500	1,912,400	1,947,500	35,100	1.8%
SSI/SSP	768,400	799,100	825,000	25,900	3.2
Medically needy					
Families	213,300	220,200	222,700	2,500	1.1
Aged, blind, or disabled	57,200	59,600	60,200	600	1.0
Long-term care	65,200	65,400	66,800	1,400	2.1
Medically indigent					
Children	102,000	110,400	112,400	2,000	1.8
Adults	8,400	9,800	10,100	300	3.1
Other	8,500	7,500	6,900	−600	−8.0
Totals	3,097,500	3,184,400	3,251,600	67,200	2.1%

Expenditures by Eligibility Category. Table 17 shows the percentages of eligibles and expenditures that each eligible group is anticipated to account for in 1988-89. It also shows average cost per eligible. As the table shows, families receiving AFDC grants constitute 60 percent of Medi-Cal eligibles and 26 percent of expenditures. The SSI/SSP recipients, on the other hand, make up 25 percent of the caseload and account for 38 percent of the expenditures. Long-term care residents account for only 2.1 percent of the caseload, yet they account for 18 percent of expenditures.

Table 17
Department of Health Services
Medi-Cal Expenditure Patterns by Eligibility Category [a]
1988-89

	Percent of Eligibles	*Percent of Expenditures*	*Cost Per Eligible*
Categorically needy			
AFDC	60.2%	25.9%	$830
SSI/SSP	25.2	37.8	2,903
Long-term care	2.1	18.1	16,984
Medically needy			
Families	6.9	7.3	2,044
Aged, blind, or disabled	1.9	5.8	5,942
Medically indigent			
Children	3.5	3.6	2,017
Adults	0.3	1.4	8,871
Totals	100.0%	100.0%	$1,925

[a] Excludes refugees and other. Details may not add to totals due to rounding.

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

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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.

Estimates Will be Updated in May

We withhold recommendation on $6.8 billion ($3.3 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 1988. The department will present revised estimates in May, which will be based on program costs through February 1989. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1989-90 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 CARE SERVICES

General Fund Deficiency of $133 Million in 1988-89

The budget anticipates that expenditures for Medi-Cal health services during 1988-89 will exceed available funds by $211.7 million ($133 million General Fund). Table 18 shows the components of the deficiency.

Table 18

Department of Health Services
Medi-Cal Health Care Services
Proposed Budget Changes
1988-89 and 1989-90
(dollars in millions)

	General Fund	*All Funds*
1988-89		
Funds available, 1988 Budget Act and other legislation:		
Health benefits item	$2,819.0	$5,758.8
Refugee reimbursements	—	21.0
Cost-of-living adjustment (COLA) item	52.5	104.7
Abortion item	12.9	12.9
Chaptered legislation	28.3	28.3
State Legalization Impact Assistance Grant (SLIAG) funds	—	24.8
Disproportionate-share inpatient funds carried over	10.1	20.3
Unanticipated reimbursements	0.7	0.7
Subtotals, 1988-89 expenditures	$2,923.5	$5,971.5
Unfunded costs and other changes:		
Delay in implementing 1986-87 rate reductions	31.2	62.3
Restore funds related to program restructuring proposals	21.0	42.0
Audit settlements	16.8	—

Abortions	13.2	11.5
Subacute care caseload	7.8	15.6
Reduced recoveries	5.4	8.1
Deferred checkwrite	4.8	9.6
Reese v. Kizer	4.5	9.1
Medicare Catastrophic Coverage Act	2.5	2.8
Delta Dental settlement	1.2	2.4
Excess long-term care COLA funds	−6.3	−12.8
Immigration-related changes	−5.1	−19.5
Laboratory rate reduction	−4.5	−8.9
Medicare buy-in premiums	−2.3	−7.7
Technical adjustment	—	22.6
Delayed case management services for developmentally disabled	—	−27.2
Changes in caseload, utilization, and all other	42.8	101.8
1988-89 expenditures (revised)	$3,056.5	$6,183.2
Projected deficiency	($133.0)	($211.7)
1989-90		
Caseload and cost adjustments:		
Increase in eligibles	$52.9	$105.8
Increase in percent using services	62.3	124.6
Increases in cost per unit and units per user	45.5	91.0
Subtotals, caseload and cost adjustments	($160.7)	($321.4)
Full-year costs of 1988-89 COLAs and rate adjustments:		
Statutory COLAs for providers	$15.3	$30.8
Long-term care COLAs	8.8	17.6
Beneficiary COLA "spin-off"	3.9	7.7
Hospital contract rate increases	8.6	17.2
18 percent rate increase for obstetricians, Ch 980/88	3.2	6.4
Subtotals, 1988-89 COLAs and rate adjustments	($39.8)	($79.7)
Proposed program changes:		
Drug cost containment proposals	−40.0	−80.0
Checkwrite deferral	−40.0	−80.0
Medicare crossover claims	−23.4	−46.9
Redwood Health Foundation	−13.0	−26.0
Restrictions on abortions	−13.0	−11.2
Elimination of 1989-90 beneficiary COLA "spin-off"	−9.5	−18.9
Medicare buy-in premiums	16.2	27.5
Increases in inpatient rates for disproportionate-share hospitals	16.0	32.0
1989-90 statutory COLAs for providers	13.9	28.3
Expansion of pregnancy coverage	9.2	18.3
Immigration-related changes	7.3	59.9
Comprehensive perinatal services	2.0	2.4
Medicare Catastrophic Coverage Act	−2.7	−8.9
Back out one-time costs and chaptered legislation	−32.8	−16.0
Case management for developmentally disabled	—	27.2
All other changes	7.8	34.0
Subtotals, proposed program changes	(−$102.0)	(−$58.3)
1989-90 expenditures (proposed)	$3,155.0	$6,526.0
Change from 1988-89:		
Amount	$98.5	$342.8
Percent	3.2%	5.5%

The major elements of the current-year deficiency are:

- ***Delay in Implementing 1986-87 Rate Reductions ($31.2 Million General Fund).*** In early 1987, the administration attempted to implement a 10 percent rate reduction affecting many Medi-Cal

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providers. State law authorizes such rate reductions under certain circumstances when a Medi-Cal deficiency is projected. However, providers obtained temporary restraining orders from the federal courts preventing implementation of the rate reductions during 1986-87. The 1988 Budget Act assumed that the department would win its court case and be permitted to retroactively impose the reductions. The department now indicates that the decision in the court case has been delayed and that as a result, the rate reductions will not go into effect until 1990-91. Consequently, the Medi-Cal program is underfunded in the current year.

- ***Failure to Implement Program Restructuring Proposals ($21 Million General Fund).*** The administration developed the current-year budget on the assumption that it could implement various "program restructuring" proposals to reduce Medi-Cal expenditures. The department was unable to obtain the savings because (1) it did not secure legislation needed to implement many of the proposals and (2) its contract to increase insurance recoveries has resulted in only a fraction of the anticipated savings.
- ***Audit Settlements ($16.8 Million General Fund).*** The department is paying the federal government settlements on four audits which found that the department had made duplicate payments and overpayments. The 1988 Budget Act did not include funds for federal disallowances.
- ***Abortions ($13.2 Million General Fund).*** The Budget Act prohibits the Medi-Cal program from paying for abortions except under limited circumstances (in rape cases, for example). Substantially the same prohibition has been included in every Budget Act for the last several years. Each year the courts have ruled that the provision unconstitutionally limits access to abortions. As a consequence of the court's ruling, the program will pay $14.9 million more for abortions in 1988-89 than was provided for in the Budget Act and $3.4 million ($1.7 million General Fund) less for deliveries and infant care.
- ***Subacute Care Caseload ($7.8 Million General Fund).*** In 1987 the department established a new reimbursement level for subacute care for patients who do not require acute care but need a higher level of care than is available in skilled nursing facilities. The Budget Act assumed that the caseload for subacute care would increase significantly in the current year, resulting in savings of $21 million ($10.5 million General Fund) in costs for acute care. Caseload growth has been lower than expected and has yielded savings of only $5.5 million ($2.7 million General Fund).
- ***Reduced Recoveries ($5.4 Million General Fund).*** The Budget Act assumed that department recovery efforts, excluding the contract included in the program restructuring proposals, would reduce costs by $70.8 million ($36.9 million General Fund) in 1988-89. The department has reduced its estimate of recoveries in 1988-89 for a variety of reasons, including the double-counting of $3.6 million ($1.8 million General Fund).
- ***Deferred Checkwrite ($4.8 Million General Fund).*** The administration anticipated that it would obtain savings of $60 million ($30 million General Fund) by deferring one checkwrite from the current year to the budget year. The department now projects that delaying

the checkwrite will result in savings of only $50.4 million ($25.2 million General Fund). The department will pay the deferred amounts during the budget year.

- ***Reese v. Kizer ($4.5 Million General Fund).*** Chapter 1031, Statutes of 1983, requires the department to separate community income before determining Medi-Cal eligibility for a person receiving care in a long-term care facility. The act was effective in January 1984, but the department did not implement the policy until January 1986. In *Reese v. Kizer*, the court ordered the department to reimburse beneficiaries whose community income was not separated for the medical costs they incurred during 1984 and 1985. The department unsuccessfully appealed the court's decision and is reimbursing the affected beneficiaries during the current year.
- ***Medicare Catastrophic Coverage ($2.5 Million General Fund).*** The department estimates that the current-year costs of the federal Medicare Catastrophic Coverage Act will be $2.8 million ($2.5 million General Fund). We discuss this legislation in more detail below.
- ***Delta Dental Settlement ($1.2 Million General Fund).*** The department paid a settlement to Delta Dental to reimburse Delta for services required by changes the department made to the contract after the bid process was complete.

There are four major changes resulting in savings during the current year. These are:

- ***Long-Term Care Rate Increases (Savings of $6.3 Million General Fund).*** The 1988 Budget Act included $94.9 million ($47.5 million General Fund) for estimated long-term care rate increases, including funds to cover the increase in the minimum wage. Actual rate increases will result in costs of only $82.2 million ($41.2 million General Fund).
- ***Immigration-Related Changes (Savings of $5.1 Million General Fund).*** The federal Immigration Reform and Control Act (IRCA) of 1986 and the federal Omnibus Budget Reconciliation Act of 1986 require states to provide coverage for certain medical services to aliens. Chapter 1441, Statutes of 1988 (SB 175, Maddy), specifies how California will implement these changes. Data on the population that applied for legalization through IRCA indicate that fewer legalized aliens are aged or disabled than had been estimated, resulting in lower current-year costs than were originally anticipated.
- ***Laboratory Rate Reductions (Savings of $4.5 Million General Fund).*** The federal government reduced Medicare rates for laboratory services in March 1988. Federal and state law specify that Medi-Cal rates must not exceed Medicare rates for the same procedure. Consequently, Medi-Cal laboratory rates were also reduced.
- ***Medicare Buy-In Premiums (Savings of $2.3 Million General Fund).*** The Budget Act assumed that the monthly Part B premiums for Medicare coverage would increase to $29.50 in 1989. The premiums actually increased to only $27.90.

Proposed Changes for 1989-90

Table 18 also displays the changes proposed for the Medi-Cal program in 1989-90. The budget projects that Medi-Cal expenditures will increase

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by $342.8 million ($98.5 million General Fund). This represents a General Fund increase of 3.2 percent over estimated current-year expenditures. Table 18 groups these changes into three categories: (1) caseload and cost increases ($160.7 million General Fund), (2) full-year costs of 1988-89 cost-of-living adjustments (COLAs) and other rate increases ($39.8 million General Fund), and (3) proposed program changes (savings of $102 million General Fund).

The caseload and cost increases consist of (1) eligible beneficiaries ($52.9 million General Fund), (2) the percent of eligible beneficiaries using services ($62.3 million General Fund), and (3) the cost per unit of service and the number of units of service per user ($45.5 million General Fund).

The increases for full-year costs of 1988-89 COLAs and rate adjustments consist of (1) statutory COLAs for providers ($15.3 million General Fund), (2) long-term care COLAs ($8.8 million General Fund), (3) the beneficiary COLA "spin-off" ($3.9 million General Fund), (4) hospital contract rate increases ($8.6 million General Fund), and (5) rate increases for obstetricians ($3.2 million General Fund).

The proposed program changes consist of the following items:

- ***Drug Cost Containment Proposals (Savings of $40 Million General Fund).*** The budget assumes the department will be able to save $80 million ($40 million General Fund) by implementing a package of drug cost containment proposals. We discuss these proposals in more detail below.
- ***Checkwrite Deferral (Savings of $40 Million General Fund).*** The budget proposes to defer payment of the last checkwrite of the budget year until 1990-91.
- ***Medicare Crossover Claims (Savings of $23.4 Million General Fund).*** Medi-Cal pays Medicare copayments and deductibles for crossover beneficiaries, those individuals who are eligible for both Medicare and Medi-Cal. Medi-Cal currently limits its payments for medical procedures so that the combined Medicare and Medi-Cal reimbursement does not exceed the Medi-Cal rate for the same procedure. The budget proposes to extend this policy to payments for other types of procedures, including payments for hospital outpatient services and durable medical equipment.
- ***Elimination of Redwood Health Foundation Contract (Savings of $13 Million General Fund).*** The budget proposes to eliminate the department's contract with the Redwood Health Foundation (RHF). The RHF currently contracts with the department as a "fiscal intermediary at risk." The RHF is responsible for arranging for Medi-Cal services, approving treatment authorization requests, and processing claims for Medi-Cal beneficiaries in Sonoma, Lake, and Mendocino Counties. The budget assumes one-time savings of $18 million ($9 million General Fund) from changing from a prepaid system to a fee-for-service system. These savings would be reduced to the extent that the department enrolled beneficiaries in other prepaid systems. The budget also assumes ongoing savings of $8 million ($4 million General Fund) because the department expects Medi-Cal field offices to impose stricter utilization controls than RHF has imposed.

- ***Restrictions on Abortions (Savings of $13 Million General Fund).*** The budget again includes a provision that would prohibit the use of Medi-Cal funds to pay for most abortions. The restrictions would (1) reduce projected General Fund expenditures for abortions from $27.5 million to $12.8 million and (2) increase by $3.4 million ($1.7 million General Fund) delivery and infant care costs for women who carry the baby to term in the absence of Medi-Cal abortion funding.
- ***Elimination of Beneficiary COLA (Savings of $9.5 Million General Fund).*** The budget proposal assumes that the Legislature will enact legislation to waive the requirement for inflation adjustments for AFDC benefits during 1989-90. This change would eliminate the "spin-off" costs of the AFDC COLA to 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. The savings calculated by the department assume that a 4.79 percent increase in AFDC benefits would be required under current law. This figure is based on an estimate by the Commission on State Finance of the California Necessities Index.
- ***Medicare Buy-In Provisions ($16.2 Million General Fund).*** The budget assumes that in January 1990 the monthly premiums for Medicare coverage of outpatient services (Part B) will increase from $27.90 to $31.40. Medi-Cal pays this premium for crossover beneficiaries.
- ***Increases in Inpatient Rates for Disproportionate-Share Hospitals ($16 Million General Fund).*** Chapter 981, Statutes of 1988 (AB 4563, Margolin), authorizes the California Medical Assistance Commission to negotiate rate increases costing up to $50 million ($25 million General Fund) for inpatient services provided at hospitals that serve a disproportionate share of low-income individuals. The budget assumes that this measure will result in costs of only $32 million ($16 million General Fund) in 1989-90 because the rate increases will be negotiated during the coming year and are subject to payment lags.
- ***Statutory COLAs for Providers ($13.9 Million General Fund).*** The budget contains $10.7 million ($5.3 million General Fund) for an 8 percent increase for noncontract hospital inpatient services and $17.6 million ($8.6 million General Fund) for a 6 percent increase on drug ingredients.
- ***Expansion of Coverage of Pregnancy-Related Services ($9.2 Million General Fund).*** Chapter 980, Statutes of 1988 (SB 2579, Bergeson), requires the department to expand Medi-Cal coverage for pregnancy services to include women in families with incomes up to 185 percent of the federal poverty level. The budget proposes to implement this requirement in July 1989. Currently, Medi-Cal covers services for women in families with incomes up to 100 percent or 120 percent of the poverty level, depending on the size of the family.
- ***Immigration-Related Changes ($7.3 Million General Fund).*** The budget assumes that there will be increased costs as more legalized and undocumented aliens take advantage of their eligibility for Medi-Cal services.

Unfunded 1989-90 Medi-Cal Program Costs

We recommend that in its May revision of expenditure estimates, the department (1) incorporate estimates of costs resulting from long-term

DEPARTMENT OF HEALTH SERVICES—Continued

care COLAs and (2) adjust the savings estimate associated with its insurance recoveries proposal to reflect the actual collection record.

Our review of the budget indicates that there are at least two areas of underfunding of Medi-Cal health care services. We recommend that the department address these issues in its May revision estimates of health care services spending. The areas of underfunding are:

1. ***Long-Term Care COLAs.*** The budget does not contain funds for statutorily required COLAs for nursing homes, state hospitals, and other long-term care facilities. Although the administration proposes waiving statutory COLAs in many other programs, it is likely that the long-term care statutory COLAs will be funded due to requirements in federal law. Long-term care COLAs are established based on audit data, which are not yet available. The 1988 Budget Act provided $67.4 million ($33.8 million General Fund), excluding the impact of the minimum wage increase, to recognize these costs. It is too early to determine if 1989-90 long-term care COLA expenditures will be in the same cost range.

2. ***Insurance Collection Contract.*** The budget reflects savings of $1.2 million ($604,000 General Fund) from a contract to identify third parties, including insurance companies and Medicare, who are liable for services provided by Medi-Cal. The department reduced its original estimate of current-year savings from $20 million ($10 million General Fund) to $3.4 million ($1.7 million General Fund). The department estimates lower savings in 1989-90 than in the current year to reflect the December 1989 expiration of the contract. Based on the contractor's collection record to date, however, we believe that even this reduced amount is optimistic. As of January 1989, the contractor had collected only $1,800. The department has not provided any basis for its expectation that the contract will result in a significant increase in collections before it expires in December 1989.

Savings from Medicare Crossover Proposal Questionable

We recommend that the department report during budget hearings on its estimates of savings from its Medicare crossover claims proposal.

"Crossover" beneficiaries are beneficiaries who are eligible for both Medicare and Medi-Cal. Medi-Cal pays Medicare copayments and deductibles for crossover beneficiaries.

Medi-Cal currently limits its payments for medical procedures so that the combined Medicare and Medi-Cal reimbursement does not exceed the Medi-Cal rate for the same procedure. The department estimates that it will save $46.9 million ($23.4 million General Fund) by extending this policy to other types of payments, including hospital outpatient and durable medical equipment. This estimate assumes that the department will reduce its payment of some Medicare copayments or deductibles by a flat percentage. However, that is not the methodology the department intends to employ in actually reducing payments. The department is currently developing revised estimates of these savings based on the methodology it expects to use.

We recommend that the department report during budget hearings on its revised estimate.

Drug Cost Containment Proposals

We recommend that the department report during budget hearings on its proposal for drug cost containment.

The budget assumes the department will be able to implement a package of drug cost containment proposals that will result in savings of $80 million ($40 million General Fund) during the budget year. The administration has not completed its plan to achieve these savings. However, the department advises that it will probably include volume purchase of drugs and one or more of another four proposals that require legislation.

Under its volume purchase proposal, the department would negotiate agreements with drug manufacturers for reduced prices. The department estimates that its proposal would result in savings of $26.7 million ($13.4 million General Fund) annually. The department would not need legislation to implement a volume purchase program.

We believe that the department's estimate may be optimistic because it assumes that for each drug it can obtain the best price negotiated by three different entities: Los Angeles County, the Department of General Services, and a network of pharmacists. While it does seem reasonable to assume that the state might be able to negotiate for a package that, as a whole, is similar to those negotiated by these other entities, the department's estimate of savings assumes that it will be able to bargain for the best price on every drug.

The department has four additional proposals to reduce drug costs, all of which would require legislation. The department has not estimated the savings associated with any of these proposals. The four proposals are:

- *Elimination of several drug categories from the drug formulary*. This would result in several categories of drugs being available to Medi-Cal beneficiaries only if their physician or pharmacist receives prior approval from a Medi-Cal field office. Among the categories of drugs the department proposes to remove from the formulary are nonsteroidal anti-inflammatory drugs (NSAIDs), cold medicines, sleeping pills, anti-ulcer drugs, and vitamins.
- *Elimination of brand-name drugs in several categories from the drug formulary*. Under such legislation, physicians could prescribe generic drugs in these categories without prior authorization, but could only prescribe brand-name drugs with prior approval from a Medi-Cal field office. Among the drugs that could be affected by the proposal are NSAIDs, cold medicines, anti-ulcer drugs, and antihypertensives.
- *Annual drug price adjustments*. Under current law, the department is required to update its prices for drugs monthly based on price changes in drug suppliers' catalogs and nationally distributed drug price reference guides. Under the department's proposal, it would adjust prices annually rather than monthly.
- *Elimination of public hearing requirement*. Under current law, any time the department receives a request that a drug be included on the Medi-Cal drug formulary, the department is required to hear the request at a public hearing of the Medical Therapeutic and Drug Advisory Committee. This legislation would eliminate the requirement for public hearings for every request and would permit the department to deny drug formulary requests without a committee hearing. The department advises that the savings from this proposal would be primarily administrative.

We recommend that the department report during budget hearings on the specific components of its proposal and the savings it estimates resulting from each component.

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Department Needs to Ensure Access if Redwood Contract is Terminated

We recommend that the department report during budget hearings on its efforts to encourage providers to continue to provide health care for Medi-Cal beneficiaries in Lake, Sonoma, and Mendocino Counties.

The budget proposes to eliminate the department's contract with Redwood Health Foundation (RHF), which currently arranges Medi-Cal services, approves treatment authorization requests, and processes claims for Medi-Cal beneficiaries in Sonoma, Lake, and Mendocino Counties. The federal government will not permit the department to continue the existing contract with RHF because the state did not conduct a competitive bidding process. The RHF has chosen not to serve Medi-Cal beneficiaries as a prepaid health plan or as a primary care case management contractor. Consequently, the department will have to seek fee-for-service providers or develop new prepaid health plan or primary care case management contracts in the three counties.

Elimination of the RHF contract may disrupt Medi-Cal services if current Redwood providers choose to discontinue serving Medi-Cal beneficiaries. The department's efforts to work with providers and familiarize them with both the process for obtaining fee-for-service reimbursement and their options for developing other capitated programs may be important in providing a smooth transition from the RHF contract. Because the Legislature is concerned that Medi-Cal beneficiaries have access to health care, we recommend that the department report on its efforts to retain providers.

Immigration-Related Costs

The budget proposes expenditures of $143.9 million ($32.8 million General Fund) in 1989-90 related to changes in Medi-Cal eligibility for aliens mandated by the federal Immigration Reform and Control Act (IRCA) and the federal Omnibus Budget Reconciliation Act (OBRA) of 1986, and Ch 1441/88 (SB 175, Maddy), which implemented the IRCA and OBRA in California.

The IRCA established a program to allow undocumented aliens who have lived in the United States for a long period of time to become legal residents. The IRCA provides that aliens receiving legal status are entitled to Medi-Cal coverage if they are otherwise eligible for Medi-Cal. Legalized aliens who are children (under age 19), aged, blind, or disabled are entitled to full benefits; others are entitled to emergency services, including labor and delivery, plus prenatal and postnatal care.

The OBRA extended Medi-Cal coverage to undocumented aliens and aliens with visas. Under the OBRA, these aliens are eligible only for emergency services, including the costs associated with labor and delivery. However, Chapter 1441 expanded the services available to undocumented aliens to include prenatal and postnatal care. Prenatal and postnatal services are funded using 100 percent state funds.

Congress has made State Legalization Impact Assistance Grant (SLIAG) funding available to the states to help pay the state's additional cost of serving aliens legalized under the IRCA. Congress did not, however, make any special funding available for the state's cost for services to undocumented aliens that are required under the OBRA. Table 19 shows the benefits and funding ratios for the services provided to citizens, legalized aliens, and undocumented aliens under the IRCA, the OBRA, and Chapter 1441. Table 19 also shows the components of the $143.9 million contained in the 1989-90 budget for services to aliens.

Table 19
Department of Health Services
Medi-Cal Program
Benefits and Funding Sources for Services Provided to Citizens Versus Services Provided to Legalized and Undocumented Aliens

	Citizens	*Legalized Aliens*	*Undocumented Aliens*
Benefits			
Children (under age 19)	Full scope	Full scope	Emergency care including labor and delivery
Aged, blind, and disabled	Full scope	Full scope	Emergency care including labor and delivery
Adults in families with children	Full scope	Emergency care including labor and delivery Prenatal and postnatal care	Emergency care including labor and delivery Prenatal and postnatal care
Other adults	No benefits	No benefits	No benefits
Funding ratios	50% General Fund, 50% federal Medicaid funds	50% SLIAG, 50% federal Medicaid funds	Prenatal and postnatal care: 100% General Fund Other services: 50% General Fund, 50% federal Medicaid funds
Proposed 1989-90 funding for aliens		$41.5 million SLIAG, $41.5 million federal Medicaid funds	$32.8 million General Fund, $28.1 million federal Medicaid funds

Court Injunctions May Affect Medi-Cal Budget

We recommend that the department report during budget hearings on the effects of two preliminary injunctions on Medi-Cal costs and implementation of Ch 1441/88.

Chapter 1441, Statutes of 1988, which implemented the IRCA and OBRA in California, became effective October 1, 1988. At that time, the department began to issue separate "restricted" Medi-Cal cards for those individuals who were entitled only to restricted-scope services—that is, emergency services plus prenatal and postnatal care. However, by the end of October, a federal court and a state court had each issued a preliminary injunction prohibiting the department from implementing some of the provisions of Chapter 1441. We estimate that the first injunction, in the *Crespin v. Kizer* case, may result in General Fund costs in 1989-90 of up to $22.4 million for health care services and $1.6 million for county administration. The department has not estimated the costs associated with the second case, *Ruiz v. Kizer.*

Following are discussions of these two cases.

In *Crespin v. Kizer*, the Alameda County Superior Court issued a preliminary injunction that, among other things, prohibits eligibility workers from asking individuals who apply for restricted-scope services

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to disclose information concerning their citizenship or immigration status. As a result, the department must treat legalized aliens who apply for restricted services and undocumented aliens in an identical manner. This requirement has two effects:

First, the department may not be able to claim SLIAG funds. Because the department cannot ask whether an applicant for restricted-scope services is a legalized alien, it is unable to verify alien status through the Systematic Alien Verification for Entitlements (SAVE) system. The IRCA requires the department to use the SAVE system to verify with the federal Immigration and Naturalization Service (INS) that an applicant is entitled to services as a legalized alien before issuing a Medi-Cal card. This verification also enables the department to claim SLIAG funds to help cover the costs of eligibility determination and services provided to legalized aliens. Consequently, the injunction may impair the department's ability to claim SLIAG (and other federal funds for prenatal and postnatal services).

Second, the department may not be able to verify eligibility. Under the injunction, eligibility workers cannot ask applicants for restricted-scope services for Social Security numbers (SSNs). The department uses SSNs to verify employment and income information through the Income and Eligibility Verification System (IEVS). Without SSNs, there is an increased chance that people who do not meet Medi-Cal income and resource eligibility requirements will receive Medi-Cal services.

This injunction also affects how the department determines eligibility for aliens who need long-term care or kidney dialysis services. Prior to enactment of Chapter 1441, the department provided Medi-Cal benefits to individuals needing long-term care or kidney dialysis services who certified that they were not under order of deportation. (The federal government has disallowed federal funding claimed by the department for these services. The department is appealing that decision.)

Under Chapter 1441, aliens who are "permanently residing under color of law" (PRUCOL) are eligible for necessary long-term care and/or kidney dialysis services. Individuals are considered PRUCOL if the INS is aware that they are in the country but has not taken action to deport them. The injunction requires the department to provide services to individuals (1) while the INS is determining the individuals' immigration status and (2) even if the INS determines that the individuals are not PRUCOL or legalized.

This portion of the injunction could result in higher Medi-Cal costs than anticipated in the budget. The department does not have an estimate of the costs.

In *Ruiz v. Kizer*, the U.S. District Court issued a preliminary injunction prohibiting the department from delaying or denying full-scope Medi-Cal services on the basis that the INS has not yet verified satisfactory immigration status if applicants are otherwise eligible. This injunction could result in Medi-Cal providing services to some individuals (with 100 percent General Fund dollars) that it would not have otherwise provided. This is because Medi-Cal could approve (1) full-scope benefits for undocumented individuals who are only eligible for restricted benefits or (2) benefits sooner than authorized under federal law.

Because the injunctions have implications for funding services to aliens and because they affect the department's ability to comply with legislative requirements, we recommend that the department discuss these issues during budget hearings.

Medicare Catastrophic Coverage Act

We recommend that prior to budget hearings, the department submit to the fiscal committees additional information about (1) the costs and savings to the Medi-Cal program related to the Medicare Catastrophic Coverage Act (MCCA) and (2) the department's plans to pursue legislation to implement MCCA requirements affecting the Medi-Cal program.

The MCCA significantly expanded the inpatient and long-term health care services that Medicare covers. The act increased premiums and taxes to help cover the costs of the expanded services. The MCCA affects the Medi-Cal program because Medi-Cal pays costs that are not covered by Medicare for "crossover" beneficiaries, individuals who are eligible for both Medicare and Medi-Cal. These costs include premiums, copayments, deductibles, and the costs of noncovered services. In addition, the MCCA requires state Medicaid programs to expand some of the services they currently provide.

The budget reflects costs of $2.8 million ($2.5 million General Fund) in the current year and savings of $6.1 million ($230,000 General Fund) in 1989-90 due to the implementation of the MCCA. These costs and savings are the net effect of various budget changes resulting from different provisions of the act. Table 20 identifies the specific changes included in the budget.

Table 20
Department of Health Services
Medi-Cal Program
Proposed Budget Changes Related to the
Medicare Catastrophic Coverage Act
1988-89 and 1989-90
(dollars in thousands)

	Estimated 1988-89		*Proposed 1989-90*	
	General Fund	*All Funds*	*General Fund*	*All Funds*
New premiums for catastrophic coverage	$7,240	$12,240	$18,238	$30,833
Nursing home care				
Elimination of coinsurance for days 21-100	−3,277	−6,555	−8,732	−17,463
Coinsurance for days 1-8	2,221	4,441	5,916	11,832
Inpatient hospital services				
Elimination of coinsurance	−1,799	−3,598	−7,667	−15,335
One deductible per year limit	−1,881	−3,762	−7,985	−15,969
Totals	$2,503	$2,766	−$230	−$6,102

In this section, we outline the major provisions of the MCCA that affect the Medi-Cal program and the department's estimates of the fiscal effects of those changes.

New Premiums for Catastrophic Coverage. In order to fund various new Medicare benefits, the MCCA established a new premium effective January 1, 1989. The premium for beneficiaries enrolled in both Part A (inpatient services) and Part B (outpatient services) is $4.00 per month during 1989 and will increase annually until it reaches $10.20 per month in 1993. The monthly premiums for Part B beneficiaries will be $8.57 beginning in 1990. In subsequent years, premiums will be adjusted

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depending on the federal cost of catastrophic benefits. The budget estimates that this provision will result in Medi-Cal costs of $12.2 million ($7.2 million General Fund) in the current year and $30.8 million ($18.2 million General Fund) in 1989-90, in order to pay for premiums for 580,000 crossover beneficiaries.

Nursing Home Care. Prior to passage of the MCCA, Medicare paid for the first 100 days in a long-term care facility. However, it required coinsurance payments for days 21 through 100. Under the MCCA, Medicare pays for the first 150 days and only requires coinsurance for days 1 through 8. The MCCA also eliminated the requirement that a beneficiary be hospitalized prior to admission to a long-term care facility. The budget estimates that these provisions will result in (1) savings from eliminating the coinsurance for days 21 through 100 of $6.6 million ($3.3 million General Fund) in 1988-89 and $17.5 million ($8.7 million General Fund) in 1989-90 and (2) costs to pay coinsurance for days 1 through 8 of $4.4 million ($2.2 million General Fund) in 1988-89 and $11.8 million ($5.9 million General Fund) in 1989-90. The budget does not include any savings from the extension of Medicare coverage for days 101 through 150 or from elimination of the prior hospitalization requirement.

Inpatient Hospital Services. For inpatient hospital care, the MCCA (1) eliminates coinsurance requirements, (2) limits the deductible to one each year rather than one for each spell of illness, and (3) provides coverage for an unlimited number of days. The budget estimates that these provisions will result in (1) savings from eliminating coinsurance amounting to $3.6 million ($1.8 million General Fund) in 1988-89 and $15.3 million ($7.7 million General Fund) in 1989-90 and (2) savings from reduced deductibles of $3.8 million ($1.9 million General Fund) in 1988-89 and $16 million ($8 million General Fund) in 1989-90. The budget does not include any savings from Medicare coverage of an unlimited number of inpatient days.

Prescription Drug Coverage and Drug Premium. Under the MCCA, Medicare will cover intravenous therapy and immunosuppressive drugs beginning in 1990 and all prescription drugs beginning in 1991. The MCCA also establishes coinsurance and deductible requirements, and establishes a drug premium beginning in 1991.

The budget does not include estimates of the effects of these provisions on the Medi-Cal program, because the effects will be very small in 1989-90. In future years, these provisions will have an unknown net fiscal effect. The Medi-Cal program would experience savings as a result of Medicare paying for drugs and additional costs for premiums, coinsurance, and deductibles.

Limitation on Out-of-Pocket Expenses. The MCCA limits an individual's out-of-pocket expenses for coinsurance and deductibles to $1,370 per year beginning in 1990. To the extent that Medi-Cal would have paid more than $1,370 for a beneficiary without this limitation, the new provision will result in savings to Medi-Cal. The department has not provided an estimate of these savings.

Extended Coverage of Medicare Premiums. The MCCA requires Medi-Cal to pay Medicare premiums, coinsurance, and deductibles for certain people who are not eligible for Medi-Cal. This provision affects people whose assets exceed the Medi-Cal limits but are less than 200 percent of the SSI/SSP limit. This provision requires changes to state law.

Like other provisions requiring state legislation, this provision becomes effective in January 1990. Because the population affected by this provision is not eligible for Medi-Cal, the department does not have data to determine how many people will be covered by this provision or estimate the costs per person.

Treatment of Resources in Eligibility Determination. The MCCA increases the amount of resources that the at-home spouse of a nursing home resident may keep. Because this change makes eligibility requirements less restrictive, it results in increased Medi-Cal costs. The state must enact legislation to implement this provision. The change must be implemented by January 1990.

Budget Incomplete. The budget reflects costs and savings for some provisions of the MCCA, but not for others. The Legislature could benefit from additional information regarding the effect of the MCCA on Medi-Cal costs. Specifically, the Legislature needs information on:

- The savings resulting from Medicare paying for an unlimited number of hospital days and additional nursing home days.
- The savings resulting from limiting a beneficiary's out-of-pocket expenses.
- The costs resulting from Medi-Cal paying the Medicare premiums, coinsurance, and deductibles for individuals who are not eligible for Medi-Cal.

Because legislation must be enacted in order to implement at least two provisions of the MCCA, we also recommend that the department report to the fiscal committees regarding its plans to pursue this legislation.

Federal Welfare Reform

The federal Family Support Act (FSA) of 1988 requires the Medi-Cal program to extend coverage to beneficiaries for up to 12 months after they become ineligible for AFDC due to increased earnings, increased hours of employment, or loss of earned income disregards. The FSA permits Medi-Cal to charge these individuals a premium during their second six months of eligibility. We discuss this issue in a separate report entitled *Federal Welfare Reform in California: A Review of the Family Support Act of 1988* (Report Number 89-2), which was published in January 1989.

In our report, we recommend enactment of legislation creating transitional benefits for Medi-Cal recipients, as required by the FSA. We also recommend that the department report to the Legislature by May 1, 1989 on the costs and benefits of premium systems for Medi-Cal recipients.

B. COUNTY ADMINISTRATION

The budget proposes \$191.1 million (\$86.1 million General Fund) 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.

Current Year. The budget anticipates that General Fund Medi-Cal eligibility determination costs will be \$1.7 million, or 2.1 percent, higher than the amount appropriated for the current year. Table 21 shows the principal current-year changes. The anticipated deficiency is due primarily to caseload increases.

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Table 21
Department of Health Services
Medi-Cal County Administration
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1988 Budget Act:		
Eligibility item	$78,482	$166,246
Federal refugee reimbursements	—	422
State Legalization Impact Assistance Grant (SLIAG)	—	2,037
Unanticipated reimbursements	269	269
Subtotals, 1988-89 expenditures (Budget Act)	$78,751	$168,974
Unanticipated 1988-89 changes:		
Caseload increases	1,942	3,877
Increased immigration-related costs	−45	5,636
1987-88 expenditure reconciliation	—	5,867
Other changes	−218	−398
1988-89 expenditures (estimated)	$80,430	$183,956
Projected deficiency	(1,679)	(14,982)
1989-90 proposed changes:		
Retroactive salary increases	2,417	4,827
Expansion of pregnancy coverage, Ch 980/88	1,511	3,023
Increased immigration-related costs	1,088	2,250
Back out 1987-88 expenditure reconciliation	—	−5,867
Other changes	677	2,872
1989-90 expenditures (proposed)	$86,123	$191,061
Change from 1988-89 (estimated):		
Amount	$5,693	$7,105
Percent	7.1%	3.9%

Budget Year. The proposed 1989-90 General Fund appropriation of $86.1 million for county administration represents an increase of $5.7 million, or 7.1 percent, over estimated current-year expenditures. The current estimates of county administrative costs for 1989-90 are, however, incomplete because the department has not yet attempted to estimate workload changes in the base budget. This will be done in the May revision when more data are available from which to estimate county welfare department workload. Table 21 shows that the 1989-90 increases result primarily from the following factors:

- ***Retroactive Salary Increases ($2.4 Million General Fund).*** The budget proposes to fund a 5.2 percent retroactive salary increase for county welfare department employees. This is consistent with the Legislature's policy in recent years to fully fund—on a retroactive basis—the actual salary increases that local officials provide to their welfare department employees. The 5.2 percent adjustment is an estimate, and the actual percentage increase will not be known until the department and the Department of Social Services have completed their salary survey in the spring. The departments advise that they will update their budgets to reflect the actual increase in the May revision.
- ***Expansion of Coverage of Pregnancy-Related Services ($1.5 Million General Fund).*** Chapter 980, Statutes of 1988 (SB 2579, Bergeson), requires the department to expand Medi-Cal coverage of pregnancy-related services to include women whose incomes are

below 185 percent of the federal poverty level. This results in additional eligibility determination workload.

- ***Immigration-Related Changes ($1.1 Million General Fund).*** Chapter 1441, Statutes of 1988 (SB 175, Maddy), and recent changes to federal immigration laws expand Medi-Cal eligibility for newly legalized and undocumented aliens. The costs for determining Medi-Cal eligibility for these individuals will increase in 1989-90.

Claiming of State Legalization Impact Assistance Grant (SLIAG) Funds in Question

The budget proposes expenditures of $17.7 million ($3.9 million General Fund) for determining eligibility for legalized and undocumented aliens. This funding proposal assumes that the state will be able to claim $4.9 million in SLIAG funds to pay for the state share of the costs associated with legalized aliens. As we noted in our discussion of immigration-related issues under Health Care Services, the department is currently unable to identify those legalized aliens who apply for restricted services and is therefore unable to claim SLIAG funds for that portion of its eligibility determination costs. If the department remains unable to claim these funds, it will need an additional $1.6 million from the General Fund to cover these costs.

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 a claims processing contract with Electronic Data Systems (EDS). EDS replaced the previous contractor, Computer Sciences Corporation (CSC), in April 1988. In addition, the department reimburses the State Controller's Office for printing and mailing checks to Medi-Cal fee-for-service providers. 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 Redwood Health Foundation and Delta Dental, by the health system itself.

The Current Year. The budget anticipates that General Fund claims processing costs for 1988-89 will be $14.1 million. This is $604,000, or 4.5 percent, higher than the amount appropriated in the 1988 Budget Act. Table 22 shows the components of the current-year deficiency.

The Budget Year. The budget proposes an appropriation of $50.3 million ($12.6 million General Fund) for fiscal intermediary services in 1989-90. This is a net decrease of $5.7 million ($1.5 million General Fund). Table 22 shows that this decrease is due primarily to eliminating the contract with CSC and backing out one-time payments made to Delta Dental and EDS in the current year.

Transition to New Fiscal Intermediary

Electronic Data Systems Federal Corporation (EDS) became the Medi-Cal fiscal intermediary on April 4, 1988 after winning the contract award through a competitive procurement process. The department had previously conducted competitive procurements for this contract in 1978 and 1983, and awarded the contract in both years to Computer Sciences Corporation (CSC). The fiscal intermediary contract requires EDS to process Medi-Cal claims, process Child Health and Disability Prevention (CHDP) claims, and develop and implement enhancements to the claims processing system.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 22
Department of Health Services
Medi-Cal Claims Processing
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1988 Budget Act:		
Fiscal intermediary item	$13,495	$53,455
Refugee reimbursements	—	105
State Legalization Impact Assistance Grant	—	97
Unanticipated reimbursements	4	4
Subtotals, 1988-89 expenditures (Budget Act)	$13,499	$53,661
Unanticipated 1988-89 changes:		
Computer Sciences Corporation (CSC) contract	397	1,586
Electronic Data Systems (EDS) contract	−40	−300
Delta Dental contract	187	827
Medicare crossover contract	59	236
Other miscellaneous changes	—	12
1988-89 expenditures (estimated)	$14,102	$56,022
Projected deficiency	(603)	(2,361)
1989-90 proposed changes:		
Elimination of CSC contract	−$664	−$2,647
Savings from incorporating CHDP claims processing into EDS contract	−56	−114
Implementation of EDS contract	−391	−1,252
Increase in State Controller contract	30	121
Delta Dental contract	−412	−1,800
1989-90 expenditures (proposed)	$12,609	$50,330
Change from 1988-89 (estimated):		
Amount	−$1,493	−$5,692
Percent	−10.6%	−10.2%

Chapter 996, Statutes of 1987 (SB 57, Marks), requires our office to review the degree to which the Medi-Cal fiscal intermediary has complied with the requirements of the request for proposals (RFP). The act also requires the department to report to the Legislature on the fiscal intermediary's compliance with the contract. The department has issued two reports to the Legislature regarding the transition. A third report was due January 1, 1989, but had not been released at the time this analysis was prepared (January 1989). A final report is due October 1, 1989.

We have expanded the scope of this discussion to include EDS's compliance with the contract because the contract includes all of the requirements included in the RFP plus several other requirements. Our review focuses on three components of EDS contract compliance: (1) takeover of claims processing functions from CSC, (2) claims processing time requirements, and (3) implementation of system enhancements.

Takeover

EDS's contract required it to complete four "takeover" activities: contractor transition, system testing, acceptance testing, and actual claims processing. For the most part, EDS has completed these activities. We detail these activities below:

Contractor transition included acquiring the necessary computer equipment, developing specific takeover plans, hiring and training staff, transferring and setting up the claims processing software, developing various operating manuals and documentation, and acquiring a facility in which to run the operation. Transition tasks were scheduled to be completed by June 5, 1988. At the time this analysis was prepared, EDS had completed all of the tasks with the exception of (1) a plan for meeting security and confidentiality requirements and (2) provider manuals. The department is currently reviewing EDS's security and confidentiality plan and expects to approve it by the end of February 1989. The department expects to accept the provider manuals by the end of April 1989.

System testing is EDS's internal technical review that determines whether the automated and manual systems are ready to process claims. System testing includes (1) running claims through the system to verify that the system approves or denies claims correctly and authorizes correct payment amounts, (2) simulating disaster conditions, (3) ensuring that the various parts of the system interact appropriately, and (4) ensuring that the programs conform to the department's design requirements. EDS has completed system testing.

Acceptance testing is the department's review of the system to ensure that it meets all design requirements. These tests are intended to ensure that EDS is ready to operate the system and identify any areas where EDS's operation does not conform with Medi-Cal policy and procedures. At the time this analysis was prepared, there were two outstanding acceptance testing problems relating to treatment authorization requests (TARs). Resolution of these problems is dependent on completion of tasks related to automation of the Medi-Cal field offices. The department anticipates these problems will be resolved by May 1989.

Actual processing began on April 4, 1988 for Medi-Cal claims. On that day, all unprocessed claims, files, and reports held by CSC were transferred to EDS. The department indicates that the transfer went very smoothly. EDS incorporated Child Health and Disability Prevention (CHDP) claims processing into the system on July 5, 1988.

Takeover is complete when EDS has completed all takeover tasks and processed Medi-Cal claims for four consecutive months and CHDP claims for two consecutive months. The department anticipates that takeover will be complete by June 1989.

Claims Processing Time Requirements

One of the most important measures of a fiscal intermediary's contract performance is "cycle time" performance. Cycle time is the amount of time it takes EDS to process claims from the date of receipt to the date of payment. Long cycle times result in delayed payments to providers and can result in providers having cash-flow problems. Cycle time is measured in terms of when the claim is under the contractor's control. If EDS has to return a claim to a provider for correction or additional information, the time that the provider has the claim is not counted against EDS's cycle time performance.

Cycle Time Requirements. The contractual cycle time requirements vary for different claim types. For example, the contract requires EDS to process 90 percent of all long-term care claims in 8 days and 99 percent in 60 days. In contrast, the contract allows EDS 25 days to process 90

DEPARTMENT OF HEALTH SERVICES—Continued

percent of hospital claims and 85 days to process 99 percent. In aggregate, the contract requires EDS to (1) process claims in an average of 18 days, (2) process and pay 90 percent of the claims in 30 days, and (3) process and pay 99 percent of the claims in 90 days. If EDS needs additional evidence to verify the validity of a claim, the contract requires EDS to make the request to the provider within 18 days.

EDS's Compliance with Cycle Time Requirements. EDS has not complied with all of the cycle time requirements in the first months of operation. However, this is not surprising given that EDS inherited approximately 2.6 million unpaid claims from CSC. This is more than three times the inventory of claims EDS expects to have on an ongoing basis. Because of this large inventory of claims, what EDS has essentially been required to do is process the inventory of inherited claims *in addition to* processing the new claims received each day. Cycle time requirements are developed assuming normal operation (not including inventory reduction), so EDS must reduce the inventory before it can expect to meet the cycle time requirements.

EDS's goal is to reduce the inventory to between 800,000 and 900,000 claims. The inventory increased above 2.6 million in the first few months after takeover until it peaked at just over 3 million claims in mid-July. Since that time, EDS has steadily reduced the claims inventory, cutting it down to 1.6 million claims as of January 6, 1989, and is now reducing the size of the inventory at a faster rate than it was initially.

EDS has an incentive to meet the cycle time requirements because it will not receive its total contract payment from the department until it does so. The department is monitoring the cycle time on a monthly basis and expects EDS to begin meeting the contract requirements by June 1989.

Enhancements

The contract with EDS requires it to develop and implement 29 enhancements to the claims processing system, including two enhancements that EDS proposed. Enhancements are new features or modifications that require EDS to make changes to the automated portion of the claims processing system. Because the department wanted to minimize the interruption or delay of claims processing and payments to providers, the contract did not require EDS to implement the enhancements immediately upon takeover. Instead, the contract requires EDS to phase in the enhancements during the 13 months from June 1988 to June 1989. EDS implemented most of the enhancements that were due by January 1989 on time and is generally on schedule with those due between February and June 1989.

Among other things, the 29 enhancements are intended to improve EDS's efficiency in paying claims, improve service and provide additional information to providers, and produce savings to the Medi-Cal program. Below we describe seven major enhancements and indicate the status of EDS's implementation of them as of January 1989.

1. ***Treatment Authorization Request (TAR) Automation.*** This enhancement involves automating Medi-Cal field offices so that they can electronically transfer TARs to EDS. Currently, after field offices approve TARs, they mail the information to EDS. EDS then enters the information into the system. With this enhancement, EDS staff will be located at

the field offices and will enter the TAR information directly into EDS's system. As a result, EDS will have immediate access to information about approved TARs.

This enhancement should provide the department with more complete data on TAR approvals than are currently available. It should also reduce the amount of time required to process claims from providers who bill electronically. Previously, EDS could receive claims from these providers several days before they received notification from the field office that a TAR had been approved. This enhancement was scheduled to be phased in between October 1988 and June 1989. Implementation has been delayed and will begin in May 1989.

2. ***California Children's Services/Genetically Handicapped Persons' Program (CCS/GHPP) Claims Processing.*** This enhancement, which has been implemented, required EDS to design a system to provide automated processing of CCS/GHPP case management claims.

3. ***Provider Telecommunication Network.*** EDS has implemented a telephone system that allows providers to call EDS to find out the dollar amount of their claims that have been approved for payment. Because providers do not necessarily know how many, or which, of their claims EDS has approved for payment, they have difficulty estimating the amounts of their next reimbursement checks from Medi-Cal. This system improves providers' ability to assess their cash flow. Providers pay for operation of this system through a 50-cent charge for each call.

4. ***Cycle Time Reporting.*** This enhancement, which has been implemented, required EDS to develop reports that improve the department's ability to monitor EDS's compliance with contractual cycle time requirements.

5. ***Use of Social Security Number (SSN) to Identify Beneficiaries.*** In March 1989, EDS expects to begin using SSNs to identify beneficiaries. Currently, the department assigns a number to each beneficiary that identifies the county where he or she lives. When a beneficiary moves to a new county, he or she is assigned a new number. This has hindered the department's ability to determine what services have been provided to beneficiaries who have lived in more than one county. The March 1989 implementation date reflects a one-month delay so that EDS can ensure it has made all the necessary changes in numerous parts of the system.

6. ***Automated Eligibility Verification System (AEVS).*** The contract requires EDS to develop an automated system that will allow providers to call and verify an individual's Medi-Cal eligibility. This system will be particularly useful to providers serving individuals who are eligible but who have not provided their Medi-Cal cards. Implementation of this enhancement will be delayed from February to March 1989 pending implementation of the SSN enhancement discussed above.

7. ***Child Health and Disability Prevention (CHDP) Claims Processing.*** This enhancement requires EDS to make various changes to CHDP claim forms and the system for enrolling providers. With this enhancement, CHDP providers will be able to bill EDS electronically. This enhancement is partially implemented; completion will be delayed from February to March 1989 pending implementation of the SSN enhancement discussed above.

The department has expressed general satisfaction with EDS's performance to date. The department has done an excellent job of overseeing the transition and monitoring EDS's contract performance. We will

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continue to monitor EDS's progress in reducing its inventory of claims, complying with cycle time requirements, and implementing enhancements.

D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $112.2 million ($38.4 million General Fund) in various departments for state administration of the Medi-Cal program in 1989-90. The General Fund amount represents an increase of $611,000, or 1.6 percent, above estimated expenditures in the current year. Table 23 displays Medi-Cal state administrative expenditures in 1988-89 and 1989-90.

Table 23
Medi-Cal Program
State Administration Expenditures [a]
1988-89 and 1989-90
(dollars in thousands)

	Estimated 1988-89		*Proposed 1989-90*		*Percent Change in*
	General Fund	*All Funds*	*General Fund*	*All Funds*	*General Fund*
Department of Health Services	$28,370	$88,428	$28,649	$91,801	1.0%
Department of Social Services	6,485	13,725	6,715	14,219	3.5
Department of Mental Health	795	1,590	829	1,659	4.3
California Medical Assistance Commission	925	1,850	959	1,918	3.7
Department of Aging	1,231	2,509	1,265	2,610	2.8
Totals	$37,806	$108,102	$38,417	$112,207	1.6%

[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 spent.

The budget proposes to increase General Fund spending by the Department of Health Services by $279,000, or 1 percent, above estimated spending levels in the current year. This increase primarily reflects (1) a proposal for staff to implement federal nursing home reform, (2) proposed increases in field office staff due to increased treatment authorization request (TAR) workload, (3) full-year funding of managed care positions, and (4) elimination of one-time funding for projects to encourage development of managed care plans.

The budget proposes 1,652.3 positions in the Department of Health Services that can be attributed directly to the administration of the Medi-Cal program. This is 53.8 positions, or 3.4 percent, more than the number of authorized positions in 1988-89. The increase reflects the expiration of 14 limited-term positions and an increase of 67.8 permanent positions.

Table 24 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.

Table 24
Department of Health Services
Medi-Cal Program Proposed Positions [a]
1989-90

Program	*Existing Positions*	*Limited-Term Positions*	*Proposed Changes*	*Proposed Positions*	*Percent Change*
Eligibility [b]	120.1	—	—	120.1	—
Benefits	44.9	−2.0	5.0	47.9	6.7%
Rate development	40.1	−2.0	6.0	44.1	10.0
Contract operations	61.0	—	—	61.0	—
Utilization control [b]	506.6	—	32.5	539.1	6.4
Health recovery	224.3	—	—	224.3	—
Fiscal intermediary [b]	137.4	—	—	137.4	—
Medi-Cal reprocurement project	14.0	−8.0	12.0	18.0	28.6
Program development [b]	35.1	—	—	35.1	—
Audits and investigations [b,c]	415.0	−2.0	12.3	425.3	2.5
Totals	1,598.5	−14.0	67.8	1,652.3	3.4%

[a] Additional positions paid for by the Medi-Cal program are located in the division offices supervising the above programs and in the Administration Division.
[b] Includes division offices.
[c] This reflects the 98 percent of the positions in the Audits and Investigations Division that are attributable to Medi-Cal program activities.

Additional Field Office Staff Needed

As we discussed under Health Care Services, the department plans to eliminate its contract with Redwood Health Foundation (RHF). The RHF is responsible for arranging for Medi-Cal services, processing TARs, and processing claims for Medi-Cal beneficiaries in Sonoma, Lake, and Mendocino Counties.

Upon cancellation of the RHF contract, the department intends to provide Medi-Cal services to beneficiaries in the Redwood area either on a fee-for-service basis or through capitated programs. Field offices will assume responsibility for utilization control and processing TARs. The department estimates that this increased workload will result in annual costs of $347,000 ($110,000 General Fund) beginning in 1989-90. The budget does not include these funds. The department indicates that it intends to request funds for this purpose in the spring.

Federal Nursing Home Reform—Omnibus Budget Reconciliation Act of 1987

We recommend approval.

The budget contains a number of proposals in various departments related to implementing the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87). This act made major changes in federal Medicare and Medicaid laws related to nursing homes. The intent of OBRA 87 was to address concerns that people are inappropriately placed in nursing homes and that many nursing home patients are not receiving the treatment they need. Major provisions affecting state programs involve (1) additional screening of nursing home residents to assure that their placements are appropriate and they receive the treatment they need, (2) registration and training of nurse aides, and (3) changes in facility categories.

Patient Screening Provisions. Under OBRA 87, states must implement a preadmission screening and annual resident review (PASARR) pro-

DEPARTMENT OF HEALTH SERVICES—Continued

gram. In this program, the state must (1) screen all nursing home patients to identify mentally ill (MI) and developmentally disabled (DD) individuals, (2) evaluate treatment needs of MI and DD patients, and (3) place these patients in appropriate levels of care. OBRA 87 requires states to place and provide appropriate treatment for these individuals by April 1990.

The various affected departments are working to implement the first two components of California's PASARR program. Specifically, the DHS started identifying MI and DD patients who are eligible for Medi-Cal in January 1989. The Departments of Mental Health (DMH) and Developmental Services (DDS) plan to begin evaluating treatment needs of the patients identified by the DHS in July 1989. The DMH and the DDS have requested a five-year extension from the Health Care Financing Administration (HCFA) for implementation of the third component—transfer of all inappropriately placed nursing facility patients. In their request, the departments cited uncertainties about the population, need for legislative and regulatory changes, lack of facilities, and lack of funding arrangements as reasons for the extension. The departments' commitments are documented in their Alternative Disposition Plan, which wassubmitted to the HCFA in January 1989. The HCFA is due to respond by April 1989.

Budget Proposal. The DHS budget proposes a total of $1 million ($393,000 General Fund) to implement various provisions of OBRA 87. Specifically, the budget proposes:

- $112,000 ($28,000 General Fund) for DHS staff to evaluate and revise existing licensing and certification requirements to fit OBRA 87 requirements.
- $892,000 ($365,000 General Fund) for Medi-Cal field services staff to identify MI and DD individuals in nursing facilities and to develop a new Medi-Cal reimbursement methodology.

The department's proposals do not necessarily put the state in full compliance with OBRA 87 because final HCFA guidelines have not been released. However, given the level of information that is currently available, we believe that the proposals are justified. Accordingly, we recommend approval.

DEPARTMENT OF HEALTH SERVICES—REAPPROPRIATION

Item 4260-492 from the
Hazardous Substance Cleanup
Fund — Budget p. HW 37

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item proposes to reappropriate funds from the Hazardous Substance Cleanup Account that were appropriated in the 1988 Budget Act for administrative costs associated with hazardous waste site mitigation. This item proposes to use the reappropriated funds for site characterization and cleanup costs at hazardous waste sites. The Hazardous Substance Cleanup Account was established to fund both administrative costs and site characterization and cleanup costs. Therefore, reappropriating any remaining funds for site characterization and cleanup is an appropriate use of these funds.

Health and Welfare Agency

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund and federal funds — Budget p. HW 97

Requested 1989-90	$1,918,000
Estimated 1988-89	1,850,000
Actual 1987-88	1,488,000
Requested increase (excluding amount for salary increases) $68,000 (+3.7 percent)	
Total recommended reduction	None

1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4270-001-001—Support	General	$959,000
Reimbursements	Federal	959,000
Total		$1,918,000

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. The commission has 25.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the expenditure of $1,918,000 ($959,000 from the General Fund and $959,000 in federal funds) for the support of the commission during 1989-90. This is an increase of $68,000, or 3.7 percent, above estimated current-year expenditures. This increase is due primarily to merit salary adjustments and the full-year effect of 1988-89 salary increases.

Health and Welfare Agency
DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General Fund and various other funds — Budget p. HW 99

Requested 1989-90	$1,052,855,000
Estimated 1988-89	975,634,000
Actual 1987-88	908,983,000
Requested increase (excluding amount for salary increases) $77,221,000 (+7.9 percent)	
Total recommended reduction	None
Recommended General Fund reduction and corresponding increase in reimbursements	5,900,000
Recommendation pending	3,098,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-001-001—Support	General	$20,811,000
4300-001-172—Support	Developmental Disabilities Program Development	206,000
4300-001-890—Support	Federal	6,816,000
4300-003-001—Developmental centers	General	65,937,000
4300-003-164—Developmental centers	Outer Continental Shelf Land Act Section 8(g)	800,000
4300-003-814—Developmental centers	Lottery Education	1,048,000
4300-003-890—Developmental centers	Federal	856,000
4300-101-001—Local assistance	General	463,916,000
4300-101-172—Local assistance	Developmental Disabilities Program Development	3,415,000
Reimbursements	—	489,050,000
Total		$1,052,855,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Regional Center Costs. Recommend that the department develop an improved format to explain and display regional center cost increases, in consultation with the Legislature's fiscal committees and the Department of Finance, for use when submitting its May revision. Also recommend adoption of supplemental report language requiring the department to use this revised format in its 1990-91 budget submission. 516
2. ***Medi-Cal Reimbursements. Reduce Item 4300-101-001 by $5.9 million; increase reimbursements by the same amount.*** Recommend a reduction in the regional center budget to reflect additional federal reimbursements that will be available in 1989-90. To assure full funding of the regional centers, also recommend scheduling $6.6 million from the department's support budget in a separate item with Budget Bill language specifying conditions for release of the funds. 517
3. Regional Center Prevention Programs. Recommend that the department explain at budget hearings why a large 519

proportion of apparently eligible infants are not being served by regional center prevention programs.

4. Federal Nursing Home Reform. Withhold recommendation on the $2,050,000 proposed for implementing federal nursing home reform requirements pending receipt of additional information. 520
5. ***Delays in Implementing New Licensure Category. Reappropriate the unencumbered balance of funds available in Item 4300-491(2) of the 1988 Budget Act.*** Recommend that the Legislature reappropriate the unencumbered balance of a $500,000 appropriation from the Program Development Fund for expenditure on licensure conversions of intermediate care facilities for the developmentally disabled-nursing (ICF/DD-Ns) in 1989-90. Further recommend that during budget hearings, the administration report on the status of this program. 522
6. Developmental Center Population and Medi-Cal Reimbursements. Recommend that in its May revision, the department incorporate the Medi-Cal cost-of-living adjustment estimate for long-term care assumed by the Department of Health Services in the Medi-Cal May revision. 525
7. Proposal to Expand Educational Programs. Withhold recommendation on the department's proposal to spend $1,048,000 from the Lottery Education Fund on developmental center education programs pending receipt of additional information. 526 approve 4-7-89
8. Reimbursements from the Career Opportunity Development Program. Recommend that the department report to the fiscal committees, prior to budget hearings, on how eliminating the Career Opportunity Development program will affect its budget and its ability to fill existing positions and to meet its affirmative action goals. 526

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 has 10,861 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, Lan-

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

terman, 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.

OVERVIEW OF THE BUDGET REQUEST

Expenditures from all funding sources are proposed at $1.1 billion for support of the DDS in the budget year. This is an increase of $77.2 million, or 7.9 percent, above estimated current-year expenditures. The budget proposes appropriations of $550.7 million from the General Fund to support DDS programs in 1989-90. This is an increase of $56.2 million, or 11 percent, above estimated current-year expenditures.

The change in total expenditures is due primarily to an additional $20.1 million for regional center caseload increases, $27.2 million to reflect the full-year cost of 1988-89 employee compensation increases—for regional center employees ($6.9 million) and developmental center employees ($20.3 million)—and $9.6 million for expansion of the Alternative Residential Model (ARM). The General Fund increase is lower than the increase in all funds because the budget proposes to display $19.7 million in Medi-Cal funding as reimbursements instead of revenue. These reimbursements offset General Fund costs. Table 1 displays program expenditures and funding sources for the department in the prior, current, and budget years.

Table 1
Department of Developmental Services
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

Expenditures	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Department support	$23,394	$26,251	$28,778	9.6%
Regional centers and community development programs	404,928	468,243	517,116	10.4
Developmental centers	480,661	481,140	506,961	5.4
Totals	$908,983	$975,634	$1,052,855	7.9%
Funding Sources				
General Fund	*$472,216*	*$494,499*	*$550,664*	*11.4%*
Outer Continental Shelf Land Act Section 8(g) Revenue Fund	—	—	*800*	[a]
Lottery Education Fund	—	*338*	*1,048*	*210.1*
Developmental Disabilities Program Development Fund	*3,812*	*5,368*	*3,621*	*−32.5*
Federal funds	*1,166*	*6,068*	*7,672*	*26.4*
Reimbursements	*431,789*	*469,361*	*489,050*	*4.2*
Personnel-years				
Department support	375.3	405.2	401	−1.1%
Developmental centers	10,791.8	10,455.4	10,542	0.8
Totals	11,167.1	10,860.6	10,943	0.8%

[a] Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

I. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $20.8 million for support of the department in 1989-90. This is an increase of $900,000, or 4.5 percent, above estimated current-year expenditures.

Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $28.8 million, which is $2.5 million, or 9.6 percent, above estimated current-year expenditures.

Table 2 identifies the major changes in the department's support budget proposed for 1989-90.

Table 2
Department of Developmental Services
Department Support
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (Budget Act)	$20,014	$26,322
Adjustments, 1988-89:		
Retirement adjustment	−217	−233
Employee compensation	85	86
Telephone equipment reduction per Section 3.70	−49	−52
Early Intervention Services program	—	51
Reimbursement adjustment	—	2
Alternative Residential Model regulations (Ch 85/88)	75	75
1988-89 expenditures (revised)	$19,908	$26,251
Baseline adjustments, 1989-90:		
Full-year effect of 1988-89 employee compensation increases	$890	$961
Reimbursement adjustment	—	−70
Early Intervention Services program	—	1,582
Program change proposals:		
Federal nursing home reform	13	54
1989-90 expenditures (proposed)	$20,811	$28,778
Change from 1988-89 (revised):		
Amount	$903	$2,527
Percent	4.5%	9.6%

Early Intervention Services Program

The budget proposes to spend $6.7 million in federal funds on the Early Intervention Services program during 1989-90. This is an increase of $1.6 million, or 31 percent, above estimated current-year expenditures. The department proposes to allocate approximately $1.2 million of these additional funds to local planning agencies for planning, coordinating, and delivering services to handicapped infants and their families. The department plans to spend the remaining $400,000 on (1) a variety of contracts related to developing and studying program components required by the federal government and (2) state administration.

Background. In 1986 the Congress enacted legislation (Public Law 99-457) that appropriated funds to encourage states to develop comprehensive systems for providing early intervention services for infants who manifest "developmental delays." Early intervention services are comprehensive services designed to address the specific physical, educational,

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

and/or psychosocial needs of infants, toddlers, and their families. Federal law requires that state early intervention systems include specific program components, such as a comprehensive method for providing multi-disciplinary infant and family assessments and a "child-find" system to track and coordinate services provided to infants and their families. In addition, states must develop a definition of "developmental delay" for purposes of determining entitlement to services.

These funds became available for approximately five years beginning with federal fiscal year 1988 (October 1, 1987 through September 30, 1988). Proposed federal regulations specify that states may use first- and second-year grants for planning and development of early intervention systems. To receive third-year funds, states must show that (1) they have adopted a state policy for early intervention services that addresses specified federal requirements and (2) a system of delivering services meeting federal requirements will be in place by the end of the third year. To receive fourth- and fifth-year funds, states must begin to provide services to all infants who are eligible based on the state's proposed definition of developmental delay.

The department has applied for and received first- and second-year grants.

The Department Will Delay Application for Third-Year Funds. During deliberations on the current-year budget, the Legislature adopted Budget Bill language and supplemental report language aimed at ensuring that the department (1) was able to meet the federal government's requirements for third-year funds and (2) notified the Legislature before applying for them. These actions were necessary because (1) the department's budget proposal did not address how it would meet the requirements of third-year funding, (2) the decisions related to applying for third-year funds involve substantial policy and fiscal commitments warranting consideration by the Legislature, and (3) it was not certain that the decisions related to application for third-year funding could be delayed until 1989-90.

Our review indicates that the department is making good progress in laying the groundwork that will enable it to apply for third-year funds if it proposes to do so. Furthermore, the department has secured federal permission to delay its application for third-year funds until 1990-91. The department plans to (1) propose legislation in January 1990 that will secure needed statutory changes and (2) determine whether or not to apply for third-year funds by July 1990.

II. REGIONAL CENTERS AND COMMUNITY DEVELOPMENT PROGRAMS

The budget proposes expenditures of $517.1 million for regional centers and community development programs in 1989-90. This is an increase of $48.9 million, or 10 percent, above estimated current-year expenditures. Total expenditures, including the expenditures of SSI/SSP payments to residential care providers, are proposed at $646.1 million, which is an increase of $54.4 million, or 9.2 percent, above estimated current-year expenditures. The increase in expenditures is primarily due to increases of $20.1 million based on regional center caseload trends, $9.6 million proposed for further implementation and expansion of the Alternative Residential Model (ARM), and $9.3 million for regional center employee compensation ($6.9 million for the full-year cost of 1988-89 increases and $2.4 million for increases beginning January 1990).

Expenditures from the General Fund are proposed at $463.9 million, an increase of $29.8 million, or 6.9 percent, over estimated expenditures in the current-year. The General Fund increase is lower than the increase in all funds because the budget for 1989-90 proposes to display certain Medi-Cal payments received by regional centers as reimbursements. Previously, these payments have been displayed as revenues.

Expenditures from the Program Development Fund (PDF) are proposed at $4.7 million. This is $2.2 million, or 32 percent, less than estimated expenditures in the current year. This reduction is due to one-time expenditures occurring in the current year.

Table 3 displays the components of regional centers and community development programs expenditures for the prior, current, and budget years. Table 4 shows the changes to the budget for regional centers and community development proposed in 1989-90.

Table 3
Department of Developmental Services
Regional Centers and Community Program Development
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

Expenditures	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change From 1988-89 Amount	Change From 1988-89 Percent
Regional centers					
Operations	$116,951	$131,038	$149,182	$18,144	13.8%
Purchase of service	285,705	332,933	365,716	32,783	9.8
Subtotals, regional centers	($402,656)	($463,971)	($514,898)	($50,927)	(11.0%)
Community program development					
Community placement	(4,712) [a]	(5,178) [a]	(6,848) [a]	(1,670) [a]	32.3
Program development	2,126	4,126	2,072	−2,054	−49.8
Cultural center	146	146	146	—	—
Subtotals, community development	(2,272)	(4,272)	(2,218)	(−2,054)	(−48.1)
Subtotals	($404,928)	($468,243)	($517,116)	($48,873)	(10.4%)
SSI/SSP reimbursements	115,695	123,505	129,004	5,499	4.5
Totals	$520,623	$591,748	$646,120	$54,372	9.2%
Funding Sources					
General Fund	*$452,064*	*$490,897*	*$519,388*	*$28,490*	*5.8%*
Regional centers	*(400,001)*	*(434,085)*	*(463,916)*	*(29,831)*	*(6.9)*
SSP [b]	*(52,063)*	*(56,812)*	*(55,472)*	*(−1,341)*	*(−2.4)*
Program Development Fund					
Parental fees	*3,619*	*5,175*	*3,415*	*−1,760*	*−34.0*
Federal reimbursements	*1,245*	*1,739*	*1,322*	*−417*	*−24.0*
Federal funds (SSI) [b]	*63,632*	*66,693*	*73,532*	*6,840*	*10.3*
Reimbursements	*63*	*27,244*	*48,463*	*21,219*	*77.9*

[a] These amounts are incorporated in the regional center budget.

[b] Assumes funding split of 45 percent General Fund/55 percent federal funds in 1987-88; 46 percent to 54 percent in 1988-89 and 43 percent to 57 percent in 1989-90.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 4
Department of Developmental Services
Regional Centers and Community Development Programs
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	Program Development Fund (PDF): Parental Fees	Program Development Fund (PDF): Federal Funds	Reimbursements	All Funds
1988-89 expenditures (Budget Act)	$426,533	$4,700	$1,739	$27,244	$460,216
Adjustments, 1988-89:					
Reappropriation for intermediate care facilities for the developmentally disabled-nursing (ICF/DD-Ns)	—	500	—	—	500
Board of Control claim	−17	−25	—	—	−42
Unanticipated community placement	665	—	—	—	665
Alternative Residential Model (ARM) implementation, Ch 85/88	6,979	—	—	—	6,979
Transfer to support (ARM regulations)	−75	—	—	—	−75
1988-89 expenditures (revised)	$434,085	$5,175	$1,739	$27,244	$468,243
Baseline adjustments, 1989-90:					
Adjustment for one-time community placement	−$665	—	—	—	−$665
Adjustment for ARM implementation, Ch 85/88	−700	—	—	—	−700
Adjustment for Board of Control claim	17	—	—	—	17
Community care facility conversions to ICF/DD-Ns	—	−$475	—	—	−475
Other changes:					
Federal nursing home reform	$513	—	—	$1,537	$2,050
Regional centers	30,666	−1,285	−$417	19,682	48,646
ARM expansion					(9,619)
Penalty for delay in day programs regulations					(2,000)
Community placement					(1,670)
Continuation of 1988-89 community placement					(5,828)
Full-year effect of 1988-89 employee compensation increases					(6,855)
1989-90 salary increases					(2,406)
Caseload growth					(20,130)
Other					(138)
1989-90 expenditures (proposed)	$463,916	$3,415	$1,322	$48,463	$517,116
Change from 1988-89 (revised):					
Amount	$29,831	−$1,760	−$417	$21,219	$48,873
Percent	6.9%	−34.0%	−24.0%	77.9%	10.4%

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 1989, there were an estimated 93,954 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
December 1988

	Percent of Community Clients	*Percent of Developmental Center Clients*
Retardation level:		
Profoundly retarded	8.6%	71.1%
Severely retarded	13.5	13.9
Moderate or mildly retarded	58.8	13.9
Not retarded	9.9	0.8
Unspecified	9.2	0.3
Behavior assessment:		
Severe behavior problem	5.6%	37.5%
Moderate or minimal	22.4	29.4
No behavior problem	72.0	33.1
Violence:		
Frequently violent	1.2%	12.7%
Often violent	9.6	27.7
Seldom violent	18.3	12.7
Never violent	68.2	44.1
Unknown	2.7	2.8
Understanding:		
Spoken words not understood	17.2%	48.7%
Few words understood	26.5	31.8
Conversation understood	56.3	19.5
Walking:		
Wheelchair or bedridden	18.7%	37.4%
Can walk	81.3	62.6
Eating:		
Must be fed	10.1%	26.0%
Needs help	15.5	37.5
Can feed self	73.4	35.8
Unknown	1.0	0.7
Visual impairment:		
Totally blind	2.1%	6.3%
Severe impairment	2.7	10.9
Moderate impairment	8.4	9.4
Normal, near normal	80.1	67.0
Unknown	6.7	6.4
Hearing impairment:		
Profound or severe loss	3.4%	9.1%
Moderate or mild loss	5.9	14.7
No loss or not diagnosed	84.7	72.7
Unknown	6.0	3.5
Toileting:		
Needs diapers	19.5%	49.7%
Needs help toileting	18.9	30.9
Independent	60.1	18.7
Unknown	1.5	0.7
Major medical problems:		
Two or more	2.8%	57.3%
One	6.5	16.3
None	90.7	26.4

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Regional Center Caseload

The budget proposal estimates that the midyear regional center caseload in 1989-90 will increase by 5,640, or 6 percent, above the estimated current-year level. The proposal estimates that the residential care caseload will increase by 480 clients, or 2.7 percent, above the estimated current-year caseload.

The caseload estimates will be revised by the department in May, when additional data on caseload trends become available. Table 6 shows the caseload change for 1984-85 through 1989-90.

Table 6
Department of Developmental Services
Regional Centers' Midyear Caseload
1984-85 through 1989-90

	Total Clients	*Percent Change*	*Residential Care Clients*	*Percent Change*
1984-85	74,184		16,469	
1985-86	77,975	5.1%	16,760	1.8%
1986-87	83,135	6.6	17,293	3.2
1987-88	88,547	6.5	17,828	3.1
1988-89 (estimated)	93,954	6.1	18,099	1.5
1989-90 (proposed)	99,594	6.0	18,579	2.7

Better Explanation of Regional Center Costs is Needed

We recommend that the department (1) develop an improved format to explain and display regional center cost increases, in consultation with the Legislature's fiscal committees and the Department of Finance, and (2) use this new format when submitting its May revision. We also recommend that the Legislature adopt supplemental report language requiring the department to use this revised format in its submission of the 1990-91 budget request.

The department does not submit separate proposals for most budget changes affecting regional centers; instead, it incorporates these changes into one document known as the "caseload" budget change proposal (BCP). The changes proposed in the caseload BCP often involve complicated calculations and assumptions and frequently affect several components of the regional centers' budgets; for example, a change may affect regional center staffing, operating, and client service costs.

The format used by the department in proposing its changes to the regional centers' budget makes identifying, tracking, and discerning the justification for specific funding proposals extremely difficult. This is because caseload-driven changes are enmeshed with other proposed funding adjustments resulting from changes in department policy and in estimating methodology. For example, the department's regional center caseload proposal for 1989-90 totals $48.6 million. We were unable to easily identify from the caseload BCP that portion of the $48.6 million attributable to (1) caseload growth, (2) expansion of the ARM, (3) community placement and program development, or (4) implementation and utilization of a new type of community facility (ICF/DD-Ns).

Separating different types of cost changes is not difficult. The format used by the Department of Health Services to display and separate the costs related to policy and caseload changes in the Medi-Cal program is a detailed and useful product that enables the Legislature and the managers of the Medi-Cal program to understand, in fiscal terms, the effects of various changes and trends in the Medi-Cal program.

We believe that the department should display its regional center budget request in a manner that enables the Legislature to understand exactly how much in new funds is being requested for a specific purpose and with what justification. Accordingly, we recommend that the department develop a new format for its regional center proposal and that it use this new format when it submits its May revision. We recommend that the department develop its new format in consultation with the fiscal committees and the Department of Finance. We further recommend that the Legislature adopt supplemental report language requiring the department to continue using the new format for presentation of the 1990-91 budget. Language consistent with this recommendation is as follows:

> The department shall use a revised format for the regional center caseload proposal, developed in consultation with the fiscal committees and the Department of Finance, in its submission of the 1990-91 budget request.

Budget Does Not Reflect $5.9 Million in Medi-Cal Reimbursements

We recommend a reduction of $5.9 million from the General Fund in the regional center budget to reflect additional federal reimbursements that will be available in 1989-90. (Reduce Item 4300-101-001 by $5.9 million; increase reimbursements by the same amount.) To assure full funding of the regional centers in the event that the department's case management proposal does not receive federal approval, we also recommend that the Legislature schedule $6.6 million from the department's support budget (Item 4300-001-001) in a separate item with Budget Bill language specifying conditions for release of the funds.

The budget assumes that regional centers will receive Medi-Cal reimbursements totaling $28.8 million in 1989-90 for targeted case management activities. This is an increase of $1.6 million, or 6 percent, over estimated current-year reimbursements of $27.2 million. This is consistent with the department's assumption that regional center caseload will increase by 6 percent.

Background. Chapters 1384 and 1385, Statutes of 1987, established case management services provided to persons with developmental disabilities as a Medi-Cal benefit, contingent upon federal approval. The 1988 Budget Act was based on assumptions that (1) the federal government would approve the department's plan for billing Medi-Cal for case management (known as targeted case management) services provided by regional centers and (2) regional centers would receive $27.2 million in Medi-Cal reimbursements during 1988-89 based on these billings.

During deliberations on the 1988-89 budget, the Legislature was concerned that regional centers would be underfunded in the event that the federal government did *not* approve the proposal. In order to assure that the regional centers received full funding, the Legislature (1) scheduled approximately one-third of the DDS support budget in a special item and (2) adopted Budget Bill language in that item specifying that the department could not spend these funds until (a) it received

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

federal approval of its targeted case management proposal or (b) the Department of Finance notified the Legislature that it had approved creation of a deficiency in the regional center operations budget due to federal denial of the case management proposal.

Current-Year Deficiency Likely. The federal government has denied the department's proposal, primarily on the grounds that current law already requires regional centers to provide case management services and that federal Medi-Cal funds would supplant current state-funded activities. The department is appealing the decision and indicates that the appeal hearing will be held sometime in the spring. The department advises that, due to the scheduling of the appeal, it is highly unlikely that the regional centers will receive any federal funds during the current year. Consequently, there is likely to be a current-year deficiency of $27.2 million in the center budgets. The department notified the Department of Finance of this deficiency on January 20, 1989. In its notification, the department requested a General Fund loan to cover the deficiency. At the time this analysis was prepared (February 1989), the Department of Finance had not submitted its official position on the request.

The department indicates that it will take the issue to court if the administrative appeal is unsuccessful. If it prevails—which the department believes likely—the department could retroactively claim the $27.2 million in reimbursements. The department's assessment is based, in part, on federal approval of case management proposals in other states that are similar to California's proposal.

Budget Fails to Recognize an Additional $5.9 Million in Reimbursements to Regional Centers. The department's budget proposal is based on an assumption that among those persons living in their homes, approximately 90 percent of adults and 10 percent of children would be eligible for Medi-Cal. The department has not required regional centers to document the case management services provided to children living in their homes based on this low Medi-Cal eligibility estimate.

However, data recently received from the regional centers indicate that 81 percent of adults and 38 percent of children living in their homes are eligible for Medi-Cal. Based on this updated information, the department indicates that it will begin requiring regional centers to bill for case management services provided to children living at home with their families.

The department has not adjusted its budget to account for these caseload changes. We estimate that the net effect of these changes is that regional centers will receive Medi-Cal reimbursements for 4,900 additional clients totaling $5.9 million above the $28.8 million in reimbursements included in the budget. Accordingly, we recommend that the Legislature reflect these additional regional center reimbursements by adding $5.9 million to the amount scheduled for reimbursements and deleting the corresponding amount from the General Fund support for these costs. With this revision, case management reimbursements reflected in the budget would total $34.7 million.

Potential Underfunding in 1989-90. Our review indicates that the final decision on the department's case management proposal may not occur until late in 1989-90, or even until 1990-91. Consequently, the Legislature is faced with the same dilemma it faced in constructing the current-year budget: how to reflect the federal funds in the budget while, at the same time, assuring that regional centers will have enough funds to continue operating their programs if federal approval is delayed.

In order to resolve this dilemma, we recommend that the Legislature take the same approach it took in constructing the current-year budget. Specifically, we recommend scheduling $6.6 million from the department's support budget in a separate item, with Budget Bill language specifying that the funds may be released if (1) the department receives federal approval of its targeted case management proposal or (2) the Department of Finance notifies the Legislature that it had approved creation of a deficiency in the regional center budget due to federal denial of the proposal. The $6.6 million figure is 23 percent of the department's support budget. We derived this percentage by calculating the proportion of the regional center operations budget that would not be funded if the state does not receive the federal reimbursements ($34.7 million divided by $149.2 million).

Regional Center Prevention Programs Not Serving a Large Proportion of Substance-Exposed Infants

We recommend that the department explain at budget hearings why a large proportion of apparently eligible infants are not being served by regional center prevention programs.

The budget assumes that regional center prevention programs will provide services to approximately 6,860 infants at high risk for developmental disabilities. This is an increase of 790 clients, or 13 percent, over the estimated number of high-risk infants who will be served by regional centers in the current year.

In these programs, regional centers provide assessments, case management, and other services to infants with specific medical and social conditions that place them at increased risk for developmental disability. Substance-exposed infants—that is, infants who are determined at birth to be exposed to illegal drugs and alcohol—may be eligible for prevention services if they are also premature, low birthweight, have a history of abuse and neglect, or have other problems.

Departmental data indicate that the proportion of prevention program clients who are substance-exposed increased from 9.7 percent in 1985-86 to 20 percent in 1987-88.

Substance-Exposed Infants May be Falling Through the Cracks. In our review of how substance-exposed infants are served by existing state and local agencies (please see *The 1989-90 Budget: Perspectives and Issues*), we found that relatively few substance-exposed infants appear to be referred to, or accepted by, regional center prevention programs. For example, we found that the number of infants with a medical diagnosis of substance exposure who were taken into protective custody by the Sacramento County Child Welfare Services (CWS) program as a result of suspected abuse or neglect greatly exceeded the number of substance-exposed infants enrolled in the local regional center prevention program. In addition, Alameda County's health department reports that only 7 of the 107 substance-exposed infants it referred to the local regional center between February and August 1988 were eventually enrolled in the prevention program, and none of the 7 ever received services.

Our analysis indicates that, almost by definition, the substance-exposed infants known to CWS and health department staff have manifested more than one of the specific conditions making an infant eligible for regional

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

center prevention services. Yet, apparently a large proportion of these infants are not enrolled in these programs. Accordingly, we recommend that the department explain at budget hearings why a large proportion of apparently eligible infants are not being served by regional center prevention programs.

Too Early to Discern the Full Impact of Federal Nursing Home Reform

We withhold recommendation on the $2,050,000 proposed for implementing federal nursing home reform requirements pending receipt of additional information.

The budget proposes $2,050,000 ($1,550,000 in federal reimbursements and $500,000 from the General Fund) in the regional center budget to meet federal requirements related to screening persons in nursing facilities. (The budget also proposes $54,000 for department staff to implement this proposal—$41,000 in federal funds and $13,000 from the General Fund.)

Background. The budget contains a number of proposals in various departments related to implementing the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87). This act made major changes in federal Medicare and Medicaid laws related to nursing homes. The intent of OBRA 87 was to address concerns that people are inappropriately placed in nursing homes and that many nursing home patients are not receiving the treatment they need. Major provisions affecting state programs involve (1) additional screening of nursing home residents to assure that their placements are appropriate and they receive the treatment they need, (2) registration and training of nurse aides, and (3) changes in facility categories.

Patient Screening Provisions. Under OBRA 87, states must implement a preadmission screening and annual resident review (PASARR) program. In this program, the state must (1) screen all nursing home patients to identify mentally ill (MI) and developmentally disabled (DD) individuals, (2) evaluate treatment needs of MI and DD patients and provide needed treatment services, and (3) transfer these patients to different facilities if appropriate. OBRA 87 requires states to provide needed treatment and complete appropriate transfers by April 1990.

The various affected departments are working to implement the first two components of California's PASARR program. Specifically, the Department of Health Services (DHS) started identifying MI and DD patients who are Medi-Cal-eligible in January 1989. In July 1989, the Department of Mental Health (DMH) and the DDS plan to begin evaluating treatment needs of, and providing needed treatment for, the patients identified by the DHS. The DMH and the DDS have requested a five-year extension from the Health Care Financing Administration (HCFA) for implementation of the third component—transfer of inappropriately placed nursing facility patients. In their request, the departments cited uncertainties about the population, need for legislative and regulatory changes, lack of facilities, and lack of funding arrangements as reasons for the extension. The departments' commitments are documented in their Alternative Disposition Plan (ADP), which was submitted to the HCFA in January 1989. The HCFA is due to respond by April 1989.

Department's Proposal. The DDS estimates that there are 2,800 persons with developmental disabilities currently residing in nursing facilities who will require evaluation of their treatment needs under OBRA 87. This consists of (1) 800 persons who are currently regional center clients, (2) 200 persons who are eligible for regional center services but are not currently receiving them, and (3) 1,800 persons who are not eligible for regional center services because they are not considered developmentally disabled under state law. (Persons whose handicaps originated between their 18th and 22nd birthdays are considered developmentally disabled under federal law but not under state law.)

The regional center budget includes (1) $1,360,000 to perform an initial assessment of the 2,000 persons who are not currently regional center clients and (2) $360,000 for staff to evaluate the treatment needs of the 800 existing regional center clients and the 200 nursing facility residents who are not currently receiving regional center services. In addition, the department proposes to spend $330,000 to contract for the evaluation of the treatment needs of the 1,800 persons who are not eligible for regional center services. The budget assumes that the federal government will pay 75 percent of these screening and evaluation costs.

The department proposes to begin providing needed treatment services to nursing facility residents as it completes the evaluations during 1989-90. The department plans to bill for these services through the Medi-Cal program.

Because the budget proposal relies on estimates derived from the experience in other states whose developmental service systems may differ substantially from California's, the DDS conducted a survey of nursing facility residents in December 1988 in order to derive a more accurate estimate of the number of persons requiring screening. The DDS indicates that it will have assessed the information and revised its proposal in February or March 1989.

It's Too Early to Fully Assess the Impact of the Federal Nursing Home Reform Act. The administration's proposal to implement the requirements of the federal law is complex, involves three different departments, and is based on numerous assumptions related to the number of persons affected, federal action on the extension request, and evolving federal program requirements. The department acknowledges that many of its preliminary assumptions may not be accurate. We believe that the Legislature requires additional information before it can fully assess the department's proposal and the likely effect on the budget. Accordingly, we withhold recommendation on the department's proposal pending receipt of additional information.

Community Program Development

The budget proposes expenditures of $9.1 million for community program development from various funds. Table 7 displays the programs that would be funded with the $9.1 million.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 7
Department of Developmental Services
Community Program Development
1989-90
(dollars in thousands)

		Program Development Fund		
Program	*General Fund*	*Parental Fees*	*Federal Reimbursements*	*All Funds*
State council projects	—	—	$1,322	$1,322
Department projects	—	$750	—	750
Place clients from developmental centers	$4,183 [a]	2,665 [a]	—	6,848 [a]
Cultural center	146	—	—	146
Totals	$4,329	$3,415	$1,322	$9,066

[a] These amounts are reflected in the regional center budget.

Current law requires the department to use funds from parental fees for projects developed in consultation with the State Council on Developmental Disabilities. This year, the department will award $2 million in Program Development Fund (PDF) funds to regional centers for local projects no later than May 15, 1989. The department indicates that $1.8 million, or 90 percent, of these funds will be apportioned to regional centers on the basis of caseload for use on projects identified in local plans that meet state and federal priorities.

The department indicates that the remaining $200,000 will be awarded locally, subject to statewide competition within three targeted areas: (1) services to adults with disabilities resulting from head trauma or brain injury, (2) residential and other programs for clients with uncommon needs (such as Prader-Willi syndrome, which is an eating disorder affecting a relatively small number of clients), and (3) services designed to depopulate large community residential facilities.

Delays in Implementing New Licensure Category

We recommend that the Legislature reappropriate the unencumbered balance of a $500,000 appropriation from the Program Development Fund for expenditure on licensure conversions of intermediate care facilities for the developmentally disabled-nursing (ICF/DD-Ns) in 1989-90. We further recommend that during budget hearings, the administration (1) provide updated information on the number of applications received for licensure and conversion assistance and (2) explain why these applications have not been forthcoming. (Reappropriate the unencumbered balance of funds available in Item 4300-491(2) of the 1988 Budget Act.)

The budget reflects expenditures of $500,000 from the Program Development Fund in the current year to assist community care facilities in converting to licensure as ICF/DD-Ns. These funds were originally appropriated in the 1986 Budget Act. The budget assumes that the department will place 42 state developmental center (SDC) clients into ICF/DD-Ns during 1988-89 and an additional 66 clients into these facilities during 1989-90.

Chapter 1496, Statutes of 1985, directed the Department of Health Services (DHS) and the DDS to develop and implement licensing and Medi-Cal regulations for a new health facility category known as

ICF/DD-N. ICF/DD-Ns are residential facilities that provide nursing supervision and intermittent health care services for medically fragile persons. The development of this category is intended to assist the department in meeting its goal of placing SDC clients into the community.

The DHS adopted emergency regulations in April 1988 establishing the new licensure category and related Medi-Cal rates and subsequently has readopted these emergency regulations two different times. At the time this analysis was prepared (January 1989), the DDS had just received its first application from a community care facility seeking assistance with converting to an ICF/DD-N. The DHS reports that it has not received any applications from providers wanting to be licensed under this new category.

As a consequence of the slow rate of submission of applications for licensure and conversion assistance, we believe it is unlikely that the full $500,000 from the Program Development Fund will be spent in the current year. Accordingly, in order to extend the availability of these funds into 1989-90, we recommend that the Legislature reappropriate the unencumbered balance of the $500,000 in the 1989 Budget Bill. We also recommend that during budget hearings, the administration (1) provide updated information on the status of applications for licensure and conversion assistance and (2) explain why applications have not been forthcoming.

III. DEVELOPMENTAL CENTERS

The budget proposes expenditures of $507 million (all funds) for programs to serve state developmental center (SDC) clients in 1989-90. This is an increase of $25.8 million, or 5.4 percent, above estimated current-year expenditures. The proposed General Fund appropriation for the SDCs is $65.9 million, which is $25.4 million, or 63 percent, above estimated current-year expenditures. The primary reason for the increases is the full-year effect of 1988-89 employee compensation adjustments.

The budget projects an average population of 6,630 developmentally disabled clients in 1989-90 for the SDCs. This is 57 clients, or 0.9 percent, less than the current-year level. The average cost per client in 1989-90 is projected to be $69,548, an increase of $3,929, or 6 percent, above the cost per client in the current year. The budget proposes 10,542 personnel-years for SDC programs in 1989-90. This is 90, or 0.9 percent, less than the personnel-years budgeted in the current year.

Table 8 displays expenditures, funding sources, population, positions, and cost per client for SDC programs. Table 9 shows the changes to the current-year budget proposed for 1989-90.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 8
Department of Developmental Services
Developmental Centers Budget Summary
1987-88 through 1989-90
(dollars in thousands)

Expenditures	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Developmental services programs	$439,393	$438,797	$461,106	5.1%
Mental health programs	41,268	42,343	45,855	8.3
Totals	$480,661	$481,140	$506,961	5.4%
Funding Sources				
General Fund	*$50,341*	*$40,506*	*$65,937*	*62.8%*
Outer Continental Shelf Land Act 8(g)	—	—	*800*	—[a]
Federal funds	*777*	*856*	*856*	—
Lottery Education	—	*338*	*1,048*	*210.1*
Mental health reimbursements	*41,268*	*42,343*	*45,855*	*8.3*
Other reimbursements	*388,275*	*397,097*	*392,465*	*−1.2*
Developmental services programs				
Average developmentally disabled population	6,783	6,687	6,630	−0.9%
Personnel-years	10,791.0	10,452.4	10,542.0	0.9%
Cost per client	$64,779	$65,619	$69,548	6.0%

[a] Not a meaningful figure.

Table 9
Department of Developmental Services
Programs for the Developmentally Disabled
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Medi-Cal Reimbursements*	*Other*	*All Funds*
1988-89 expenditures (Budget Act)	$36,627	$405,569	$48,457	$490,653
Baseline adjustments, 1988-89:				
Retirement reduction	−4,483	—	−427	−4,910
Telephone equipment reduction per Section 3.7	−172	—	—	−172
Employee compensation	2,570	—	257	2,827
Reimbursement reduction	—	—	−14	−14
Less than anticipated Medi-Cal COLA	5,467	−5,467	—	—
Unanticipated population decrease	533	−8,079	—	−7,546
Board of Control claim	−36	—	—	−36
Lottery funds education program	—	—	338	338
1988-89 expenditures (revised)	$40,506	$392,023	$48,611	$481,140
Baseline adjustments, 1989-90:				
Price increase	$1,334	—	$231	$1,565
Phase-out of current-year population decrease	−1,190	—	—	−1,190
Full-year effect of 1988-89 employee compensation increases	17,738	—	2,543	20,281
Lottery funds education program	—	—	710	710
Population increase (mentally disabled)	—	—	241	241
Board of Control claim	36	—	—	36

Caseload and cost adjustments:				
Population decrease (developmentally disabled)	3,831	−$4,853	—	−1,022
Population increase (mentally disabled)	—	—	−124	−124
Coverage factor (developmentally disabled)	3,682	—	—	3,682
Coverage factor (mentally disabled)	—	—	842	842
Program change proposals:				
Recurring maintenance	—	—	800	800
1989-90 expenditures (proposed)	$65,937	$387,170	$53,854	$506,961
Change from 1988-89 (revised):				
Amount	$25,431	−$4,853	$5,243	$25,821
Percent	62.8%	−1.2%	10.8%	5.4%

Developmental Center Population and Medi-Cal Reimbursements

We recommend that in its May revision, the department incorporate the Medi-Cal cost-of-living adjustment (COLA) estimate for long-term care assumed by the Department of Health Services in the Medi-Cal May revision.

The estimate of current-year expenditures contained in the budget reflects a General Fund deficiency of $6 million. The deficiency is due to two factors. First, General Fund costs will increase by $5.5 million because the actual COLAs for Medi-Cal long-term care were less than anticipated in the budget.

Second, General Fund costs will increase by $533,000 because the department projects that the SDC population at the end of the current year will be 250 less than was anticipated when the budget was adopted. A *reduction* in population results in an *increase* in General Fund spending because, when the client population goes down, the department loses Medi-Cal reimbursements slightly exceeding the amount it saves in staff and other direct patient care costs. This is because Medi-Cal reimbursements cover "fixed costs" such as administration as well as direct patient care costs.

The budget proposes a reduction of $1 million in all funds in 1989-90 due to the net effect of SDC population decreases and increases resulting from changes in client characteristics. The population changes result in losses of Medi-Cal reimbursements totaling $4.8 million and increased General Fund costs of $3.8 million. This proposal is based on an SDC population of 6,630 at the end of the current year and a decrease of 57 clients during 1989-90. The department indicates that it will revise the population estimates in May.

Our analysis indicates that the department's preliminary population estimates appear reasonable. A variety of factors, including the recent rate increases and the expansion of the Alternative Residential Model, appear to have decreased admissions to, and increased placements from, the SDCs.

Budget Fails to Reflect Medi-Cal COLAs. The department's budget request assumes that there will be no Medi-Cal rate increases for long-term care in the budget. Although the administration proposes waiving statutory COLAs in many other programs, it is likely that the long-term care statutory COLAs will be funded due to requirements in federal law. The amount of the COLA will be determined in the spring based on cost studies. The department estimates that each 1 percent

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Medi-Cal COLA provided to long-term care facilities would offset $3.9 million in proposed General Fund support.

In our analysis of the Medi-Cal program's budget (please see Item 4260), we recommend that the Department of Health Services incorporate its projection of long-term care COLAs in its May revision expenditure estimates. Consistent with that recommendation, we recommend that the DDS incorporate the Medi-Cal estimate for long-term care COLAs in its May revision of expenditures.

Information Needed on Proposal to Expand Educational Programs

We withhold recommendation on the department's proposal to spend $1,048,000 from the Lottery Education Fund on developmental center education programs pending receipt of additional information.

The budget proposes to spend $1,048,000 from the Lottery Education Fund for developmental center educational programs during 1989-90. The budget reflects expenditures of $338,000 from the Lottery Education Fund in the current year. The department indicates that it intends to seek authorization to spend the $338,000 for the current year through the Section 28 process.

Background. Chapter 425, Statutes of 1988 (AB 1327, Eastin), requires the Controller to include state developmental centers among the public educational institutions receiving quarterly distributions of lottery funds. Current law prohibits agencies from using lottery funds for capital outlay expenditures.

Department's Proposal. The department proposes to spend the $1,048,000 from the Lottery Education Fund as follows during the budget year: $248,000 for salaries and benefits; $100,000 for capital outlay; $100,000 for equipment; and $200,000 each for travel, books and supplies, and contracted services. The department reports that this budget will support (1) the creation of a curriculum development center at Camarillo State Developmental Center, (2) staff training, (3) local assistance to community programs, (4) a variety of projects aimed at "enriching instruction relating to community integration," and (5) technical assistance and capital outlay.

Proposal Lacks Substance. Our review of the department's proposal was seriously hampered by the fact that the department did not prepare a formal budget proposal outlining its request and subsequently failed to provide the Legislature with the basic information required to review its expenditure plan. Specifically, at the time we prepared our analysis, the department had not provided (1) *any* information related to the need for the specific components of the proposal or (2) justification of the amounts requested—either for the current or the budget years. In addition, the department has not explained why it plans to use Lottery Education Fund monies for capital outlay when current law prohibits such expenditures.

Accordingly, because we are unable to assess the need and justification for the department's proposal, we withhold recommendation pending receipt of the additional information.

Loss of $1.9 Million in Reimbursements Not Reflected in Budget

We recommend that the department report to the fiscal committees, prior to budget hearings, on how the elimination of the Career

Opportunity Development program will affect its budget and its ability to fill existing positions and meet its affirmative action goals.

The budget proposes the elimination of the Career Opportunities Development (COD) program, which is administered by the State Personnel Board (SPB). This proposal results in a General Fund savings of $9 million and a reduction of 7.6 personnel-years in the 1989-90 budget for the SPB.

The COD program provides on-the-job training for disabled persons, welfare recipients, and other economically disadvantaged persons, including participants in the state's Greater Avenues for Independence (GAIN) program. The goal of the COD program is to help reduce welfare dependency by helping these people begin careers in public service. The SPB administers the COD program through contracts with other state departments, counties, and nonprofit organizations. Under these contracts, the SPB pays 80 percent to 90 percent of the trainee's salary and benefits, and the agency providing the training pays the remainder.

The department reports that the elimination of the COD program will result in a loss of reimbursements totaling $1.9 million ($1.8 million for positions in the state developmental centers and $100,000 for positions in headquarters). The budget does not reflect the loss of these reimbursements. Furthermore, the department indicates that the elimination of this program may reduce its ability to fill existing positions and meet its affirmative action goals. Due to these problems, we recommend that prior to budget hearings, the department report to the fiscal committees on how the elimination of the COD will affect the department and its budget.

Health and Welfare Agency
DEPARTMENT OF MENTAL HEALTH

Item 4440 from the General Fund and various funds — Budget p. HW 114

Requested 1989-90	$1,200,017,000
Estimated 1988-89	1,106,364,000
Actual 1987-88	1,045,362,000
Requested increase (excluding amount for salary increases) $93,653,000 (+8.5 percent)	
Total recommended reduction	2,350,000
Recommendation pending	32,845,000

DEPARTMENT OF MENTAL HEALTH—Continued

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4440-001-001—Department support	General	$28,933,000
4440-001-196—Department support	Asset Forfeiture Distribution	89,000
4440-001-236—Department support	Cigarette and Tobacco Products Surtax (C&T)	745,000
4440-001-845—Department support	Primary Prevention	148,000
4440-001-890—Department support	Federal	944,000
4440-011-001—State hospitals	General	329,318,000
4440-011-236—State hospitals	C&T	7,988,000
4440-016-001—Conditional release	General	17,742,000
4440-016-236—Conditional release	C&T	628,000
4440-101-001—Local assistance	General	510,812,000
4440-101-236—Local assistance	C&T	25,000,000
4440-101-845—Local assistance	Primary Prevention	738,000
4440-101-890—Local assistance	Federal	19,207,000
4440-111-001—Brain-damaged adults	General	5,257,000
4440-131-001—Special education pupils	General	15,116,000
4440-141-001—Institutions for mental diseases	General	55,189,000
4440-141-236—Institutions for mental diseases	C&T	5,239,000
Control Section 23.50—Department support	State Legalization Impact Assistance Grant (SLIAG)	326,000
Control Section 23.50—Local assistance	SLIAG	3,000,000
Ch 1271/87	General	45,000
Reimbursements	—	173,553,000
Total		$1,200,017,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. ***One-Time Consultant Funds. Reduce Item 4440-001-001 by $285,000 and Reduce Reimbursements by $140,000.*** Recommend a reduction of $285,000 from the General Fund and $140,000 in reimbursements because the department did not reduce funds associated with a one-time consultant contract. 533
2. Federal Nursing Home Reform. Withhold recommendation on the $16.3 million proposed for implementing federal nursing home reform requirements pending receipt of additional information. 533
3. ***Coverage Factor. Reduce Item 4440-011-236 by $725,000.*** Recommend a reduction of $725,000 from the Cigarette and Tobacco Products Surtax Fund amount budgeted for coverage factor increases in order to accurately reflect the timing of new staff hiring. 537
4. Mentally Disordered Offender (MDO) Program. Recommend that prior to budget hearings, the Departments of Mental Health and Corrections and the Board of Prison Terms report to the fiscal committees on the impact of a recent court ruling that invalidates the MDO program. 537
5. $25 Million Local Assistance Augmentation. Recommend that prior to budget hearings, the department submit additional information to the fiscal committees on the allocation of the $25 million augmentation for local mental health programs. 540

6. Traumatic Brain Injury Demonstration Project. Recommend that prior to budget hearings, the department provide the fiscal committees with its plan for implementing the traumatic brain injury demonstration projects as required by Ch 1292/88. 541
7. Additional Alcohol, Drug Abuse, and Mental Health Services Block Grant Funds. Recommend that prior to budget hearings, the department report to the fiscal committees on (a) the exact amount of additional federal block grant funds available to the state, (b) any limitations on the use of the funds, and (c) how the department proposes to spend the additional funds. 542
8. Special Education Pupils. Withhold recommendation on the $15.8 million proposed for mental health services to special education pupils until May revision of the budget, in order to obtain additional caseload and cost information. 542
9. ***Institutions for Mental Diseases. Reduce Item 4440-141-236.*** Recommend (a) a reduction of $1.2 million in Item 4440-141-236 for IMD services due to overbudgeting and (b) adoption of Budget Bill language specifying an allocation for IMD beds. Withhold recommendation on the proposed 23 accounting positions and $745,000 (Item 4440-001-236) pending final outcome of negotiations between the department and IMD providers. 543

GENERAL PROGRAM STATEMENT

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

1. Administer the Short-Doyle 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 the Conditional Release program, which provides for the community outpatient treatment and supervision of judicially committed persons and mentally disordered offenders.

The department has 6,934.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $1.2 billion (all funds) for the support of the DMH in 1989-90. This is an increase of $93.7 million, or 8.5 percent, above estimated current-year expenditures. Proposed General Fund expenditures for support of the department and its programs are $962.4 million, which is $26.4 million, or 2.8 percent, above estimated General Fund expenditures in the current year. The budget proposes Cigarette and Tobacco Products Surtax Fund (Proposition 99) expenditures of $39.6 million.

The largest proposed increases are (1) a $25 million augmentation for local programs, (2) $17.9 million for the full-year effect of 1988-89 employee compensation increases at the state hospitals, and (3) $16.3 million for the implementation of federal nursing home reform.

DEPARTMENT OF MENTAL HEALTH—Continued

The Governor's Budget Summary states that major General Fund cuts may be made to mental health programs in the budget year if the Legislature does not adopt a number of proposed changes. Specifically, the summary states that if the Legislature does not adopt statutory changes that will allow reductions in the budget (for example, elimination of certain statutory cost-of-living adjustments), then "it will become necessary to reduce or eliminate a greater number of discretionary programs in the Health and Welfare area." The DMH's budget has been identified for a $229 million reduction.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

Table 1
Department of Mental Health
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Actual	Est.	Prop.	Change from 1988-89	
Expenditures	*1987-88*	*1988-89*	*1989-90*	*Amount*	*Percent*
Department support	$44,156	$45,428	$60,867	$15,439	34.0%
State hospitals	328,074	351,236	381,962	30,726	8.7
Local programs	604,931	623,307	664,860	41,553	6.7
Special education pupils	14,875	15,791	15,791	—	—
Brain-damaged adults	3,201	5,257	5,257	—	—
Institutions for mental diseases	50,125	65,345	71,280	5,935	9.1
Totals	$1,045,362	$1,106,364	$1,200,017	$93,653	8.5%
Funding Sources					
General Fund	*$894,675*	*$935,992*	*$962,412*	*$26,420*	*2.8%*
Federal funds	*17,791*	*20,232*	*20,151*	*−81*	*−0.4*
Cigarette and Tobacco Products Surtax Fund	—	—	*39,600*	*39,600*	—[a]
State Legalization Impact Assistance Grant Fund	—	*3,314*	*3,326*	*12*	*0.4*
Primary Prevention Fund	*817*	*954*	*886*	*−68*	*−7.1*
Asset Forfeiture Distribution Fund	—	—	*89*	*89*	—[a]
Special Account for Capital Outlay	*714*	—	—	—	—
Reimbursements	*131,365*	*145,872*	*173,553*	*27,681*	*19.0*
Personnel-years					
Department support	328.9	338.9	368.7	29.8	8.8%
State hospitals	6,234.9	6,595.5	6,781.0	185.5	2.8
Totals	6,563.8	6,934.4	7,149.7	215.3	3.1%

[a] Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

A. CIGARETTE AND TOBACCO PRODUCTS SURTAX FUND (PROPOSITION 99) FUNDING ISSUES

Proposal for Proposition 99 Raises a Number of Issues

The budget proposes expenditures of $39.6 million from the Cigarette and Tobacco Products Surtax (C&T) Fund, Unallocated Account, for a variety of DMH programs:

- Local assistance augmentation—$25 million.

- Caseload funding increases for institutions for mental diseases (IMDs), state hospitals, and the Conditional Release program—$7.6 million.
- State hospital coverage factor (allowances for normal staff absences) increase—$6.3 million.
- Permanent positions for IMD program administration—$745,000.

We have identified two major issues related to the use of C&T funds for mental health programs:

1. Should a declining revenue source be used to support caseload growth and other ongoing program costs? The budget proposes to use C&T funds for caseload increases for the IMD program and mentally disordered offenders. The department has indicated that caseload in these programs is likely to grow faster than in other mental health programs in future years. The other DMH proposals involving funding from the C&T Fund all represent continuing costs.

Our review indicates that the revenue to the C&T Fund is likely to decline gradually over time. Therefore, it is likely that a gap will develop between available revenues and actual program costs. If this occurs, the Legislature would have to backfill with General Fund dollars at some future time in order to maintain program service levels.

2. Does the proposal supplement or supplant current service levels? Under Proposition 99, C&T funds must be used to supplement current levels of service, not to supplant funding for existing levels of service. There are two proposals that raise the issue of supplantation.

First, the budget proposes $6.3 million from C&T funds to increase the state hospitals' "coverage factor"—a staffing allowance that compensates for normal staff absences from work. The increase is necessary due to a gradual erosion of staff coverage as a result of increased holidays, sick leave, and other staff absences. This proposal does not augment the amount of treatment delivered to patients in state hospitals but helps to maintain the current level of services required. (In fact, the budget proposal is titled "program maintenance.")

Second, the positions proposed for IMD program administration do not result in any identifiable increase in the level of treatment services. Consequently, the proposals might be interpreted as funding existing levels of service.

B. DEPARTMENT SUPPORT

The budget proposes expenditures of $60.9 million for support of the DMH in 1989-90. This amount consists of $42.5 million for department administration and $18.4 million for the Conditional Release program. Overall, this is an increase of $15.4 million, or 34 percent, above estimated current-year expenditures. Table 2 shows the department's expenditures and funding sources for the past, current, and budget years.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 2
Department of Mental Health Support Expenditures and Funding Sources 1987-88 through 1989-90 (dollars in thousands)

	Actual	Est.	Prop.	Change from 1988-89	
Expenditures	*1987-88*	*1988-89*	*1989-90*	*Amount*	*Percent*
Department administration	$29,875	$27,518	$42,497	$14,979	54.4%
Conditional release	14,281	17,910	18,370	460	2.6
Totals	$44,156	$45,428	$60,867	$15,439	34.0%
Funding Sources					
General Fund	*$42,097*	*$42,269*	*$46,720*	*$4,451*	*10.5%*
Federal funds	*765*	*977*	*944*	*−33*	*−3.4*
Primary Prevention Fund	*113*	*216*	*148*	*−68*	*−31.5*
Cigarette and Tobacco Products Surtax Fund	—	—	*1,373*	*1,373*	—[a]
State Legalization Impact Assistance Grant Fund	—	*314*	*326*	*12*	*3.8*
Asset Forfeiture Distribution Fund	—	—	*89*	*89*	—[a]
Reimbursements	*1,181*	*1,652*	*11,267*	*9,615*	*582.0*

[a] Not a meaningful figure.

Budget Changes. Table 3 shows the changes in the department's support budget proposed for 1989-90. The major change is an increase of $12.7 million ($3.2 million General Fund) to implement the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87) nursing home reform requirements.

Table 3
Department of Mental Health Support Proposed 1989-90 Budget Changes (dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (Budget Act)	$41,120	$43,637
Adjustments, 1988-89:		
System of care for severely mentally disabled adults, Ch 982/88	511	511
One-time medical evaluation field manual, Ch 376/88	36	36
Community treatment facilities, Ch 1271/87	45	45
One-time reappropriation for cost recovery system	125	125
PERS rate reduction	−45	−66
Telephone equipment reduction per Section 3.70	−56	−56
Salary and benefit increase	158	174
Institutions for mental diseases administration	500	500
Transfer Office of Mental Health Social Services (OMHSS) from department to Monterey County	−125	−145
One-time rollover, federal grants	—	103
Child/adolescent service system program	—	168
Mental health planning allocation	—	82
State Legalization Impact Assistance Grant	—	314
1988-89 expenditures (revised)	$42,269	$45,428

Baseline adjustments, 1989-90:		
Full-year funding of 1988-89 salary and benefits increase	780	875
Price increase	—	17
Establish pro-rata charges for the mental health Primary Prevention Fund	—	15
Reduce one-time adjustments	−36	−140
Reduce one-time reappropriation for cost recovery system	−125	−125
Program change proposals:		
System of care for severely mentally disabled adults, Ch 982/88	497	497
Institutions for mental diseases administration	—	745
Federal nursing home reform	3,181	12,725
Children's mental health services administration, Ch 1361/87	54	54
Brain-damaged adult program administration	56	56
Long-term health care facilities report, Ch 1494/88	100	100
Various funding transfers between support and the Conditional Release program	—	48
Complete transfer of OMHSS from department to Monterey County	−56	−56
Mentally disordered offender population adjustment	—	628
1989-90 expenditures (proposed)	$46,720	$60,867
Change from 1988-89 (revised):		
Amount	$4,451	$15,439
Percent	10.5%	34.0%

Budget Fails to Remove One-Time Consultant Funds

We recommend a reduction of $285,000 from the General Fund and $140,000 in reimbursements because the department did not reduce funds associated with a one-time consultant contract. (Reduce Item 4440-001-001 by $285,000 and reduce reimbursements by $140,000.)

In the 1988 Budget Act, the Legislature provided the DMH with $285,000 from the General Fund and $140,000 in reimbursements to provide one-time funding for a consultant contract to review the DMH cost reporting and data collection system.

Our review of the proposed budget indicates that the department has not removed the one-time consultant contract funds appropriated in the 1988 Budget Act. Accordingly, we recommend that the Legislature delete $285,000 from the General Fund for support of the department and reduce reimbursements by $140,000. (Reduce Item 4440-001-001 by $285,000 and reduce reimbursements by $140,000.)

Unknown Impact Due to Federal Nursing Home Reform

We withhold recommendation on the $16.3 million proposed for implementing federal nursing home reform requirements pending receipt of additional information.

The budget for the DMH proposes a total of $16.3 million, including $12.7 million in department support and $3.6 million in local assistance, to fulfill federal requirements related to screening persons in nursing facilities. The $16.3 million consists of $5 million from the General Fund and $11.3 million in reimbursements from federal funds.

Background. The budget contains a number of proposals in various departments related to implementing the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87). The act made major changes in federal Medicare and Medicaid laws related to nursing homes. The intent of OBRA 87 was to address concerns that people are inappropriately placed in nursing homes and that many nursing home patients are not

DEPARTMENT OF MENTAL HEALTH—Continued

receiving the treatment they need. Major provisions affecting state programs involve (1) additional screening of nursing home residents to assure that their placements are appropriate and they receive the treatment they need, (2) registration and training of nurse aides, and (3) changes in facility categories.

Patient Screening Provisions. Under OBRA 87, the state must implement a preadmission screening and annual resident review (PASARR) program. In this program, the state must (1) screen all nursing home patients to identify mentally ill (MI) and developmentally disabled (DD) individuals, (2) evaluate treatment needs of MI and DD patients and provide needed treatment services, and (3) transfer these patients to other facilities if appropriate. OBRA 87 requires states to provide needed treatment and complete appropriate transfers by April 1990.

The affected departments are working to implement the first two components of California's PASARR program. Specifically, the Department of Health Services (DHS) started identifying MI and DD patients who are Medi-Cal-eligible in January 1989. Beginning July 1989, the Department of Developmental Services (DDS) and the DMH plan to begin evaluating treatment needs of the patients identified by the DHS and providing additional needed treatment. The DMH and DDS have requested a five-year extension from the Health Care Financing Administration (HCFA) for implementation of the third component—transfer of all inappropriately placed nursing facility patients. In their request, the departments cited uncertainties about the population, need for legislative and regulatory changes, lack of alternative placement facilities, and lack of funding arrangements as reasons for the extension. The departments' commitments are documented in their Alternative Disposition Plan (ADP), which was submitted to the HCFA in January 1989. The HCFA is due to respond by April 1989.

Department's Proposal. The budget proposal includes (1) $6.9 million in contract funds to evaluate the treatment needs of an estimated 17,000 persons seeking admission to nursing facilities in 1989-90, (2) $5.1 million in contract funds to evaluate the treatment needs of an estimated 13,000 current nursing facility residents, and (3) $704,000 for department staff to administer the program. The budget assumes that the federal government will pay 75 percent of these costs.

The budget also includes $3.6 million to provide additional mental health treatment to approximately 3,400 assessed patients in the budget year. The department estimates that one-half of these individuals would require transfers to different facilities under OBRA 87. Under the ADP, these patients would not be transferred until 1995. Any additional treatment would be provided in the nursing facility. The department assumes that the federal government will pay 50 percent of treatment costs.

In developing its budget proposal, the department utilized estimates developed by the DHS regarding the MI population requiring assessment under OBRA 87. The department indicates that in February 1989 it will conduct a survey of nursing facilities to determine the accuracy of the estimates and revise them where necessary. The department indicates the information will be available by April 1989.

Impact of OBRA 87—Too Soon to Tell. The administration's proposal to implement the requirements of the federal law is complex, involves three different departments, and is based on numerous assumptions related to the number of persons affected, federal action on the ADP, and evolving federal program requirements. The department acknowledges that many of its preliminary assumptions may not be accurate, and potentially will need to be revised. We believe that the Legislature requires the additional information to be submitted in April before it can fully assess the department's proposal and the likely impact on the budget. We therefore withhold recommendation on the department's proposal pending receipt of additional information.

C. STATE HOSPITAL PROGRAMS

The budget proposes expenditures of $382 million, all funds, in 1989-90 for clients in state hospitals for the mentally disabled. This is an increase of $30.7 million, or 8.7 percent, above estimated current-year expenditures. The budget proposes an appropriation of $329.3 million from the General Fund for these programs, which is an increase of $18.1 million, or 5.8 percent, above estimated current-year expenditures. In addition, the budget proposes an appropriation of $8 million from the Cigarette and Tobacco Products Surtax (C&T) Fund for state hospital programs. Table 4 shows the components of the state hospital budget in the past, current, and budget years.

Table 4
Department of Mental Health
State Hospitals
Budget Summary
1987-88 through 1989-90

	Actual	*Est.*	*Prop.*	*Change from 1988-89*	
Expenditures (dollars in thousands)	*1987-88*	*1988-89*	*1989-90*	*Amount*	*Percent*
County clients	$185,065	$188,535	$204,280	$15,745	8.4%
Judicially committed clients	115,491	122,653	133,026	10,373	8.5
Other clients [a]	27,518	40,048	44,656	4,608	11.5
Totals	$328,074	$351,236	$381,962	$30,726	8.7%
Funding Sources (dollars in thousands)					
General Fund	*$299,842*	*$311,188*	*$329,318*	*$18,130*	*5.8%*
Cigarette and Tobacco Products Surtax Fund	—	—	*7,988*	*7,988*	— [b]
Reimbursements	*27,518*	*40,048*	*44,656*	*4,608*	*11.5*
SAFCO	*714*	—	—	—	—
Average population					
County clients	2,483	2,493	2,512	19	0.8%
Judicially committed clients	1,565	1,673	1,776	103	6.2
Other clients [a]	463	594	704	110	18.5
Totals	4,511	4,760	4,992	232	4.9%
Authorized positions					
Department of Mental Health	6,235	7,257	7,495	238	3.3%
Department of Developmental Services	706	805	823	18	2.2
Totals	6,941	8,062	8,318	256	3.2%
Cost per client (actual dollars)					
County clients	$74,533	$75,626	$81,322	$5,696	7.5%
Judicially committed clients	73,796	73,313	74,902	1,589	2.2
Other clients [a]	59,434	67,421	63,432	−3,989	−5.9
Totals	$72,728	$73,789	$76,515	$2,726	3.7%

[a] Includes clients from the Department of Corrections, the Department of Developmental Services, and the Department of the Youth Authority.
[b] Not a meaningful figure.

DEPARTMENT OF MENTAL HEALTH—Continued

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.

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.

Proposed Budget Changes

The major changes proposed for 1989-90 include (1) an increase of $6.3 million (C&T Fund) for additional staff needed to cover increased employee absences and (2) an increase of $17.9 million ($15.7 million General Fund) for full-year funding of 1988-89 state hospital salary and benefit increases. Table 5 displays the budget changes proposed for 1989-90.

Table 5
Department of Mental Health
State Hospitals
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (Budget Act)	$313,466	$353,952
Adjustments, 1988-89:		
Reduce Department of Corrections reimbursement	—	−696
Telephone equipment reduction per Section 3.70	−392	−392
Retirement reduction	−2,543	−2,805
State hospital bed buy-out	−1,990	−1,990
Salary and benefit increase	2,682	3,026
Miscellaneous reimbursement adjustments	—	176
Board of Control reduction	−35	−35
1988-89 expenditures (revised)	$311,188	$351,236
Baseline adjustments, 1989-90:		
Replace Department of Corrections reimbursement	—	696
Full-year costs for state hospital population	1,564	1,564
Full-year costs—Atascadero peace officers	229	229
Price increase	820	857
Retirement adjustment	322	362
Full-year costs of 1988-89 salary and benefit increases	15,668	17,887
Energy costs	−9	−9
Reverse one-time adjustments	35	35

Caseload and cost adjustments:		
Population adjustment	−1,268	−1,268
Mentally disordered offender population	—	1,678
Program change proposals:		
Coverage factor	—	6,310
Biopsychiatry research unit at Napa	769	769
Psychiatric services to prison inmates at Vacaville	—	1,616
1989-90 expenditures (proposed)	$329,318	$381,962
Change from 1988-89 (revised):		
Amount	$18,130	$30,726
Percent	5.8%	8.7%

Coverage Factor

We recommend a reduction of $725,000 from the C&T Fund amount budgeted for coverage factor increases in order to accurately reflect the timing of new staff hiring. (Reduce Item 4440-011-236.)

The budget proposes $6.3 million from the C&T Fund for 173 positions in order to increase the "coverage factor" at the five state hospitals with mental health programs. The coverage factor is a staffing allowance that is intended to compensate for normal staff absences from work due to vacation, sick leave, and other factors. The department has updated the coverage factor due to changes in employment regulations, policies, and staffing patterns since the last revision in 1983-84. The 173 positions represent an increase of approximately 2.6 percent in total state hospital staffing and an increase of approximately 3.6 percent in direct patient care staffing.

We believe that the department's timetable for filling the new positions is unrealistic because it assumes the 173 proposed positions can be filled by July 1. The department indicates that it will take at least six weeks to fill the proposed positions associated with the increased coverage factor, given the significant delays associated with testing, recruiting, interviewing prospective employees, and processing personnel paperwork. If the new staff were hired in mid-August rather than July 1, the coverage factor adjustment in the budget year would be $725,000 less than the $6.3 million requested.

In order to accurately reflect when the new positions will be hired, we recommend that the Legislature reduce the amount proposed for additional hospital staff coverage by $725,000. (Reduce Item 4440-011-236.)

Mentally Disordered Offender (MDO) Program Ruled Unconstitutional

We recommend that prior to budget hearings, the Departments of Mental Health and Corrections and the Board of Prison Terms report to the fiscal committees on the impact of a recent court ruling that invalidates the MDO program.

The budget proposes $11.7 million to fund the care and treatment of MDO populations in the state hospitals and the community Conditional Release (CONREP) program. This is an increase of $2.3 million, or 24 percent, over estimated current-year expenditures. The increase primarily results from population increases of (1) 67 MDO clients in the state hospitals ($1.7 million) and (2) 30 MDO clients in the CONREP program ($628,000). At present, there are a combined 169 MDOs in state hospitals and in the CONREP program.

DEPARTMENT OF MENTAL HEALTH—Continued

Background. Chapter 1419, Statutes of 1985 (SB 1296, McCorquodale), established the MDO program as a mechanism to extend the commitment of mentally disordered prison inmates who are eligible for parole. MDOs are prison inmates who have a severe mental disorder and are placed in the mental health system as a condition of their parole. To be placed in the program, the California Department of Corrections (CDC) must first certify an inmate as meeting specified commitment criteria. For example, (1) the inmate must have a severe mental disorder, (2) the mental disorder caused, or was an aggravating factor in, a crime involving violence for which the inmate was convicted, and (3) the mental disorder is not in remission or cannot be kept in remmission. The DMH then conducts its own evaluation to determine whether or not an inmate should be committed to the program. If the CDC and DMH concur that the inmate meets all the criteria for the program, the Board of Prison Terms reviews all of the documentation and then may order the inmate into the MDO program as a condition of parole. The MDO program ensures the provision of mental health treatment in a state hospital setting or community follow-up programs, such as the CONREP program.

MDO Program No Longer Constitutional. In October 1988, the state Court of Appeal found the MDO statute to be unconstitutional. The state Supreme Court decided on February 2, 1989 to uphold the appeal court decision. The appeal court held the statute unconstitutional in two respects:

- The court determined the application of the MDO statute to any person whose offense was committed prior to the effective date of the MDO legislation to be in violation of the constitution. For individuals whose offense was committed after the effective date of the MDO legislation, they could still be subjected to the MDO provisions under this part of the court decision.
- The court determined that MDO legislation unconstitutionally denies equal protection because it mandates involuntary confinement and treatment without proof of dangerousness.

Budget Impact. Due to the timing of the court ruling, the proposed budget does not reflect its fiscal impact on the MDO program. The Legislature needs additional information to assess the short- and long-term fiscal and policy options as a result of the court ruling. At a minimum, the Legislature needs information on (1) how many current MDO patients would no longer meet commitment criteria for treatment, (2) what is the current- and budget-year impact, (3) are there other commitment mechanisms in statute that would allow treatment of this population, and, if so, how would treatment funding be handled, (4) are there any capital outlay projects in the state hospitals that will be affected, and (5) what is the effect of the ruling on the public.

We recommend that prior to budget hearings, the Departments of Mental Health and Corrections and the Board of Prison Terms report to the fiscal committees on these issues.

D. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $510.8 million from the General Fund for assistance to local mental health programs in 1989-90.

This is an increase of $3.8 million, or 0.8 percent, above estimated current-year expenditures. Total expenditures for local mental health programs in 1989-90, including expenditures from reimbursements and federal funds, are proposed at $664.9 million, which is $41.6 million, or 6.7 percent, above estimated current-year expenditures. These expenditures include $25 million from the C&T Fund. Table 6 displays local assistance expenditures and funding sources for the past, current, and budget years.

Table 6
Department of Mental Health
Local Mental Health Programs
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

Expenditures	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change from 1988-89 Amount*	*Change from 1988-89 Percent*
Short-Doyle allocations	$586,222	$598,814	$632,415	$33,601	5.6%
AIDS	700	1,500	1,500	—	—
Primary prevention projects	704	738	738	—	—
Federal block grant	16,589	16,140	16,092	−48	−0.3
Federal community support program grants	139	131	131	—	—
Federal homeless funds	—	2,984	2,984	—	—
State Legalization Impact Assistance Grant (SLIAG) allocations	—	3,000	3,000	—	—
Federal disaster grant	298	—	—	—	—
Sacramento mental health center	279	—	—	—	—
System of care for severely mentally disabled adults, Ch 982/88	—	—	8,000	8,000	—[a]
Totals	$604,931	$623,307	$664,860	$41,553	6.7%
Funding Sources					
General Fund	*$492,690*	*$506,973*	*$510,812*	*$3,839*	*0.8%*
Reimbursements	*94,511*	*93,341*	*106,103*	*12,762*	*13.7*
Federal funds	*17,026*	*19,255*	*19,207*	*−48*	*−0.2*
Primary Prevention Fund	*704*	*738*	*738*	—	—
Cigarette and Tobacco Products Surtax Fund	—	—	*25,000*	*25,000*	—[a]
SLIAG Fund	—	*3,000*	*3,000*	—	—

[a] Not a meaningful figure.

Budget Changes. Table 7 shows the changes to the budget that are proposed for 1989-90 for local mental health programs. The table also shows changes to the enacted budget for these programs, the largest of which is a $10 million increase in Short-Doyle/Medi-Cal reimbursements. This increase is due to an increase in the number of clients who receive mental health services and are eligible for Medi-Cal.

The major changes proposed for 1989-90 include (1) an augmentation of $25 million (C&T Fund) for local mental health programs and (2) an increase of $8 million for pilot projects to develop a system of care for severely mentally disabled adults, required by Ch 982/88 (AB 3777, Wright).

DEPARTMENT OF MENTAL HEALTH—Continued

Table 7
Department of Mental Health
Local Mental Health Programs
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (Budget Act)	$493,574	$602,761
Adjustments, 1988-89:		
Budget augmentation, Ch 974/88	4,800	4,800
Ventura County Children's program, Ch 982/88	489	489
Transfer state hospital bed buy-out	1,990	1,990
Short-Doyle/Medi-Cal deficiency	5,995	—
Transfer Office of Mental Health Social Services (OMHSS) from department to Monterey County	125	125
Federal community support program grant—Alameda County	—	131
Disaster funds from Office of Emergency Services	—	11
Increase in Short-Doyle/Medi-Cal reimbursements	—	10,000
State Legalization Impact Assistance Grant	—	3,000
1988-89 expenditures (revised)	$506,973	$623,307
Baseline adjustments, 1989-90:		
Increase in Short-Doyle/Medi-Cal reimbursements	—	5,000
Reduce Short-Doyle/Medi-Cal deficiency	−5,995	—
Reduce disaster funds	—	−11
Program change proposals:		
Local assistance augmentation	—	25,000
System of care for severely mentally disabled adults, Ch 982/88	8,000	8,000
Complete transfer of OMHSS from department to Monterey County	56	56
Federal nursing home reform	1,778	3,556
Funding redirection for one position within California Council of Mental Health	—	−48
1989-90 expenditures (proposed)	$510,812	$664,860
Change from 1988-89 (revised):		
Amount	$3,839	$41,553
Percent	0.8%	6.7%

$25 Million Local Assistance Augmentation

We recommend that prior to budget hearings, the department submit additional information to the fiscal committees on the allocation of the proposed $25 million augmentation for local mental health programs.

The budget proposes an augmentation of $25 million from the C&T Fund for local mental health programs. According to the department, this augmentation restores noncategorical funding to the 1986-87 level adjusted for population. In the 1988 Budget Bill, the Legislature also provided a $25 million augmentation for local mental health programs. This augmentation was vetoed by the Governor.

Restrictions on Use of Funds. Under the department's proposal, counties could use the funds for any purpose that is permitted by the Short-Doyle Act. This is the approach used by the Legislature in augmenting mental health services in the 1988 Budget Bill. (We discuss the advantages and disadvantages of an alternative approach—categorical funding—in *The 1989-90 Budget: Perspectives and Issues*, Part Four.)

Our review indicates, however, that there are restrictions on the use of these funds imposed as a result of the proposed funding source—the C&T Fund (Proposition 99). Specifically, Proposition 99 funds must be spent for treatment services that *supplement* existing service levels. It is likely that counties can spend at least $25 million in additional treatment services. In the absence of the Proposition 99 restrictions, however, counties might choose to use the funds in different ways. For example, they might choose to use these funds to replace county funds currently supporting Short-Doyle services, in cases where the county "over-matches" state funds—that is, contributes more than its legal liability.

Allocation Methodology. The department indicates that it would allocate the $25 million to counties based on its poverty/population equity formula. The department has used the poverty/population formula in the past to achieve a more "equitable" allocation among counties. The poverty/population formula assigns equal weights to (1) the general population and (2) the population receiving Aid to Families with Dependent Children and Supplemental Security Income/State Supplementary Program welfare payments. Under this formula, a county with 10 percent of the state's general population and 20 percent of the state's welfare population would be entitled to 15 percent of available funds when "equity" is ultimately achieved.

The department's proposal does not address how the formula would be applied. For example, in order to move toward equity, it might choose as a "target" the county with the highest per-capita funding under the poverty/population model. In this case, all but one county would receive additional funds. Alternatively, it might choose as a target current statewide average per-capita funding. In this case, roughly one-half the counties would receive additional funds.

In either case, $25 million would not allow the department to achieve "equity" among counties. If the department chose the statewide per-capita average as its target, it would need approximately $80 million to $85 million to bring all counties to that level of funding. If it chose the highest per-capita allocation as its target, it would need approximately $1 billion.

The Legislature needs information about the allocation method in order to determine the distributive effect of the $25 million augmentation among counties. Accordingly, we recommend that the department submit, prior to budget hearings, its proposed allocation of the funds and information regarding its allocation methodology.

The DMH Should Implement the Traumatic Brain Injury Demonstration Project

We recommend that prior to budget hearings, the department provide the fiscal committees with its plan for implementing the traumatic brain injury demonstration projects as required by Ch 1292/88.

Chapter 1292, Statutes of 1988 (SB 2232, Seymour), established the Traumatic Brain Injury Fund. The fund is supported by penalties assessed on persons who violate the state's safety belt laws. The purpose of the fund is to support up to four three-year demonstration projects for adults with acquired traumatic brain injury, in order to demonstrate the effectiveness of providing coordinated services to assist these individuals in leading productive, independent lives. Chapter 1292 stipulates that the

DEPARTMENT OF MENTAL HEALTH—Continued

fund may receive up to $500,000 in any fiscal year. Any additional revenues go to other specified funds.

Although the budget projects revenues of $760,000 for the fund through 1989-90, it does not propose to spend any of these funds. The department indicates that it will complete developing a proposal for spending the funds and a request for proposals by March 1989. Therefore, we recommend that prior to budget hearings, the department provide the fiscal committees with a plan for implementing Chapter 1292.

Additional Alcohol, Drug Abuse, and Mental Health Services Block Grant Funds

We recommend that prior to budget hearings, the department report to the fiscal committees on (1) the exact amount of additional federal block grant funds available to the state, (2) any limitations on the use of the funds, and (3) how the department proposes to spend the additional funds.

The department's budget proposes expenditures of $17.1 million from the federal Alcohol, Drug Abuse, and Mental Health Services (ADMS) block grant for innovative mental health programs. This is approximately $81,000, or 0.5 percent, less than estimated current-year expenditures.

The federal government places certain restrictions on how the state uses the ADMS block grant funds. For example, the state must give priority to underserved populations, such as the seriously mentally ill, the homeless, and mentally ill persons who also abuse drugs or alcohol.

Additional Funds Available. The budget for the Department of Alcohol and Drug Programs (DADP), the state agency that administers the ADMS block grant, indicates that the DMH will be awarded approximately $1.5 million in block grant funds. The DMH indicates, however, that it has not received official notification from the federal government regarding the exact amount it will receive. Therefore, it has not proposed to spend these funds in the budget year. The department has indicated that it should receive official notification by March 1989.

In order to provide the Legislature with information about additional block grant funds, we recommend that prior to budget hearings, the department submit a plan detailing (1) the exact amount of additional block grant funds it anticipates receiving, (2) any restrictions on the use of these funds, and (3) how the department proposes to use the additional funds.

E. SPECIAL EDUCATION PUPILS

We withhold recommendation on the $15.8 million proposed for mental health services to special education pupils until the May revision of the budget, in order to obtain additional caseload and cost information.

Chapter 1747, Statutes of 1984 (AB 3632, Willie Brown), and Ch 1274/85 (AB 882, Willie Brown) mandated local mental health programs to provide assessment, treatment, and case management services to special education pupils referred to them 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 budget includes $15.8 million to fund mental health assessment, treatment, and case management costs of special education pupils. This amount consists of $15.1 million from the General Fund and $675,000 in federal reimbursements for Short-Doyle/Medi-Cal services. This amount is the same as estimated current-year expenditures.

The budget is based on the department's estimate that approximately 9,707 pupils will require mental health services in 1989-90. The department estimates the total cost of the services to be $20.4 million, or approximately $2,100 per child. Because approximately $4.6 million of these services are already being provided by local Short-Doyle programs and various private sources, the net costs would be $15.8 million.

Problems With the Estimates. We identified two problems with the department's estimates. First, the department indicates that the data it used to project per-pupil costs for the budget year are unreliable. The department based its projected cost per pupil (approximately $2,100) on 1986-87 expenditure data from its cost reporting system. The department indicates that these data are unreliable because it had not developed consistent methods for counties to use in allocating their mental health costs among various categories.

Second, the department's estimate of 9,707 pupils requiring services assumes that *no* new pupils will be identified as needing mental health treatment in the budget year. Our review indicates that this assumption is not based on any supporting data. We believe it is unrealistic.

Additional Information Collection Planned. The department indicates that it will conduct a follow-up survey in the spring in order to obtain more accurate caseload and cost estimates from the counties. Therefore, we withhold recommendation on the $15.8 million proposed for this program until the May revision of the budget.

F. INSTITUTIONS FOR MENTAL DISEASES (IMDs)

We recommend (1) a reduction of $1.2 million for IMD services due to overbudgeting (reduce Item 4440-141-236) and (2) adoption of Budget Bill language specifying an allocation method for IMD beds. We withhold recommendation on the proposed 23 accounting positions and $745,000 (Item 4440-001-236) pending final outcome of negotiations between the department and IMD providers related to transferring the responsibility for reimbursement collection.

The budget proposes $72.4 million to fund the care and treatment of mentally disabled patients in IMDs ($71.2 million) and related administrative costs ($1.2 million). This is an increase of $6.6 million, or 10 percent, over estimated current-year expenditures. The increase primarily results from (1) a proposed increase to pay for 233 additional beds and (2) permanently establishing 29 administrative positions.

Background. As a result of federal audits, 38 skilled nursing facilities with special treatment programs (SNF/STPs) have been reclassified as IMDs since August 1987. As a result of the reclassification, these facilities cannot receive Medi-Cal reimbursement for services provided to patients under the age of 65. Also as a result of the reclassification, many of the patients became eligible to receive full or partial Supplemental Security Income/State Supplementary Program (SSI/SSP) payments. The SSI/SSP payments offset a portion of the patients' costs for care.

In response to these changes, the Legislature transferred responsibility for reimbursing these providers to the DMH. The 1988 Budget Act appropriated $55.7 million (including $500,000 for administrative costs) from the General Fund for IMDs, based on (1) an average of 3,400

DEPARTMENT OF MENTAL HEALTH—Continued

patients in 38 facilities and (2) the department being able to obtain reimbursements of $10.2 million from SSI/SSP payments made to patients.

The 1988 Budget Act also included language requiring the department, in consultation with the Conference of Local Mental Health Directors (CLMHD) and providers of IMD services, to submit a plan for allocating IMD beds to counties and expanding IMD services. At the time this analysis was prepared (January 1989), the report had not been submitted.

Budget Proposal for Care and Treatment. Since the facilities were reclassified in 1987, the department has planned to turn operation of the IMD program over to counties by July 1989. However, negotiations between the department and counties to transfer the program have been unsuccessful. As a result, the department indicates that, effective July 1989, the state will assume ongoing responsibility for contracting with facilities, collection of SSI/SSP, and administrative activities to support the IMD program.

The budget proposes a total of $71.2 million in local assistance to fund the care and treatment of mentally ill persons in IMDs. This is an increase of $5.9 million, or 9.1 percent, above estimated current-year expenditures. The $71.2 million consists of $55.2 million from the General Fund, $5.2 million from the Cigarette and Tobacco Products Surtax (C&T) Fund, and $10.8 million in reimbursements from SSI/SSP payments to eligible beneficiaries. The budget proposes to fund a total of 3,632 IMD beds. This is an increase of 233 beds, or 6.9 percent over the number of beds funded in the current year. The proposed bed increase is based on the average annual increase in the number of certified SNF/STP beds over the last 14 years.

Budget Proposal for Administrative Costs. The budget proposes a total of $1.2 million to permanently establish 29 administrative staff—23 accounting and 6 program review positions. The $1.2 million consists of $500,000 from the General Fund and $745,000 from the C&T Fund. Since 1987, when the program began, IMD administrative functions have been funded on a temporary basis with $500,000 contained in the local assistance budget. The department estimates that, in the current year, it will spend $684,000, including $184,000 diverted from other programs to provide necessary administrative personnel. The budget, therefore, represents a 108 percent increase over estimated current-year expenditures for program support. The department indicates the $184,000 will revert back to original program uses in 1989-90.

The proposed accounting positions would pay providers, account for SSI/SSP reimbursements, and assist provider accounting staff. The proposed program review positions would monitor IMDs to ensure compliance with state and federal regulations, approve new IMDs, and consult with counties and providers.

Problems with the Proposal. We identified three problems related to the proposal.

1. *Estimated Treatment Costs Too High.* The amount the state compensates IMD providers for treatment costs is based on gross IMD treatment costs less "other patient revenue" collected by IMD providers on behalf of patients. "Other patient revenue" includes such sources as a patient's health insurance, veteran's benefits, individual retirement funds, and family share of cost. In the current year, the department estimates other

patient revenue collected by IMD providers to be $6 million, thereby reducing the state's costs of treatment by a like amount.

The budget estimates the expected amount of other patient revenue to be $5.3 million in 1989-90. The department could not, however, provide any justification as to why IMD providers are expected to collect less "other patient revenue" in 1989-90 than in the current year, given an increase of 233 state-funded IMD beds. Our review indicates that, based on the expected current-year collections of $149 per bed, per month, the providers should be able to collect $6.5 million, not $5.3 million as indicated in the budget. Consequently, the proposed budget overstates the state's costs for IMD services by $1.2 million.

2. *Premature Establishment of Accounting Positions.* Under the budget proposal, 23 accounting positions would be established for two primary reasons: (a) paying providers for IMD services and (b) recovering SSI/SSP reimbursements from eligible payees.

Our review indicates that establishing accounting positions is not the only option open to the department in order to accomplish these primary tasks. In fact, the department is negotiating with IMD providers to transfer the responsibility from the state for collecting SSI/SSP payments. If these negotiations prove successful, the need for this level of accounting staff could be reduced. Due to these negotiations, we believe establishing accounting positions on a permanent basis is premature.

3. *No Process for Allocating Beds to Counties.* Counties have an incentive to place as many of their patients as possible in IMDs because IMD services are fully state-funded, while counties must pay 15 percent of the costs of 24-hour services provided through county Short-Doyle programs. The lack of a process for allocating IMD beds to counties has resulted in counties competing for beds. For example, the department advises that, in order to ensure that their clients get placed in a facility, some counties (a) pay IMD facilities to hold beds when they become available and/or (b) add an additional "patch" to the IMD rate paid by the state. These forms of competition add to the overall costs of public mental health services.

Our review of the IMD program indicates that state allocation of IMD beds to counties would be consistent with current state policy regarding state hospital beds, and may reduce the extra payments counties make to providers. The state allocates state hospital beds because county incentives to place clients in state hospitals are similar to incentives existing for IMDs: the costs to counties of state hospital care are low compared to the costs of other types of 24-hour care provided through the Short-Doyle system.

Recommendations. Due to the problems with the budget proposal, we recommend:

1. A reduction of $1.2 million in C&T funds due to overbudgeting the state's share of the treatment costs for the proposed 3,632 IMD beds. (Reduce Item 4440-141-236.)

2. Adoption of Budget Bill language specifying an allocation method for IMD beds. At the time this analysis was prepared, however, we had no basis for recommending any particular method for inclusion in Budget Bill language. The department anticipates releasing its report covering this issue in the spring. This report will assist the Legislature in determining an appropriate allocation methodology.

DEPARTMENT OF MENTAL HEALTH—Continued

We withhold recommendation on the 23 accounting positions and $745,000 in C&T funds pending outcome of negotiations between the department and IMD providers related to transferring the responsibility for collecting SSI/SSP payments.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General Fund and various funds — Budget p. HW 135

Requested 1989-90	$4,467,603,000
Estimated 1988-89	4,463,317,000
Actual 1987-88	4,040,730,000
Requested increase (excluding amount for salary increases) $4,286,000 (+0.1 percent)	
Recommended reduction	None
Recommendation pending	621,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5100-001-001—Support	General	$30,727,000
5100-001-184—Support	Benefit Audit	8,359,000
5100-001-185—Support	Contingent	26,985,000
5100-001-514—Support	Employment Training	70,822,000
5100-001-588—Support	Unemployment Compensation Disability Insurance	69,492,000
5100-001-869—Support	Consolidated Work Program	68,251,000
5100-001-870—Support	Unemployment Administration	368,145,000
5100-001-908—Support	School Employees	585,000
5100-011-890—Support	Federal Trust	(368,145,000)
5100-021-890—Support	Federal Trust	(68,251,000)
5100-101-588—Local assistance	Unemployment Compensation Disability Insurance	1,506,630,000
5100-101-869—Local assistance	Consolidated Work Program	209,832,000
5100-101-870—Local assistance	Unemployment Administration	2,910,000
5100-101-871—Local assistance	Unemployment	2,079,216,000
5100-101-890—Local assistance	Federal Trust	(209,832,000)
5100-101-908—Local assistance	School Employees	18,391,000
5100-111-890—Local assistance	Federal Trust	(2,082,126,000)
Reimbursements	—	23,919,000
Unemployment Insurance Code Section 1586	Contingent	400,000
Reimbursement to Federal Government	School Employees	−17,061,000
Total		$4,467,603,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Availability of Employment Training Funds Unclear. Withhold recommendation on $621,000 proposed from the Employment Training Fund to reimburse the Military Department pending receipt of the Military Department's program design. 552

GENERAL PROGRAM STATEMENT

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

In addition, the department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their UI contributions, (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 has 10,007.6 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $4.5 billion from various funds for support of the EDD in 1989-90. This is an increase of $4.3 million, or 0.1 percent, above estimated current-year expenditures. Of the total amount proposed, $3.6 billion is for the payment of UI and DI benefits and $878 million is for various other programs and administration.

The $878 million proposed for other programs and administration is $162 million, or 16 percent, below estimated current-year expenditures. This reduction is due primarily to two factors. First, the budget shows a $172 million reduction in funds available for the Job Training Partnership Act (JTPA) because the current-year budget includes $115 million in local assistance funds reappropriated from the prior year and $58 million in state program funds carried over into the current year. Although not shown in the budget document, a comparable level of JTPA funds will likely be carried forward into the budget year. Second, the budget reflects a reduction of $8.9 million in reimbursements to the EDD from the Department of Social Services (DSS). 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.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 1
Employment Development Department
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Change From 1988-89 to 1989-90 Amount*	*Percent*
Employment programs					
Employment services	$106,352	$114,206	$126,760	$12,554	11.0%
Work incentive and related	24,734	22,796	14,652	−8,144	−35.7
Service centers	6,918	7,122	7,457	335	4.7
Job agent	2,882	3,035	3,179	144	4.7
Job service reimbursable	—	3,237	3,390	153	4.7
Subtotals, employment programs	($140,886)	($150,396)	($155,438)	($5,042)	(3.4%)
Employment training panel	$137,538	$84,101	$68,858	−$15,243	−18.1%
Job Training Partnership Act (JTPA)					
Administrative cost pool	$7,839	$9,484	$9,863	$379	4.0%
Incentive awards and technical assistance	8,222	27,860	10,237	−17,623	−63.3
Older workers	7,226	9,123	5,433	−3,690	−40.4
Educational linkages	8,443	32,540	14,487	−18,053	−55.5
Special local projects	4,504	3,553	364	−3,189	−89.8
Displaced workers	13,640	41,602	27,067	−14,535	−34.9
Veteran's programs	653	1,616	800	−816	−50.5
Adult and youth training	149,609	192,923	141,251	−51,672	−26.8
Summer youth program	65,010	131,878	68,581	−63,297	−48.0
Subtotals, JTPA	($265,146)	($450,579)	($278,083)	(−$172,496)	(−38.3%)
Unemployment Insurance (UI)					
Administration	$243,742	$258,544	$274,748	$16,204	6.3%
Benefits	1,757,312	1,953,626	2,083,456	129,830	6.6
Subtotals, UI	($2,001,054)	($2,212,170)	($2,358,204)	($146,034)	(6.6%)
Disability Insurance (DI)					
Administration	$70,459	$67,201	$70,444	$3,243	4.8%
Benefits	1,398,238	1,469,990	1,506,630	36,640	2.5
Subtotals, DI	($1,468,697)	($1,537,191)	($1,577,074)	($39,883)	(2.6%)
Personal income tax collections	$22,216	$23,560	$24,908	$1,348	5.7%
Employment training tax collections	1,784	1,872	1,964	92	4.9
General administration, undistributed	3,409	3,448	3,074	−374	−10.8
Total budget	$4,040,730	$4,463,317	$4,467,603	$4,286	0.1%
(Program)	($885,180)	($1,039,701)	($877,517)	(−$162,184)	(−15.6%)
(UI and DI benefits)	($3,155,550)	($3,423,616)	($3,590,086)	($166,470)	(4.9%)
Funding Sources					
General Fund	*$29,389*	*$29,411*	*$30,727*	*$1,316*	*4.5%*
Benefit Audit Fund	*6,565*	*7,012*	*8,359*	*1,347*	*19.2*
EDD Contingent Fund	*19,510*	*24,545*	*27,385*	*2,840*	*11.6*
Employment Training Fund	*152,206*	*98,643*	*86,337*	*−12,306*	*−12.5*
Disability Fund	*1,468,147*	*1,536,279*	*1,576,122*	*39,843*	*2.6*
Consolidated Work Program Fund	*265,146*	*450,579*	*278,083*	*−172,496*	*−38.3*
Unemployment Administration Fund	*331,071*	*349,195*	*371,055*	*21,860*	*6.3*
Unemployment Fund—Federal	*1,726,830*	*1,920,497*	*2,046,640*	*126,143*	*6.6*
School Employees Fund	*17,926*	*18,063*	*18,976*	*913*	*5.1*
Reimbursements	*23,940*	*29,093*	*23,919*	*−5,174*	*−17.8*

General Fund and Contingent Fund Requests

The budget proposes an appropriation of $31 million from the General Fund and $27 million from the EDD Contingent Fund to support the EDD in 1989-90. The Contingent Fund is composed of revenues from penalties and interest levied against employers who pay their taxes late. Penalties from late payment of personal income tax withholdings are transferred quarterly from the Contingent Fund to the General Fund. Remaining revenues from late payment of UI, DI, and Employment Training (ET) taxes, remain in the Contingent Fund. At the end of each fiscal year, the balance over $1 million is transferred to the General Fund.

The $58 million proposed from the General Fund and the Contingent Fund represents a net increase of $4.2 million, or 7.7 percent, from these funds as compared with estimated current-year expenditures. This increase is primarily due to a $3.9 million increase for the costs of the second phase of the automation of the Job Service's field offices. The first phase of the automation project, Job Service Order Sharing, made job orders available to each field office within local labor market areas. The second phase, Job Service Automation System (JSAS), will add the job seekers' applications to the computer and thereby enable the field offices to match job seekers with job orders using the computer. Under the JSAS, matches will not only be done within local labor market areas, but also statewide. The department advises that the JSAS will be completed and fully operational by February 1991.

Table 2
Employment Development Department
Proposed 1989-90 General and Contingent Fund Budget Changes
(dollars in thousands)

	General Fund	*Contingent Fund*	*Totals*
Funds available, 1988 Budget Act	$29,456	$23,553	$53,009
Baseline adjustments			
Salary, benefit, and price increase	$247	$64	$311
Retirement rate reduction	−292	−72	−364
Subtotals, baseline adjustments	($45)	($8)	($53)
Interest on refunds and judgments	—	$1,000	$1,000
1988-89 expenditures (revised)	$29,411	$24,545	$53,956
Baseline adjustments			
Elimination of one-time expenditures	—	−$1,750	−$1,750
Salary, benefit, and price increases	1,316	642	1,958
Adjustments for one-time expenditures	—	—	—
Subtotals, baseline adjustments	($1,316)	(−$1,108)	($208)
Interest on refunds and judgments	—	−$600	−$600
Program changes			
Job service automation	—	$3,899	$3,899
Personal income tax	—	649	649
Subtotals, program changes	(—)	($4,548)	($4,548)
1989-90 expenditures (proposed)	$30,727	$27,385	$58,112
Change from 1988-89 (revised):			
Amount	$1,316	$2,840	$4,156
Percent	4.5%	11.6%	7.7%

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

ANALYSIS AND RECOMMENDATIONS

DEPARTMENTAL PROGRAMS AND SUPPORT

Proposed Staffing Changes Reflect a Variety of Factors

The budget proposes a net reduction of 29 positions in 1989-90. 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. Table 4 shows how the staffing changes are distributed among the EDD's programs.

Table 3
Employment Development Department
Proposed Position Changes
and Fiscal Effect
1989-90
(dollars in thousands)

	Positions			*Net Fiscal Effect*			
Reason for Change	*Added*	*Reduced*	*Net*	*Salaries*	*Benefits*	*OE&E*	*Total*
Automation	4.1	—	4.1	$92	$29	$23	$144
Program change and legislative mandates	100.4	−147.8	−47.4	−2,147	−671	−1,614	−4,432
Workload changes	49.9	−35.6	14.3	1,171	362	9,197	10,730
Totals	154.4	−183.4	−29.0	−$884	−$280	$7,606	$6,442

Table 4
Employment Development Department
Proposed Position Changes by Program
1989-90

Reason for Change	*Unemployment Insurance*	*Disability Insurance*	*Employment Service*	*Tax Collections*	*Other Employment Programs*	*Total*
Automation	—	4.1	—	—	—	4.1
Program change and legislative mandates	48.1	—	35.8	—	−131.3	−47.4
Workload changes	−27.7	−7.9	—	8.6	41.3	14.3
Totals	20.4	−3.8	35.8	8.6	−90.0	−29.0

The major causes for position changes in each category shown in Tables 3 and 4 are discussed below:

- ***Automation.*** The department proposes to increase its staff by 4.1 positions to reflect a level of staff savings lower than previously projected for the automation of the DI offices.
- ***Program Changes and Legislative Mandates.*** The budget proposes a net decrease of 47.4 positions due to program changes and legislative mandates. The major additions are due to the department's proposals to (1) meet the federal requirements of the federal Immigration Reform and Control Act (IRCA), implementing the new Systematic Alien Verification (SAVE) system, which is a computerized system that verifies the legal status of aliens applying for UI benefits, (2) create a Youth Employment Opportunity Program with the Wagner-Peyser 10 percent funds, and (3) expand the State/Local Cooperative Labor Market Information Program from 7 to 18 local sites. The major reduction is due to the depart-

ment's proposals to phase out the WIN-Demo program and the Employment Preparation Program (EPP) as required by the GAIN.

- ***Workload Changes.*** The department proposes to add a net of 14.3 positions due to increased workload. The largest workload increases are in the tax programs as a result of growth in the number of employers in the state and in the Labor Certification program. The Department of Labor has estimated that labor certification workload will increase substantially as a result of the IRCA. The largest workload decrease is in the UI program and is due to the continuing low level of unemployment in the state.

EMPLOYMENT PROGRAMS

The EDD administers Special Group Employment Services and Employment Services programs in 130 Job Service (JS) field offices throughout the state, the majority of which are co-located with UI field offices. The purpose of the Special Group Employment Services programs is to provide special services to individuals with particular barriers to employment (i.e., the disabled, clients who are not proficient in English and participants in the GAIN program).

Employment Services programs include the JS program and several smaller programs, such as the Extended Veteran Services programs. Most of the funding for the JS program is from federal Wagner-Peyser funds, which are used to operate a statewide labor exchange. The purpose of the labor exchange is to assist unemployed persons in finding jobs by matching their skills with the needs of employers. The JS employees keep in constant touch with employers so that unemployed individuals requesting assistance can be referred to available jobs.

Federal law permits the state to use up to 10 percent of its JS grant funds—commonly referred to as the Wagner-Peyser 10 percent 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 $7.5 million for the Wagner-Peyser 10 percent programs in 1989-90.

Department's Proposal to use Vocational Rehabilitation (VR) Funds for the Deaf and Hearing Impaired Project Is Commendable

The budget anticipates that the EDD and the Department of Rehabilitation (DOR) will enter into an interagency agreement to provide intensive employment services within EDD's JS field offices to the deaf and hearing impaired. Under this agreement, the DOR will provide $659,000 in federal VR funds and the EDD will provide $200,000 in Wagner-Peyser 10 percent funds. Currently, the project is funded entirely with $859,000 in Wagner-Peyser 10 percent funds.

Our analysis indicates that the department's proposal has merit for two reasons. First, it is consistent with the intent of the Wagner-Peyser 10 percent program, which is to transition successful pilot projects to stable funding sources. The funding source in this case—federal VR funds—is not only stable, but it is one that the state has had difficulty in finding eligible uses for in the past. (Please see the *Analysis of the 1988-89 Budget Bill*, p. 641.) Second, the replacement of Wagner-Peyser 10 percent monies with VR funds will free up discretionary funds which the Legislature can appropriate to other pilot programs.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Department's Youth Employment Opportunity Program

The budget proposes $1,057,000 in Wagner-Peyser 10 percent funds to support a new program targeted on "at-risk youth." The department defines at-risk youths as "socially, educationally, economically disadvantaged, minority" 15 to 22 year-olds. The program's goal is to increase the employability of these youths by preventing them from dropping out of school and by providing them with assistance in making the transition from school to work.

The Youth Employment Opportunity program would operate in the Los Angeles area in approximately 20 to 25 EDD field offices. The program would select 100 high-risk youth and match them up with five EDD youth employment specialists who will serve as mentors, teaching the youths job development, placement, and counseling techniques. Upon the completion of their training, the youths would provide job placement counseling to other high-risk youth at the JS offices, in schools, and at various youth-oriented programs.

EMPLOYMENT TRAINING PANEL

The Employment Training Panel (ETP) was established in 1982 and provides employment training to workers covered under the UI program. The ETP provides training only to individuals who are:

- Unemployed and receiving UI benefits.
- Unemployed but have exhausted their 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 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. Any ETT collections above $55 million revert to the UI Fund.

The ETP 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. If the trainee does not find employment or fails to remain in the job for 90 days, the contractor is not paid for any costs of the training.

Availability of Employment Training Funds To Reimburse the Military Department Is Unclear

We withhold recommendation on $621,000 proposed from the Employment Training Fund to reimburse the Military Department, pending receipt of the department's program design and its assessment

of (1) the probability that the new program will qualify for ETF reimbursement and (2) the desirability of expanding the new program to two additional cities.

The budget proposes $621,000 from the ETF for an interagency agreement between the ETP and the Military Department. The Military Department will use the $621,000 in ETF monies to expand the Innovative Military Projects and Career Training (IMPACT) program. The IMPACT program provides economically disadvantaged youth, ages 17-21, with military skills training, basic skills training, and preemployment training.

Specifically, the Military Department will use the $621,000 as follows:

- $521,000 to enter into a performance-based contract with the ETP to enroll 200 trainees and place 104 of them in jobs for at least 90 days.
- $100,000 to cover the administrative costs of the performance-based contract and to investigate the feasibility of expanding to two more sites.

We have identified two problems with this proposal. First, it is not clear that the new IMPACT program will be able to qualify for ETF reimbursement. Although IMPACT has been extremely successful in placing its participants, a substantial number of IMPACT participants are placed in the Armed Forces or back in school, rather than in jobs. Pursuant to statutory requirements, the ETP can only reimburse its contractors for trainees who are placed in jobs. In addition, very few of the IMPACT program's current clientele fall into any of the three categories that can be funded from the ETF. If the Military Department hires the proposed additional staff, but is unable to either find ETF-eligible clients or to place as many eligible clients as the department is contracted for, it would not qualify for ETF reimbursement. In this event, the Military Department would incur a General Fund deficiency to cover the costs of the additional staff. The Military Department is receiving $99,900 from the ETF in the current year to design the proposed expansion of the program to include ETF-eligible clients. Once the Military Department has completed its design of the new IMPACT program, it should be possible to determine whether the new program will qualify for ETF funding.

Second, part of the $100,000 proposed in the budget would go for a study of the feasibility of expanding the new IMPACT program to two additional sites. In our judgment, it would not be prudent to fund a study of program expansion before the program has even been designed.

When the Military Department has completed its design of the proposed new program, the department should be in a position to advise the Legislature on these issues. We therefore withhold recommendation on the $621,000 proposed from the ETF to reimburse the Military Department, pending receipt of the department's program design and its assessment of (1) the probability that the new program will qualify for ETF reimbursement and (2) the desirability of expanding the new program to two additional sites. We also withhold recommendation on the $621,000 in reimbursement proposed under the Military Department's budget. (Please see Item 8940.)

UNEMPLOYMENT INSURANCE PROGRAM

The purpose of the UI program is to reduce economic hardship by providing benefit payments to eligible workers who are temporarily unemployed. The UI benefits are financed through employer payroll

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

taxes that vary according to (1) the actual experience of individual employers with respect to the benefits paid to their employees and former employees and (2) the amount of the UI Trust Fund's reserves. Administrative costs are paid by the federal government on the basis of projected workload. During periods of high unemployment, the Department of Labor has traditionally provided additional funds to handle the increased number of UI claims.

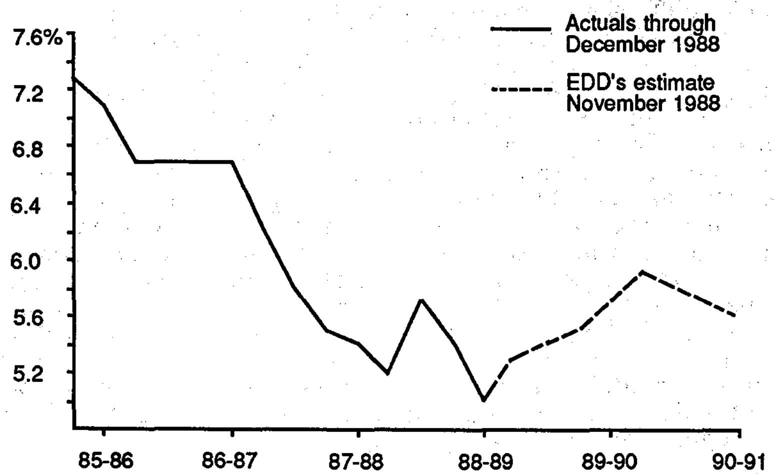
The budget proposes $275 million for UI administration and $2.1 billion for benefit payments. The level of administrative expenditures proposed for 1989-90 is $16.2 million, or 6.3 percent, above estimated current-year levels. This increase is primarily due to (1) an increase of $4.6 million in operating expenses and equipment and data processing costs and (2) an increase of $11.6 million in salaries and benefits. The $2.1 billion proposed for UI benefits in 1989-90 is $130 million, or 6.6 percent, higher than current-year benefit levels. This increase is primarily due to an anticipated increase in employee wages and the average number of weeks claimed per UI claimant.

Estimates Will be Updated in May

The department's estimates of UI expenditures are based on actual program costs through September 1988 and a forecast of trends in the economy, especially as they affect unemployment. The department made

Chart 1

Employment Development Department
California's Actual and Projected Unemployment Rate
Quarterly Data
1985-86 through 1990-91



its projections of the state's unemployment rate in June 1988, however, and since completing the UI estimates has completed a revised forecast of the unemployment rate. This latest forecast differs from the June forecast used to prepare the budget in that the department is now predicting a mild recession in 1989-90. This new estimate is based, in part, on the recent rise in interest rates, a build up of inventories, the federal deficit, and an anticipated decrease in defense spending. Chart 1 shows the actual unemployment rate through December 1988 and the department's estimates based on its November forecast.

Although the UI estimates used in the budget are not based on this prediction of a recession, the department will revise its estimates in May. The May revision will be based on data through March 1989 and a revised economic forecast that will reflect the most recent trends in the economy. Because these revised estimates will be based on more recent experience, they will provide the Legislature with a more reliable basis for budgeting 1989-90 expenditures.

EMPLOYMENT DEVELOPMENT DEPARTMENT—REAPPROPRIATION

Item 5100-490 from federal funds — Budget p. HW 135

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 1989-90 all JTPA local assistance funds that 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, 1989 on the actual amount of JTPA local assistance funds carried over into 1989-90.

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 various funds — Budget p. HW 155

Requested 1989-90	$246,762,000
Estimated 1988-89	234,148,000
Actual 1987-88	204,235,000
Requested increase (excluding amount for salary increases) $12,614,000 (+5.4 percent)	
Total recommended reduction	None
Recommendation pending	76,871,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5160-001-001—Support	General	$21,292,000
5160-001-890—Support	Federal Trust	139,619,000
5160-101-001—Local assistance	General	75,210,000
Statutory Appropriation—Government Code Section 16370	Vending Stand Account, Special Deposit	2,108,000
Reimbursements	—	8,533,000
Total		$246,762,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Reimbursement from Career Opportunities Development (COD) Program. Recommend that the department report to the fiscal committees prior to budget hearings on how the elimination of funds for the COD program will affect the level of services the department plans to provide to its clients in the budget year. 559
2. Unbudgeted Vocational Rehabilitation (VR) Funds. Recommend that prior to budget hearings, the department report to the fiscal committees on (a) its plan for using unbudgeted federal VR funds in the budget year, (b) the status of a proposed pilot project with the Department of Developmental Services (DDS), and (c) any changes needed in existing law or procedures in order to maximize the use of VR funds in providing services to persons with developmental disabilities. 560
3. Work Activity Program (WAP) and Supported Employment Program (SEP) Expenditures. Withhold recommendation on $71 million in General Fund support for WAP and SEP pending review of the May estimate. 561
4. Rehabilitation Program for Developmentally Disabled Clients. Withhold recommendation on $6 million proposed transfer from WAP for new VR program for developmentally disabled clients pending receipt of the details of the plan. 561

GENERAL PROGRAM STATEMENT

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

The department has 1,863 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $247 million for the DOR in 1989-90. This includes $96 million from the General Fund, $140 million from federal funds, $2.1 million from the Vending Stand Account, and $8.5 million in reimbursements. Total expenditures proposed for 1989-90 are $12.6 million, or 5.4 percent, more than estimated current-year expenditures.

The $96 million proposed from the General Fund for support of the DOR in 1989-90 is a decrease of $1.8 million, or less than 2 percent, below estimated current-year expenditures. The proposed General Fund amount includes $21 million for support of the department and $75 million for local assistance. Table 1 displays program expenditures and funding sources for the prior, current, and budget years.

Table 1
Department of Rehabilitation
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Vocational rehabilitation	$116,470	$138,554	$146,484	5.7%
Habilitation services	64,649	74,048	77,690	4.9
Support of community facilities	11,766	9,555	9,660	1.1
Administration	11,350	11,991	12,928	7.8
Totals	$204,235	$234,148	$246,762	5.4%
Funding Sources				
General Fund	*$89,006*	*$98,299*	*$96,502*	*−1.8%*
Federal Trust Fund	*109,056*	*128,512*	*139,619*	*8.6*
Vending Stand Account	*1,652*	*2,108*	*2,108*	—
Reimbursements	*4,521*	*5,229*	*8,533*	*63.2*

Table 2 displays the significant changes in expenditure levels proposed in the budget for 1989-90. Major budget changes proposed include:

- An increase of $3.2 million to support the estimated increase in the Work Activity Program (WAP)/Supported Employment Program (SEP) caseload.
- A reduction of $6 million from the General Fund and an increase of $6 million from federal funds for implementation of a VR program for developmentally disabled persons currently served in the WAP.

DEPARTMENT OF REHABILITATION—Continued

Table 2
Department of Rehabilitation
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (revised)	$98,299	$234,148
Cost adjustments:		
Employee compensation adjustments	$622	$3,114
Inflation adjustments	—	1,681
Staffing cost augmentation	—	4,630
Other adjustments	−59	−62
Subtotals, cost adjustments	($563)	($9,363)
Program change proposals:		
Work Activity Program (WAP) transfer for services for developmentally disabled—reduction in General Fund	−$6,000	−$6,000
WAP transfer for services for developmentally disabled—increase in federal VR funds	—	6,000
WAP/Supported Employment Program caseload increase	3,640	3,178
Continuation of independent living rehabilitation services	—	73
Subtotals, program change proposals	(−$2,360)	($3,251)
1989-90 expenditures (proposed)	$96,502	$246,762
Change from 1988-89:		
Amount	−$1,797	$12,614
Percent	−1.8%	−5.4%

One budget change that does not appear in Table 2 is the redirection of $5.7 million ($527,000 from the General Fund and $5.2 million from federal funds) from direct case services for development of a statewide computer-assisted case service system. The project, which will have an estimated future cost of $24 million ($1 million from the General Fund and $23 million from federal funds), is based on a pilot project conducted by the DOR in Los Angeles in 1984 and 1985 and is consistent with federal requirements for use of the federal funds. Our analysis indicates that the proposed project should enhance the department's ability to provide direct services to its clients.

Table 3 presents a summary of personnel-years for the department in the prior, current, and budget years. The increase in total personnel-years is due primarily to the proposed addition of approximately 100 positions for rehabilitation counseling and placement services.

Table 3
Department of Rehabilitation
Personnel-Years
1987-88 through 1989-90

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change From 1988-89* Amount	Percent
Vocational rehabilitation	1,380.7	1,541.0	1,642.2	101.2	6.6%
Habilitation services	25.0	23.9	23.9	—	—
Support of community facilities	13.0	13.3	13.3	—	—
Administration	178.2	176.2	183.5	7.3	4.1
Totals	1,569.9	1,754.4	1,862.9	108.5	6.2%

ANALYSIS AND RECOMMENDATIONS

VOCATIONAL REHABILITATION SERVICES

Vocational rehabilitation (VR) 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 VR services on an 80 percent-20 percent basis. In addition, the federal government reimburses the DOR for the full cost of successfully rehabilitating certain VR clients.

The budget proposes $159 million for VR services in 1989-90, which includes $146 million for direct client services and $12 million for state administrative costs. Of the total amount proposed for VR services, $20 million is from the General Fund, $129 million is from federal funds, and $11 million is from fees and reimbursements. In addition to the VR funds proposed for the VR program itself, the budget also proposes $3.2 million in federal VR funds for grants to community rehabilitation facilities.

Budget Does Not Account for Elimination of Career Opportunities Development (COD) Program

We recommend that the department report to the fiscal committees prior to budget hearings on how the elimination of funds for the COD program will affect the level of services the department plans to provide to its clients in the budget year.

In the current year, the department receives approximately $2 million in reimbursements from the State Personnel Board's (SPB) COD program. The COD program provides on-the-job training for disabled individuals, welfare recipients, and other economically disadvantaged persons. The department matches funds from the COD program with federal VR funds on an 80/20 (federal/state) basis. Thus, the federal matching funds result in approximately $8 million in additional federal funds being available to the department for training programs for disabled individuals.

The department's budget includes $2 million for reimbursements from the SPB for the budget year, as well as $8 million in matching federal VR funds. The SPB's budget, however, does not include any funds for the COD program in 1989-90 because the administration proposes to eliminate the program (please see our analysis of Item 1880 for a discussion of the proposed elimination of the program).

Without the reimbursements from the SPB, the department will not have the required 20 percent match and the state could stand to lose the $8 million in federal funds it planned to use to provide VR services. It is not clear to what extent eliminating the COD funds will affect the department's ability to deliver services to disabled individuals. The department advises that it will attempt to find the required matching funds from another source, but it does not have a specific plan at this time. Because of these uncertainties, we recommend that the department report to the Legislature's fiscal committees prior to budget

DEPARTMENT OF REHABILITATION—Continued

hearings on how the elimination of the COD funds will affect the level of services the department plans to provide to its clients in the budget year.

Department Needs Plan for Use of Federal Funds

We recommend that prior to budget hearings, the department advise the fiscal committees on (1) its plan for use of unbudgeted federal VR funds, (2) the status of the proposed pilot project with the DDS, and (3) what changes are needed in existing law or procedures in order to maximize the use of VR funds in providing services to persons with developmental disabilities.

The 1988 Budget Bill included an augmentation of $9 million in the VR program for 199 counselor positions. This amount included $7.2 million from federal VR funds and $1.8 million from the General Fund for the required state match. The Governor, however, vetoed the General Fund portion of the augmentation and, in his veto message, instructed the department to seek other "third-party matching funds."

In December 1988, the department notified the Legislature pursuant to Section 28 of the 1988 Budget Act, that it would use another source of federal funds for the positions because the department had been unsuccessful in identifying third-party matching funds for the VR funds. Consequently, the $7.2 million from federal VR funds that was originally intended to support the counselor positions is currently available for expenditure for other VR programs and will remain available through September 30, 1989, the end of federal fiscal year 1989. Thus, the funds will be available during the first three months of the budget year.

Excess Funds Could Be Used for Other Programs. The department advises that it has no plan for the use of the $7.2 million in the budget year. These funds could be used to expand services in the department's existing rehabilitation program, or for a variety of other state programs designed to help the physically or developmentally disabled, the mentally ill, and substance abusers return to work. These other programs include various programs in the Departments of Developmental Services, Mental Health, Alcohol and Drug Programs, Social Services, and Employment Development.

Pilot Project with Department of Developmental Services. Our analysis indicates that there are significant opportunities for use of VR funds in the Department of Developmental Services (DDS). For example, the DDS advises that the administration is currently reviewing a proposal to establish a pilot project in which the DOR would pay for employment services for developmentally disabled clients. Depending on the specific clients involved, the DOR would pay for these services using either federal VR funds or General Fund resources appropriated to the Habilitation program. The regional centers would continue to purchase support services for these clients. According to the departments, there are several barriers to the development of the project, including a lack of data to estimate the maximum amount of VR funds that could be used to offset General Fund costs.

We believe that this proposal has merit for two reasons. First, it would ensure that a single agency (DOR) would have primary responsibility for employment services for persons with developmental disabilities. Second, it would allow the state to maximize the use of federal VR funds in lieu of General Fund resources.

Recommendation. In order to ensure that the state makes maximum use of federal VR funds and that the Legislature has an opportunity to review all funds available to the department, we recommend that prior to budget hearings, the department advise the fiscal committees on (1) its plan for use of unbudgeted federal VR funds in existing programs within the department and in other departments, (2) the status of the proposed pilot project with the DDS, and (3) any changes in law or procedures that may be needed in order to maximize the use of VR funds in providing services to persons with developmental disabilities.

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 WAP, (2) the SEP, and (3) Counselor-Teacher and Reader Services for the Blind. The objectives of the 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. The major objective of SEP is to provide training and supportive services to clients so that they can engage in competitive employment.

The budget proposes $78.3 million for habilitation services in 1989-90, which includes $78 million for client services and $333,000 for state administrative costs. Of the total amount proposed for habilitation services, $71 million is from the General Fund and $7 million is from federal funds.

WAP and SEP Estimates Will Be Updated in May

We withhold recommendation on $71 million from the General Fund requested for WAP and SEP, pending review of the May estimates of caseloads and costs.

The budget requests $71 million from the General Fund for WAP ($53 million) and SEP ($18 million) in 1989-90. The proposed expenditures for these programs are based on actual caseloads and expenditures through September 1988. The department will present revised estimates in May, which will be based on more recent caseload and expenditure data. Because the revised estimates will be based on more recent information, they will provide the Legislature with a more reliable basis for budgeting expenditures for 1989-90. Consequently, we withhold recommendation on the amount proposed for WAP and SEP, pending review of the May estimates.

No Information on New Program for Developmentally Disabled Clients

We withhold recommendation on the department's proposal to establish a new VR program for developmentally disabled clients, pending receipt of the details of the plan.

The budget proposes to increase federal VR funds by $6 million and reduce the General Fund by $6 million to implement a vocational rehabilitation program for developmentally disabled clients who are currently served in the WAP. At the time this analysis was prepared, the Legislature had received *no information* about the proposal beyond the basic concept. Although we believe it is important that the department seek options to maximize the use of federal funds, without basic information it is impossible to evaluate this proposal to determine whether it makes programmatic sense and is consistent with both state and federal statutes. The department advises that it is still working on the proposal and that a detailed written proposal will be forthcoming prior to budget hearings. Consequently, we withhold recommendation on the proposal, pending receipt of the plan.

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 of $9.8 billion for programs administered by the department in 1989-90. This is an increase of $452 million, or 4.8 percent, above estimated current-year expenditures. Table 1 identifies total expenditures from all funds for programs administered by the DSS for the past, current, and budget years.

Table 1
Department of Social Services
Expenditures and Revenues, by Program
All Funds
1987-88 through 1989-90
(dollars in thousands)

Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change From 1988-89 Amount	Change From 1988-89 Percent
Departmental support	$218,311	$237,370	$243,228	$5,858	2.5%
AFDC [a]	4,429,055	4,808,662	5,082,551	273,889	5.7
SSI/SSP [b]	1,846,496	2,002,848	2,070,657	67,809	3.4
Special adult	2,882	3,309	3,689	380	11.5
Refugee	45,322	20,668	17,505	−3,163	−15.3
County welfare department administration [a]	745,382	887,085	959,900	72,815	8.2
Social services [a,c]	1,015,112	1,385,966	1,420,077	34,111	2.5
Community care licensing	12,662	14,804	15,589	785	5.3
Totals	$8,315,222	$9,360,712	$9,813,196	$452,484	4.8%
Funding Sources					
General Fund [c]	*$4,698,320*	*$5,364,214*	*$5,638,810*	*$274,596*	*5.1%*
Federal funds [b]	*3,108,027*	*3,445,555*	*3,589,691*	*144,136*	*4.2*
County funds	*498,295*	*530,114*	*560,261*	*30,147*	*5.7*
Reimbursements [d]	*8,171*	*12,177*	*11,913*	*−264*	*−2.2*
State Children's Trust Fund	*2,354*	*2,179*	*1,707*	*−472*	*−21.7*
Foster Family Home and Small Family Home Insurance Fund	*−470*	*165*	*556*	*391*	*237.0*
Life-Care Provider Fee Fund	—	—	*192*	*192*	— [e]
State Legalization Impact Assistance Grant funds	*525*	*6,308*	*10,066*	*3,758*	*59.6*

[a] Includes county funds.

[b] Excludes SSI federal grant funds.

[c] Excludes General Fund expenditures for GAIN from Control Section 22 and other funds for GAIN appropriated in other items in the Budget Bill. Table 9 in our analysis of the GAIN program in Item 5180-151-001 displays all the funds appropriated in the Budget Bill for GAIN.

[d] Excludes reimbursements for AFDC.

[e] Not a meaningful figure.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by the DSS. The budget requests a total of $5.6 billion from the General Fund for these programs in 1989-90. This is an increase of $275 million, or 5.1 percent, over estimated current-year expenditures.

Table 2
Department of Social Services
General Fund Expenditures
1987-88 through 1989-90
(dollars in thousands)

Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change From 1988-89: Amount	Change From 1988-89: Percent
Departmental support	$77,770	$81,441	$84,777	$3,336	4.1%
AFDC [a]	2,148,297	2,337,681	2,506,060	168,379	7.2
SSI/SSP	1,835,661	1,990,040	2,055,484	65,444	3.3
Special adult	2,828	3,234	3,614	380	11.8
County welfare department administration	141,491	167,099	179,592	12,493	7.5
Social services	483,966	775,290	799,239	23,949	3.1
Community care licensing	8,307	9,429	10,044	615	6.5
Totals	$4,698,320	$5,364,214	$5,638,810	$274,596	5.1%

[a] Excludes General Fund expenditures for GAIN from Control Section 22 and other funds for GAIN appropriated in other items in the Budget Bill. Table 9 in our analysis of the GAIN program in Item 5180-151-001 displays all the funds appropriated in the Budget Bill for GAIN.

Department of Social Services
DEPARTMENTAL SUPPORT

Item 5180-001 from all funds — Budget p. HW 177

Requested 1989-90	$243,228,000
Estimated 1988-89	237,370,000
Actual 1987-88	218,311,000
Requested increase (excluding amount for salary increases) $5,858,000 (+2.5 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Support	General	$84,593,000
5180-001-890—Support	Federal	$147,611,000
5180-011-001—Support	General	184,000
5180-001-131—Support	Foster Family Home and Small Family Home Insurance	740,000
Less General Fund transfer	—	−184,000
Subtotal, 5180-001-131		($556,000)
Reimbursements	—	9,178,000
Welfare and Institutions Code Section 18969—Appropriation	State Children's Trust	48,000
Health and Safety Code Section 1793—Appropriation	Life-Care Provider Fee	192,000
Control Section 23.5—Support	State Legalization Impact Assistance Grant	866,000
Total		$243,228,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Community Care Licensing—Staffing. Recommend that prior to budget hearings, the Department of Social Services report to the fiscal committees on how it proposes to accommodate its licensing workload, given the number of licensing staff positions proposed in the budget. 568
2. AFDC-FC and Adoptions Assistance Programs—Title IV-E Funding Delays. Recommend that the department report at budget hearings on (a) the steps it is taking to obtain $108 million in Title IV-E funds owed to the state for prior-year costs in the AFDC-FC and Adoptions Assistance programs, (b) the additional administrative options available for pursuing the funds, and (c) the option of taking legal action to recover the funds. 570

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamps, and social services programs. It is also responsible for (1) licensing and evaluating nonmedical community care facilities and (2) determining the medical/vocational eligibility of persons applying for benefits under the Disability Insurance program, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Medi-Cal/medically needy program.

The department has 3,587.1 personnel-years in the current year to administer these programs.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $243.2 million from all funds, including reimbursements, for support of the department in 1989-90. This is $5.9 million, or 2.5 percent, more than estimated current-year expenditures. Of the total amount requested, $94.7 million is from state funds ($84.8 million General Fund, $9.2 million reimbursements, $0.6 million Foster Family Home and Small Family Home Insurance Fund, $0.2 million Life-Care Provider Fee Fund, and $48,000 State Children's Trust Fund) and $148.5 million is from federal funds. Table 1 identifies the

DEPARTMENTAL SUPPORT—Continued

department's expenditures by program and funding source for the past, current, and budget years.

Table 1
Department of Social Services
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

				Change From 1988-89	
Program	*1987-88*	*1988-89*	*1989-90*	*Amount*	*Percent*
AFDC-FG&U	$14,810	$16,350	$16,723	$373	2.3%
AFDC-FC	3,622	3,557	3,757	200	5.6
Child support	9,773	9,661	10,320	659	6.8
SSI/SSP	607	686	725	39	5.7
Special adult	−30	316	326	10	3.2
Food stamps	20,138	20,783	21,222	439	2.1
Refugee programs	5,005	6,518	6,269	−249	−3.8
Child welfare services	4,671	5,017	4,633	−384	−7.7
County services block grant	1,256	998	1,092	94	9.4
IHSS	2,149	2,009	2,087	78	3.9
Specialized adult services	302	811	720	−91	−11.2
Employment programs	6,324	7,001	7,366	365	5.2
Adoptions	7,423	7,830	9,118	1,288	16.4
Child abuse prevention	1,867	2,056	2,148	92	4.5
Community care licensing	32,677	34,655	37,355	2,700	7.8
Disability evaluation	99,390	109,874	112,291	2,417	2.2
Administration	8,327	9,248	7,076	−2,172	−23.5
Totals	$218,311	$237,370	$243,228	$5,858	2.5%
Funding Sources					
General Fund	*$77,770*	*$81,441*	*$84,777*	*$3,336*	*4.1%*
Federal funds	*133,294*	*145,540*	*147,611*	*2,071*	*1.4*
Reimbursements	*7,429*	*9,126*	*9,178*	*52*	*0.6*
State Children's Trust Fund	*77*	*48*	*48*	—	—
State Legalization Impact Assistance Grant	*211*	*1,050*	*866*	*−184*	*−17.5*
Foster Family Home and Small Family Home Insurance Fund	*−470*	*165*	*556*	*391*	*237.0*
Life-Care Provider Fee Fund	—	—	*192*	*192*	—[a]

[a] Not a meaningful figure.

Proposed General Fund Changes

Table 2 shows the changes in the department's support expenditures that are proposed for 1989-90. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Other Funds*[a]	*Total Funds*
1988-89 expenditures (revised)	$81,441	$155,929	$237,370
Workload adjustments			
Expiration of limited-term positions	−$1,904	−$1,783	−$3,687
Community care licensing staff—full-year funding for positions approved in 1988-89	584	35	619
Elimination of one-time costs—disaster relief	−2,300	—	−2,300
Subtotals, workload adjustments	(−$3,620)	(−$1,748)	(−$5,368)
Cost adjustments			
Employee compensation	$2,981	$4,499	$7,480
Operating expenses and equipment	−559	−402	−961
Other	731	−1,017	286
Subtotals, cost adjustments	($3,153)	($3,080)	($6,233)
Program adjustments			
AFDC-FC—establish limited-term positions as permanent	$517	$385	$902
Community care licensing staff—caseload growth	725	43	768
Independent adoptions program increase	800	—	800
GAIN—establish limited-term positions as permanent	461	425	886
Life-care contract program increase	—	192	192
Foster Family Home and Small Family Home Insurance Fund	184	391	575
Other	1,116	−246	870
Subtotals, program adjustments	($3,803)	($1,190)	($4,993)
1989-90 expenditures (proposed)	$84,777	$158,451	$243,228
Change from 1988-89:			
Amount	$3,336	$2,522	$5,858
Percent	4.1%	1.6%	2.5%

[a] Includes federal funds, special funds, and reimbursements.

Proposed Position Changes

The budget requests authorization of 3,872 positions in 1989-90. This is a net increase of 78.1 positions, or 2 percent. The increase is due primarily to (1) the department's proposal to establish 18 permanent positions to set rates in the Aid to Families with Dependent Children—Foster Care (AFDC-FC) program, (2) the addition of 21 positions in the Adoptions program to reduce backlogs and meet statutory deadlines, and (3) a total of 16 additional positions in the Community Care Licensing (CCL) program due to projected caseload growth. All of the decrease—20.5 positions—is due to the 2 percent unallocated reduction in the 1988 Budget Act. Table 3 displays the position changes for 1989-90.

DEPARTMENTAL SUPPORT—Continued

Table 3
Department of Social Services
Proposed Position Changes
1989-90

Program	*Existing Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Changes Amount*	*Net Changes Percent*
AFDC-FG & U	278.4	−3.1	2.7	278.0	−0.4	−0.1%
AFDC-FC	61.3	−2.4	27.1	86.0	24.7	40.3
Child support	91.0	—	7.6	98.6	7.6	8.4
SSI/SSP	8.2	—	—	8.2	—	—
Special adult	6.3	—	—	6.3	—	—
Food stamps	284.4	−3.0	2.6	284.0	−0.4	−0.1
Refugee programs						
Cash assistance	38.0	—	0.5	38.5	0.5	1.3
Social services	35.8	−2.5	0.5	33.8	−2.0	−5.6
Targeted assistance	6.0	—	—	6.0	—	—
Child welfare services	73.9	−1.2	1.1	73.8	−0.1	−0.1
County services block grant	26.9	—	—	26.9	—	—
IHSS	41.3	−0.7	0.1	40.7	−0.6	−1.5
Specialized adult services	12.2	—	—	12.2	—	—
Employment programs						
WIN	9.6	—	—	9.6	—	—
GAIN	74.9	−0.1	15.1	89.9	15.0	20.0
Adoptions	171.6	−0.4	21.6	192.8	21.2	12.4
Child abuse prevention	32.6	—	—	32.6	—	—
Community care licensing	666.3	−5.4	16.2	677.1	10.8	1.6
Disability evaluation	1,750.8	−1.7	1.9	1,751.0	0.2	0.0
Administration	124.4	—	1.6	126.0	1.6	1.3
Totals	3,793.9	−20.5	98.6	3,872.0	78.1	2.1%

ANALYSIS AND RECOMMENDATIONS

Budget Proposal Does Not Reflect Change in the Licensing Caseload

We recommend that prior to budget hearings, the department report to the fiscal committees on how it proposes to accommodate its Community Care Licensing (CCL) workload, given the number of licensing staff positions proposed in the budget.

The budget proposes an additional $768,000 ($725,00 General Fund) and 17 positions for the CCL due to a projected 3.5 percent increase in the number of licensed community care facilities in 1989-90. The department estimates that the number of facilities will grow from 40,447 in 1988-89 to 41,855 in 1989-90.

The 17 positions (16 licensing positions and 1 legal position) proposed in the budget represent roughly half the number of positions the CCL estimates would be needed to handle the increased caseload. Specifically, based on workload standards developed by the Department of General Services in 1986, the CCL estimates that it would require an additional 32 positions and 1.5 additional legal staff. The department reports that the lower staffing level is due to "financial constraints."

According to the department, the CCL will need to reduce licensing activities in order to respond to the increased caseload with less than the necessary staff. The CCL is currently in the process of identifying those activities that are not statutorily mandated, for review and possible elimination. The department advises that these reductions could include, for example, elimination of the preapplication process for all facilities or a return to one annual visit per year in residential care facilities for the elderly rather than the two annual visits that the CCL division has been making since the Governor's Seniors' Initiative of 1984. If necessary, the CCL would also identify statutory workload changes and seek legislation to revise these requirements.

In order to assess the CCL staffing level proposed in the budget, the Legislature will need to have the department's specific plans to reduce its licensing activities. We therefore recommend that prior to budget hearings, the department advise the fiscal committees on how it proposes to accommodate its licensing workload, given the number of licensing positions proposed in the budget.

Cost of Independent Adoptions Program Could be Offset by Fees

The budget proposes expenditures of $9.1 million ($8.2 million General Fund) for support of the Adoptions program. This is an increase of $1.3 million ($1.2 million General Fund), or 16 percent, over current-year expenditures. This increase is primarily the result of the department's proposals to reduce backlogs in the Relinquishment Adoptions and Independent Adoptions programs. Specifically, the department proposes an increase of $416,000 ($333,000 General Fund) to reduce backlogs in the Relinquishment Adoptions program and a General Fund increase of $800,000 to reduce backlogs in the Independent Adoptions program. The Relinquishment Adoptions program provides services to children in foster care. The Independent Adoptions program provides adoption services to birth parents and adoptive parents when both agree on placement and do not need the extensive assistance of an adoption agency.

Our analysis indicates that the department's proposal to augment staff in the Relinquishment Adoptions program has merit for two reasons: (1) adoption provides a more stable and secure family environment for children than does foster care and (2) adoptive placement of these children would result in General Fund savings in the long-run because adoption eliminates the need for monthly foster care grants. In addition, we believe that the department's proposal to increase staff in the Independent Adoptions program is justified because without additional staff, the department is currently unable to meet the statutory time frames for processing independent adoptions cases.

In a separate report entitled *Summary of Recommended Legislation* (Legislative Analyst's Office Report No. 89-4), we point out that it would be appropriate to permit the DSS to charge adoptive parents in the Independent Adoptions program a fee to cover the costs of operating the program for three reasons: (1) the benefits from an independent adoption accrue primarily to the adoptive parents, the child and the natural parents, (2) the use of fees to support the Independent Adoptions program could make the program more responsive to the needs of adoptive parents, and (3) fees for independent adoptions would not create a barrier for most prospective adoptive parents in the program. In addition, we note that the DSS currently charges fees to prospective adoptive parents in the Relinquishment Adoptions program. If the Legislature decides to adopt legislation to permit the DSS to charge fees in the Independent Adoptions program, the revenues generated by the

DEPARTMENTAL SUPPORT—Continued

fees could be used to offset the General Fund costs of the Independent Adoptions program.

Federal Funding Delay Has General Fund Impact

We recommend that the department report to the Legislature prior to budget hearings, on (1) the steps it is taking to obtain $108 million in federal funds owed to the state for prior-year costs in the AFDC-FC and Adoptions Assistance programs, (2) the additional administrative options it has for pursuing the funds, and (3) the option of taking legal action to recover the funds.

The federal Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) created Title IV-E of the Social Security Act, which provides funds for federally eligible children in foster care and adopted children with special needs. Specifically, under Title IV-E states may claim federal financial participation (FFP) for the AFDC-FC and Adoption Assistance programs at the rates of (1) 50 percent for the costs of foster care grants and adoption assistance payments to federally eligible children, (2) 50 percent of certain administrative costs, such as determining foster care eligibility and recruiting foster family homes, and (3) 75 percent of staff training costs associated with these programs. According to the DSS, however, Title IV-E funds are not paid to the state on a timely basis. Specifically, the department advises that the federal government is $108 million in arrears in its Title IV-E payments to the state. The arrearages date back as far as 1981-82.

The delays the DSS experiences in receiving Title IV-E funds tie up General Fund resources. This is because, in order to cover the full federal share of the costs of the AFDC-FC and Adoption Assistance programs, the DSS must annually "borrow" funds from the General Fund. For example, the budget proposes General Fund expenditures of $1.1 million in the Social Services program item (Item 5180-151-001) and $90,000 in the DSS Departmental Support item (Item 5180-001-001) to recruit, train, and provide support services to foster parents for infants in four counties who are drug exposed or who test positive for the virus that causes AIDS. We estimate that at least $200,000 of the costs of this proposal should be funded by Title IV-E. In fact, the DSS advises that it *will* eventually receive federal reimbursement for these costs. In the meantime, however, the department proposes to cover the entire cost of the proposal with the General Fund resources. According to the department, this is necessary because it will not receive reimbursement for the costs of the proposed pilot project until after the close of the budget year.

Receiving Title IV-E funds on a timely basis would free up General Fund resources, which the Legislature could use for its priorities in this or other program areas. Thus, we believe it is important that the department pursue all of the options available to ensure that the state receives the $108 million that is currently in arrears, as well as prompt reimbursement for costs in the future. The department advises that it has pursued several administrative remedies to this situation. Specifically, since 1981-82, the department has made countless appeals and protests to the Department of Health and Human Services, yet the amount in arrears has continued to grow. It is not clear to us what further administrative options the department has for resolving this matter. If the department has, in fact, exhausted all of the administrative avenues of appeal, the only remaining alternative would be to take legal action in federal court. We therefore recommend that the DSS advise the fiscal committees (1) as to the steps it is taking to obtain the federal funds owed to the state for prior-year IV-E program costs, (2) the additional administrative options that it has for pursuing the funds, and (3) the option of taking legal action to recover the funds.

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 166

Requested 1989-90	$4,883,678,000
Estimated 1988-89	4,614,645,000
Actual 1987-88	4,241,512,000
Requested increase $269,033,000 (+5.8 percent)	
Recommendation pending	4,883,678,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for children	General	$2,506,060,000
5180-101-890—Payments for children	Federal	2,373,232,000
Control Section 23.50—local assistance	State Legalization Impact Assistance Grant	4,386,000
Total		$4,883,678,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Aid to Families with Dependent Children (AFDC) Estimate. Withhold recommendation on $4.9 billion ($2.5 billion General Fund) pending review of revised estimates in May. 577
2. AFDC-Foster Care (AFDC-FC). Recommend that prior to budget hearings, the department provide the Legislature with options for developing and implementing (a) an alternative group home rate-setting system and (b) a group home level-of-care assessment system. 584
3. AFDC-FC. Recommend that the Health and Welfare Agency report at budget hearings on the placement options for children who will no longer be eligible for foster care services as a result of Ch 1485/87. 587
4. Child Support Enforcement—Los Angeles County. Recommend that the Legislature adopt supplemental report language requiring the Department of Social Services (DSS) to develop a three-year plan to improve the performance of the county's child support enforcement program. 596
5. Child Support Enforcement—Performance Model. Recommend that the Legislature adopt supplemental report lan- 598

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

guage requiring the DSS to (a) incorporate its performance standards model for child support enforcement into the state plan and (b) outline in the state plan the specific actions that the department will take if counties with below-standard performance do not show improvement within the time frames outlined in the plan.

6. Child Support Enforcement—Automation. Recommend that the DSS report to the Legislature during budget hearings on the costs and benefits of implementing (a) a state-operated automated child support system compared to (b) a county-operated automated system, and the options for funding the nonfederal share of costs. 599

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 the following criteria.

AFDC-Family Group (AFDC-FG). Families are eligible for grants under the 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 520,944 families will receive grants each month through this program.

AFDC-Unemployed Parent (AFDC-U). Families are eligible for grants under the 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 71,404 families will receive grants each month through this program.

AFDC-Foster Care (AFDC-FC). Children are eligible for grants under the 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 50,448 children will receive grants each month 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 6,740 children will receive assistance each month through this program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $4.9 billion ($2.5 billion from the General Fund and $2.4 billion in federal funds) for AFDC cash grants in 1989-90. This amount includes $4.4 million in Control Section 23.50 for assistance to newly legalized persons under the federal Immigration Reform and Control Act (IRCA). The budget does *not* propose to provide the statutorily required cost-of-living adjustment (COLA) to AFDC grants for AFDC-FG and U households. The cost of providing an estimated 4.79 percent increase would add an additional $219 million ($105 million General Fund) to AFDC-FG and U grant costs in 1989-90. The total General Fund request for AFDC grants represents an increase of $168 million, or 7.2 percent, above estimated 1988-89 expenditures.

Table 1
Expenditures for AFDC Grants by Category of Recipient
1987–88 through 1989–90
(dollars in thousands)

Recipient Category	*Actual 1987–88*				*Estimated 1988–89*				*Proposed 1989–90*			
	State	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
Family group	$1,586,225	$1,726,399	$205,409	$3,518,033	$1,625,987	$1,822,342	$196,103	$3,644,432	$1,715,754	$1,883,021	$206,912	$3,805,687
Unemployed parent	284,304	311,801	36,866	632,971	330,998	371,308	39,920	742,226	314,331	388,913	37,925	741,169
Foster care	331,951	115,740	—	447,691	433,753	138,619	22,830	595,202	527,982	163,378	27,788	719,148
Adoptions program	15,783	5,035	—	20,818	21,133	8,631	—	29,764	28,063	12,611	—	40,674
Child support incentive payments to counties	14,312	25,845	−44,565	−4,408	19,639	34,053	−53,692	—	23,203	38,210	−61,413	—
Child support collections	−84,278	−91,605	−10,167	−186,050	−93,829	−97,989	−11,144	−202,962	−103,273	−108,515	−12,339	−224,127
Subtotals	$2,148,297	$2,093,215 [a]	$187,543	$4,429,055	$2,337,681	$2,276,964 [a]	$194,017	$4,808,662	$2,506,060	$2,377,618 [a]	$198,873	$5,082,551
AFDC cash grants to refugees												
Time-expired	($176,145)	($191,679)	($21,352)	($389,176)	($202,943)	($220,947)	($24,484)	($448,374)	($217,656)	($236,973)	($26,259)	($480,888)
Time-eligible	—	(80,028)	—	(80,028)	—	(81,404)	—	(81,404)	—	(84,129)	—	(84,129)
Totals	$2,148,297	$2,093,215	$187,543	$4,429,055	$2,337,681	$2,276,964	$194,017	$4,808,662	$2,506,060	$2,377,618	$198,873	$5,082,551

[a] Includes State Legalization Impact Assistance Grant (SLIAG).

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

As shown in Table 1, total expenditures from *all funds* for AFDC cash grants are budgeted at $5.1 billion in 1989-90. This is $274 million, or 5.7 percent, above estimated current-year expenditures.

The AFDC-FG program accounts for $3.8 billion (all funds), or 72 percent, of total estimated grant costs under the three major AFDC programs (excluding child support collections). The Unemployed Parent program and the Foster Care program each account for 14 percent of the total.

Table 2 shows the factors resulting in the net increase of $274 million from all funds proposed for the AFDC program in 1989-90. As the table shows, the largest cost *increases* projected for the budget year include:

- A $172 million ($77 million General Fund) increase for an anticipated caseload growth of 4.2 percent and 0.7 percent, respectively, in the AFDC-FG and AFDC-U programs.
- An $86 million ($69 million General Fund) increase in the AFDC-FC program that is attributable to a nearly 12 percent group home caseload increase and a nearly 11 percent increase in the average grant paid to group home providers.
- A $30 million ($17 million General Fund) increase in the AFDC-FC program due to an anticipated growth of 12 percent in the foster family home caseload.
- A $12 million ($5.5 million General Fund) increase due to increased grant costs as a result of changes required by the federal Family Support Act of 1988.

Table 2

Department of Social Services
Proposed 1989–90 Budget Changes for the AFDC Program
(dollars in thousands)

	General Fund	*All Funds*
1988 Budget Act	$2,307,092	$4,770,913
SLIAG	—	9,095
Totals, 1988 Budget Act	$2,307,092	$4,780,008
Adjustments to appropriations:		
AFDC-FG & U		
Reduction in caseload estimate	−$15,441	−$38,836
Ch 1353/87 (homeless assistance)	13,709	30,164
Reestimate of GAIN savings	7,739	17,226
Other adjustments	−4,324	−6,704
SLIAG	—	−6,271
Subtotals, AFDC-FG & U	($1,683)	(−$4,421)
AFDC-FC foster family home		
Caseload decrease	−$394	−$2,487
SLIAG	—	8
Other	2,242	3,996
Subtotals, AFDC-FC foster family home	($1,848)	($1,517)
AFDC-FC group home		
Caseload increase	$11,907	$14,712
Rate increase	15,579	17,393
SLIAG	—	6
Other	4,110	5,775
Subtotals, AFDC-FC group home	($31,596)	($37,886)
AFDC-FC severely emotionally disturbed (SED) children	$28	$651

Child support enforcement program		
Increased collections	−$2,985	−$6,617
Increased incentive payments	2,028	—
Subtotals, child support enforcement program	(−$957)	(−$6,617)
Adoption Assistance program	−$395	−$362
Refugee program reduction	−3,214	—
Total adjustments to appropriation	$30,589	$28,654
1988–89 expenditures (revised)	$2,337,681	$4,808,662
1989–90 adjustments:		
AFDC-FG & U		
Caseload increase	$76,561	$171,746
Court cases	−1,018	−2,241
Increased GAIN savings	−9,326	−20,600
Minimum wage	−423	−936
Income & Eligibility Verification System	−280	−620
Mother/Infant program	−329	−735
SLIAG	—	1,436
Other	1,297	—
Subtotals, AFDC-FG & U	($66,482)	($148,050)
AFDC-FC foster family home		
Caseload increase	$17,316	$30,208
SLIAG	—	60
Other	23	−468
Subtotals, AFDC-FC foster family home	($17,339)	($29,800)
AFDC-FC group home		
Caseload increase	$33,124	$43,067
Rate increase	35,767	43,112
SLIAG	—	52
Other	199	−296
Subtotals, AFDC-FC group home	($69,090)	($85,935)
AFDC-FC SED children	$7,800	$8,211
Refugee program reduction	$1,118	—
Child support enforcement program		
Increased collections	−$9,444	−$21,165
Increased incentive payments	3,564	—
Subtotals, child support enforcement program	(−$5,880)	(−$21,165)
Adoption Assistance program	$6,930	$10,910
Family Support Act	5,500	12,148
Total adjustments	$168,379	$273,889
1989–90 expenditures (proposed)	$2,506,060	$5,082,551
Change from 1988 Budget Act:		
Amount	$198,968	$302,543
Percent	8.6%	6.3%
Change from 1988–89 estimated expenditures:		
Amount	$168,379	$273,889
Percent	7.2%	5.7%

These increases are partially offset by *reductions* attributable to:

- Increased child support collections of $21 million ($9.4 million General Fund).
- Increased grant savings of $21 million ($9.3 million General Fund) due to the continuing phase-in of the Greater Avenues for Independence (GAIN) program.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

The $274 million increase proposed for 1989-90 represents a 5.7 percent increase over the department's revised estimate of expenditures in the current year. The level of expenditures proposed in the budget, however, is $303 million, or 6.3 percent, above the amount appropriated by the 1988 Budget Act.

Increases in Current-Year AFDC Grant Costs. The department estimates that AFDC expenditures in the current year will *exceed* the amount appropriated in the 1988 Budget Act by $29 million ($31 million General Fund). The main factors contributing to this net increase include (1) $32 million ($27 million General Fund) for higher-than-anticipated foster care caseloads ($15 million) and rates paid to providers ($17 million), (2) $30 million ($14 million General Fund) in higher-than-anticipated costs to provide housing assistance to homeless AFDC families, and (3) lower-than-estimated grant savings from the GAIN program, resulting in a $17 million ($8 million General Fund) increase in AFDC expenditures. These increases are partially offset by expenditure reductions of $39 million ($15 million General Fund) due to lower-than-anticipated caseloads for the AFDC-FG and U programs. Specifically, the department has reduced AFDC-FG and AFDC-U estimated caseloads by 2.4 percent and 4.5 percent, respectively, below the levels anticipated when the 1988 Budget Act was adopted.

Caseloads

Caseload Growth. Table 3 shows that in 1989-90, the Department of Social Services (DSS) expects AFDC caseloads to increase by 68,692 persons, or 3.8 percent, from the revised estimate of caseloads in 1988-89. As the table shows, this increase reflects an addition of 58,500 persons, or 4.2 percent, in the AFDC-FG program, an increase of 2,400 persons, or 0.7 percent in U caseload, and an increase of 6,142 children, or 12 percent, in the AFDC-FC program.

Table 3
Department of Social Services
Aid to Families with Dependent Children
Average Number of Persons Receiving Assistance Per Month
1987-88 through 1989-90

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change From 1988-89 Amount*	*Change From 1988-89 Percent*
AFDC-family group	1,376,909	1,398,500	1,457,000	58,500	4.2%
AFDC-unemployed parent	334,402	335,600	338,000	2,400	0.7
AFDC-foster care	44,682	50,448	56,590	6,142	12.2
Adoption assistance	5,384	6,740	8,390	1,650	24.5
Refugees [a]					
—Time-eligible	(35,077)	(32,348)	(30,764)	(−1,584)	(−4.9)
—Time-expired	(186,070)	(200,534)	(214,909)	(14,375)	(7.2)
Totals	1,761,377	1,791,288	1,859,980	68,692	3.8%

[a] Grants to refugees who have been in the United States 24 months or less (time-eligible) are funded entirely by the federal government. Time-expired refugees—those who have been in the United States longer than 24 months—may qualify for and receive AFDC grants supported by the normal sharing ratio.

ANALYSIS AND RECOMMENDATIONS

AFDC Estimates are Expected to Change in May

We withhold recommendation on $4.9 billion ($2.5 billion General Fund and $2.4 billion federal funds) requested for AFDC grant payments pending receipt of revised estimates of costs to be submitted in May.

The proposed expenditures for AFDC grants in 1989-90 are based on the prior year's actual caseloads and costs, updated to reflect the department's caseload and cost projections through 1989-90. In May, the department will present revised estimates of AFDC costs based on actual caseload grant costs through December 1988. Because the revised estimate of AFDC costs will be based on more recent and accurate information, we believe it will provide the Legislature with a more reliable basis for budgeting 1989-90 expenditures. Therefore, we withhold recommendation on the amount requested for AFDC grant costs pending review of the May estimate.

AID TO FAMILIES WITH DEPENDENT CHILDREN-FAMILY GROUP AND UNEMPLOYED PARENT

Grant Levels and COLAs

The maximum grant amount received by AFDC-FG and U households varies according to the number of persons in the household who are eligible to receive aid—the "family size." For example, in 1988-89 a family of four can receive up to $788 per month, while a family of two can receive up to $535. The actual amount of the grant depends on the household's other income and expenses for such items as child care.

Statutory COLA Requirements. Existing law requires that the AFDC-FG and U grant levels be adjusted, effective July 1, 1989, based on the change in the California Necessities Index (CNI) during calendar year 1988. The Commission on State Finance is required to calculate the CNI, which is based on December-to-December changes in inflation indexes reported for Los Angeles and San Francisco. At the time this analysis was prepared, the commission's calculation of the actual change in the CNI for calendar year 1988 was not available. The commission's preliminary estimate of the change is 4.79 percent.

Budget Proposes to Suspend Statutory COLA. The budget assumes enactment of legislation to waive the requirement for a COLA for AFDC-FG and U grants in 1989-90. Table 4 displays the AFDC-FG and U grants for 1988-89 and for 1989-90 with no COLA (the Budget Bill proposal) and with a COLA of 4.79 percent.

Table 4
Maximum AFDC-FG and AFDC-U Grant Levels
1988-89 and 1989-90

		1989-90	
Family Size	*1988-89*	*Budget Proposal (No COLA)*	*Statutory Requirement*[a]
1	$326	$326	$342
2	535	535	561
3	663	663	695
4	788	788	826
5	899	899	942

[a] Assumes a 4.79 percent COLA, effective July 1, 1989, based on the estimated CNI.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

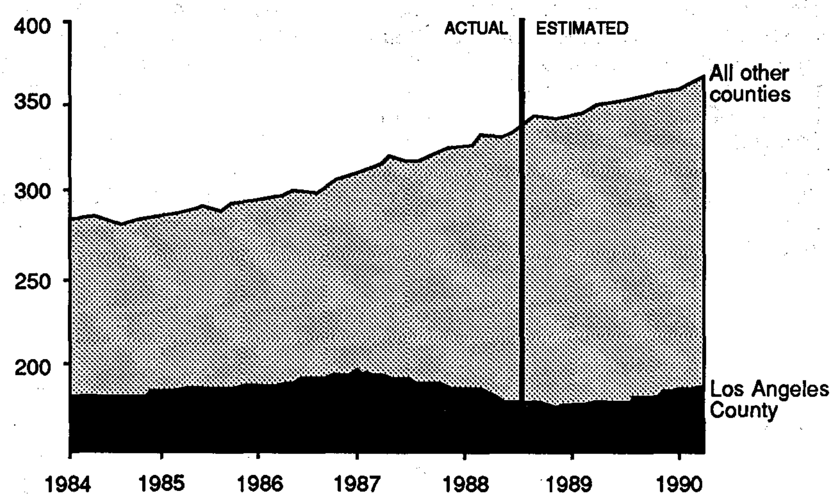
AFDC-FG Estimate. The department's estimate of 1988-89 and 1989-90 AFDC-FG caseloads consists of two separate estimates—one for Los Angeles County and one for the remaining 57 counties. The final caseload projection is the sum of these two estimates. The department's methodology responds to a recent divergence in caseload trends that has occurred between Los Angeles and the remaining 57 counties. Specifically, between January 1987 and June 1988, Los Angeles County experienced a caseload *decrease* of 7.4 percent while caseloads for the remaining 57 counties *increased* by 6.2 percent.

The decline in Los Angeles County's AFDC-FG caseload appears to be related to the enactment of the federal Immigration Reform and Control Act (IRCA) of 1986. Specifically, it appears that a significant number of individuals in Los Angeles who were eligible for amnesty under IRCA voluntarily removed their children from the AFDC program. Apparently, these individuals removed their children from aid to avoid jeopardizing their chances of obtaining the permanent residency status that they would be eligible for after the amnesty period.

Chart 1 displays actual AFDC-FG caseloads during the period January 1984 to October 1988 for Los Angeles County and for the remainder of the state. As the chart shows, beginning in January 1987, Los Angeles County's caseload began to decrease while the caseload in the remainder of the state continued to increase steadily. The chart also displays the

Chart 1

AFDC-FG Caseload
Los Angeles County and All Other Counties
January 1984 through June 1990 (in thousands)



department's caseload projection for the period November 1988 through June 1990. The projection assumes that Los Angeles County's caseload continued to decline until January 1989, at which point it would have resumed the growth trend it had experienced prior to January 1987. The department's estimate of caseload for the remaining 57 counties is based on actual caseload in those counties during the period July 1985 through June 1988.

Our review indicates that the department's method of estimating the AFDC-FG caseload is reasonable. However, it is not clear whether the recent downward trend in Los Angeles County's caseload has, in fact, reversed itself beginning in January 1989, as assumed by the department. The additional months of actual data that will be available when the Legislature reviews the May revision should show whether this reversal in Los Angeles County's caseload has, in fact, occurred.

AID TO FAMILIES WITH DEPENDENT CHILDREN-FOSTER CARE

Overview. The Aid to Families with Dependent Children-Foster Care (AFDC-FC) program pays for the care provided to children by guardians, foster parents, and foster care group homes. Children are placed in foster care in one of four ways:

- ***Court Action.*** A juvenile court may place a child in foster care if the child has been abused, abandoned, or neglected and cannot be safely returned home. Until January 1990, a court may also place a child in foster care if the child is beyond the control of his or her parent(s) or guardian(s). Effective January 1, 1990, however, Ch 1485/87 (SB 243, Presley) deletes this provision of law. In addition, probate courts place children in guardianship arrangements for a variety of reasons.
- ***Voluntary Agreement.*** County welfare or probation departments may place a child in foster care pursuant to a voluntary agreement between the department and the child's parent(s) or guardian(s).
- ***Relinquishment.*** A child who has been relinquished for adoption may be placed in foster care by an adoption agency, prior to his or her adoption.
- ***Individualized Education Program.*** Since July 1986, an individualized education program (IEP) team may place a child in foster care if it determines that the child (1) needs special education services, (2) is severely emotionally disturbed (SED), and (3) needs 24-hour out-of-home care in order to meet his or her educational needs.

Children in the foster care system for any of these reasons can be placed in either a foster family home or a foster care group home. Both types of foster care facilities provide 24-hour residential care. Foster family homes must be located in the residence of the foster parent(s), provide service to no more than six children, and be either licensed by the DSS or certified by a Foster Family Agency. Foster care group homes are licensed by the DSS to provide services to seven or more children. In order to qualify for a license, a group home must offer planned activities for children in its care and employ staff at least part-time to deliver services.

Budget Proposal. The 1989-90 Budget proposes total expenditures of \$719.1 million (\$528.0 million from the General Fund, \$163.4 million in federal funds, and \$27.8 million in county funds). The total General Fund request for AFDC-FC represents an increase of \$94.2 million, or 22 percent, above estimated 1988-89 expenditures.

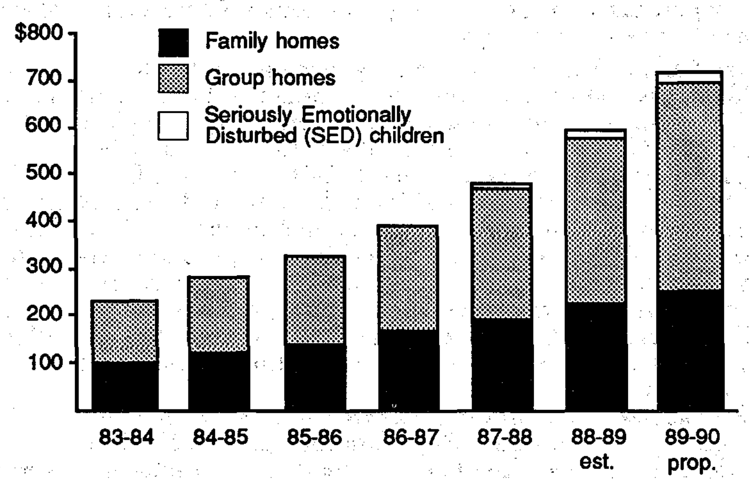
AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Chart 2 displays expenditures from all funds for foster care benefit payments since 1983-84. In addition, the chart shows expenditures for SED children since 1986-87. In 1986-87, the DSS began separately accounting for the SED program. Prior to the enactment of Ch 1747/84 and Ch 1274/85, SED children were placed in foster care through court action and the DSS counted them within the total foster care caseload. The SED children are placed in both family homes and group homes. According to the DSS, however, the majority of these children are in group homes.

Chart 2

Foster Care Annual Expenditures[a]

1983-84 through 1989-90 (dollars in millions)



[a] Includes state, federal, and county funds.

As the chart shows, foster care expenditures have grown rapidly over the previous five years and the budget anticipates that this rapid growth will continue in 1988-89 and 1989-90. Specifically, expenditures from all sources for foster care have grown from $235.8 million ($170.5 million General Fund) in 1983-84 to a proposed $719.1 million ($528.0 million General Fund) in the budget year. This represents an increase of 205 percent during the seven-year period, which is an average annual increase of 20 percent.

Foster Family Home Expenditures—Growth Results From Increasing Caseloads

Chart 2 shows that foster family home expenditures have increased from $97.1 million ($64.6 million General Fund) in 1983-84 to an estimated $250.4 million ($157.9 million General Fund) in the budget year. This represents an average annual growth of 17 percent. This growth is primarily the result of the increased number of children in family homes. For example, the DSS estimates that the foster family home caseload will increase by 12 percent from 1988-89 to 1989-90, while expenditures for the program will increase by 13 percent during the same period. According to the DSS, the slight difference between the growth in caseload and the growth in expenditures is attributable to (1) an increase in the number of foster family homes that receive specialized care rates for children who have special needs, such as substance-exposed infants, and (2) an increase in the number of foster family homes that are supervised by foster family agencies, which pay higher-than-average foster family rates.

Our analysis indicates that this increase in the foster family home caseload is the result of two factors:

- ***More Children Entering the Child Welfare Services (CWS) Program.*** The DSS estimates that the number of reports of abuse and neglect that county CWS workers will have investigated during the period July 1983 through June 1990 will have increased from 15,000 to 39,200 per month, an increase of 161 percent. This increase in reports will result in an increase in the number of investigations which, in turn, will result in more children being placed in foster family homes because most of the children who are placed in these homes originally come into care as a result of abuse or neglect.
- ***Longer Length-of-Stay of Children in Foster Care.*** Data provided by the DSS suggest that the average length of time that children spend in foster care has increased in recent years. Specifically, the DSS estimates that the length of stay in foster care increased from 18.1 months in October 1987 to 19.6 months in October 1988.

Foster Care Group Home Expenditures—Growth Results from Increased Caseload and Rate Increases

The budget proposes $444.1 million ($346.7 million General Fund) for the costs of maintaining children in foster care group homes in 1989-90. This represents an increase of $85.9 million ($69.1 million General Fund), or 24 percent, as compared with estimated current-year expenditures. Chart 2 shows that group home expenditures have grown substantially since 1983-84. Specifically, the chart shows that these expenditures will increase by 220 percent over the seven-year period, which is an average annual growth rate of 21 percent. Our analysis indicates that this increase is attributable to two factors: caseload growth and group home rate increases.

Group Home Caseload Growth. The factors that lead to the increased number of children in foster family homes—increased CWS caseloads and longer lengths of stay—have similarly contributed to an increase in the number of children in foster care group homes. Specifically, we estimate that the foster care group home caseload has grown at an average annual rate of 9.1 percent since 1983. The budget anticipates a caseload growth of nearly 12 percent from the current to the budget year.

Group Home Rate Increases. Chart 3 shows that the average monthly rate of reimbursement for children in group homes has increased substantially in recent years. Specifically, the chart shows that these rates have increased from an average of $1,653 per child in 1983-84 to an estimated $3,015 per child in 1989-90. This reflects an increase of 82

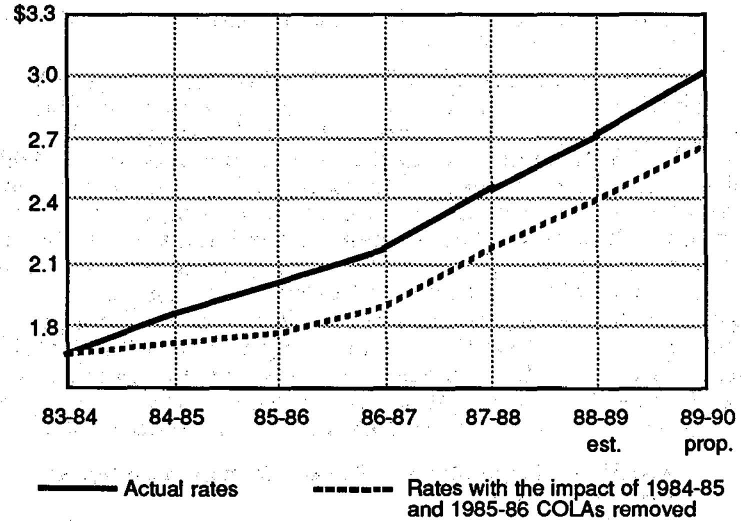
AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

percent during the seven-year period, which is an average annual growth rate of almost 11 percent. As discussed later in this analysis, this average growth masks a considerable amount of variation in the rates paid to group homes.

Chart 3

Average Monthly Foster Care Group Home Reimbursement Rate Per Child

1983-84 through 1989-90 (dollars in thousands)



Why Have Group Home Rates Increased?

The increase in average group home rates shown on Chart 3 is particularly striking because most of the increase is unrelated to the two cost-of-living adjustments (COLAs) provided to group homes during the period shown in the chart. Specifically, the Budget Acts of 1984 and 1985 provided a 9.21 percent and a 4 percent COLA to group home providers, respectively. No COLAs have been provided since the 1985 Budget Act. The chart shows that if the impact of these COLAs on rates is removed, the rates would still have increased from $1,653 per month per child in 1983-84 to $2,655 per month per child in 1989-90, which is an average annual increase of 8 percent. Our analysis indicates that this increase is due to two factors: (1) an increase in the number of group home beds that provide higher levels of service and (2) an influx of newer, more expensive homes into the system.

Increase in Higher Service Level Beds. The DSS advises that at least part of the reason that group home rates are growing is because an increasing proportion of the group home caseload is being cared for in homes that provide a higher level of service. The department categorizes group homes into four "peer groups" based on the intensity of the service that they provide. In ascending order of service intensity, these peer groups are: the family model, the social model, the psychological model, and the psychiatric model. Table 5 displays the number of new homes that opened in each peer group in 1987 and the average occupancy in these homes. As the table shows, most of the beds in these new homes were at the highest level of service. Specifically, new psychiatric model group homes cared for an average of 837 children per month or almost 63 percent of the children who received care from new homes in 1987, while there were no new beds provided in the family model group homes.

Table 5
Department of Social Services
New Foster Care Group Homes
By Type of Home and Average Occupancy
1987

	Type of Provider				
	Psychiatric	*Psychological*	*Social*	*Family*	*Total*
Number of new homes	25	27	28	—	80
Percent of total	31%	34%	35%	—	100%
Average monthly occupancy	837	346	152	—	1,335
Percent of total	63%	26%	11%	—	100%

Influx of Newer, More Expensive Homes Into the System. The DSS sets rates for "new" homes differently from the way it sets rates for "existing" homes. "New" homes are homes that have never provided foster care before or homes that open new programs. For example, a home that begins providing care to different categories of children than it served in the past is considered to be a new home. "Existing" homes are those that have been in operation for at least 12 months, with no change in their programs.

The DSS sets a rate for a new home based on the home's actual costs in its first six months of operation (the rate for the first six months is based on the average rate paid to homes in that peer group). The DSS does not actually set a rate for existing homes. Instead, for each fiscal year, these homes receive the rate they received in the previous year plus any COLA provided in the Budget Act. Since the last Budget Act to provide a group home COLA was the 1985 Budget Act, *many group homes will receive the same rate in 1989-90 that they received in 1985-86.*

Chart 4 compares the average rates paid to new homes during calendar year 1987 with the rates paid to existing group homes. As the chart shows, new group homes received substantially higher rates than did existing homes in the three highest peer groups. There were *no* new group homes opened in the family model peer group, the lowest level of service, and least expensive peer group. The chart also shows that *the overall average monthly rate per child for all new group homes in 1987 was $973, or 47 percent, higher than the rate paid to existing homes.*

What Are the Legislature's Options for Improving the Group Home Rate-Setting System and Ensuring Appropriate Group Home Placements?

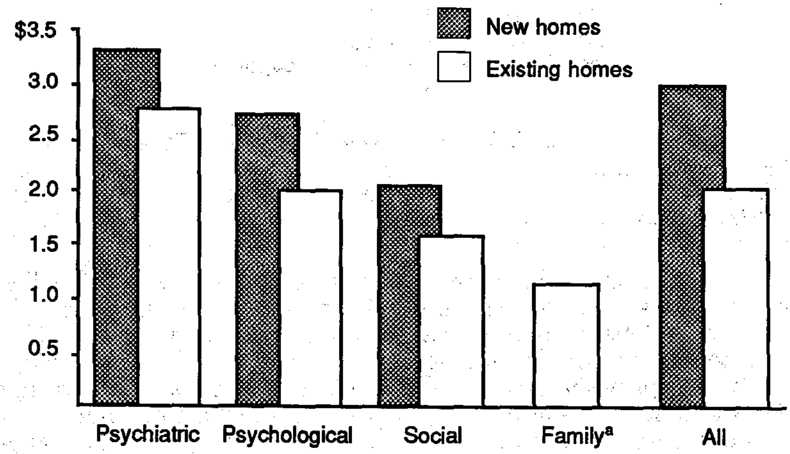
As we have noted above, the department's estimate indicates that group home costs will have increased by an average annual rate of 21 percent during the period 1983-84 through 1989-90. While some of the group home cost increases of recent years resulted from the overall increase in the number of children in foster care, a substantial amount of the increase is due to two factors: a disproportionate increase in the

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

caseload placed in the higher levels of care and an increase in the average cost of care within each of the three highest levels of care.

Chart 4

Average Group Home Reimbursement Rates Per Child New v. Existing Homes
1987 (dollars in thousands)



[a] There were no new family model peer group homes opened in 1987.

Therefore, in order to control group home costs in the future and to ensure an adequate supply of group home beds at each level of care, the Legislature will have to address two issues: rate setting and level-of-care assessments for children in foster care.

Rate Setting

We recommend that the department report to the fiscal committees prior to budget hearings, on the options for developing an alternative group home rate-setting system, including a standardized schedule of rates and negotiated rates.

The department's existing group home rate-setting system has several major flaws. Specifically, our analysis indicates that the department's rate-setting system:

- *Penalizes Existing Providers.* Many "existing" group homes have not received a rate increase since 1985-86, despite the fact that the average rate paid to all group homes has gone up 35 percent since 1985-86. The result has been that these homes have had to absorb inflationary increases in their costs of doing business.
- *Provides No Incentive for New Homes To Economize.* The current rate-setting system actually provides incentives for new providers to operate at high cost for their first six months of operation, because

rates paid in subsequent years are based on their first six months of operation.

Does Not Control Total Program Costs. The department's rate-setting system attempts to control program costs by freezing rates for existing homes. While the practice of not providing a COLA to group home rates may appear to be a cost control strategy, it has *not* actually controlled costs. The state's demand for group home beds has simply outstripped the supply of beds in existing homes, with the inevitable result that the overall price of beds has gone up, despite the lack of a COLA since 1985-86.

We believe that a foster care rate-setting system based on the following criteria would be preferable to the current system:

- ***Equity.*** Establish the same rates for homes that offer the same services, regardless of when the home came into existence.
- ***Appropriate Service Levels.*** Set rates that encourage providers to supply an adequate number of beds at each level of service.
- ***Economy.*** Set rates that give providers incentives to offer services economically.
- ***Control Costs.*** Establish procedures to control the total costs of the foster care group home program, while meeting the other criteria.

Our analysis indicates that there are two basic options for group home rate setting that could meet these criteria: a standardized rate schedule and negotiated rates.

Standardized Rate Schedule. Under a rate-setting mechanism that reimburses providers based on a fixed schedule of rates, group home facilities would be classified into peer groups based on the levels of services that they provide; the peer groups could be the same peer groups that the department currently uses, or the department could establish more peer groups in order to more accurately reflect the different levels of care needed by the foster care population. The department would establish one rate for each peer group; all of the homes in the group would be paid the same rate. The rate for each peer group would initially be based on cost data for the homes in the group, but the department would have to adjust the rates over time in order to maintain an adequate supply of beds at each level of service.

Negotiated Rate-Setting Mechanism. Under a negotiated rate-setting system, the DSS would negotiate rates with individual providers. The department's objective in negotiating rates would be to ensure an adequate supply of beds within each peer group at the lowest feasible cost. In addition to ensuring an adequate supply of beds at each level of service, this method would encourage providers to offer services economically, because they would effectively have to bid against each other for the right to offer group home services. The major drawback of negotiated rate setting is that it would be administratively difficult for the department to negotiate rates with an estimated 367 group home providers in the state.

We believe that either of these two options would be preferable to the department's current rate-setting system. In addition, the department may be able to develop other options for improving on the current group home rate-setting system. We therefore recommend that the DSS report to the fiscal committees at the time of budget hearings on the options for developing an alternative group home rate-setting system, including a standardized schedule of rates and negotiated rates.

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Level-of-Care Assessment

We recommend that the DSS report to the fiscal committees prior to budget hearings on (1) its evaluation of the potential for a foster care level-of-care assessment system to ensure that children receive the appropriate level of care and (2) the specific options that are available for developing and implementing such a system.

Currently, the department has no system for controlling which level of care is provided to individual children in foster care. The department's regulations require county social workers to seek the least restrictive setting possible for each child, but social workers often have to make placement decisions based on the care that is available rather than on the care that the child actually needs. Moreover, there are currently no written criteria that social workers can use in assessing whether a child needs family home care or group home care, or which of the four levels of group home care a child needs.

In light of the increasing proportion of the caseload that has been placed in higher service level group homes in recent years, the department should evaluate the potential for creating a system to assess the actual needs of children in foster care. Under such a system, the DSS would establish written guidelines for social workers to use in assessing the level of care that children need. The social worker would record the child's assessment in the case file and in the Foster Care Information System, which is the system that the DSS uses to track children in foster care. Social workers could use the assessment to make placement decisions. The department could use the data from the assessments to identify shortages in group home beds at each level of care. Ultimately, the department could use this data, in conjunction with its rate-setting system, to encourage an adequate supply of beds at each level of care. We therefore recommend that the department report to the fiscal committees prior to budget hearings on (1) its evaluation of the potential for a foster care level-of-care assessment system to ensure that children receive the appropriate level of care and (2) the specific options that are available to the Legislature for developing and implementing such a system.

Growth in Severely Emotionally Disturbed (SED) Expenditures Reflects Implementation of Ch 1747/84 and Ch 1274/85

The budget proposes $23.4 million from the General Fund for the costs of maintaining SED children in foster care in 1989-90. This represents an increase of $7.8 million, or 50 percent, above estimated expenditures in the current year. The proposed increase is due entirely to an estimated 50 percent increase in the SED caseload. Specifically, the DSS estimates that the number of children in the SED program will increase from an average of 525 children per month in the current year to 788 per month in the budget year.

We believe that the estimated increase in the costs of the SED program is subject to substantial error for two reasons. First, at the time that the department prepared the estimate, there was only a limited amount of caseload data available. Specifically, the department believes that, although the SED program became effective July 1, 1986, some counties may have had difficulty implementing the transfer of eligible children from regular foster care to SED status. For this reason, it would not be appropriate to use caseload data for 1986-87. Thus, the department's estimate is based on only one year of data—1987-88. We believe that the department's May estimate of SED caseload will be more reliable than the current estimate because the department will have additional months of data with which to project budget-year caseloads.

Second, the department's estimate assumes the average reimbursement rate provided for SED children will remain constant from the current to the budget year. It seems likely, however, that the reimbursement rate for SED children will grow in the current and budget years, because most of these children are placed in group homes. The department anticipates that the average rate of reimbursement paid to group home providers will grow by 11 percent from the current to the budget year. We therefore recommend that the department reflect the projected group home rate increase in its May estimate of SED costs.

Budget Includes Funding for Children Who Will Not Be Eligible For Foster Care Under Current Law

We recommend that the Health and Welfare Agency (HWA) report at budget hearings on the placement options for children who will no longer be eligible for foster care services as a result of Ch 1485/87.

The budget includes expenditures of $15.0 million ($12.2 million General Fund, $2.8 million federal funds) for foster care grants to approximately 500 children who were placed in foster care because the courts determined that they were beyond the control of their parents or guardians. Most of these children have been in foster care for several years.

Effective January 1, 1990, Ch 1485/87 (SB 243, Presley) will delete the provision of law that allowed the courts to place children in foster care because "they are beyond the control of their parents." Thus, these children will *not* be eligible to continue to receive AFDC payments after January 1, 1990. The department advises that these children also will not qualify for grants under the SED portion of the foster care program because they do not require foster care placement for educational reasons.

It is unclear what the placement options will be for these children after January 1990. Under existing law, these children cannot remain in foster care and the department will not have the statutory authority to spend the funds included in the budget for their board and care in the last half of 1989-90. The department advises that it included a full year of funding for the care of these children because it recognized that some provision would have to be made for their care.

When it enacted Chapter 1485, the Legislature recognized that new placement options were necessary to meet the needs of these children. Specifically, Chapter 1485 required the HWA to report by January 1, 1989 on its recommendations for a program to meet the treatment needs of emotionally disturbed children in foster care who do not qualify for the SED program. At the time this analysis was prepared, however, the HWA had not issued the required report. We therefore recommend that the HWA report to the fiscal committees at the time of budget hearings on its recommendations for an alternative treatment system for emotionally disturbed children in foster care. The report should include a recommen-

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dation for how to use the balance of the funds proposed in the DSS' budget to cover all or part of the costs of caring for these children.

Foster Care Estimate Does Not Include Fiscal Effect of Four County Pilot Projects

The budget proposes General Fund expenditures of $1.1 million in the Social Services programs item (Item 5180-151-001) and $90,000 in the DSS Departmental Support item (Item 5180-001-001) to recruit, train, and provide support services to foster parents for infants in four counties who are drug exposed or who test positive for the virus that causes AIDS. This proposal is part of a proposed pilot project to be administered by the Department of Health Services, the Department of Alcohol and Drug Programs (DADP), and the DSS. (Please see our discussion of this proposal in our analysis of DADP's budget, Item 4200-001-001.) The department advises that foster parents in these four counties will receive supplemental foster care rates that will cost an additional $6.2 million in total funds ($3.5 million General Fund) in 1989-90. The department believes that these costs will be at least partially offset by savings that will result because more drug-exposed infants will be placed in family homes, rather than in more expensive group homes or in hospitals, as a result of the pilot. However, the budget does not include either the additional costs for the supplemental foster family home rates or the potential savings that may result from the pilot. We recommend that the department include an estimate of these costs and savings in its May revision.

CHILD SUPPORT ENFORCEMENT

Background. The child support enforcement program is a revenue-producing program administered by district attorneys' offices throughout California. Its objective is to locate absent parents, establish paternity, obtain court-ordered child support awards, and collect payments pursuant to the awards. These services are available to both welfare and nonwelfare families. Child support payments that are collected on behalf of welfare recipients under the AFDC program are used to offset the state, county, and federal costs of the program. Collections made on behalf of nonwelfare clients are distributed directly to the clients.

The child support enforcement program has three primary fiscal components: (1) administrative costs, (2) welfare recoupments, and (3) incentive payments. The *administrative costs* of the child support enforcement program are paid by the federal government (68 percent) and county governments (32 percent). Beginning on October 1, 1989, the federal share of administrative costs will decrease to 66 percent and the county share will increase to 34 percent. *Welfare recoupments* are shared by the federal, state, and county governments, according to how the cost of AFDC grant payments are distributed among them (generally 50 percent federal, 44.6 percent state, and 5.4 percent county).

Counties also receive "*incentive payments*" from the state and the federal government designed to encourage counties to maximize collections. The incentive payments are based on each county's child support collections. In federal fiscal year 1989 (FFY 89), the federal government pays counties an amount equal to 6.5 percent of AFDC collections and 7 percent of non-AFDC collections, while the state pays an amount to each county equal to 7.5 percent of its AFDC collections. In addition, the state pays counties $90 for each paternity that they establish.

Fiscal Impact of Program. As Table 6 shows, the child support enforcement program is estimated to result in *net savings* of $77 million to the state's General Fund in 1989-90. The federal government is estimated to spend $47 million more in 1989-90 than it will receive in the form of grant savings. California counties are expected to experience a net savings from the program of $18 million in 1989-90.

Table 6
Department of Social Services
Child Support Enforcement Program
1989-90
(dollars in thousands)

	General Fund	*Federal Funds*	*County Funds*	*Total*
Program costs				
County administration:	—	$110,492	$55,712	$166,204
AFDC	—	(74,030)	(37,327)	(111,357)
Non-AFDC	—	(36,462)	(18,385)	(54,847)
State administration	$3,330	6,870	—	10,200
Incentive payments [a]	23,203	38,210	−61,413	—
Savings				
Welfare collections [b]	−103,273	−108,515	−12,339	−224,127
Net fiscal impact	−$76,740	$47,057	−$18,040	−$47,723

[a] Does not include welfare collections for children in other states.

[b] Incentive payments include AFDC and non-AFDC.

The table does *not* show one of the major fiscal effects of the child support enforcement program, its impact on AFDC caseloads. To the extent that child support collections on behalf of non-AFDC families keep these families from going on aid, they result in AFDC grant avoidance savings. While AFDC grant avoidance is one of the major goals of the child support enforcement program, it is not shown in the table because, unlike the other fiscal effects of the program, there is no way to directly measure the savings that result from grant avoidance.

Collections and Recoupments. The major objective of the child support enforcement program is to assure the collection of support obligations. Therefore, one measure of the performance of the program is its total collections. Table 7 shows the change in statewide collections of child support from 1982-83 through 1987-88. As the table shows, statewide collections increased at an average annual rate of 10 percent during this period.

Although total collections are an important indicator of program performance, collection data alone do not measure the extent to which the program reduces the amount of public funds spent on welfare. A commonly used measure of program success in this regard is the percentage of AFDC grant expenditures actually recouped through the child support enforcement program (the "recoupment rate"). Table 8 shows the recoupment rate from 1982-83 through 1987-88. During this period, the state recouped an average of 6.1 percent of state, federal, and county expenditures through the child support enforcement program.

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Table 7
Department of Social Services
Statewide Child Support Collections [a]
1982-83 through 1987-88
(dollars in millions)

	AFDC	*Non-AFDC*	*Total Collections*	*Annual Percent Increase*
1982-83	$151.5	$112.5	$264.0	—
1983-84	158.2	125.8	284.0	7.6%
1984-85	174.8	142.9	317.7	11.9
1985-86	187.2	160.0	347.2	9.3
1986-87	198.1	189.3	387.4	11.6
1987-88	212.6	213.7	426.2	10.0
Average annual increase				10.0%

[a] Data provided by Child Support Management Information System, Department of Social Services. Figures for 1987-88 do not tie to Governor's Budget because of differences in the accounting and reporting of the data.

Table 8
Department of Social Services
Child Support Enforcement "Recoupment Rates" [a]
1982-83 through 1987-88

Year	*Recoupment Rate*
1982-83	6.3%
1983-84	6.2
1984-85	5.8
1985-86	6.3
1986-87	6.1
1987-88	6.2
Average rate	6.1%

[a] AFDC collections as percent of grant expenditures.

State Performance Given Grade of "C" by Congress

A recent report by the House Ways and Means Committee of the U.S. Congress provides a useful comparison of California's performance in the child support enforcement program with the performance of other states. The report, entitled *Child Support Enforcement: A Report Card,* was released in October 1988. The purpose of the "report card" was to evaluate the administration of the child support enforcement program by the federal government and the states and territories.

The report card assigned grades to each state based on the state's performance for both welfare and nonwelfare cases in five key areas of the child support enforcement program: (1) paternity establishment, (2) collection rates, (3) cost-effectiveness, (4) interstate collections, and (5) impact on AFDC costs. These data were grouped into these five categories and weighted equally. States were assigned scores for each performance indicator based on a standard normal curve, similar to the curve frequently used by teachers to grade students. The scores were aggregated and each state was assigned an overall grade.

The report assigned a grade of "C" to California and ranked the state's performance 34th among 54 states and territories (Michigan's program received an "A" and ranked first in the nation). California's program was not noted as being particularly strong or weak in any specific area.

State Faces a $23 Million Penalty From the Federal Government

The U.S. Department of Health and Human Services (DHHS) recently completed an audit of California's child support enforcement program to determine whether the state is in compliance with requirements of Title IV-D of the Social Security Act, which is the federal statute that governs the program. The audit, which reviewed the program during FFY 86, concluded that California has not complied substantially with the federal requirements.

According to the DHHS, the California program is out of compliance with federal regulations and procedures in seven areas, and barely met the criteria in three others. Most of the criticism contained in the audit centered around the lack of specific procedures or required actions on child support cases. The audit identified ineffective or inadequate automated systems as the principal reason for the lack of action on cases. The report concluded that these weaknesses need to be addressed in order to ensure program effectiveness and satisfactory results in future audits (we discuss the issue of the automation of the child support enforcement program in greater detail below).

Potential Penalties in the AFDC Program. Because the state was found to be out of compliance with federal requirements, the DHHS assessed a penalty against the state equal to 1 percent of the federal funds under the AFDC program for each quarter that the state is found to be out of compliance. Consequently, on an annual basis, *the state could lose up to $23 million in federal funds.* The penalty has been held in abeyance and the DHHS has notified the DSS that the penalty will be waived if the state comes into compliance by March 1989.

Corrective Action Plan. The DSS submitted a plan to the DHHS in January 1989 to take corrective action to bring the state into compliance with federal regulations and procedures. The plan requested the DHHS to suspend the penalty for one year (which is permitted under federal law) while the plan is implemented. The DSS advises that it expects the DHHS to approve the plan and waive the penalty until November 1989. At the time this analysis was prepared, however, the DHHS had not approved or denied the plan.

If the state is still not in compliance after the corrective action period, the state will lose 2 to 3 percent of federal funding for AFDC (up to $70 million annually). If the state remains out of compliance after a third review, the penalty will increase to 3 to 5 percent (up to $120 million annually). The potential loss of federal funds is *not* reflected in the budget for either the current year or the budget year.

Review of Individual County Performance

The child support enforcement program is administered by the district attorney in each county in California. Because of the decentralized nature of the program, the only way for the overall performance of the state to improve in this program is to improve the performance of individual counties. We believe that it is important for the Legislature to closely monitor the program to improve program performance for two reasons.

First, the child support enforcement program is a revenue-producing program that has a positive net fiscal effect on the General Fund. In

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addition to recouping General Fund costs for the AFDC program, the child support enforcement program has the added advantage of AFDC grant avoidance savings to the extent that collections on behalf of non-AFDC families keep these families from going on aid. The program also has a positive net fiscal effect on the counties because they also benefit from incentives and recoupments.

Second, monitoring individual county performance is important in order for the state to ensure that each county and the state as a whole are in compliance with federal requirements, especially since failure to comply can result in multi-million dollar loses of federal funds in the AFDC program.

In order to assist the Legislature in overseeing the program and monitoring individual counties, we reviewed and ranked the performance of all 58 counties in California. We believe that this ranking provides a reasonable gauge with which to judge each county's performance.

Methodology for Ranking County Performance. In ranking county performance, we relied on a methodology similar to the one used in the Congressional "report card" described above. Specifically, we rated each county on eight separate criteria. Because the primary purpose of the child support enforcement program is to recoup AFDC grants, our methodology included several variables related to collections and recoupments. We also included variables that measured performance for the nonwelfare caseload, paternity establishment, and administrative costs. Specifically, we included the following criteria:

- ***Recoupment Rate.*** We calculated the 1987-88 recoupment rate by determining the percentage of total AFDC grant expenditures in the county actually recouped through the program. The 1987-88 data are the most recent data available.
- ***Collections Per Child, Welfare and Nonwelfare.*** Using 1987-88 data, we calculated the average welfare collections per child for children living in the county who are on AFDC and the average nonwelfare collections per child for non-AFDC children living in the county.
- ***Increase in Collections.*** We determined the percentage increase in collections (both welfare and nonwelfare) between 1986-87 and 1987-88. This variable indicates whether a county's performance is improving or deteriorating.
- ***Cost-to-Collections.*** We calculated a cost-to-collections ratio for each county by dividing a county's total welfare collections in 1987-88 by the administrative costs in the same year for the welfare caseload. We determined a similar ratio for nonwelfare cases. This measure is significant because federal incentives are based on cost-to-collections ratios.
- ***Paternity Establishment.*** Currently, district attorneys must establish the paternity of children before they can obtain a child support order. Although establishing paternity may not be cost-effective in the short run, it may be highly cost-effective in the long run. This is because younger fathers with relatively low-income when their children are born may experience income increases over time. In order to rank counties on their success in establishing paternity, we calculated the ratio of paternities established in 1987 to the number of children born out of wedlock in 1986. We used data from two

different years because establishing paternity is often a time consuming process that cannot be accomplished within the year of a child's birth.

We rated counties on each variable and developed a composite score and ranking. Each variable was weighted equally, as were the variables used to develop the Congressional "report card." In order to make the comparison more meaningful, after completing the composite scoring, we divided counties into four groups, based on county population. These groups are the 13 largest counties, 15 medium-sized counties, 15 small counties, and 15 very small counties. Chart 5 shows how the counties rank within each of the four groups.

Chart 5

Ranking of County Performance In the Child Support Enforcement Program[a]

1987-88

LARGE COUNTIES	MEDIUM-SIZED COUNTIES	SMALL COUNTIES	VERY SMALL COUNTIES
Ventura 4.0	Merced 5.0	Napa 5.8	Trinity 5.4
Fresno 3.8	Shasta 4.4	Siskiyou 5.4	Calaveras 5.2
San Bernardino 3.6	San Luis Obispo ...4.1	Humboldt 5.3	Modoc 5.0
Contra Costa 3.5	Sonoma 4.1	Tuolumne 5.2	Plumas 4.6
San Francisco 3.1	Santa Barbara 3.9	Madera 4.7	Inyo 4.6
Orange 3.0	Placer 3.6	El Dorado 4.6	Glenn 4.1
Riverside 2.9	Stanislaus 3.6	Nevada 4.4	Lassen 3.8
San Diego 2.9	Santa Cruz 3.5	Yuba 4.2	Alpine 3.7
Alameda 2.8	Butte 3.4	Lake 4.2	San Benito 3.6
Santa Clara 2.4	Solano 2.8	Sutter 4.0	Del Norte 3.6
San Mateo 2.3	Kern 2.7	Yolo 3.8	Mariposa 3.2
Sacramento 2.1	Marin 2.7	Mendocino 3.7	Colusa 3.2
Los Angeles 1.7	Tulare 2.7	Imperial 3.7	Amador 2.8
	San Joaquin 2.6	Kings 3.6	Mono 2.7
	Monterey 2.6	Tehama 3.5	Sierra 1.5

[a] Scores are composites of eight performance measures. In order to make the composite meaningful, we rated each county on each performance measure on a scale of one to ten, and took the averages of these ratings. Groupings are based on county population.

Los Angeles County's Poor Performance is Costing the State Millions of Dollars

As Chart 5 indicates, the performance in Los Angeles County ranks worst among the large counties. In fact, Los Angeles' performance ranked 57th among all 58 counties in California. The county's performance was consistently near the bottom in each of the eight criteria. The highest ranking the county received in a single category was in administrative costs of AFDC collections, in which the county ranked 32nd out of 58.

While child support collections among all counties increased by 10 percent between 1986-87 and 1987-88, collections in Los Angeles County increased by less than 2 percent. At the same time, the rate of recoupment of AFDC grants for Los Angeles was less than half the

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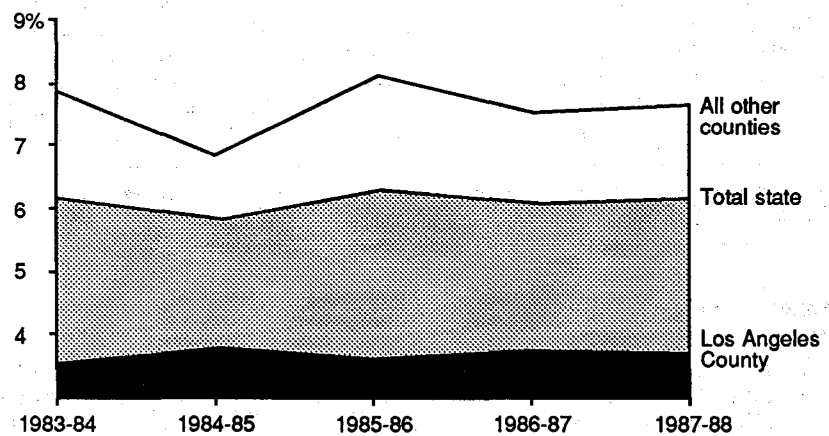
average rate of the other counties and about one-fourth the rate of Ventura County, which had the best performance rating among large counties. *Although Los Angeles has approximately 40 percent of all AFDC cases in the state, its collections in 1987-88 represented only about 21 percent of the state's total collections in that year.*

Performance of Los Angeles is Important to the State. Because of its size, the performance of Los Angeles is vital to the overall performance of the state's child support enforcement program. For example, if Los Angeles' recoupment rate for 1987-88 had been up to the average of the other counties, the state would have received *an additional $22 million in General Fund revenues and the county would have received an additional $3 million* from welfare collections, while the children of non-AFDC families living in the county would have received an additional $25 million in child support. If Los Angeles had done as well as Ventura County in 1987-88, the state would have received an additional $60 million in General Fund revenues and the county would have received an additional $7 million from welfare collections, while the children of non-AFDC families would have received an additional $41 million in child support. Historically, however, Los Angeles has pulled down the average statewide recoupment rate. Chart 6 displays this trend.

Chart 6

AFDC Child Support Recoupment Rates[a]

1983-84 through 1987-88



[a] AFDC collections as a percent of grant expenditures.

The DSS has recognized the importance of improving performance in Los Angeles County. Specifically, the department has assigned additional staff to monitor the county's performance and provide technical assistance and has required the county to submit performance data on a monthly basis.

What Accounts for the Poor Performance of Los Angeles?

Although it is not possible to determine all of the reasons for Los Angeles' poor performance, both the county and the DSS suggest that two factors—lack of an adequate automated system and a loss of staff—have significantly hampered the county's performance.

Lack of Automation. Los Angeles County's performance is severely handicapped by its limited automation capabilities. Because of the limitation of the system, which has been in use since 1979 and provides little more than word processing, much of the work that is accomplished by computers in other counties must be done manually by the staff in Los Angeles.

The way the county handles child support orders that are in arrears provides an excellent illustration of the inefficiencies that result from the lack of an adequate automated system. When a child support order is in arrears, the district attorney must take legal action in court to enforce the order and collect the awards. In counties with automated systems, a computer can generate a list of payments to demonstrate that an account is, in fact, in arrears. In most cases the courts accept such information as evidence because of the high level of confidence that they have in the counties' automated systems. In Los Angeles, however, all arrearages must be certified manually by a team of auditors because of the limited capability of the county's automated system. This not only slows the process of collecting delinquent awards, it also diverts valuable staff resources from other collection activities.

County Proposal to Contract Out the Operation of the Program to a Private Vendor Has Resulted in a Loss of Staff. Another reason for the poor performance of Los Angeles County is the severe loss of staff in the District Attorney's Bureau of Child Support Enforcement during the past two years. According to the DSS, the bureau has lost more than 24 percent of its staff since 1986. Chart 7 compares the bureau's staffing changes over the period July 1987 through December 1988 with the changes in the child support enforcement caseload during the same period. As the chart shows, the child support enforcement caseload climbed by about 8 percent while staffing in the bureau dropped nearly 15 percent.

According to both the county and the DSS, the major reason for the loss of staff within the bureau is the continuing uncertainty regarding the county's proposal to contract out much of the operation of its program to a private vendor, which has been under consideration since late 1986. Specifically, the county has proposed to contract out all services, including automation and staff services, except for services which require an attorney. The DSS advises that no other county in California has attempted to contract out this level of service in the child support enforcement program.

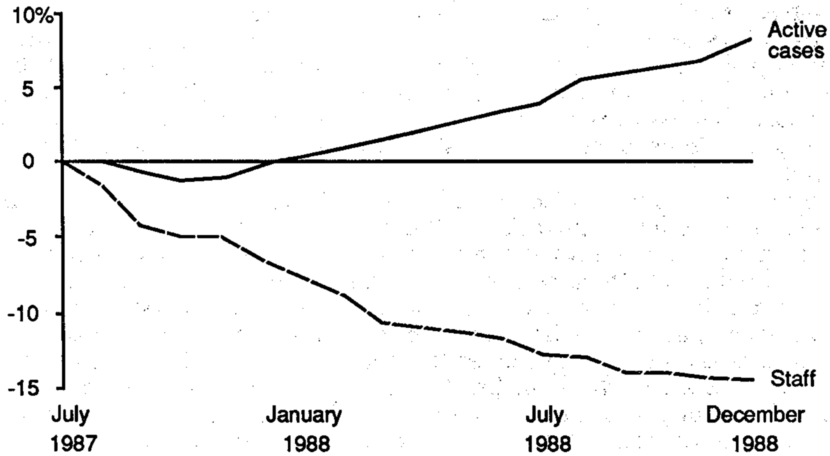
The DSS advises that no existing county staff have been laid off because of the contracting proposal, but many have left the bureau for other employment in anticipation of a private vendor taking over the operation of the program. In addition, because of the uncertainty, it is difficult to fill a position when one becomes vacant.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Chart 7

Comparison of Changes in Active Cases and Staffing Los Angeles County Bureau of Child Support Enforcement

July 1987 through December 1988



The contracting proposal was submitted to the DHHS for approval in October 1988, but was rejected in late January 1989. It is uncertain when, or if, the proposal will be modified and resubmitted to the DHHS. The county believes that, if the proposal is eventually approved, it can receive bids within two months of the approval date. It could take several more months for the county to award a contract and for a vendor to actually begin to operate the program. Thus, the county is likely to continue to find it difficult to maintain staffing levels in the foreseeable future.

The State Needs to Act Immediately to Bring Los Angeles County's Performance up to Par

We recommend that the Legislature adopt supplemental report language requiring the DSS to develop a three-year plan to improve the performance of Los Angeles County's child support enforcement program.

As we have shown, the performance of Los Angeles County in the child support enforcement program is vital to the state's overall performance. In our view, the situation in Los Angeles County has reached critical proportions and *immediate* action is warranted to improve the performance there. The alternative to bringing Los Angeles County's performance up to par is the continuing loss of General Fund, federal *and county* revenues, the continuing loss of support payments to children, and the risk of additional penalties resulting from future federal audits.

Existing State Law Provides a Way for the State to Bring Poorly Performing Counties in Line. Under current state law, the state must develop a state plan for the child support enforcement program. The plan can be changed at any time. Section 11475.2 of the Welfare and Institutions Code provides that if the Director of the DSS determines that a county is failing to comply with any provision of the state plan, the Director may (1) withhold part or all of state and federal funds, including incentive funds, from the county until the county demonstrates full compliance with the state plan and (2) notify the Attorney General that the county has failed to comply. Section 11475.2 requires the Attorney General to "take appropriate action to secure compliance" upon receipt of the Director's notification that a county has failed to comply with the plan. According to the DSS, the department has never withheld funds from a county nor notified the Attorney General that a county was not performing as required in the state plan.

DSS Should Develop a Three-Year Plan. In order to improve the performance of Los Angeles County's child support enforcement program, we believe that the DSS should develop a three-year plan, subject to legislative review, that sets out reasonable goals and objectives and measurable milestones to gradually bring the county's AFDC recoupment rate and non-AFDC collections up to at least the average of the other counties.

The plan should identify critical milestones that the county must meet in each quarter of each fiscal year to demonstrate improvement in the county's performance of the program. The plan should also specify the actions that the DSS will take if these milestones are not reached. Failure to achieve any of the first four quarterly milestones should result in financial sanctions, consistent with Section 11475.2 and the plan should specify how the department will calculate the amounts of these sanctions. The DSS should also provide for (1) an increase in the amount of the financial sanctions if the county fails to achieve the milestones after the first four quarters and (2) notification of the Attorney General that the county has failed to comply and a request that appropriate action be taken to ensure compliance. Because of the critical nature of this problem, we also recommend that the DSS submit quarterly reports to the Legislature on the status of the plan and the county's performance.

Specifically, we recommend the adoption of the following supplemental report language (Item 5180-101-001):

> The Department of Social Services, in conjunction with Los Angeles County, shall develop a three-year plan by October 1, 1989 to improve the performance of the county's child support enforcement program. The plan shall include reasonable goals and objectives, which lead to the county gradually increasing its AFDC recoupment rate and non-AFDC collections up to at least the average of other counties by January 1, 1993. In addition, the plan should specify measurable milestones that the county must meet in each quarter (beginning with the quarter ending March 31, 1990), and specify the amount of the financial sanctions that the DSS will impose, pursuant to Welfare and Institutions Code Section 11475.2, in the event that the county fails to achieve the milestones. The plan shall call for an increase in the amount of the sanctions that will be applied in the event of continued failure to achieve the milestones after the first four quarters covered by the plan and shall require the Director to notify the Attorney General of the county's failure to comply if the county fails to achieve these milestones after the first four quarters. The plan shall not become effective sooner than 60 days after it is submitted to the Chairpersons of the Joint Legislative Budget Committee (JLBC) and the Legislature's fiscal committees. In addition, the department shall submit quarterly status reports, beginning on April 30, 1990, to the JLBC and the fiscal committees on the

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

performance of Los Angeles County and its compliance with the three-year plan.

DSS Performance Model Should Have Teeth

We recommend that the Legislature adopt supplemental report language requiring the DSS to (1) incorporate its performance standards model for child support enforcement into the state plan and (2) outline in the state plan the specific actions that the department will take if counties with below-standard performance do not show improvement within the time frames outline in the plan, including graduated financial penalties and notification to the Attorney General that the county is not in compliance with the state plan.

Although the sheer size of Los Angeles County makes its performance critical to the success of the state's overall child support enforcement program, the performance of other counties is important as well. As Chart 5 shows, there are significant differences between the performance scores of the counties. Based on our analysis of county performance, we believe that there are significant opportunities to increase collections and improve the performance of counties like Sacramento, San Mateo, and Santa Clara, whose performance is also substantially below average.

The DSS Performance Standards Model. The DSS recently began the development of a statewide model to improve program performance in counties. A state-county task force with representatives from the DSS and Contra Costa, El Dorado, Los Angeles, Marin, Riverside, Sacramento, Santa Barbara, Santa Clara, and Stanislaus Counties is currently developing this model. The DSS advises that the results of the project will be available by April 1989.

Ensuring that Performance Standards Model Will Improve Performance. We believe that such a model offers excellent opportunities to improve performance of the counties by setting performance standards. At the same time, however, we believe that it is unlikely that such standards alone will be enough to ensure improvement. In addition, the department may need to set specific time frames for improvement of those counties that are below standard and outline actions (such as financial sanctions) that it will take if performance does not, in fact, improve. Consequently, we recommend that the Legislature adopt supplemental report language to instruct the DSS to take the following steps:

1. *Incorporate performance standards into the state plan.* This will help ensure that the standards carry the same legal weight as other parts of the state plan and will enable the state to take actions against counties that do not achieve adequate performance.

2. *Outline in the state plan the specific actions that the department will take if counties with below-standard performance do not show improvement within the time frames outlined in the plan, including graduated financial penalties and notification to the Attorney General of noncompliance.* In order to ensure that below-standard counties take the performance standards seriously, the DSS should establish a specific list of actions that it will take if a county does not comply. In particular, the state child support enforcement plan should specify how the DSS will calculate the amounts of financial penalties and when, and under what circumstances, the DSS will notify the Attorney General that a county is not in compliance with the plan.

Therefore we recommend the adoption of the following supplemental report language:

> The Department of Social Services shall incorporate child support enforcement performance standards into the state plan for the program, pursuant to Section 11475 of the Welfare and Institutions Code. The department shall make these changes in the state plan by March 31, 1990, but in no event shall it make the changes earlier than 90 days after notifying the Legislature of its proposed changes. The model should include specific time frames with which to gauge county improvement and compliance with the plan and should outline specific actions that the department will take if a county does not demonstrate such improvement. These actions shall include graduated financial penalties and/or notification to the Attorney General of a county's noncompliance with the model.

Federal Welfare Reform Will Require Changes in Child Support Enforcement Program

On October 13, 1988, President Reagan signed the Family Support Act of 1988. The Family Support Act (FSA) is designed to promote self-sufficiency among welfare recipients and reduce their dependence on the welfare system.

The FSA makes several changes in the child support enforcement program. Although the precise impact of many of the changes will depend on federal regulations, which will not be promulgated until later this year, it is clear that several of the new federal requirements will require changes in California law. Some of these changes will probably have significant fiscal consequences for the state and counties. The FSA requires states to:

- Develop statewide automated systems for tracking and monitoring child support enforcement operations (this requirement is discussed in greater detail below).
- Periodically review and adjust child support awards.
- Meet federal paternity establishment standards.
- Collect social security numbers from both parents prior to issuing a birth certificate for a child.
- Notify families receiving welfare, on a monthly basis, of the amount of support collected on their behalf.
- Accept and respond to requests for assistance in specified child support enforcement activities within time standards to be established by the DHHS.
- Initiate automatic wage withholding for all child support orders.

We discuss these and other changes included in the FSA in a separate report entitled *Federal Welfare Reform in California: A Review of the Family Support Act of 1988* (Legislative Analyst's Office Report Number 89-2), which was published in January 1989.

Department Should Report On Plans for Automation

We recommend that the DSS report to the Legislature during budget hearings on the costs and benefits of implementing (1) a state-operated automated child support system compared to (2) a county-operated automated system. The report should include a review of the costs and benefits of each option and a discussion of the options for funding the nonfederal share of the costs.

The FSA requires states to develop statewide automated systems for tracking and monitoring child support operations. Such systems can

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

provide many services, such as case management, word processing, accounting, billing, and data collection. The measure also provides that the federal government will pay for up to 90 percent of the costs of automation through September 1995. The systems must be operational by October 1, 1995.

In our report on federal welfare reform in California (please see p. 12 of the report) we note that automation offers one of the best opportunities to increase collections and improve the efficiency of the child support enforcement program. In addition, we found that the costs of automation are more than offset by increased collections.

Our analysis indicates that in order to comply with this requirement, the Legislature has two basic options: (1) establish a state-operated system or (2) seek a waiver of the requirement for a statewide system and instead require all counties to develop their own systems.

There are advantages to each of these options. Based on our review of these issues, we conclude that the costs of developing a state-operated system would be less than the costs to develop several county-operated systems. In addition, a state-operated system could probably be brought on line faster because the state would have to develop only one system. A state-operated system also would be easier and less expensive to maintain than a county-operated system and would be easier to reprogram as needed to implement changes in regulations or federal or state law. On the other hand, a county-operated system would be more responsive to local needs.

Because of the importance of automation to the success of the child support enforcement program and the long lead-time required for automation projects, we recommend that the DSS report to the Legislature during hearings on the costs and benefits of the options outlined in the report, as well as the options for funding the nonfederal share of the costs of automation.

Department of Social Services

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED

Item 5180-111 from the General Fund and the Federal Trust Fund — Budget p. HW 169

Requested 1989-90	$2,070,657,000
Estimated 1988-89	2,002,848,000
Actual 1987-88	1,846,496,000
Requested increase $67,809,000 (+3.4 percent)	
Total recommended reduction	None
Recommendation pending	2,070,657,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$2,055,484,000
5180-111-890—Payments to aged, blind, and disabled refugees	Federal	12,229,000
Control Section 23.50—Payments to aged, blind, and disabled	State Legalization Impact Assistance Grant—Federal	2,944,000
Total		$2,070,657,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Withhold recommendation on $2 billion from the General Fund pending review of revised estimates in May.	605

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 for most recipients. However, the federal Office of Refugee Resettlement pays for the SSP grants for eligible refugees who have been in this country for less than 24 months. In California, the SSI/SSP program is administered by the federal government through local Social Security Administration (SSA) offices.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $2 billion from the General Fund for the state's share of the SSI/SSP program in 1989-90. The budget also includes $12 million from the Federal Trust Fund to reimburse the state for the grant costs of refugees and $3 million from the federal State Legalization Impact Assistance Grant (SLIAG) for grants to newly legalized persons under the federal Immigration Reform and Control Act (IRCA). The total proposed appropriations are an increase of $68 million, or 3.4 percent, above estimated current-year expenditures.

The budget also assumes that federal expenditures for SSI grant costs will be $1.7 billion. This is an increase of $153 million, or 9.6 percent, above estimated federal expenditures in the current year. The combined state and federal expenditures anticipated by the budget for the SSI/SSP program is $3.8 billion, which is an increase of $220 million, or 6.1 percent, above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures by category of recipient and by funding source, for the years 1987-88 through 1989-90.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

Table 1
SSI/SSP Expenditures
1987-88 through 1989-90
(dollars in thousands)

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Category of recipient				
Aged	$1,020,515	$1,099,805	$1,144,940	4.1%
Blind	105,961	112,792	117,100	3.8
Disabled	2,168,147	2,383,959	2,554,848	7.2
Totals	$3,294,623	$3,596,556	$3,816,888	6.1%
Funding Sources				
Included in the Budget Bill:				
General Fund	*$1,835,661*	*$1,990,040*	*$2,055,484*	*3.3%*
Federal funds (reimbursements for refugees)	*10,685*	*11,329*	*12,229*	*7.9*
State Legalization Impact Assistance Grant (SLIAG)	*150*	*1,479*	*2,944*	*99.1*
Subtotals, Budget Bill	*($1,846,496)*	*($2,002,848)*	*($2,070,657)*	*(3.4%)*
Not included in Budget Bill:				
SSI grants	*$1,448,127*	*$1,593,708*	*$1,746,231*	*9.6%*

Table 2
SSI/SSP Budget Changes
1989-90
(dollars in millions)

	General Fund	*All Funds* [a]
1988 Budget Act	$2,014.4	$3,624.4
1988-89 adjustments to appropriations		
Lower-than-anticipated caseload growth	−$21.1	−$29.2
Baseline change for 1/88 state COLA	−1.1	−1.1
Federal reimbursement for refugees	−1.0	—
Refugee program reduction	−1.2	—
Newly legalized persons	—	2.3
Totals, surplus	−$24.4	−$28.0
1989-90 adjustments		
Increase in caseload	$88.9	$163.8
Full-year costs of 1/89 state COLA	132.8	132.8
Full-year costs of 1/89 federal COLA	−77.8	−48.8
1/90 federal COLA (4.8 percent)	−77.5	−29.7
Federal reimbursement for refugees	−1.4	—
Refugee program reduction	.5	—
Newly legalized persons	—	2.3
1989-90 expenditures (proposed)	$2,055.5	$3,816.9
Change from 1988-89:		
Amount	$65.5	$220.5
Percent	3.3%	6.1%

[a] Includes federal SSI payments not appropriated in the state budget as well as General Fund amounts.

Table 2 shows the factors resulting in the net increase of $220 million in all funds for the SSI/SSP program in 1988-89. As the table shows, expenditures from all funds in the current year are estimated to be $28 million ($24.4 million General Fund) *less* than the amounts budgeted in the 1988 Budget Act. For the budget year, the largest projected cost *increases* are attributable to:

- A $164 million ($89 million General Fund) increase to fund an estimated 4.5 percent caseload growth.
- A $133 million General Fund increase to fund the full-year cost in 1989-90 of the 4.7 percent COLA provided for SSI/SSP grants on January 1, 1989.

These increases are partially offset by a decrease of $155 million in General Fund costs resulting from COLAs in the federal SSI program and social security benefits. These increases are counted as increased beneficiary income and thus reduce the state share of grant costs.

ANALYSIS AND RECOMMENDATIONS

Eligibility Requirements

The 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 must be below the SSI/SSP payment standard and their resources cannot exceed $2,000 for individuals and $3,000 for couples.

General Fund Reversion of $24 Million in 1988-89

The department anticipates that expenditures for SSI/SSP during 1988-89 will be *below* available funds by $28 million ($24 million General Fund), or approximately 1 percent. As Table 2 shows, the current-year surplus in the program is primarily attributable to a $29 million ($21 million General Fund) decrease in costs due to lower-than-anticipated growth in the SSI/SSP caseload, offset by a $2.3 million increase for grants to newly legalized persons that were not included in the 1988 Budget Act.

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 1989 an aged or disabled individual can receive up to $602 per month, while a blind individual can receive up to $673. The actual amount of the grant depends on the individual's other income. 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.

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 SSA 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. The SSP grant levels proposed in the budget *exceed* those required by federal law.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

Existing state law requires that the total SSI/SSP payment levels be adjusted, effective January 1, 1990, based on the change in the California Necessities Index (CNI) during calendar year 1988. The Commission on State Finance is required to calculate the CNI, which is based on December-to-December changes in inflation indexes reported for Los Angeles and San Francisco. At the time this analysis was prepared, the commission's calculation of the actual change in the CNI for calendar year 1988 was not available. The commission's preliminary estimate of the change is 4.79 percent.

Budget Proposes to Suspend Statutory COLA. The budget assumes enactment of legislation to waive the requirement for a state COLA for SSI/SSP grants in 1989-90. The budget estimates that this will result in General Fund savings of $138 million in the budget year, based on the estimated increase in the CNI of 4.79 percent.

Table 3
Maximum Monthly SSI/SSP Grant Levels
Calendar Years
1989 and 1990

		1990	
	1989	*Budget Proposal (no state COLA)* [a]	*Statutory Requirement (with state COLA)* [b]
Category of recipient [c]			
Aged or disabled			
Individual:			
Total grant	$602	$602	$631
SSI	368	386	386
SSP	234	216	245
Couple:			
Total grant	$1,116	$1,116	$1,169
SSI	553	579	579
SSP	563	537	590
Blind			
Individual:			
Total grant	$673	$673	$705
SSI	368	386	386
SSP	305	287	319
Couple:			
Total grant	$1,312	$1,312	$1,375
SSI	553	579	579
SSP	759	733	796
Aged or disabled individual			
Nonmedical board and care:			
Total grant	$678	$678	$710
SSI	368	386	386
SSP	310	292	324

[a] Assumes no state COLA in SSI/SSP grants and a 4.8 percent increase in SSI grants January 1, 1990.
[b] Assumes a 4.79 percent increase in SSI/SSP grants, based on the estimated CNI, and a 4.8 percent increase in SSI grants, both effective January 1, 1990.
[c] Unless noted, recipients are in independent living arrangements.

Table 3 displays the SSI/SSP grants for 1989 and for 1990 with no state COLA (the Budget Bill proposal) and with a COLA of 4.79 percent. As the table shows, if legislation is enacted to waive the state COLA, the COLA in the federal SSI program that will take effect on January 1, 1990 will be offset by a reduction in the SSP grant and will result in no change in the total grant. If, however, legislation is not enacted to waive the state COLA, grants to individuals would be $27 to $59 higher in 1990 than the grants in 1989.

Estimates Will Be Updated In May

We withhold recommendation on $2 billion from the General Fund requested for SSI/SSP grant costs, pending review of revised SSI/SSP expenditure estimates to be submitted in May.

The proposed expenditures for the SSI/SSP program are based on actual caseload and cost data through July 1988. The department will present revised estimates in May, which will be based on program costs through February 1989. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1989-90 expenditures.

Basic Caseload Estimate May Be Too High. The budget proposal assumes an average monthly SSI/SSP caseload of 811,800, which is an increase of 4.5 percent, above estimated current-year caseloads. Table 4 compares the projected caseload in each recipient category for 1988-89 and 1989-90.

Table 4
SSI/SSP
Average Monthly Caseload
1987-88 through 1989-90

Category of recipient	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Aged	282,294	291,400	300,800	3.2%
Blind	20,544	21,000	21,500	2.4
Disabled	439,452	464,100	489,500	5.5
Totals	742,290	776,500	811,800	4.5%

Compared to the most recent actual experience, a caseload increase of 4.5 percent would represent an *increase* in the rate of growth of the SSI/SSP caseload. For example, Table 5 shows that the number of recipients increased by 4 percent between the first five months of 1987-88 and the same period in 1988-89. Although this is only a difference of one-half of 1 percent below the 4.5 percent projected by the Department of Social Services, the lower growth rate would result in a reduction of General Fund cost below the proposed level of more than $10 million.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

Table 5
SSI/SSP
Actual Change in Average SSI/SSP Caseload
July through November 1987-88 and 1988-89

	July-November		*Percent Change From*
	1987-88	*1988-89*	*1987-88*
Eligibility category			
Aged	279,930	288,588	3.1%
Blind	20,443	20,715	1.3
Disabled	432,643	453,368	4.8
Totals	733,016	762,671	4.0%

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and the Federal Trust Fund — Budget p. HW 170

Requested 1989-90	$3,689,000
Estimated 1988-89	3,309,000
Actual 1987-88	2,882,000
Requested increase $380,000 (+11 percent)	
Total recommended reduction	None

1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-121-001—Special Adult programs	General	$3,614,000
5180-121-890—Special Adult programs	Federal	75,000
Total		$3,689,000

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.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $3.7 million for the Special Adult programs in 1989-90. This is $380,000, or 11 percent, more than estimated expenditures for this program in the current year. This increase results primarily from projected expenditure growth in the Special Circumstances program. 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 171

Requested 1989-90	$17,505,000
Estimated 1988-89	20,668,000
Actual 1987-88	45,322,000
Requested decrease $3,163,000 (−15 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item appropriates federal funds for cash grants to needy refugees who (1) have been in this country for less than two years and (2) do *not* qualify for assistance under the Aid to Families with Dependent Children (AFDC) program or Supplemental Security Income/State Supplementary Program (SSI/SSP). The funds for assistance to refugees who receive AFDC or SSI/SSP grants are appropriated under Items 5180-101-890 and 5180-111-890, respectively.

The federal government pays 100 percent of the costs of public assistance—AFDC, SSI/SSP, and county general assistance—to needy refugees for the first two years that they are in this country. These individuals are designated as "time-eligible" refugees. Time-eligible refugees who are needy, but who do not meet the eligibility requirements of the AFDC or SSI/SSP programs, receive cash assistance under the Refugee Cash Assistance (RCA) program for the first 12 months that they are in this country. After this period, some of these individuals qualify for assistance under county general assistance programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of $17.5 million in federal funds in 1989-90 for cash assistance to time-eligible refugees through the RCA and county general assistance programs. This is a decrease of $3.2 million, or 15 percent, below estimated current-year expenditures.

The $3.2 million decrease consists of (1) a $3.9 million decrease due to the net full-year effects in 1989-90 of a change in federal regulations that took effect in October 1988 and (2) a $700,000 increase primarily due to a 3 percent caseload increase. The change in federal regulations reduced from 18 to 12 the number of months that the federal government provides grants to refugees under the RCA program. In 1989-90, this change will result in a $5 million *decrease* in grant costs to refugees under the RCA program. At the same time, this change will result in a $1.1

REFUGEE CASH ASSISTANCE PROGRAMS—Continued

million *increase* in costs for assistance to refugees under general assistance programs. This will occur because some refugees who formerly received grants under the RCA (those in the country for 12 to 18 months) will shift over to general assistance programs.

Department of Social Services
COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 5180-141 from the General Fund and the Federal Trust Fund — Budget p. HW 171

Requested 1989-90	$708,256,000[a]
Estimated 1988-89	654,012,000
Actual 1987-88	532,390,000
Requested increase $54,244,000 (+8.3 percent)	
Total recommended reduction	None
Recommendation pending	708,256,000

[a] Includes $24,420,000 proposed in Item 5180-181-890 to provide a 5.2 percent cost-of-living adjustment.

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County administration	General	$179,592,000
5180-141-890—County administration	Federal	502,583,000
5180-181-890—Cost-of-living adjustment	Federal	24,420,000
Control Section 23.50—Local assistance	State Legalization Impact Assistance Grant	1,661,000
Total		$708,256,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. County Administration Budget. Withhold recommendation on $708.3 million ($179.6 million General Fund, $528.7 million federal funds) pending review of revised estimates in May and a report on the findings of a work measurement study. 611

GENERAL PROGRAM STATEMENT

This item contains funds to cover the state and federal share of the costs incurred by counties in administering (1) the Aid to Families with Dependent Children (AFDC) program, (2) the Food Stamps program, (3) the Child Support Enforcement program, (4) special benefits for aged, blind, and disabled adults, (5) the Refugee Cash Assistance program, and (6) the Adoption Assistance program. In addition, this item supports the cost of training county eligibility staff.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $179.6 million from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1989-90. This is an increase of $12 million, or 7.5 percent, over estimated current-year General Fund expenditures for this purpose. The $179.6 million includes $9.0 million to fund increased General Fund costs resulting from the estimated 4.8 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1988-89*. 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 the budget-year costs starting in *1990-91*.

The budget proposes total expenditures of $960 million for county administration of welfare programs during 1989-90, as shown in Table 1. This is an increase of $73 million, or 8.2 percent, over estimated current-year expenditures.

Table 2 shows the budget adjustments that account for the net increase in county administration expenditures proposed for 1989-90. Significant changes include:

- A $14 million increase ($3.5 million General Fund) to fund administration costs related to estimated increases in AFDC caseloads (basic costs).
- A $6.1 million increase ($2.3 million General Fund) to fund increased costs related to development and implementation of a statewide automated welfare system. The $6.1 million increase ($4.9 million for AFDC administration and $1.2 million for nonassistance food stamps administration) reflects (1) additional development costs related to certain counties preparing to implement their automated systems and (2) the costs for additional counties to prepare advanced planning documents for their automated systems.
- A $3.8 million increase to fund the estimated 4.8 percent retroactive COLA for 1988-89. This increase is primarily the result of higher caseloads in 1989-90. The General Fund share of the increase ($9 million) is partially offset by reduced county costs, since counties will pay for 100 percent of the nonfederal share of these COLAs in 1988-89.
- A $45 million increase in federal and county funds (no General Fund monies) to provide a 5.2 percent COLA estimated for 1989-90. The General Fund share of the ongoing costs of this COLA will be covered in the state budget beginning in 1990-91.

Table 1
County Welfare Department Administration
Budget Summary
1987–88 through 1989–90
(dollars in thousands)

	Actual 1987–88				*Estimated 1988–89*				*Proposed 1989-90*			
Program	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
1. AFDC administration	$109,066	$166,352	$126,163	$401,581	$125,050	$272,598	$135,089	$532,737	$134,840	$287,778	$131,894	$554,512
2. Nonassistance food stamps	27,677	110,495	33,276	171,448	35,860	92,894	40,790	169,544	38,537	95,942	40,501	174,980
3. Child support enforcement	—	102,851	50,566	153,417	—	113,021	53,183	166,204	—	110,492	55,712	166,204
4. Special adult programs	2,330	—	85	2,415	2,533	—	122	2,655	2,883	—	—	2,883
5. Refugee cash assistance	—	6,439	—	6,439	678	2,263	694	3,635	—	3,445	—	3,445
6. Adoption assistance	106	69	1	176	79	36	4	119	59	28	—	87
7. Staff development	2,312	4,693	2,901	9,906	2,899	6,101	3,191	12,191	3,273	6,559	3,273	13,105
8. Estimated 5.2 percent COLA for county staff	—	—	—	—	—	—	—	—	—[b]	24,420	20,264	44,684
Totals	$141,491	$390,899[a]	$212,992	$745,382	$167,099	$486,913[a]	$233,073	$887,085	$179,592	$528,664[a]	$251,644	$959,900

[a] Includes State Legalization Impact Assistance Funds. For 1989–90, these funds are budgeted under Control Section 23.5.
[b] The state will not share in the costs of COLAs granted to welfare department employees for 1989–90 until 1990–91.

Table 2
County Administration of Welfare Programs
Proposed 1989-90 Budget Changes
All Funds
(dollars in thousands)

	General Fund	All Funds
1988-89 expenditures (revised)	$167,099	$887,085
Adjustments to ongoing costs or savings		
AFDC administration		
Basic caseload costs	3,498	13,940
Court cases/legislation	−1,696	−587
Statewide Automated Welfare System (SAWS)	1,861	4,897
Systematic Alien Verification for Entitlement	−3	361
Fraud detection, enhanced federal funding	−707	—
Other	28	96
Subtotals, AFDC	($2,981)	($18,707)
Nonassistance food stamps administration		
Basic caseload costs	$266	$1,137
SAWS	462	1,214
Employment training program	65	1,744
Other	−4	389
Subtotals, food stamps	($789)	($4,484)
Other programs		
Basic caseload costs	$419	$1,263
Refugee statutory changes	−678	−907
Immigration Reform and Control Act	—	750
Subtotals, other programs	(−$259)	($1,106)
New costs		
Retroactive COLA (4.8 percent)	$8,982	$3,834
Estimated COLA for 1989-90 (5.2 percent)	—	44,684
Subtotals, new costs	($8,982)	($48,518)
1989-90 expenditures (proposed)	$179,592	$959,900
Change from 1988-89:		
Amount	$12,493	$72,815
Percent	7.5%	8.2%

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on $708.3 million ($179.6 million General Fund and $528.7 million federal funds) requested for county administration of welfare programs pending receipt of (1) revised estimates of county costs to be submitted in May and (2) a report on the findings of a work measurement study to be submitted by March 1, 1989.

The proposed expenditures for county administration of welfare programs in 1989-90 are based on 1988-89 budgeted costs updated to reflect the department's caseload estimates for 1989-90. In May, the department will present revised estimates of county costs based on actual county costs in 1988-89. For example, the May estimates will reflect the actual amount of COLAs counties provided to their employees during the current year, whereas the proposed expenditures are based on estimated county COLAs. In addition, the May estimate will incorporate changes reflected in approved county cost control plans for 1989-90 and the department's updated caseload data for county-administered programs.

Because the revised estimate of county costs will be based on more recent and accurate information, the estimate will provide the Legisla-

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

ture with a more reliable basis for budgeting 1989-90 expenditures. Therefore, we withhold recommendation on the amount requested for county administration of welfare programs pending review of the May estimate.

Findings of a Work Measurement Study May Lead to Changes in County Administration Costs

In the 1988 Budget Act, the Legislature approved language requiring the Departments of Social Services and Health Services to submit a joint report by March 1, 1989 regarding the findings of a work measurement study of counties' administration of welfare programs. The purpose of this study is to determine an appropriate workload standard for counties' eligibility determination staff. Among other things, the Budget Act requires the departments to include in this report (1) an analysis of the fiscal impact on the federal, state, and county governments, should the budget process for eligibility worker caseloads be based on the findings of the work measurement study, and (2) an estimate of the cost of fully implementing the findings of the study. We would expect the department's May estimates of county administration costs to include any adjustments necessary to implement the results of the study. Therefore, we will provide our review of the study as part of our analysis of the May revision.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund and various funds — Budget p. HW 172

Requested 1989-90	$1,310,333,000 [a]
Estimated 1988-89	1,282,942,000
Actual 1987-88	917,352,000
Requested increase $27,391,000 (+2.1 percent)	
Total recommended reduction	250,000
Recommendation pending	573,906,000

[a] Includes $2,903,000 proposed in Item 5180-181-890 to provide a 5.2 percent cost-of-living adjustment.

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social services programs—local assistance	General	$799,177,000
5180-151-890—Social services programs—local assistance	Federal	503,588,000
5180-181-890—Social services programs—local assistance COLA	Federal	2,903,000
Reimbursements	—	2,735,000
Welfare and Institutions Code Section 18969—Appropriation	Children's Trust	1,659,000
Chapter 1236, Statutes of 1988—Appropriation	General	62,000
Control Section 23.5	State Legalization Impact Assistance Grant	209,000
Total		$1,310,333,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. In-Home Supportive Services (IHSS)—Program Refocus. Withhold recommendation on $574 million proposed for the IHSS program, including $64 million in proposed savings due to a "program refocus" and recommend that prior to budget hearings, the Department of Social Services provide the fiscal committees with the details of the proposal, the implementing legislation, and its assessment of the proposal's likely impact on the recipients, the counties, and the long-term costs of the IHSS program. 620
2. ***Licensed Maternity Home Care. Reduce Item 5180-151-001 by $250,000.*** Recommend a reduction in General Fund support to more accurately reflect the program's anticipated spending level. 626
3. Greater Avenues for Independence (GAIN) Program. Recommend that the department report to the fiscal committees prior to budget hearings on its most recent estimate of current-year county allocations and expenditures for the GAIN program and the amount of unspent funds that will revert to the General Fund. 630

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 proposes $1.3 billion in expenditures from state funds ($799.2 million General Fund and $1.7 million State Children's Trust Fund), federal funds ($506.7 million), and reimbursements ($2.7 million), to support social services programs in 1989-90. In addition, the budget anticipates that counties will spend $109.7 million from county funds for these programs. Thus, the budget anticipates that spending for social services programs in 1989-90 will total $1.4 billion. Table 1 displays program expenditures and funding sources for these programs in the past, current, and budget years.

SOCIAL SERVICES PROGRAMS—Continued

Table 1
Social Services Programs
Expenditures from All Funds
1987-88 through 1989-90[a]
(dollars in thousands)

Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90[b]	Change From 1988-89 Amount	Change From 1988-89 Percent
Other county social services	$380,889	$472,641	$548,456	$75,815	16.0%
Child welfare services	(302,901)	(390,344)	(463,847)	(73,503)	(18.8)
County services block grant	(77,988)	(82,297)	(84,609)	(2,312)	(2.8)
Specialized adult services	475,375	585,538	579,694	−5,844	−1.0
In-Home Supportive Services	(469,971)	(579,942)	(574,098)	(−5,844)	(−1.0)
Maternity home care	(1,962)	(2,154)	(2,154)	(—)	(—)
Access assistance for deaf	(3,442)	(3,442)	(3,442)	(—)	(—)
Employment services	94,917	232,410	214,700	−17,710	−7.6
GAIN[c]	(69,593)	(226,300)	(189,400)	(−36,900)	(−16.3)
Demonstration programs	(25,324)	(6,110)	(—)	(−6,110)	(−100.0)
JOBS impact	(—)	(—)	(25,300)	(25,300)	(—)[d]
Adoptions	21,047	27,003	27,583	580	2.1
Refugee assistance	19,146	44,936	27,685	−17,251	−38.4
Social services	(13,324)	(26,292)	(18,363)	(−7,929)	(−30.2)
Targeted assistance	(5,736)	(18,644)	(9,322)	(−9,322)	(−50.0)
Refugee demonstration program support services	(86)	(—)	(—)	(—)	(—)
Child abuse prevention	23,738	23,438	21,959	−1,479	−6.3
Totals	$1,015,112	$1,385,966	$1,420,077	$34,111	2.5%
Funding Sources[b]					
General Fund	*$483,966*	*$775,290*	*$799,239*	*$23,949*	*3.1%*
Federal Trust Fund	*430,367*	*502,440*	*506,491*	*4,051*	*0.8*
State Legalization Impact Assistance Grant	—	*30*	*209*	*179*	*596.7*
County funds	*97,760*	*103,024*	*109,744*	*6,720*	*6.5*
State Children's Trust Fund	*2,277*	*2,131*	*1,659*	*−472*	*−22.1*
Reimbursements	*742*	*3,051*	*2,735*	*−316*	*−10.4*

[a] Includes actual 1987-88 and anticipated 1988-89 and 1989-90 county expenditures.
[b] Includes funds for 1989-90 COLAs ($2.9 million from the Federal Trust Fund and $20.0 million in county funds). Also included in these amounts is the General Fund share of the COLAs that counties granted their child welfare service workers in 1988-89.
[c] Excludes General Fund expenditures for GAIN from Control Section 22 and other funds for GAIN appropriated in other items in the Budget Bill. Table 9 in our analysis of the GAIN program in this item displays all the funds appropriated in the Budget Bill for GAIN.
[d] Not a meaningful figure.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services in 1989-90 represents an increase of $34.1 million, or 2.5 percent, above estimated current-year expenditures. It also shows the various changes in funding for social services programs that are proposed in the budget year. The most significant of these changes are as follows:

- A $54 million ($40 million General Fund) increase due to anticipated growth in Child Welfare Services (CWS) caseloads.
- A $2.6 million increase for cost-of-living adjustments (COLAs) that counties granted to CWS workers in 1988-89. This increase consists of

Table 2
Department of Social Services
Proposed 1989-90 Budget Changes
Social Services Programs
(dollars in thousands)

	General Fund	*All Funds*
1988-89 expenditures (Budget Act)	$766,624	$1,373,359
1988-89 adjustments to appropriations		
Reduction in federal emergency assistance funds	$2,681	—
Increase in federal refugee funding	—	$9,001
Increase in In-Home Supportive Services (IHSS) average (IHSS) hours of service	6,959	4,888
Other adjustments	−974	−1,282
Subtotals, expenditure increase	($8,666)	($12,607)
1988-89 expenditures (revised)	$775,290	$1,385,966
1989-90 adjustments		
Other County Social Services (OCSS):		
Child Welfare Services (CWS) caseload increase	$40,269	$53,661
CWS prior-year COLA	15,066	2,576
Reduction in federal funds for independent living	—	−7,033
Implementation of four-county pilot for drug-exposed infants	1,066	1,066
IHSS administration—caseload increase	3,225	3,225
Increase in State Legalization Impact Assistance Grant (SLIAG) funds	—	14
Other adjustments	−413	−583
Subtotals, OCSS	($59,213)	($52,926)
IHSS:		
Increased caseload and average hours of service	$64,460	$66,330
Program refocus—limit on hourly rate	−30,673	−30,673
Program refocus—cap on average hours of service	−33,221	−33,221
Settlement of *Miller v. Woods* court case	−7,800	−8,667
Increased costs for payrolling contracts	222	222
Increase in SLIAG funds	—	165
Subtotals, IHSS	(−$7,012)	(−$5,844)
Employment services:		
Work Incentive (WIN) program phase-out	−$2,655	−$6,110
GAIN program reduction [a]	−9,584	−36,900
JOBS impact	−16,700	25,300
Subtotals, employment services	(−$28,939)	(−$17,710)
Adoptions	$737	$580
Refugee programs:		
Reduction in targeted assistance grant	—	−$9,322
Reduction in refugee employment social services provider contract obligations	—	−7,929
Subtotals, refugees	(—)	(−$17,251)
Child abuse prevention	−$50	−$1,479
Proposed COLAs in CWS (5.2 percent)	— [b]	22,889
1989-90 expenditures (proposed)	$799,239	$1,420,077
Change from 1988-89:		
Amount	$23,949	$34,111
Percent	3.1%	2.5%

[a] Excludes General Fund expenditures of $3.9 million for GAIN from Control Section 22 and other funds for GAIN appropriated in other items of the Budget Bill.

[b] The state share of the COLAs that counties grant to their child welfare services workers during 1989-90will be included in the base funding for the program beginning with the 1990-91 Budget.

SOCIAL SERVICES PROGRAMS—Continued

(1) an increase of $15 million in General Fund costs that results because, consistent with the state's "retroactive" COLA policy, the state did not share in the 1988-89 costs of these COLAs during 1988-89, but will begin providing its share of these costs in 1989-90, (2) a reduction of $13.1 million in county costs, also due to the "retroactive" COLA policy, and (3) an increase of $624,000 in the federal costs associated with the 1988-89 COLA due to caseload increases.

- A $23 million increase in federal and county funds for the costs of the COLAs granted to county CWS workers in 1989-90. Under the "retroactive" COLA policy, the state share of these costs will be provided beginning with the 1990-91 budget.
- A $66 million increase ($64 million General Fund) for basic costs in the In-Home Supportive Services (IHSS) program due to estimated increases in caseloads and hours of service.
- A $64 million General Fund reduction due to a proposed "program refocus" in the IHSS program in two parts: (1) a $31 million reduction due to the proposal to limit reimbursement for all IHSS hours to the current hourly cost for Independent Providers (IPs) and (2) a $33 million reduction due to the establishment of a cap on each county's average hours of service.
- A net $18 million reduction ($29 million General Fund) for employment services due to (1) a $6.1 million reduction ($2.7 million General Fund) in the Work Incentive (WIN) program due to the change over from the WIN program to the Greater Avenues for Independence (GAIN) program in the remaining WIN counties, (2) a GAIN program reduction of $37 million ($9.6 million General Fund), and (3) a net increase of $25 million due to implementation of the Job Opportunities and Basic Skills Training (JOBS) program. The $25 million increase is composed of $42 million in additional federal funds available under JOBS offset by a $17 million reduction in General Fund expenditures.

The proposed increase of $34.1 million from all funds consists of (1) a General Fund increase of $23.9 million, or 3.1 percent, (2) a federal fund increase of $4.2 million, or 0.8 percent, (3) an increase in county funds of $6.7 million, or 6.5 percent, (4) a decrease of $0.5 million, or 22 percent, from the State Children's Trust Fund, and (5) a $0.3 million, or 10 percent, reduction in reimbursements.

ANALYSIS AND RECOMMENDATIONS

OTHER COUNTY SOCIAL SERVICES

Proposed Funding for Other County Social Services. The budget proposes total spending of $548.5 million for the Other County Social Services (OCSS) program in 1989-90, which is 16 percent more than estimated expenditures in 1988-89. This amount consists of $82.7 million in federal funds (Titles IV-A, IV-B, IV-E, and SLIAG), $376.1 million in General Fund support, and $89.7 million in county funds.

Of the amount requested for OCSS, $463.8 million is proposed for the Child Welfare Services program. The balance of the OCSS request—$84.6 million—is proposed for the County Services Block Grant.

County Services Block Grant. The County Services Block Grant (CSBG) program includes IHSS administration, out-of-home care, and protective services for adults, information and referral, staff development, and 13 optional programs.

Child Welfare Services. The Child Welfare Services (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 (ER)*** program requires counties to provide immediate social worker response to allegations of child abuse and neglect.
- ***The Family Maintenance (FM) program*** requires counties to provide ongoing services to children (and their families) who have been identified through the ER program as victims, or potential victims, of abuse or neglect.
- ***The Family Reunification (FR) 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 (PP) program*** requires counties to provide case management and placement services to children in foster care who cannot be safely returned to their families.

Administration's Proposal to Fund Pilot Project for Services for Drug-Exposed Infants Needs More Detail

The budget proposes General Fund expenditures of $1.1 million in the Social Services Programs item (Item 5180-151-001) and $90,000 in the DSS' Departmental Support item (Item 5180-001-001) to recruit, train, and provide support services to foster parents for infants in four counties who are drug-exposed or who test positive for the virus that causes AIDS. This proposal is part of a pilot project to be administered by the Department of Health Services (DHS), the Department of Alcohol and Drug Programs (DADP), and the DSS. While we believe that the department's proposal has merit, at the time we prepared our analysis many of the details regarding its implementation still had not been resolved. For example, the DSS advises that foster parents in the pilot will be trained by hospital personnel regarding the medical in-home care needs of their foster care infants; yet neither the DSS nor the DHS could identify a funding source to support this training. We discuss the proposal in more detail in our analysis of the DADP's budget. (Please see Item 4200.)

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

SOCIAL SERVICES PROGRAMS—Continued

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; nonmedical personal services, such as bathing and dressing; essential transportation; protective supervision, such as observing the recipient's behavior to safeguard against injury; and paramedical services, which are performed under the direction of a licensed health care professional and are 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.

Status of the Current-Year Budget

The department estimates that current-year expenditures for the IHSS program will exceed the amount appropriated in the 1988 Budget Act by $4.9 million ($7 million General Fund). This increase is primarily due to an increase in the average hours of service per case.

The 1988 Budget Bill, as approved by the Legislature, included funds based on the DSS' May revision estimate, which projected a 3 percent increase in the average hours per case. The 3 percent increase was used as the basis for the Department of Finance (DOF) proposing an increase in funds in its May revision submission to the Legislature.

Although the DOF had proposed the 3 percent increase in the average hours, the Governor vetoed $8.5 million of the General Fund appropriation for IHSS from the 1988 Budget Bill to reflect a lower estimate of 1.5 percent. The department now estimates that the actual increase in average hours in the current year will be 3.8 percent.

At the time this analysis was prepared, the department indicated that it is not requesting additional funds to cover the shortfall. The department advises that the May revision will provide a better basis for determining how much additional funding is needed in the current year.

Proposed Budget-Year Expenditures

The budget proposes expenditures of $574 million for the IHSS program in 1989-90. This is a decrease of $5.8 million, or 1 percent, below estimated current-year expenditures. The significant changes that account for the decrease are as follows:

- A $66 million increase to fund an estimated 7 percent increase in basic caseload and a 4 percent increase in average hours of service per case.
- A $64 million reduction due to a proposed "program refocus," consisting of two parts: (1) a reduction of $31 million due to a limit on provider payments at the minimum wage rate and (2) a reduction of $33 million due to a proposed cap on each county's average hours of service per case.
- An $8.7 million reduction due to the elimination of payments for the *Miller v. Woods* court case (the department expects to make the final payments during 1988-89).

Table 3 displays IHSS program expenditures, by funding sources, for the past, current, and budget years. The table shows that while expenditures from all funds are expected to decrease by $5.8 million, or 1 percent, expenditures from the General Fund are projected to decrease by $7 million, or 2.7 percent. This is because the "program refocus" will result in savings exclusively to the General Fund. County funds are expected to remain level as a result of Ch 1438/87 (SB 412, Bill Greene), which freezes the county share of costs for the IHSS program at the 1987-88 level.

Table 3
Department of Social Services
In-Home Supportive Services
Expenditures and Funding Sources
1987-88 through 1989-90
(dollars in thousands)

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Change From 1988-89*	
				Amount	*Percent*
Funding Sources					
General Fund	$147,760	$253,974	$246,962	–$7,012	–2.7%
Federal funds	302,133	305,863	306,866	–1,033	0.3
State Legalization Impact Assistance Grant	—	27	192	165	611.1
County funds	20,078	20,078	20,078	—	—
Totals	$469,971	$579,942	$574,098	–$5,844	–1.0%

Estimates Will Be Updated in May

The proposed expenditures for IHSS are based on program costs through June 1988. The department will present revised estimates in May, which will be based on program costs through February 1988. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1989-90 expenditures. Based on our review of the caseload and cost data that was available at the time this analysis was prepared, we conclude that the department's estimate *understates* the likely IHSS caseload growth.

Table 4 displays the average monthly caseload by service delivery type for the past, current, and budget years. The table shows that the department estimates that the IHSS caseload will grow by 7.1 percent between 1988-89 and 1989-90. The estimate is based on actual caseload data through June 1988. Caseload data for the period July 1988 through December 1988, however, suggests that the rate of growth may be accelerating. Specifically, the actual caseload for the IP mode for the first six months of 1988-89 is 1.3 percent higher than the department estimates for the current year. If this increased rate of growth continues into 1989-90, the resulting IHSS IP mode caseload would be 131,363 cases, which is 4.5 percent higher than the caseload estimated in the budget. A caseload increase of this magnitude would result in increased General Fund costs of $32 million in 1989-90.

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Table 4
Department of Social Services
In-Home Supportive Services
Average Monthly Caseload
by Provider Type
1987-88 through 1989-90

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89 Percent*
Service provider types				
Individual providers	110,338	117,500	125,700	7.0%
Contract agencies	15,593	15,900	17,200	8.2
County welfare staff	1,271	1,200	1,200	—
Totals	127,202	134,600	144,100	7.1%

Table 5 displays the average hours of service per case by service delivery type for the past, current, and budget years. The 1989-90 hours of service reflected in the table assumes implementation of the administration's "program refocus" proposal discussed below.

Table 5
Department of Social Services
In-Home Supportive Services
Average Monthly Hours of Service per Recipient[a]
by Provider Type
1987-88 through 1989-90

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1989-90*
Service provider types				
Individual providers	74.93	77.67	76.20	−1.9%
Contract agencies	26.34	28.05	28.27	0.8
County welfare staff	11.23	11.23[b]	10.60	−5.6
Weighted average	68.33	71.23	69.95	−1.8%

[a] Assumes implementation of "program refocus" in 1989-90.
[b] Assumes fiscal year 1987-88 for comparison.

Proposed Program Refocus Remains Unclear

We withhold recommendation on $574 million proposed for the IHSS program, including the $64 million in savings proposed for the IHSS "program refocus", and recommend that prior to budget hearings, the DSS provide the fiscal committees with the details of the proposal, the implementing legislation, and its assessment of the proposal's likely impact on the recipients, the counties, and the long-term costs of the IHSS program.

The budget proposes to limit the projected growth in IHSS expenditures through a "program refocus." At the time this analysis was prepared, the administration had provided the Legislature with only a sparse outline of the proposal and had not drafted legislation to implement it. According to the department, the proposal consists of two parts:

a cap on the average hours of service per case in each county and a limit on the hourly payment for all hours of IHSS to the minimum wage rate paid to individual providers (IPs).

The major benefit of the proposal is that it would place cost controls on two areas of the IHSS program that have been growing in recent years, average hours per case, and the cost per hour for the contract mode and welfare staff modes of service delivery. In our view, however, the department has not yet provided the Legislature with enough information to enable it to fully assess the potential problems associated with implementing these cost controls. Therefore, in order to make a decision on this proposal, the Legislature will need additional information from the department. We discuss each component of the proposal below.

Cap On Average Hours Per Case

The department advises that it will seek legislation to limit each county's average hours per case to its 1988-89 county plan level. If hours increase above this level, the state would not reimburse the counties for any costs resulting from the increase. According to the department, this would result in a statewide average of 70 hours per case, which is slightly less than the department's estimate of 71 hours per case in the current year. Presumably, the department chose a limitation on hours per case because the average hours per case have been growing steadily through most of this decade.

The Legislature has enacted several recent program changes designed to affect average hours of service per case. These changes include:

- ***Implementation of Time-Per-Task Guidelines.*** In 1986, the DSS, at the direction of the Legislature, helped the counties to implement statewide standards for hours of service provided for specific tasks such as laundry and shopping.
- ***Case Management Information and Payrolling System (CMIPS).*** The DSS completed implementation of the CMIPS July 1, 1987. The CMIPS is a management tool that allows counties to closely monitor the hours of service being awarded by social workers.
- ***Uniformity Assessment.*** In March 1988, counties began using a new needs assessment tool for social workers to determine IHSS hours needed by a client.

We have two concerns with the department's proposal.

1. ***The department has not evaluated the impact of the limit on recipients.*** Chart 1 displays the statewide average hours per case from 1983-84 through 1989-90. As the chart shows, hours per case increased from 60 in 1983-84 to 68 in 1987-88, an increase of 14 percent. Based on the department's projections for the current and budget years, without the proposed limit on hours per case, statewide average hours would grow to 74, a 23 percent increase above 1983-84 levels.

The department advises that it has not determined the causes for the continued growth in IHSS hours. We have identified two possible explanations for the increase: (1) counties may have increased service awards to reflect changing county priorities and (2) demographic trends and governmental policies may have affected the types of clients receiving IHSS.

As we discuss below, there is substantial variation among counties in average hours per case, which may be due to differences in how counties view the IHSS program. For example, some counties may place a priority

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on using alternative services before using IHSS and others may view IHSS as the first response to persons who require services at home. County implementation of CMIPS and the uniformity assessment were, in part, an attempt to provide counties with tools to control cost increases due to the way they administer the program.

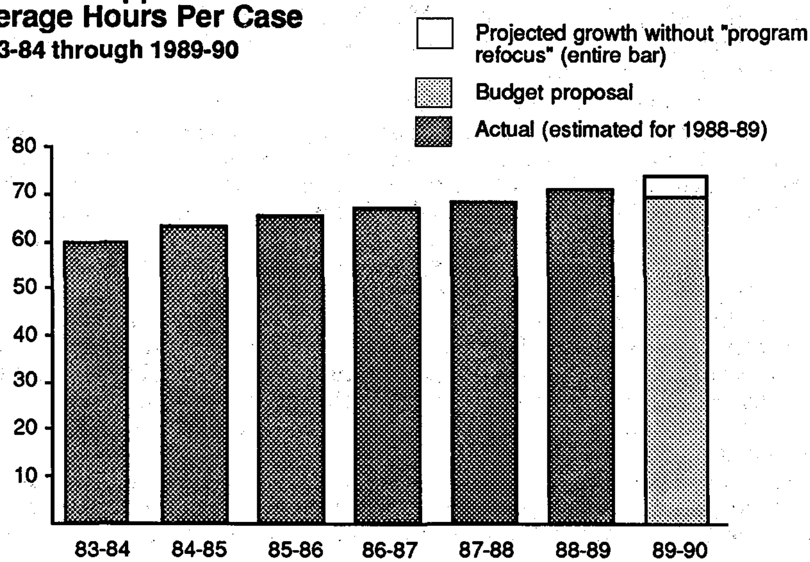
In addition, factors that are beyond the control of the counties may account for all or part of the increase. These factors might include: (1) the increasing frailty of recipients, (2) advances in medical technology that allow more severely disabled persons to remain at home, (3) the limited supply of nursing facility beds in the state, or (4) government policies and programs that have channeled more severely disabled individuals into the IHSS program. Our review indicates that it is possible for the department to analyze IHSS caseload trends, demographic and policy changes, and the preliminary results of implementation of CMIPS and the uniformity assessment to better identify the factors that have contributed to the increase in hours per case that has occurred in recent years.

The causes of increased average hours per case are important for the Legislature's evaluation of the department's proposal. To the extent that hours per case have increased due to decisions made by the counties, it may be appropriate to place a limit on some counties' average hours. To the extent that hours have been increasing due to factors outside of county control, however, a cap on hours might force counties to deny necessary services. We believe that the department should evaluate the causes of the increase in hours that has occurred in this decade in order to provide the Legislature with more definitive information on how the proposed limit on hours will affect recipients.

Chart 1

In-Home Supportive Services Average Hours Per Case

1983-84 through 1989-90



2. ***The proposal would institutionalize existing differences between counties.*** There is currently a tremendous amount of variation among counties with respect to the average hours of service per case. We reviewed data on average hours per case, and found that in 1987-88 average hours ranged from a high of 112 for Inyo County to a low of 22 for Tuolomne. In fact, while the statewide average has increased, some counties have actually had a decrease in average hours. Table 6 displays average hours per case for 10 selected counties, in 1980-81, 1984-85, and 1987-88. We selected 1980-81 for comparison purposes since it was prior to the passage of Ch 69/81, which established cost controls in the IHSS program. The first year after 1980 that saw a substantial increase in the statewide hours per case was 1984-85. The table illustrates these variations between counties and shows that three counties—Solano, Los Angeles, and San Francisco—actually have reduced their average hours per case since 1980-81.

Table 6
Department of Social Services
IHSS Program
Average Hours Per Case, Selected Counties
1980-81 through 1987-88
(Selected Years)

County	*1980-81*	*1984-85*	*1987-88*	*Percent Change 1980-81 to to 1987-88*
Contra Costa	66	78	90	35.7%
Solano	53	50	80	50.2
San Diego	55	67	78	42.4
Orange	83	73	77	−7.0
San Bernardino	31	42	77	142.9
Los Angeles	76	75	71	−6.6
San Francisco	72	61	66	−8.7
Santa Clara	46	57	60	30.4
San Joaquin	32	29	40	26.7
Ventura	16	20	37	129.2
Statewide average	60	63	68	13.1%

We are concerned that setting a limit based on current hours would, in effect, eliminate incentives for counties to use uniformity, CMIPS, and other initiatives to improve consistency. The proposal would have the effect of rewarding counties that currently have a high number of hours per case whether or not the high service awards are related to client needs. In addition, the DSS would have little incentive to analyze and identify the causes of the differences between counties or to develop additional tools to assist counties in addressing factors under their control. Moreover, setting hours in statute at current levels would ultimately prevent the DSS from adjusting individual counties up or down in response to future developments.

Limit on Hourly Payments

The budget proposes to save $30.6 million by limiting the hourly payment for which the state will reimburse the counties to $4.69, which

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is the current cost for IPs. Some counties currently receive a higher rate for IHSS hours provided through the "contract mode" or the "welfare staff mode".

The department estimates that the total cost for contract hours would be $54 million in 1989-90 without this change, and that the 15 counties with contracts will receive $24.2 million less under this proposal. The department estimates that the welfare staff mode would have cost $8.2 million in 1989-90, but that the proposal would result in savings of $7.4 million in the 20 counties that use the welfare staff mode. The budget also proposes to use $1 million of the "savings" in the welfare staff mode for continuation of some supervision of IPs by welfare department staff.

The budget proposal presents counties that currently have IHSS contractors or that use the welfare staff made to provide services with two basic options. These counties could eliminate these other modes of service and operate a 100 percent IP program to stay within their allocations or continue to offer services in other modes and bear the additional costs.

Currently, 94 percent of IHSS hours are provided by IPs, 5 percent by employees of private agencies under contract to counties, and less than 1 percent by county employees—"welfare staff." The department estimates that without the proposed program change, the cost per hour for the contract mode would be $8.71 in 1989-90. The department does not estimate the welfare staff mode on a cost-per-hour basis, because the allocation for these counties covers costs for services and for some supervision of IPs. The department could not provide a breakdown of these costs so it is not possible to develop a meaningful estimate of hourly welfare staff costs.

We have the following concerns with this component of the proposal.

1. ***The department may not have the statutory authority to implement the proposal.*** Current law authorizes counties to use the contract mode, the IP mode, or the welfare staff mode to provide IHSS services. While the department has the authority to approve or deny county IHSS plans, it is not clear to us that existing statute gives the department the authority to deny a county plan solely because the county's hourly rate is higher than the IP rate. We therefore have submitted a request to the Legislative Counsel for clarification of the department's authority to limit hourly IHSS payments.

2. ***The proposal may not actually save money in the long run.*** Our analysis indicates that counties that provide 100 percent of their IHSS hours through the IP mode do not necessarily have lower overall IHSS costs than mixed-mode counties. Table 7 displays the average costs per case for 10 counties—5 IP counties and 5 mixed-mode counties—during the second quarter of 1988-89. As the table illustrates, the cost per case for IP counties is not necessarily lower than the costs for mixed-mode counties.

There are several possible reasons why the IP mode is not always less costly than the mixed mode, even though the hourly rate for the IP mode is substantially less than for the contract or the welfare staff mode. Counties report that it is difficult to obtain IPs due to the low hourly wage, particularly for recipients who need only a few hours of service per week. Some observers argue that without the availability of a contractor,

Table 7
Department of Social Services
In-Home Supportive Services
Average Monthly Cost Per Case—Selected Counties
October-December 1988

IP Mode Counties	*Average Cost Per Case*	*Mixed-Mode Counties*	*Average Cost Per Case*
Contra Costa	$391	San Diego	$388
Alameda	373	San Francisco	367
Orange	338	San Bernardino	334
Los Angeles	300	Santa Clara	263
Sacramento	254	San Joaquin	223
	Statewide Average	$317	

there is an incentive for counties to authorize higher hours of service so that the case will be more attractive to a worker. Contractors can serve several individuals who need a few hours of service each while still employing full-time workers. In addition, contractors maintain that they train and supervise their workers, thereby relieving county-employed IHSS social workers of this responsibility. A 100 percent IP mode could also increase county staff costs because social workers would need to assist recipients when IPs fail to show up or other problems arise. Since the average costs per case for IP counties is not necessarily lower than for mixed-mode counties, it is not clear that the proposal would actually save money in the long run.

3. ***The proposal does not specify what options counties will have if they are unable to find enough IPs to meet all of their needs.*** Many counties report difficulties in finding enough IPs, particularly for low-hour cases and in emergency situations. In fact, it is our understanding that some counties originally turned to the contract or welfare staff modes to ease this availability problem. The department's proposal does not address the issue of the availability of IPs or outline counties' options if they are unable to find enough providers to serve all of their IHSS recipients.

4. ***The proposal does not specify how the department will allocate $1 million set aside for IP supervision.*** The budget includes $1 million for the costs of county welfare department staff to supervise IPs. The department has not provided the details on how these funds will be used. Our analysis indicates that there are several options for using these funds. For example, Los Angeles County has developed a limited worker registry at a county cost of $60,000 annually. A portion of the $1 million could be used to help counties develop worker registries.

The *Supplemental Report of the 1988 Budget Act* required the DSS to report to the Legislature by July 1, 1989 on the "supervised IP" mode. The supervised IP mode involves using county staff to help recipients locate and supervise their providers. The report requires the DSS to compare the costs of this mode with the costs of the IP and contract modes. The department could use a portion of the $1 million to help counties establish supervised IP mode for some of their IHSS caseload. The department could also use a portion of the $1 million for training of IPs in the care needs of recipients and the provision of services.

Conclusion. The department's proposed "program refocus" is a major policy and fiscal proposal that the Legislature will have to consider in light of its overall fiscal priorities. In order to fully assess the merits of the proposal, however, we believe that the Legislature will need substantially

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more information than the department has currently provided. We therefore withhold recommendation on the $574 million proposed in the IHSS program, including the proposed $64 million reduction, and recommend that prior to budget hearings, the DSS provide the fiscal committees with the details of the proposal, the implementing legislation, and its assessment of the proposal's likely impact on the recipients, the counties, and the long-term costs of the IHSS program.

LICENSED MATERNITY HOME CARE

The Licensed Maternity Home Care (LMHC) program provides a range of services to unmarried pregnant women under the age of 21. The DSS negotiates annual contracts with seven homes that provide food, shelter, personal care, supervision, maternity-related services, and postnatal care (limited to two weeks after delivery) to women in the program. The department reimburses the homes at a monthly rate that ranges from $1,127 to $1,308 per client. The department estimates that the homes will provide services to 474 women in the current year.

Funds for LMHC are Overbudgeted

We recommend a General Fund reduction of $250,000 to reflect reduced costs in the LMHC program in 1989-90 (reduce Item 5180-151-001 by $250,000).

The budget proposes General Fund expenditures of $2.2 million for support of the LMHC program in 1989-90. Table 8 shows the amount of funds budgeted and spent by maternity homes in the past four years. As the table shows, expenditures have fallen short of the amount appropriated for the program in each year since 1986-87. For example, the department estimates that the homes will revert $255,466 to the General Fund in the current year.

Table 8
Department of Social Services
Appropriations and Expenditures in the
Licensed Maternity Home Care Program
1985-86 through 1988-89
(dollars in thousands)

	1985-86	*1986-87*	*1987-88*	*Est. 1988-89*
Appropriation	$2,254	$2,254	$2,254	$2,154
Expenditures	2,287	2,048	1,962	1,899
Reversion to the General Fund	—[a]	$206	$292	$255

[a] Maternity homes used their own resources to cover the $33,000 "deficiency" in 1985-86.

The department advises that the reason maternity homes do not spend all of the funds appropriated for the program is because they are increasingly receiving reimbursement from the Aid to Families with Dependent Children-Foster Care (AFDC-FC) program. Homes that are licensed as AFDC-FC group homes typically receive higher rates—an average of $1,380 to $3,331 per month, depending on the service the home provides—than they receive through the LMHC program. In order to receive an AFDC-FC rate, the home must (1) be licensed by the department as a foster care group home and (2) provide services to women who meet AFDC-FC eligibility criteria. In general, a young woman is eligible for AFDC-FC if she has been adjudicated a dependent of the juvenile court due to abuse, neglect, or exploitation. Since not all women who seek services from maternity homes meet the eligibility criteria for AFDC-FC, maternity homes still seek reimbursement for some of their clients through the LMHC program. According to the department, however, maternity homes prefer to be reimbursed by the AFDC-FC program whenever possible because of the program's higher reimbursement rates.

Given the rate differential between the AFDC-FC and LMHC program, we believe that it is unlikely that the reimbursement preferences of maternity home providers will change substantially from the current to the budget year. Therefore, we recommend a General Fund reduction of $250,000 to more accurately reflect the program's anticipated spending level.

GREATER AVENUES FOR INDEPENDENCE

The Greater Avenues for Independence (GAIN) program provides education and training services to recipients of AFDC in order to help them find jobs and become financially independent. The budget proposes $215 million ($132 million General Fund, $80 million federal funds, $2.7 million reimbursements) for the GAIN program in 1989-90. These amounts do not include funds proposed for support of the GAIN program in Items 6110-156-001 and 6110-166-001, and Section 22 of the 1989 Budget Bill.

Overview of the GAIN Budget Request

Table 9 displays expenditures from all funding sources proposed for GAIN in the current and budget years. The table also displays expenditures for each of the components of the GAIN program. As the table shows, the budget proposes to fund the program from two major sources: (1) funds appropriated specifically for GAIN and (2) funds redirected from other programs.

Table 9
Department of Social Services
GAIN Program
Proposed Expenditures and Funding Sources
1988-89 and 1989-80
(dollars in thousands)

	Est. 1988-89[a]	*Prop.* 1989-90	*Change from 1988-89* Amount	Percent
EXPENDITURES BY COMPONENT				
Registration, orientation, and appraisal	$13,035	$13,639	$604	5%
Education	158,253	99,089	−59,164	−37
Job search	43,695	28,772	−14,923	−34
Assessment	15,170	10,404	−4,766	−31
Training	93,449	167,555	74,106	79
Long-term PREP	18,443	25,718	7,276	39
90-day child care	6,144	6,785	640	10
Planning	19,000	—	−19,000	−100
Child care licensing	309	64	−246	−79
Evaluation	541	643	102	19
County administration	365	368	3	1
Totals	$368,404	$353,036	−$15,367	−4%

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FUNDING SOURCES				
Funds appropriated for GAIN				
General Fund				
Department of Social Services	$153,500	$132,100	−$21,400	−14%
State Department of Education	13,100	13,100	—	—
Adult education	(5,900)	(5,900)	(—)	(—)
Match for JTPA education funds	(7,200)	(7,200)	(—)	(—)
Department of Finance	44,000	24,100	−19,900	−45
Subtotals, General Fund	($210,600)	($169,300)	(−$41,300)	(−20%)
Federal funds	61,800	80,400	18,600	30
Totals, funds appropriated for GAIN	$272,400	$249,700	−$22,700	−8%
Funds redirected for GAIN				
General Fund				
Existing ADA funds	$42,800	$32,400	−$10,400	−24%
Adult education	(13,900)	(11,000)	(−2,900)	(−21)
Regional occupation centers and programs	(2,000)	(7,000)	(5,000)	(250)
Community colleges	(26,900)	(14,400)	(−12,500)	(−46)
Career opportunity development programs	500	—	−500	−100
Cooperative agencies resources for education	700	700	—	—
Job agent/service center	1,000	1,000	—	—
Subtotals, General Fund	($45,000)	($34,100)	(−$10,900)	(−24%)
Employment Training Fund	$1,000	$1,700	$700	70%
Federal funds				
JTPA	$23,100	$38,700	$15,600	68%
Training	(7,600)	(29,700)	(22,100)	(291)
Education	(15,500)	(9,000)	(−6,500)	(−42)
Job service	6,100	6,623	523	9
Career opportunity development programs	4,100	—	−4,100	−100
Community services block grant	1,500	1,600	100	7
Vocational education block grant	4,800	7,100	2,300	48
Refugee social services	5,100	5,000	−100	−2
PELL grants	5,300	8,500	3,200	60
Subtotals, federal funds	($50,000)	($67,523)	($17,523)	(35%)
Totals, funds redirected for GAIN	$96,000	$103,323	$7,323	8%
Grand totals, all funding sources [b]	$368,400	$353,023	−$15,377	−4%

[a] Current-year figures have not been revised from those in the 1988 Budget Act.
[b] Figures do not add to expenditure totals due to rounding.

Expenditures. Table 9 shows that the budget proposes $353 million in expenditures for the GAIN program in 1989-90, which represents a decrease of $15 million, or 4.2 percent, below the amount provided in the 1988 Budget Act. The department indicates that this level of expenditures is $65 million *below* the amount needed to fully fund the GAIN program in 1989-90. We discuss the implications of this funding "shortfall" below. In addition, the department has not revised its current-year figures to reflect updated caseload and cost data. We discuss the department's estimate of current-year expenditures in more detail below. As Table 9 shows, the largest decreases are for (1) the costs to serve GAIN participants who are in the education component of the program (−$59 million) and (2) the costs to plan and implement the program (−$19 million). These decreases are partially offset by a $74 million increase in the costs to serve GAIN participants who are in the training component of the program.

Funds Appropriated for GAIN. Table 9 shows that the bulk of the support for the program is derived from funds specifically appropriated for GAIN. The largest appropriation is the $132 million General Fund appropriation proposed for the DSS. This represents a decrease of $21 million, or 14 percent, below the amount appropriated to the department in the current year.

Redirected Funds. As shown in the table, the budget assumes that $103 million in funds proposed for existing programs will be available to provide services to GAIN participants. For example, the budget assumes that GAIN participants will receive education and training services totaling $32 million, at no charge to the GAIN program, through ADA funds appropriated for adult education, community colleges, and regional occupational centers and programs. The budget also assumes that $39 million in federal Job Training Partnership Act (JTPA) funds will be spent on GAIN participants.

While Table 9 breaks out GAIN expenditures by program component, Table 10 shows how the $353 million proposed for GAIN would be distributed among expenditure categories. Table 10 shows that over one-half of the funds (56 percent) are proposed for *program costs*—the costs incurred by county and contract staff to provide direct services, such as job search, education, and training to GAIN participants. An additional $84 million, or 24 percent of total costs, is for *supportive services*, including child care, transportation, and ancillary costs (such as books and work-related clothing) provided to participants. Finally, $72 million, or 21 percent of total costs, is for *administrative costs*, which consist primarily of county costs to administer the GAIN program.

Table 10
Department of Social Services
GAIN Expenditures by Category
1989-90
(dollars in millions)

	Proposed 1989-90	*Percent of Total*
Program costs		
Orientation	$1.3	0.4%
Testing and evaluation	11.3	3.2
Education	58.4	16.6
Job club/search	17.0	4.8
Assessment	7.4	2.1
Training and vocational education	101.6	28.8
Long-term PREP	—[a]	—
Subtotals, program costs	($197.0)	(55.8%)
Supportive services		
Child care	$49.9	14.1%
Transportation	30.4	8.6
Ancillary expenses[b]	3.3	0.9
Subtotals, supportive services	($83.6)	(23.7%)
Administration	$72.4	20.5%
Totals	$353.0	100.0%

[a] Supportive services for long-term PREP total $11 million. The actual "program" costs are AFDC grant payments made to GAIN participants.
[b] Includes workers' compensation costs for participants in certain training components.

SOCIAL SERVICES PROGRAMS—Continued

Status of GAIN Implementation

As of January 1989, 56 of the 58 counties had implemented GAIN programs. The department indicates that the two remaining counties—Calaveras and Tuolumne—will implement GAIN programs before May 1989.

Table 11 shows the distribution of counties according to when they implemented GAIN programs and compares it to the county implementation schedule anticipated at the time the 1988 Budget was enacted. The table shows that of the 58 counties, 16 counties implemented GAIN prior to October 1987 and 21 counties implemented GAIN programs between October 1987 and July 1988. Thus, the department estimates that 37 counties will operate GAIN programs for the full year in 1988-89. By comparison, the department anticipated that 46 counties would operate full-year GAIN programs at the time the 1988 Budget was enacted. In addition, the table shows that 8 counties started, or will start GAIN programs after September 1988. At the time the 1988 Budget Act was enacted, the department estimated that all counties which had not implemented GAIN by July 1988 would begin to operate GAIN programs by September 1988.

Table 11
Department of Social Services
GAIN Program Implementation Schedule
May 1988 Estimate Compared to Actual

	May 1988 Estimate of Implementation Schedule	*Actual Implementation Dates*
Date of implementation		
Prior to October 1987	16	16
October 1987-July 1988	30	21
Subtotals, full-year 1988	(46)	(37)
August 1988	2	5
September 1988	10	8
After September 1988	—	8
Totals	58	58

Current-Year Expenditures

We recommend that the department report to the fiscal committees prior to budget hearings, on its most recent estimate of current-year county allocations and expenditures and the amount of unspent funds that will revert to the General Fund.

As Table 11 shows, counties have not all implemented their GAIN programs according to the schedule that was anticipated at the time that the 1988 Budget Act was enacted. The delays in implementation should result in 1988-89 expenditures that are lower than those anticipated when the budget was approved. The department has not revised its expenditure estimates for the current year to reflect the slower implementation schedule shown on Table 11. Therefore, we recommend that the department report to the fiscal committees prior to budget hearings, on the most recent estimate of current-year allocations and expenditures and the amount of resulting carryover that could be reappropriated for the budget year.

Budget Shortfall

The budget proposes total GAIN expenditures from all funding sources of $353 million in 1989-90. The department estimates that this amount is $65 million less than the amount needed ($418 million) to fully fund the anticipated caseloads in all counties in 1989-90.

Statutory Participation Restrictions. Current law provides that when a county's GAIN budget is insufficient to cover program costs, the county must reduce its caseload according to a specified schedule. Specifically, counties must first exclude applicants for assistance under the AFDC-Unemployed Parent (AFDC-U) program, followed by applicants for assistance under the AFDC-Family Group (AFDC-FG) program. If these participation restrictions are not enough to bring costs within the amount allocated to the county it must restrict participation by specified categories of AFDC *recipients*. The department indicates that the level of funding proposed in the budget is sufficient to serve the entire anticipated statewide GAIN caseload in 1989-90 *except* all AFDC-U applicants and 60 percent of AFDC-FG applicants.

GAIN Program Funding and County Allocations. The actual GAIN caseload that will be served in 1989-90 depends on how the department allocates the available funds to the counties. This is because each county will serve the "mix" of participants that it can afford to serve based on its own costs and on the amount of its allocation. Thus, some counties may serve all of their potential caseload except for the AFDC-U applicants and 60 percent of the AFDC-FG applicants, while others may serve higher or lower shares of their potential caseloads. It is our understanding that in February 1989 the department will propose an allocation formula for 1989-90.

Legislature's Request for a Uniform County Allocation Plan. The 1988 Budget Act appropriated an amount of funds for the GAIN program that the Legislature recognized would not be sufficient to fully fund the anticipated GAIN caseloads in 1988-89. To accommodate any 1988-89 shortfall, the Legislature approved a two-tiered allocation formula for 1988-89. Specifically, the 1988 allocation gave higher levels of funding to the 18 counties that had implemented their GAIN programs by October 1987 than it gave to the remaining counties.

At the time the Legislature enacted the 1988 Budget Act, it recognized that this two-tiered funding approach should only be used temporarily. Thus, the *Supplemental Report of the 1988 Budget Act* declared the Legislature's intent to move toward a uniform, statewide method of allocating funds to the counties. To help accomplish this, the supplemental report requires the department to report to the Legislature by March 15, 1989 on its plans and timetable for implementing a uniform statewide allocation methodology for the GAIN program. We will provide our analysis of the department's proposed GAIN allocation methodology after we have reviewed the department's report.

The Federal Family Support Act of 1988

One of the major issues for the Legislature to consider in its deliberations on the 1989-90 GAIN budget, is the effect of the recently enacted

SOCIAL SERVICES PROGRAMS—Continued

federal Family Support Act (FSA). The FSA is designed to promote self-sufficiency among welfare recipients and reduce their dependence on the welfare system. We have provided our analysis of the FSA in a separate report entitled *Federal Welfare Reform in California: A Review of the Family Support Act of 1988* (Legislative Analyst's Office Report No. 89-2). Our analysis indicates that the state will need to make several changes in the GAIN program in order to comply with the requirements of the FSA.

Among other things, the FSA establishes the JOBS program to provide education, training, and employment services to AFDC recipients. The program is similar in most respects to the state's existing GAIN program. There are, however, several significant differences between these two programs, as we discuss in our report. The FSA requires states to implement a JOBS program by October 1, 1990, as a condition of continuing eligibility for federal AFDC funding. However, the act allows states to implement a JOBS program as early as July 1989 and provides additional federal financial participation (FFP) for states which choose to do so.

In our report, we advise the Legislature that its decision about when to implement JOBS depends on the extent to which it believes that the changes required by the FSA will disrupt the GAIN program. If the Legislature determines that the changes required by the FSA would be too disruptive to the GAIN program, it should use as much time as is available to plan and implement these changes in a way that minimizes any potential disruption. Alternatively, if the Legislature determines that the required changes pose only a minor disruption to the GAIN program, it could implement a JOBS program as early as July 1989 and thereby maximize the amount of FFP the state can receive for JOBS. It is important to note, however, that implementation of JOBS by July 1989 will *not* be easy, due to the statutory and administrative changes that must be made prior to starting California's JOBS program.

JOBS in the 1989-90 Budget. The department's 1989-90 GAIN proposal assumes that California will implement a JOBS program in *January 1990.* The department also assumes that the GAIN program will continue to operate as under current law, with one exception. This exception is to make participation in the GAIN program mandatory for AFDC parents whose youngest child is three years of age or older, as required by the FSA. Currently, the GAIN program exempts from participation AFDC parents whose youngest child is less than six years of age.

Table 12 shows the department's estimate of the fiscal effect of its assumptions with respect to JOBS. As the table shows, the net effect of the department's assumptions with respect to the JOBS program is to (1) increase the total costs of the program by $25 million and (2) *reduce* General Fund costs by $17 million.

It is important to note that both of the estimates shown in Table 12 reflect the department's assumption that counties will not provide GAIN services to AFDC-U applicants or 60 percent of the AFDC-FG applicants in 1989-90. Thus, neither estimate reflects the full implementation costs of the GAIN program.

Table 12
Department of Social Services
Effect of Implementing the New Federal JOBS Program
1989-90
(dollars in millions)

	GAIN Costs Without Implementation of the JOBS Program	*GAIN Cost Assuming January 1990 Implementation of the JOBS Program*	*Fiscal Effect of JOBS Implementation*
General Fund	$186.0	$169.3	−$16.7
Federal funds	38.4	80.4	42.0
Redirected funds	103.3	103.3	—
Total GAIN program	$327.7	$353.0	$25.3

Department of Social Services
COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund and the Federal Trust Fund — Budget p. HW 175

Requested 1989-90	$15,589,000
Estimated 1988-89	14,804,000
Actual 1987-88	12,662,000
Requested increase $785,000 (+5.3 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Local assistance	General	$10,044,000
5180-161-890—Local assistance	Federal	5,545,000
Total		$15,589,000

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriations and federal funds for (1) the state's cost of contracting with the counties to license foster family homes and family day care homes and (2) foster family home recruiting activities by counties. Funds for direct state licensing activities are proposed in Item 5180-001-001—department 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 6 children. Family day care homes are licensed to provide day care services for up to 12 children in the provider's own home.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes two appropriations totaling $15,589,000 ($10,044,000 General Fund and $5,545,000 federal funds) to reimburse

COMMUNITY CARE LICENSING—Continued

counties for licensing activities in 1989-90. This is an increase of $785,000, or 5.3 percent, over estimated current-year expenditures. The increase is due to (1) a projected 5.8 percent increase in the foster family home caseload ($621,000), (2) a projected 5.2 percent increase in family day care caseload ($400,000), and (3) a technical error in the department's estimate of family day care licensing costs in *1988-89* (−$236,000). (We anticipate that the department will correct the technical error in its current-year expenditure estimate at the time of the May revision.) Table 1 displays program expenditures and funding sources for this program in the past, current, and budget years.

Table 1
Department of Social Services
Community Care Licensing
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change From 1988-89 Amount*	*Change From 1988-89 Percent*
Family day care licensing					
General Fund	$3,994	$4,336	$4,500	$164	3.8%
Foster family home licensing	8,668	8,468	9,089	621	7.3
General Fund	(3,313)	(4,093)	(4,544)	(451)	(11.0)
Federal funds	(3,355)	(4,375)	(4,545)	(170)	(3.9)
Foster family home recruitment	2,000	2,000	2,000	—	—
General Fund	(1,000)	(1,000)	(1,000)	—	—
Federal funds	(1,000)	(1,000)	(1,000)	—	—
Totals	$12,662	$14,804	$15,589	$785	5.3%
Funding Sources					
General Fund	*$8,307*	*$9,429*	*$10,044*	*$615*	*6.5%*
Federal funds	*4,355*	*5,375*	*5,545*	*170*	*3.2*

Our analysis indicates that the proposed budget is reasonable.

Department of Social Services
COST-OF-LIVING ADJUSTMENTS

Item 5180-181 from the Federal Trust Fund — Budget p. HW 177

Requested 1989-90	$27,323,000
Recommendation pending	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item appropriates $27.3 million to cover the federal share (50 percent) of the costs of the cost-of-living adjustments (COLAs) that the Department of Social Services (DSS) anticipates that counties will provide to their welfare department employees in 1989-90. This amount includes $2.9 million for the COLA for county employees in the Child Welfare Services (CWS) program and $24.4 million for the COLA for other county welfare department employees.

In accordance with the policy established by the Legislature in previous Budget Acts, the state will not pay for any of the costs of the 1989-90 COLA until 1990-91. The County Administration budget (Item 5180-141-001) includes $9 million and the CWS budget (Item 5180-151-001) includes $15 million for the General Fund share of the costs in 1989-90 of the COLA that counties provided their welfare department staff during 1988-89. We recommend that this item be approved.

Budget Proposes To Suspend Statutory COLAs

In previous years, this item has included appropriations from both the General Fund and federal funds to provide COLAs that are required by statute for grants provided to recipients of Aid to Families with Dependent Children-Family Group (AFDC-FG) and AFDC-Unemployed Parent (AFDC-U), Supplemental Security Income/State Supplementary Program (SSI/SSP), and the Refugee Cash Assistance program. The budget, however, assumes the enactment of legislation to suspend the requirement for COLAs in these programs. According to the DSS, the proposed suspension of the COLAs for the programs would result in a General Fund savings of $243 million ($105 million in AFDC-FG&U grant savings and $138 million in SSI/SSP grant savings). We discuss the impact of suspending the COLAs on AFDC and SSI/SSP grants in the analyses of each of these programs (please see Items 5180-101 and 5180-111).

Youth and Adult Correctional Agency
DEPARTMENT OF CORRECTIONS

Item 5240 from the General Fund and various funds — Budget p. YAC 1

Requested 1989-90	$1,862,131,000
Estimated 1988-89	1,651,227,000
Actual 1987-88	1,429,594,000
Requested increase (excluding amount for salary increases) $210,904,000 (+12.8 percent)	
Total recommended reduction	1,418,000
Recommendation pending	104,000,000