HEALTH AND WELFARE

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 1990-91	$4,977,000
Estimated 1989-90	5,490,000
Actual 1988-89	4,544,000
Requested decrease (excluding amount for salary increases) $513,000 (−9.3 percent)	
Total recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal	$4,977,000
4110-001-890—Area Boards on Developmental Disabilities	Reimbursements	(2,576,000)

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Contract Workload. Recommend that the state council and the Department of Finance submit a work plan and budget for the proposed evaluation of the Community Placement Plan prior to budget hearings. 440

GENERAL PROGRAM STATEMENT

The State Council on Developmental Disabilities operates pursuant to the Lanterman Developmental Disabilities Services Act (Ch 1365/76, Lanterman) 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 (Lanterman). 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 52.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $5 million from federal funds for support of the state council and area boards in 1990-91. This is a decrease of $513,000, or 9.3 percent, below estimated current-year expenditures. This reduction is somewhat misleading. During the current year, the state council carried forward for one-time expenditure unspent

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

grant funds from prior years. The reduction in 1990-91 reflects the expenditure of these one-time carryover funds.

The budget proposes a total of 53.7 personnel-years for these programs in 1990-91. 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
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
State council	12.9	13.2	13.1	$962	$958	$1,107	15.6%
Program development	—	—	—	1,372	2,121	1,294	-38.9
Area boards	40.5	39.6	40.6	2,220	2,411	2,576	6.8
Totals	53.4	52.8	53.7	$4,554	$5,490	$4,977	-9.3%

ANALYSIS AND RECOMMENDATIONS

Contract Workload Unjustified

We recommend that the state council and the Department of Finance (DOF) submit, prior to budget hearings, a work plan and detailed budget for the proposed evaluation of the Community Placement Plan (CPP).

The budget proposes an appropriation of $1,107,000 for the council in 1990-91, an increase of $149,000, or 16 percent, above estimated current-year expenditures. This increase includes proposals for (1) $100,000 to study the impact and effectiveness of the CPP and (2) $13,000 to automate various administrative functions.

The state council reports that it would spend the $100,000 augmentation to contract with the Program Evaluation Unit of the DOF for a three-year longitudinal study assessing (1) the growth and development of residents of state developmental centers (SDCs) and clients placed into the community, (2) the impact of deinstitutionalization on the clients' families and communities, (3) the relative cost of services provided in the community and the SDCs, and (4) issues arising from the Department of Developmental Services' implementation of the CPP. Neither the council nor the DOF was able to provide a work plan or detailed budget outlining how the study would be implemented by the DOF.

We believe that a thorough examination of the CPP is warranted. However, without a work plan and detailed budget we have no basis for evaluating the reasonableness of the proposed contract amount. Accordingly, we recommend that the state council and the DOF submit a work plan and budget for the proposed evaluation of the CPP prior to budget hearings.

Area Board Budget Looks Reasonable

We recommend approval.

The budget proposes an appropriation of $2.6 million for the area boards, an increase of $165,000, or 6.8 percent, over estimated current-year expenditures. The increase is due primarily to proposals for (1) $68,000 to make permanent 1.8 limited-term positions associated with changes in the way program development funds are allocated and administered at the local level, (2) $40,000 to decrease the area boards' salary savings rate from 4.2 percent to 2 percent, (3) $22,000 to increase salaries of area board executive directors, and (4) $15,000 to support area board involvement of primary consumers and to move the Area Board II office from Red Bluff to Chico.

EMERGENCY MEDICAL SERVICES AUTHORITY

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

Requested 1990-91	$6,069,000
Estimated 1989-90	5,831,000
Actual 1988-89	6,085,000
Requested increase (excluding amount for salary increases) $238,000 (+4.1 percent)	
Total recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4120-001-001—Department support	General	$1,071,000
4120-001-890—Department support	Federal	270,000
4120-001-312—Department support	Emergency Medical Services Personnel	172,000
4120-101-001—Local assistance	General	3,057,000
4120-101-890—Local assistance	Federal	1,471,000
Reimbursements	—	28,000
Total		$6,069,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS *Analysis page*

1. Expenditure Plan for Disaster Medical Response Funds. Recommend that the authority submit before budget hearings an expenditure plan for reimbursements from the Office of Emergency Services to establish a state medical disaster response and medical mutual aid system. 442

GENERAL PROGRAM STATEMENT

The Emergency Medical Services Authority is responsible for reviewing local emergency medical services (EMS) programs and for establish-

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

ing 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.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $6.1 million for support of the authority's programs in 1990-91. This is an increase of $238,000, or 4.1 percent, above estimated current-year expenditures. This increase is due primarily to the net effect of:

- A proposal to fund the Fresno/Kings/Madera regional EMS agency under the authority's local assistance program for rural regional EMS agencies ($200,000 General Fund).
- A proposal for $172,000 from the Emergency Medical Services Personnel Fund to implement a statewide paramedics testing program established by Ch 1134/89 (AB 1558, Allen). This program will be funded by paramedics testing fees.
- A reduction of $142,000 in an Office of Traffic Safety grant, which was used to develop the initial statewide test for paramedics.

The budget proposes to continue the authority's staffing at 20 personnel-years in 1990-91.

No Expenditure Plan for Disaster Medical Response Funds

We recommend that the authority submit to the fiscal committees before budget hearings an expenditure plan for $393,000 in reimbursements from the Office of Emergency Services (OES) to establish a state medical disaster response and medical mutual aid system.

The OES budget (Item 0690) reflects a $393,000 allocation to the authority to establish a medical disaster response and medical mutual aid system. The authority's budget, however, does not reflect a corresponding reimbursement. In addition, neither the authority nor the OES had submitted any information regarding these funds at the time this analysis was prepared. Accordingly, we recommend that the authority submit an expenditure plan for these funds to the fiscal committees before budget hearings.

HEALTH AND WELFARE AGENCY DATA CENTER

Item 4130 from the Health and Welfare Data Center Revolving Fund — Budget p. HW 7

Requested 1990-91	$70,083,000
Estimated 1989-90	69,384,000
Actual 1988-89	50,940,000
Requested increase (excluding amount for salary increases) $699,000 (+1 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 223.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $70,083,000 from the Health and Welfare Agency Data Center Revolving Fund to support the data center's operations in 1990-91. This is an increase of $699,000, or 1 percent, above estimated current-year expenditures. The increase is primarily due to increased workload of the data center's user departments, particularly for the Employment Development Department (EDD). The EDD is requesting an additional $718,000 for several projects, most significantly the automation of the California Unemployment Insurance Appeals Board. In addition, there are reductions in the budget due to completions of projects undertaken in 1989-90. Most significant is the Department of Rehabilitation's automation project, which required the HWDC to make several one-time purchases in 1989-90.

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

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Item 4140 from the General Fund and various other funds — Budget p. HW 10

Requested 1990-91	$36,469,000
Estimated 1989-90	32,120,000
Actual 1988-89	29,957,000
Requested increase (excluding amount for salary increases) $4.4 million (+13.5 percent)	
Total recommended reduction	None
Recommendation pending	897,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4140-001-001—Support	General	$1,917,000
4140-001-121—Support	Hospital Building Account, Architecture Public Building	19,701,000
4140-001-143—Support	California Health Data and Planning	7,338,000
4140-001-181—Support	Registered Nurse Education	614,000
4140-001-232—Support	Hospital Services Account, Cigarette and Tobacco Products Surtax Fund	450,000
4140-101-001—Local Assistance	General	2,880,000
Health and Safety Code Section 436.26	Health Facility Construction Loan Insurance	1,903,000
Education Code Section 69800	Minority Health Professions Education	1,527,000
Reimbursements	—	139,000
Total		$36,469,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Proposition 99 Expenditures. Withhold recommendation on $450,000 from the Hospital Services Account of the Cigarette and Tobacco Products Surtax Fund and three positions proposed for activities related to implementation of Proposition 99. 447
2. Equipment Purchase. Withhold recommendation on $447,000 from the Hospital Building Account, Architecture Public Building Fund, proposed for computer equipment pending submission of justification. 447
3. Seismic Safety Program Workload. We find the estimate of additional workload from a hospital seismic safety field review program is likely to be too high. 447
4. Carried-Over Contract Funds. Recommend that the Legislature adopt Budget Bill language to restrict the office's ability to carry over contract funds into later years. 448

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 306.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Expenditures for support of the office from all funds are proposed at $36.5 million in 1990-91. This is an increase of $4.4 million, or 14 percent, above estimated current-year expenditures. The budget proposes expenditures of $4.8 million from the General Fund to support the OSHPD in 1990-91. This is a decrease of $125,000, or 2.5 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
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			Expenditures			
	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Health projects and analysis	8.7	7.4	8.1	$703	$792	$887	12.0%
Demonstration projects	10.1	17.4	15.2	749	1,238	1,120	−9.5
Health professions development	11.6	14.7	15.7	6,117	5,283	6,359	20.4
Facilities development and financing	138.9	153.5	167.4	17,091	19,082	21,489	12.6
Health facilities data	44.5	46.1	50.7	5,133	5,612	6,475	15.4
Administration	66.1	67.1	71.9	164	113	139	23.0
Totals	279.9	306.2	329.0	$29,957	$32,120	$36,469	13.5%
Funding Sources							
General Fund				*$5,485*	*$4,922*	*$4,797*	*−2.5%*
Hospital Building Account, Architecture Public Building Fund				*16,286*	*17,324*	*19,701*	*13.7*
California Health Data and Planning Fund				*5,952*	*6,640*	*7,338*	*10.5*
Health Facilities Construction Loan Insurance Fund				*901*	*1,758*	*1,903*	*8.2*
Minority Health Professions Education Fund				*937*	*536*	*1,527*	*184.9*
Registered Nurse Education Fund				—	*602*	*614*	*2.0*
Hospital Services Account, Cigarette and Tobacco Products Surtax Fund				—	*225*	*450*	*100.0*
Reimbursements				*396*	*113*	*139*	*23.0*

The increase in expenditures from all sources is due primarily to (1) a $2.4 million increase in seismic safety program activities, (2) a $1 million increase in the scholarship and loan repayment program administered by the Minority Health Professions Education Foundation, and (3) a $700,000 increase in data collection and analysis programs.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

The budget proposes a total of 329 personnel-years for 1990-91, an increase of 22.8 personnel-years from the current-year level.

Table 2 identifies the major budget changes proposed for 1990-91.

Table 2
Office of Statewide Health Planning and Development
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (Budget Act)	$4,909	$30,469
Adjustments, 1989-90:		
Retirement reduction	−2	−29
Employee compensation	30	479
Carry-over appropriation for Family Physician Training Program	6	6
Cigarette and Tobacco Products Surtax (C&T) Fund distribution, Ch 1339/89	—	225
Health care career recruitment, Ch 1259/89	—	50
Cal-Mortgage adjustment, primarily for earthquake insurance	—	924
Carry-over appropriation for Minority Health Professions Education Foundation (MHPEF)	—	167
Expiration of limited-term positions	−21	−21
MHPEF scholarships and loan repayment aid	—	150
Data evaluation contract delay	—	−300
1989-90 expenditures (revised)	$4,922	$32,120
Baseline adjustments, 1989-90:		
Pro rata adjustment	—	464
Full-year effect of salary increases	10	350
Price increase	—	211
C&T Fund distribution, Ch 1339/89	—	225
MHPEF scholarships and loan repayment aid	—	1,150
One-time cost reductions:		
Health care career recruitment, Ch 1259/89	—	−50
Expiration of limited-term positions	−309	−309
Cal-Mortgage Program	—	−95
MHPEF	—	−167
Cardiac catheterization program	—	−15
Carry-over appropriation for Family Physician Training Program	−6	−6
Data evaluation contract	—	300
Program change proposals:		
Demonstration projects	180	180
Expansion of the Cal-Mortgage Program, Ch 1373/89	—	89
Administrative support increase	—	202
Data collection and analysis	—	204
Seismic safety program increases	—	1,075
Health facilities plan and audit contract, Ch 856/89	—	342
Review of seismic hazards evaluation reports, Ch 898/89	—	199
1990-91 expenditures (proposed)	$4,797	$36,469
Change from 1989-90 (revised):		
Amount	−$125	$4,349
Percent	−2.5%	13.5%

ANALYSIS AND RECOMMENDATIONS

No Justification Submitted for Proposed Proposition 99 Expenditures

We withhold recommendation on $450,000 from the Hospital Services Account of the Cigarette and Tobacco Products Surtax (C&T) Fund and three positions proposed for activities related to the implementation of Proposition 99.

The budget proposes $450,000 from the Hospital Services Account of the C&T Fund and three positions to implement Ch 1331/89 (AB 75, Isenberg). Chapter 1339 requires the office to (1) calculate each hospital's share of statewide uncompensated care costs and (2) collect additional facility data.

At the time we prepared this analysis, the office had not submitted justification for this request. Specifically, the office had not provided (1) fiscal details of the proposal, (2) information on the activities proposed, and (3) the estimated workload. Therefore, we withhold recommendation until the office submits the necessary information.

No Justification Submitted for Equipment Purchase

We withhold recommendation on a proposal to spend $447,000 from the Hospital Building Account of the Architecture Public Building Fund for computer equipment pending submission of justification from the office.

The budget allocates $447,000 from the Hospital Building Account of the Architecture Public Building Fund to purchase computer equipment for seismic safety program staff.

At the time this analysis was prepared, the office had not prepared justification for this request. To evaluate the merits of the proposal, the Legislature needs information on (1) the purpose of the purchase, (2) the benefits from the purchase, (3) the alternatives considered, (4) the fiscal details, and (5) the current level of computer resources in the seismic safety program.

The OSHPD advises that it is preparing backup information to justify its proposal. We withhold recommendation on this proposal pending submission of this additional information.

Projected Increase in Seismic Safety Program Workload Optimistic

We find the office's estimate of additional workload from a hospital seismic safety field review program is likely to be too high.

The budget proposes $414,000 from the Hospital Building Account, Architecture Public Building Fund for seven positions to conduct on-site plan reviews of small hospital projects. Currently, the office reviews all hospital project plans centrally. The proposal is based on the office's estimate that in 1990-91 it would receive 1,500 additional proposals for small hospital projects for review under this program.

Background. Chapter 934, Statutes of 1988 (AB 4110, Bradley), authorized the office to establish a similar program for small projects at nursing facilities. The purpose of the program is to shorten the plan review process and, by doing so, expedite the approval of small projects.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Budget Proposal. Under the budget proposal, the office would expand the nursing facility program to hospitals. According to the office, in addition to expediting the review process, a field review program would reduce the number of small projects that do not comply with state standards. The office indicates that the program would do this because shortening the plan review process and decreasing the amount of paperwork will encourage hospitals to submit additional proposals for small projects for review, instead of implementing the projects without review. According to the office, many hospitals currently do not submit proposals for small projects for review because of the cumbersome and lengthy plan review process. Failure to submit these proposals could result in noncompliance with building and seismic standards and thereby endanger the life and safety of hospital clients and staff.

The Workload Estimate is Likely to be Too High. Our discussions with office staff indicate that the workload estimate of 1,500 was based on conversations with hospital industry representatives. The office was unable to provide any detail regarding how the figure was derived.

We believe the office's workload estimate is likely to be too high. While we recognize that there is likely to be additional workload associated with a hospital field review program, we believe it is unlikely that 1,500 new field review projects would materialize in 1990-91. This is because (1) the office has not experienced an increase in nursing facility field review projects as a result of Chapter 934 and (2) it will take some time to educate the hospital industry about the program, so that the workload increase would probably be smaller than projected in the budget year. At this time, however, we do not have any analytic basis for an alternative workload projection.

Carried-Over Contract Funds Circumvent Legislative Control

We recommend that the Legislature adopt Budget Bill language to restrict the office's ability to carry over contract funds to later years.

The seismic safety program enters into contract agreements with various agencies annually. These agencies include the Department of Health Services, the Office of the State Architect, the State Fire Marshal, and others. In the current year, the Legislature appropriated $5.6 million to fund these contracts. The budget proposes interdepartmental contract funding of $5.9 million in the budget year.

In our review of the proposed budget, we found that the program has been carrying forward contract funds that were not used in previous years. These funds are available because contract funds were overbudgeted several years ago. The office encumbered the overbudgeted funds for contracts with other state agencies extending into the next fiscal year, thereby freeing up funds in that year. The office has repeated this process each year.

At the time this analysis was prepared, the office had not yet provided us with a reconciliation of appropriated and spent contract funds.

However, the office advises that as of January 1990, it was still spending contract funds appropriated for 1988–89. This means that while the Legislature appropriated only $5.6 million for current-year contracts, the office actually has more than that amount at its disposal. These funds can be used for contracts or for other types of expenses. In fact, the office has used some of its freed-up funds to support various types of operating expenses not anticipated when the budget was enacted.

Spending contract funds for services supplied after the close of the fiscal year is appropriate in the case of some special studies or one-time projects, because these contracts involve long development periods. However, it is not appropriate for types of services funded by most of the program's contracts. Essentially, these contracts fund ongoing operating costs—personal services and operating expenses—of units in other state agencies. In this situation, the result is that the Legislature has no effective control over expenditures.

To maintain legislative control of office expenditures, we recommend that the Legislature adopt Budget Bill language prohibiting the office from (1) using 1990–91 contract funds in later years and (2) redirecting 1990–91 contract funds for other purposes. Specifically, we recommend that the Legislature add the following language to Item 4140-001-001:

> The Office of Statewide Health Planning and Development may not use contract funds for the seismic safety program to pay for services provided in years after 1990–91. In addition, the program may not redirect contract funds for other purposes.

CALIFORNIA DEPARTMENT OF AGING

Item 4170 from the General Fund and various funds — Budget p. HW 18

Requested 1990-91	$134,112,000
Estimated 1989-90	136,726,000
Actual 1988-89	134,471,000
Requested decrease (excluding amount for salary increases) $2,614,000 (−1.9 percent)	
Recommend transfer to General Fund	688,000
Recommendations pending	2,100,000

CALIFORNIA DEPARTMENT OF AGING—Continued

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4170-001-001—Support	General	$4,872,000
4170-001-890—Support	Federal	3,309,000
4170-101-001—Local assistance	General	31,068,000
4170-101-890—Local assistance	Federal	80,427,000
Reimbursements	—	14,436,000
Total		$134,112,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS *Analysis page*

1. Linkages Program. Withhold recommendation on $2.1 million General Fund reduction for the Linkages Program and recommend that the California Department of Aging, prior to budget hearings, provide the fiscal committees details of (a) how it will implement the program reduction, (b) how existing clients and levels of service will be affected, (c) what efforts it will make to mitigate these effects, and (d) what amount of revenue it would generate by requiring collection of fees from Linkages clients on a sliding-scale basis. 454
2. Transfer from Nutrition Reserve Fund (NRF) to General Fund. Recommend transfer to General Fund of $688,000 in unused NRF monies. 458

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 155.2 personnel-years in the current year.

MAJOR ISSUES

- The budget proposes to reduce spending for the Linkages Program by one-half, for a General Fund savings of $2.1 million.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $134 million for the CDA in 1990-91. This includes $36 million from the General Fund, $84 million in federal funds, and $14 million in reimbursements. Total expenditures proposed for 1990-91 are $2.6 million, or 1.9 percent, lower than estimated current-year expenditures.

The budget proposes $36 million from the General Fund for support of the CDA's activities in 1990-91. This is a decrease of $2 million, or 5.5 percent, from estimated current-year expenditures. The proposed General Fund amount includes $4.9 million for support of the department and $31 million for local assistance. Table 1 presents a summary of the department's funding and expenditures for the prior, current, and budget years.

CALIFORNIA DEPARTMENT OF AGING—Continued

Table 1
California Department of Aging
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change From 1989-90 Amount	Change From 1989-90 Percent
State administration	$8,885	$9,984	$10,050	$66	0.7%
Older Americans Act (OAA) programs					
Local assistance:					
Congregate meals	$40,234	$40,671	$40,329	−$342	−0.8%
Home-delivered meals	20,631	20,394	20,394	—	—
Employment services	5,122	5,236	5,218	−18	−0.3
Social services	26,914	26,962	26,816	−146	−0.5
Ombudsman	2,777	2,533	2,533	—	—
Special projects	3,727	3,745	3,802	57	1.5
Subtotals, OAA	($99,405)	($99,541)	($99,092)	(−$449)	(−0.5%)
Long-term care programs					
Local assistance:					
Multipurpose Senior Services Program	$20,736	$20,749	$20,749	—	—
Linkages/alzheimers/respite	5,448	6,126	4,221	−$1,905	−31.1%
Adult day health care	−3	326	—	−326	−100.0
Subtotals, long-term care programs	($26,181)	($27,201)	($24,970)	(−$2,231)	(−8.2%)
Totals, all expenditures	$134,471	$136,726	$134,112	−$2,614	−1.9%
Unexpended balance (estimated savings)	−$283	−$4	—	—	—
Balance available in subsequent year	130	—	—	—	—
Funding Sources					
General Fund	*$37,190*	*$38,023*	*$35,940*	*−$2,083*	*−5.5%*
Federal funds	*83,126*	*84,049*	*83,736*	*−313*	*−0.4*
Reimbursements	*14,155*	*14,654*	*14,436*	*−218*	*−1.5*

Table 2 identifies, by funding source, the significant changes in expenditure levels proposed for 1990-91. As the table shows, the major changes in the budget are: (1) a reduction of Linkages Program funding by $2.1 million, which represents a 50 percent reduction in the program; (2) an increase of $85,000 for the Health Insurance Counseling and Advocacy Program (HICAP), to increase the minimum grant level from $40,000 to $50,000 per site; (3) a workload-related increase of $79,000 (1.8 personnel-years) to fund additional business services and clerical support; (4) a reduction of $76,000 to reflect current-year expenditure of a one-time transfer from the California Seniors Fund; (5) a reduction of $577,000 to reflect current-year expenditure of one-time and carry-over federal funds; and (6) a reduction of $326,000 to reflect current-year expenditure of one-time funds appropriated to establish ADHC sites (including $200,000 appropriated in the 1989 Budget Act to establish ADHC sites for people with AIDS).

In addition, the budget proposes the following changes that result in no net increase or reduction:

- Reallocation of $80,000 in federal OAA funds from support of the Triple A Advisory Council of California to training of departmental staff.

- Reallocation of $23,000 from operating expenses and equipment (temporary data processing help) to salaries and wages to add an accounting support position for the ADHC Program.

Table 2
California Department of Aging
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Reimbursements*	*Total*
1989-90 expenditures (revised)	$38,023	$84,049	$14,654	$136,726
Cost adjustments:				
Employee compensation increases	$102	$67	$32	$201
Price increase	—	15	9	24
Subtotals, cost adjustments	($102)	($82)	($41)	($225)
Funding adjustments:				
Expenditure of one-time transfer from the California Seniors Fund	—	—	−$76	−$76
Expenditure of carry-over and one-time federal funds	—	−$504	−73	−577
Expenditure of one-time adult day health care funds	−$26	—	−200	−326
Other adjustments	41	30	5	76
Subtotals, funding adjustments	(−$85)	(−$474)	(−$344)	(−$903)
Workload adjustments:				
Business services workload	—	$41	—	$41
Planning and development clerical workload	—	38	—	38
Subtotals, workload adjustments	(—)	($79)	(—)	($79)
Program change proposals:				
Linkages reduction	−$2,100	—	—	−$2,100
Health Insurance Counseling and Advocacy Program local assistance expansion	—	—	$85	85
Subtotals, program change proposals	(−$2,100)	(—)	($85)	(−$2,015)
1990-91 expenditures (proposed)	$35,940	$83,736	$14,436	$134,112
Change from 1989-90:				
Amount	−$2,083	−$313	−$218	−$2,614
Percent	−5.5%	−0.4%	−1.5%	−1.9%

Table 3 presents a summary of personnel-years for the department in the prior, current, and budget years. The change in administration is due to proposed staff increases for the business services and program development branches. The change in long-term care is due to the proposed reduction of Linkages staff. The department also proposes to establish an additional clerical position for the ADHC Program by redirecting funds currently used to provide temporary data processing personnel for ADHC.

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Table 3
California Department of Aging
Personnel-Years
1988-89 through 1990-91

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Administration	83.3	89.9	91.7	2.0%
Older Americans Act	28.3	29.0	29.0	—
Long-term care	34.1	36.3	33.5	−7.7
Totals	145.7	155.2	154.2	−0.6%

ANALYSIS AND RECOMMENDATIONS

Department Proposes to Reduce Linkages Expenditures by One-Half

We withhold recommendation on a $2.1 million General Fund reduction for the Linkages Program and recommend that the CDA, prior to budget hearings, provide the fiscal committees with details of (1) how it will implement the program reduction, (2) how existing clients and levels of service will be affected, (3) what efforts it will make to mitigate these effects, and (4) what amount of revenue it could generate by requiring collection of fees from Linkages clients on a sliding-scale according to need basis.

Budget Proposal

The current-year budget includes $4.3 million from the General Fund for support of the Linkages Program: $3.9 million for local assistance ($300,000 per site) and $360,000 for state administrative activities (4.8 personnel-years). The budget proposes to reduce expenditures for the program by $2.1 million, including $1,921,000 for local assistance and $179,000 for state administration (2.4 personnel-years). In our view, the CDA has not provided sufficient information for the Legislature to understand how this reduction would be implemented or to fully assess the effect of implementation on clients served by Linkages. Therefore, in order to make a decision on this proposal, the Legislature will need additional information from the department.

Background

The Linkages Program, established as a pilot project by Ch 1637/84 (AB 2226, Felando), and established as an ongoing program by Ch 1013/89 (AB 533, Bentley), serves frail elderly and functionally impaired adults who are at risk of institutionalization because of a physical or cognitive/emotional impairment. The CDA implements Linkages through 13 separate grants across the state — 4 to local governments and 9 to nonprofit agencies. The CDA has 5 staff positions assigned to the administration of the program.

Table 4 displays each Linkages site, together with actual 1988-89 site expenditures by funding source. As the table shows, Linkages sites spent $3,953,579 in 1988-89, the substantial majority of which they received from state grants ($3,779,764). In addition, some sites received in-kind contributions of facilities, equipment, and staff time totaling $165,152. The sites received a minimal amount of cash ($8,663) from donations, client fees, and interest earned on state grant funds. Table 4 also shows that seven Linkages sites have begun integrated operations with MSSP sites. The department advises that the Linkages and MSSP programs at these sites have achieved substantial administrative economies by sharing management and support staff positions, as well as facilities and equipment.

Table 4
California Department of Aging
Linkages Program
Site Locations and Expenditures
1988-89

	1988-89 Expenditures			
		Other Sources		
Sites	*State Funds*	*Cash* [a]	*In-Kind*	*Totals*
Integrated with a Multipurpose Senior Services site				
Community Care Management Corporation, Mendocino/Lake Counties	$290,367	$2,383	$8,066	$300,816
Department of Health Services, San Mateo County	300,000	—	—	300,000
Department of Aging, San Joaquin County	258,766	—	—	258,766
Humboldt Senior Citizens Council, Inc.	296,786	1,725	—	298,511
Huntington Memorial Hospital, Pasadena	300,000	2,318	31,752	334,070
Mount Zion Hospital, San Francisco	299,234	—	5,028	304,262
Senior Care Action Network, Long Beach	299,081	1,096	—	300,177
Not integrated with a Multipurpose Senior Services site				
Alta Med Health Services Corp., Los Angeles County	300,021	776	47	300,844
Area Agency on Aging, San Diego County	245,490	365	41,532	287,387
Department of Social Services, Monterey County	292,255	—	6,821	299,076
Department of Social Services, Oakland	300,021	—	53,053	353,074
Jewish Family Services of Los Angeles	299,345	—	—	299,345
Westside Center for Independent Living, Los Angeles	298,398	—	18,853	317,251
Totals	$3,779,764	$8,663	$165,152	$3,953,579

[a] Includes interest earned on state grant, donations, and client fees.

Services Provided by Linkages. Linkages provides the following services to clients:

- *Case Management.* The primary mission of the 13 Linkages sites is to provide case management services, consisting of assessment of client needs, arrangement and coordination of services, and monitoring the delivery of services. Linkages may provide this service on either a short-term (90 days) or ongoing (no time limit) basis. The department, however, reports that the vast majority of Linkages case management clients require ongoing services, based on assessments performed by Linkages staff. Staff may use program funds to purchase services for clients when services cannot be obtained

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through existing community resources. Services that may be purchased include in-home services, transportation, home-delivered meals, and respite care.

- *Information and Referral.* Linkages staff also provide in-depth information regarding the availability of and access to various resources, including other community-based long-term care programs, nutrition programs, social services, and medical facilities. In some cases, Linkages staff may refer individuals to a service, then follow up to ensure that the service was, in fact, delivered.

Characteristics of Linkages Clients. The Linkages Program provides case management services to functionally impaired adults (ages 18-59) and frail elderly individuals (age 60 and over) who cannot manage at home because of a physical or cognitive/emotional impairment. Clients may be either Medi-Cal or non-Medi-Cal eligible (there is no means test for Linkages eligibility), but may not be certifiable for skilled nursing or intermediate care facilities (SNFs/ICFs). Individuals who are certifiable for SNF/ICF care, are over the age of 65 and Medi-Cal eligible, may be referred to a MSSP, where such a program is available.

The most recent CDA Linkages report (March 1989) identifies the following characteristics of Linkages case management clients:

- About 22 percent are in the 18-59 age group, while 78 percent are age 60 or older (32 percent are age 80 or older).
- About half receive Medi-Cal benefits.
- Half live alone and half live with others.
- Most need help with transportation and in performing such activities as housework, laundry, shopping, and meal preparation and clean-up.
- Most do not need help with such personal care activities as bathing, dressing, grooming, and eating.

The CDA Has Not Provided a Specific Plan to Implement the Proposed Reduction

The budget would reduce local assistance funding to Linkages sites by one-half, from $3.9 million to $1,979,000. At the time this analysis was written, the administration had provided the Legislature with only a vague outline of a plan to carry out this reduction.

The department indicates that it would implement the reduction through a "request-for-proposal (RFP) process." The department has not specified the nature of the services it will request through this process, the number and type of organizations it will invite to participate, the criteria on which it will evaluate proposals, or the potential effects on existing Linkages clients. The department advises only that the process could result in either (1) allocation of the reduction across all Linkages sites or (2) elimination of some Linkages sites.

The department also indicates that it will work with affected sites to develop alternative funding sources, in order to continue to provide a portion of the current services. We have two concerns about this aspect of the department's proposal. First, the department does not appear to have budgeted sufficient resources for such an effort. Currently, CDA staff provides minimal fund-raising assistance to Linkages sites by referring interested site staff to staff at other Linkages sites who have experience in conducting development activities. The department has not provided the Legislature with a plan to substantially increase this level of effort on the part of its staff. In light of the proposal to reduce CDA Linkages staff by one-half, the department should inform the Legislature how it will provide effective fund-raising assistance to Linkages sites without diverting the efforts of existing CDA staff from other programs.

Our second concern is that the administration has not adequately explained what alternative sources of funds it anticipates will fill the gap in Linkages services left by the proposed reduction. The department has suggested three potential alternatives to existing state funds:

- *Savings in site administration functions, which could be used to fund case management or direct purchase of services.* As indicated in our discussion of Table 4, seven Linkages sites have already achieved substantial administrative economies through integration with MSSP sites. The table also shows that other sites receive substantial in-kind contributions, including staff, facilities, supplies, and equipment, from parent agencies. The department has not indicated what further economies, if any, can be achieved without compromising the integrity of the program.
- *Funds from local government entities or nongovernment sources, such as foundations and trusts.* Site directors with whom we spoke pointed out that foundations and trusts are more likely to make one-time, start-up grants, than they are to make grants for operation of an existing, ongoing program such as Linkages. They indicated that successful fund-raising efforts would be particularly difficult to mount in rural areas, where local governments are hard-pressed to fund services, and nongovernmental sources of funds are relatively few.
- *Client fees.* Although the department currently *permits* Linkages sites to charge fees for services on a sliding-scale basis, no fee is currently *required* for Linkages services. Linkages sites have actually collected a minimal amount of fees — about $1,100 in 1988-89. The department advises that this is because the vast majority of Linkages clients who are not Medi-Cal eligible have income and resources that only minimally exceed the standards for Medi-Cal eligibility. The department, however, does not have reliable data on the income or resource levels of Linkages clients to support this claim. Consequently, we recommend that the department obtain information on client income and resources from the Linkages sites and project the annual amount of fees that it could generate by making its permissive fee scale mandatory for all sites.

More Information Needed for a Full Assessment. In order to fully assess the merits of the proposed reduction, we believe that the Legislature will need substantially more information than the depart-

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ment has provided. We therefore withhold recommendation on the proposed $2.1 million reduction and recommend that the CDA, prior to budget hearings, provide the fiscal committees with details of (1) how it will implement the program reduction through an RFP process, (2) how existing clients and levels of service will be affected, (3) what efforts it will make to mitigate these effects, and (4) what amount of revenue it would generate by requiring collection of client fees on a sliding-scale basis.

Legislative Oversight

Annual Long-Term Care Report Not Submitted. The *Supplemental Report of the 1989 Budget Act* required the CDA to include the following items in its annual Long-Term Care report:

- Guidelines for MSSP sites that serve clients in residential care facilities for the elderly (RCFEs).
- A progress report on development of the department's management information system, detailing prior-year activities and expenditures, plans for the future, and coordination with other state departments.

The department has not yet submitted this report, although it was due by December 31, 1989. In addition to the items specifically required by supplemental report language, this report should contain information on the status and future of the department's efforts to develop a statewide system of community based long-term care. This information is particularly important in light of the department's proposal to reduce expenditures for the Linkages Program by one-half. In the past, the department has regarded Linkages as a fundamental element of a system of community-based long-term care. Consequently, we recommend that the department submit its Long-Term Care report to the Legislature prior to budget hearings.

Transfer of Unused Funds from Nutrition Reserve Account to General Fund

We recommend the transfer to the General Fund of $688,000 in unused Nutrition Reserve Fund monies.

The Nutrition Reserve Fund (NRF) was established with a $5 million General Fund appropriation by Ch 1189/79 (AB 987, Thurman) to provide emergency grants for maintaining nutrition programs in the absence of adequate federal funding. Chapter 1020, Statutes of 1980 (AB 2329, Thurman) reserved $1 million of the original appropriation to fund nutrition demonstration projects and $1 million for a revolving loan account to provide relief to senior nutrition projects with temporary cash-flow problems. Of the $5 million appropriated to the NRF, approximately $2.8 million was spent to match federal OAA funds for nutrition, $890,000 was transferred to the General Fund in 1982, and $1.3 million was appropriated to fund various nutrition demonstration programs. The NRF has maintained a balance of $1,088,000 since 1984-85. The CDA advises that this amount consists of the $1 million reserved by Chapter 1020 for a revolving loan account and $88,000 that remains unspent for the other purposes of the fund.

The department also advises that the loan account has been used twice in the past two years. On both occasions, the department provided loans totaling about $400,000 to fill the gap between nutrition program needs and federal appropriations to make entitlements available. The remainder, $688,000, was not used for this or any other purpose. Therefore, in order to maximize the Legislature's flexibility in meeting statewide needs, we recommend the transfer of $688,000 from the NRF to the General Fund. We note that the Legislature could use these funds to partially restore the Linkages Program reduction, discussed above, or for any other purpose it may identify.

State Programs Serving Older Californians

Existing law identifies the CDA as the state agency responsible for promoting the development and coordination of resources to meet the long-term care needs of older Californians. The department is charged with coordinating the related efforts of state agencies and departments, including policy development, service delivery, needs assessment, program development, and evaluation of existing programs. In order to assist the Legislature in its oversight of this broader mission of the department, we present the following summary of state programs that serve elderly Californians.

In California, 18 state agencies currently administer 39 separate programs that provide services and benefits to older individuals. Chart 1 lists these state programs for seniors and provides summary information on their eligibility requirements, caseloads, and costs in the current and budget years. The chart shows that the budget proposes to spend $4.6 billion on these programs in 1990-91, which represents approximately 6 percent of total state spending (General Fund, federal funds, special funds). The General Fund will finance about $2.3 billion, or 50 percent of expenditures for senior programs, and the federal government will fund $2.2 billion, or 47 percent. The remaining $117 million or 3 percent is supported by state special funds or local funds (expenditures from local funds are included in the totals columns, but are not separately displayed in the chart).

The budget-year total represents a net increase of $155 million or 3.4 percent above estimated current-year spending levels. The increase is primarily due to (1) a $109 million increase in SSI/SSP costs related to increased caseloads and the full-year costs of cost-of-living adjustments (COLAs) that took effect on January 1, 1990, and (2) a $73 million increase in Medi-Cal costs due in part to long-term care rate increases granted in 1989–90, projected caseload increases, and increased costs of Medicare premiums. (For seniors who are eligible for Medi-Cal, the state covers the cost of the Medicare Part B premium so that the recipient can receive Medicare coverage for such nonhospital costs as doctor's office visits.)

Chart 1 groups senior programs into the following three categories, based on the programs' eligibility criteria:

- *Programs Available to Low-Income Seniors.* These programs account for 93 percent of all spending on seniors,

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- *Programs Available to All Seniors.* These programs account for approximately 4 percent of all spending on seniors.
- *Programs That Have No Age Requirement, but Which Serve Seniors Predominantly.* These programs represent 3 percent of all state spending on older Californians.

Table 5 summarizes expenditures for senior programs by the type of benefit or service provided. As the table indicates, income support programs and health services programs account for $3.9 billion, or 85 percent, of expenditures for the benefits and services that the state will provide to older individuals in 1990-91.

Table 5
California Department of Aging
Summary of Services Available to Older Californians
By Program Type
1989–90 and 1990–91
(in thousands)

	1989–90			*1990–91*		
Type of Program or Service	*State*	*Federal*	*Total* [a]	State	Federal	Total [a]
Income support	$1,148,833	$933,302	$2,082,161	$1,173,176	$1,011,700	$2,184,902
Health services	854,649	839,141	1,695,294	890,923	875,541	1,767,767
Supportive social services	217,226	285,987	593,317	196,684	291,534	581,022
Employment	8,082	5,218	13,318	5,433	5,218	10,651
Other services	62,550	14,573	100,371	58,468	14,180	95,182
Discount programs	2,362	–	2,362	2,468	–	2,468
Totals [b]	$2,293,702	$2,078,221	$4,486,823	$2,327,152	$2,198,173	$4,641,992

[a] Local expenditures are not shown separately, but are included in the totals.
[b] Detail may not add to totals due to rounding.

Chart 1

Programs Available to Older Californians By Eligibility Type[a]

1989-90 and 1990-91 (dollars in thousands)

	Services Provided	Requirement to Qualify	Estimated Number of Clients 1989-90	1989-90			1990-91		
				State[b]	Federal[b]	Total[b]	State[b]	Federal[b]	Total[b]
PROGRAMS AVAILABLE TO LOW-INCOME SENIORS									
INCOME SUPPORT									
Supplemental Security Income/State Supplementary Program (DSS)	Cash grants	Age 65 with (1) limited resources and (2) countable income that does not exceed the maximum grant	412,257 (average per month)	$1,115,000	$912,000	$2,027,000	$1,142,000	$994,000	$2,136,000
Senior Citizens Property Tax and Renters Assistance (FTB)	Annual grant of up to $240 based on income	Age 62 or older or disabled; homeowner or renter; income less than $13,200	233,000	24,216	--	24,216	21,297	--	21,297
Senior Citizens Property Tax Deferral (FTB)	Loans to postpone property tax payments	Homeowner age 62 or older or disabled (all ages), and income less than $24,000	20,300	8,932	--	8,932	9,194	--	9,914
Foster Grandparents Program (CDA)	Stipends for seniors who provide supportive services to children with special needs	Age 60 or older and income less than the poverty level	130 volunteers	366	7	373	366	7	373
Senior Companion Program (CDA)	Stipends for seniors who provide supportive services to adults with special needs	Age 60 and older and income less than the poverty level	66 volunteers	319	4	349	319	4	349
HEALTH SERVICES									
Medi-Cal (DHS)[c]	Inpatient/outpatient acute medical services, long-term care, ancillary health services	Public assistance recipients or meet age, disability, and income requirements (age 65 and older)	410,900 (average per month)	839,141	839,141	1,678,283	875,541	875,541	1,751,082
Multipurpose Senior Services Program (CDA)	Case management to link clients to various health and social services	Age 65 or older, Medi-Cal eligible, and certifiable for placement in nursing homes	8,941	10,515	--	10,515[d]	10,515	--	10,515[d]

	Services Provided	Requirement to Qualify	Estimated Number of Clients 1989-90	1989-90 State[b]	1989-90 Federal[b]	1989-90 Total[b]	1990-91 State[b]	1990-91 Federal[b]	1990-91 Total[b]
PROGRAMS AVAILABLE TO LOW-INCOME SENIORS CONTINUED									
SUPPORTIVE SOCIAL SERVICES									
Brown Bag (CDA)	Foodstuffs distributed to older persons	Age 60 or older and SSI/SSP eligible	31,718	723	--	723	723	--	723
In-Home Supportive Services (DSS)	Domestic and nonmedical services provided at home	SSI/SSP eligible	95,300 (average per month)	195,160	210,447	418,408	176,523	216,336	405,661
EMPLOYMENT									
Senior Community Employment Services (CDA)	Subsidized part-time jobs	Age 55 or older and income less than 125 percent of poverty level	1,052	--	5,218	5,236	--	5,218	5,218
DISCOUNT PROGRAMS[e]									
Golden Bear Passes (DPR)	Reduce price on annual state park pass	Age 65 and older and below specified income level	4,400	198	--	198	198	--	198
Discount Fishing Licenses (DFG)	Reduced price on fishing license	Age 65 and older and receiving SSI/SSP or with specified income	25,490	469	--	469	538	--	538
SUBTOTALS, PROGRAMS AVAILABLE TO LOW-INCOME SENIORS				$2,195,039	$1,966,817	$4,174,702	$2,237,214	$2,091,106	$4,341,148
PROGRAMS AVAILABLE TO ALL SENIORS									
HEALTH SERVICES									
Preventive Health Care for Aging (DHS)	RNs provide health appraisals, counseling, referrals, education	Older adults (age 55 and older) in congregate settings who are well	20,000	$1,303	--	$2,606	$1,303	--	$2,606
SUPPORTIVE SOCIAL SERVICES									
Nutrition (CDA)	Meals provided at community centers or delivered at home	Age 60 or older (and spouses regardless of age)	252,298	11,970	$49,095	104,475	11,970	$48,753	104,133
Supportive Service and Centers (CDA)	Services include in-home services, transportation and case management	Age 60 or older	993,485	2,904	26,445	58,573	2,904	26,445	58,497
EMPLOYMENT									
Job Training Partnership Act/Older Workers (EDD)	Employment and training services	Age 55 and older	Unknown	--	8,082[f]	8,082[f]	--	5,433	5,433

OTHER SERVICES									
Senior Citizens' Shared Housing (HCD)[g]	Grants to nonprofit entities to assist seniors in finding a roommate	Age 60 or older	3,000	--	--	--	--	--	--
Volunteer Service Credit Program (CDA)	Service credits for seniors who provide supportive services to other seniors	Age 60 or older	50 volunteers 100 clients	50	--	50	50	--	50
Health Insurance Counseling and Advocacy Program (CDA)	Assistance in understanding coverage provided through Medicare and private insurance	Medicare beneficiaries	140,000	--	--	2,248	--	--	2,333
DISCOUNT PROGRAMS[e]									
Golden State Senior Discount Program (DCA/ CDA)	Cards issued for purchase of discounted goods and services from volunteer merchants	Age 60 or older	75,000	--	--	Unknown[h]	--	--	Unknown[h]
California Exposition and State Fair (DFA)	Reduced State Fair admission	Seniors	36,587	44	--	44	45	--	45
California State University (CSU)	Student fee waivers	Age 60 or older	1,589	785	--	785	974	--	974
Identification Cards (DMV)	Reduced price and extended period of validity on identification cards	Age 62 or older	91,400 new/ renewed cards	866	--	866	713	--	713
SUBTOTALS, PROGRAMS AVAILABLE TO ALL SENIORS				$26,004	$75,540	$177,729	$23,392	$75,198	$174,784
PROGRAMS SERVING SENIORS PREDOMINANTLY									
INCOME SUPPORT									
Low-Income Weatheriza-tion Program (DEO)	Low-cost home weatherization	Income less than 150 percent of the poverty level	5,856	--	$4,191	$4,191	--	$4,191	$4,191

	Services Provided	Requirement to Qualify	Estimated Number of Clients 1989-90	1989-90 State[b]	1989-90 Federal[b]	1989-90 Total[b]	1990-91 State[b]	1990-91 Federal[b]	1990-91 Total[b]
PROGRAMS SERVING SENIORS PREDOMINANTLY CONTINUED									
Low-Income Home Energy Assistance Program (DEO)	Heating assistance grants	Income less than 150 percent of the poverty level	217,373	--	14,889	14,889	--	11,297	11,297
Energy Crisis Intervention Program (DEO)	Emergency assistance to households unable to pay utility bills	Income less than 130 percent of the poverty level	10,276	--	2,201	2,201	--	2,201	2,201
HEALTH SERVICES									
Alzheimer's Research, Diagnostic, and Treatment Centers (DHS)	Research, diagnostic, and treatment services provided to patients and families	Symptoms or indications of Alzheimer's Disease	Unknown	3,564	--	3,564	3,564	--	3,564
Adult Day Health Care (CDA)[i,j]	Health and social services provided in nonresidential centers	Frail elderly and other adults	4,348	126	--	326	--	--	--
SUPPORTIVE SOCIAL SERVICES									
Alzheimer's Day Care-Resource Centers (CDA)[i]	Supportive services provided to patients and caregivers	Symptoms of Alzheimer's Disease or related disorders	1,191	2,150	--	6,819	2,150	--	9,594
Linkages (CDA)[i]	Case management to link clients to various social services	Adults who are not certifiable for placement in nursing home	4,065	3,900	--	3,900	1,979	--	1,979
Respite Care Program (CDA)[i]	Referral of clients and families to respite care providers; and reimbursement for respite care.	Health of caregiver at risk; client at risk of institutionalization	965	76	--	76	92	--	92
Senior Self-Reliance Program (DOR)	Mobility orientation, information, and referral	Age 55 or older, limited visual acuity	1,252	102	--	102	102	--	102
Counselor/Teacher Program (DOR)	In-home counseling, training in independent living	Blind or deaf and blind	573	241	--	241	241	--	241

OTHER SERVICES										
Mobilehome Park Assistance Program	Technical assistance/loans to residents who wish to buy their mobilehome park	Member of resident organization or income less than 80 percent of county median	Unknown	7.987[k]	--	7.987[k]	2,038	--	2,038
Urban Mass Transportation Act 16b(2) Program (Caltrans)[i]	Capital assistance to private nonprofit agencies to purchase specialized vehicles	Elderly and/or handicapped	Unknown	508	2,777	3,285	507	2,777	3,285
Adult Protective Services (DSS)[i,l]	Investigation and prevention of abuse/neglect of elderly (age 65 or older) and disabled (ages 18-64) adults	Not applicable	Unknown	Unknown	--	21,000	Unknown	--	20,200
Prevention of Crimes Against the Elderly (DOJ)	Information and technical assistance	Not applicable	Unknown	874	--	874	874	--	874
Adult Education Courses for the Elderly (SDE)	Educational courses	Eligibility criteria established by local officials	170,000	25,787	--	25,787	27,228	--	27,228
		Veteran, five-year resident	1,345	27,434	11,796	39,230	27,771	11,403	39,174
SUBTOTALS, PROGRAMS SERVING SENIORS PREDOMINATELY				$72,659	$36,864	$134,392	$66,546	$31,869	$126,060
TOTALS, ALL PROGRAMS				$2,293,702	$2,078,221	$4,486,823	$2,327,152	$2,198,173	$4,641,992

a In programs which serve adults of all age groups, figures denote number of senior clients and expenditures on senior clients, unless otherwise noted. Program titles include the department responsible for administering the program.
b Local expenditures are not shown separately, but are included in the totals. Figures do not include expenditures for state operations.
c Figures do not include amounts for recipients age 65 or older who receive aid to the blind or disabled.
d Federal funds totaling $10.2 million in 1989-90 and $10.2 million in 1990-91 are included in Medi-Cal figures.
e Estimated revenue loss, assuming older persons receiving discounts otherwise would purchase full-priced services.
f Figure includes $2.6 million in federal funds carried over from prior fiscal years.
g Clients served through prior-year appropriations. Program not funded in 1989-90 or 1990-91.
h Department not able to estimate revenue loss to participating merchants (savings for senior participants).
i Expenditures/number of clients for all clients, including seniors.
j Except for $326,000 in start-up grants, the amounts expended on this program ($20.6 milllion in 1989-90 and $21.6 million in 1990-91) are included in the Medi-Cal figure for DHS.
k Figure includes $5.6 million one-time expenditure of reserves in the Mobilehome Park Purchase Fund.
l State share is unknown because of block grant funding. Cost estimates are based on projections from county expenditure reports in 1987-88 and 1988-89, and sunset of Adult Protective Services (APS) pilot programs (General Fund reduction of $760,000 in 1989-90 and $760,000 in 1990-91). In 1988-89, an average of 1,200 APS cases per month were reported statewide, growing at an annual rate of 23 percent. Based on this rate of increase alone, there would be an average of approximately 1,500 APS cases per month in 1989-90. The sunset of five APS pilot projects in 1989-90, however, could reduce this rate of growth.

COMMISSION ON AGING

Item 4180 from the General Fund, Federal Trust Fund, and California Seniors Fund — Budget p. HW 27

Requested 1990-91	$876,000
Estimated 1989-90	898,000
Actual 1988-89	882,000
Requested decrease (excluding amount for salary increases) $22,000 (−2.4 percent)	
Total recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4180-001-001—Support	General	$256,000
4180-001-890—Support	Federal	238,000
4180-001-983—Support	California Seniors	382,000
Total		$876,000

GENERAL PROGRAM STATEMENT

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

The CCA also sponsors the California Senior 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 $876,000 [$256,000 General Fund, $238,000 federal funds, and $382,000 from the California Seniors Fund (CSF)] to support the CCA in 1990-91. This is a decrease of $22,000, or 2.4 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
1988-89 through 1990-91
(dollars in thousands)

Program	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change From 1989-90 Amount	Change From 1989-90 Percent
Commission	$426	$489	$494	$5	1.0%
Service contracts through CDA	102	76	—	−76	−100.0
Senior Legislature, operations	320	333	316	−17	−5.1
Senior Legislature, elections	34	—	66	66	—[a]
Totals	$882	$898	$876	−$22	−2.4%
Funding Sources					
General Fund	*$225*	*$254*	*$256*	*$2*	*0.8%*
Federal funds	*201*	*235*	*238*	*3*	*1.3*
California Seniors Fund	*456*	*409*	*382*	*−27*	*−6.6*

[a] Not a meaningful figure.

The table shows that the proposed expenditures are $22,000, or 2.4 percent less than estimated current-year expenditures. This decrease is the result of (1) a reduction of $76,000 in proposed expenditures from the CSF for service contracts with the CDA, (2) increased expenditures of $66,000 to fund the biannual election of the California Senior Legislature, and (3) a $12,000 reduction in reimbursements to other state agencies for administrative services.

Under state law, any excess CSF revenues remaining after the statutory allocation of revenues for California Senior Legislature activities must be used by the commission to provide direct services to seniors through contracts with the CDA. The commission determines these contracts after estimating the level of excess revenue, usually by December of each year. In the current year, the commission has released $76,000 to the CDA for allocation to Area Agencies on Aging for earthquake relief projects in counties affected by the earthquake of October 17, 1989.

The budget proposes no expenditure from the CSF for direct services. If 1990-91 CSF revenues are comparable to current-year revenues, however, we expect $45,000 to be available for direct service contracts.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 4200 from the General Fund and various funds — Budget p. HW 29

Requested 1990-91	$197,508,000
Estimated 1989-90	213,101,000
Actual 1988-89	149,703,000
Requested decrease (excluding amount for salary increases) $15,593,000 (−7.3 percent)	
Total recommended reduction	None

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4200-001-001—Support	General	$6,555,000
4200-001-139—Support	Drinking Driver Program Licensing Trust	1,112,000
4200-001-243—Support	Methadone Program Licensing Trust	553,000
4200-001-816—Support	Audit Repayment Trust	100,000
4200-001-890—Support	Federal	15,833,000
4200-101-001—Local assistance	General	74,435,000
4200-101-890—Local assistance	Federal	88,587,000
Reimbursements	—	10,333,000
Total		$197,508,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS *Analysis page*

1. Unbudgeted Federal Funds. Recommend that, prior to budget hearings, the department report to the Legislature on final allocation of federal funds and how it proposes to (a) distribute the increase in Alcohol, Drug Abuse, and Mental Health Services (ADMS) block grant funds between alcohol and drug programs, (b) spend the women's set-aside funds, (c) allocate the ADMS block grant to the counties, and (d) spend the increase in Drug-Free Schools and Communities (DFSC) block grant funds. 471
2. Additional DFSC Monies Available for New Federal Program. Recommend that, prior to budget hearings, the Department of Finance and the Department of Alcohol and Drug Programs (DADP) report to the Legislature on (a) the administration's plans for spending $2.7 million in additional federal DFSC funds and (b) the specific requirements of a new federal DFSC program. 472
3. Need for a Treatment Oversight Plan. Recommend that, prior to budget hearings, the department report to the Legislature on how it will provide (a) technical assistance and oversight to county administrators for administration of the alcohol recovery and drug treatment programs and (b) a system to identify exemplary alcohol recovery and drug treatment programs and disseminate information on these programs to the county administrators. 473
4. Expansion of the Pregnant and Parenting Women and Their Children Pilot Project. Recommend that the Departments of Alcohol and Drug Programs, Health Services, Social Services, and Developmental Services report to the Legislature by March 15, 1990 on the specifics of the pilot expansion, the workload of the requested positions, and the status of the pilot projects in the current year. 474

5. Funding Source for Foster Care Services for Pregnant and Parenting Women and Their Children Portion of the Pilot Project. Recommend transfer of $116,000 from the DADP departmental support item (Item 4200-001-890) to the DADP local assistance item (Item 4200-101-890). 475

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-related problems, narcotic addiction, and drug abuse. The department is composed of the Divisions of Alcohol Programs, Drug Programs, Planning and Evaluation, and Administration.

The department has 223.8 personnel-years in the current year.

MAJOR ISSUES

- The budget does not include an estimated $79 million in additional federal funds.
- The department needs to develop an alcohol and drug treatment oversight plan.
- In *The 1990-91 Budget: Perspectives and Issues*, we present a series of three pieces on drug and alcohol issues in California:
  - An overview of drug and alcohol use, substance abuse trends, and substance abusers' characteristics.
  - An overview of current alcohol- and drug-related state programs and how they would be affected by the federal National Drug Control Strategy.
  - Our recommendations for improving California's educational and social services efforts to prevent substance abuse.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $198 million from all funds for alcohol and drug programs in 1990-91. This includes $81 million from the General Fund, $104 million from federal funds, $10.3 million in reimbursements, and $1.8 million from the Drinking Driver, Audit Repayment Trust, and Methadone Program Licensing Trust Funds. Total expenditures proposed for 1990-91 are $16 million, or 7.3 percent, below estimated total expenditures in the current year, as shown in Table 1.

Table 1
Department of Alcohol and Drug Programs
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			Expenditures			Percent Change From
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*1989-90*
Alcohol — local assistance	—	—	—	$59,044	$74,741	$62,210	-16.8%
Drugs — local assistance	—	—	—	76,467	115,913	91,909	-20.7
Pilot project combined services	—	—	—	—	—	18,536	—[a]
Subtotals, local assistance	(—)	(—)	(—)	($135,511)	($190,654)	($172,655)	(−9.4%)
Administration — state operations	80.9	102.5	103.3	$5,163	$6,452	$6,944	7.6%
Alcohol — state operations	50.8	63.3	71.4	3,683	5,627	5,834	3.7
Drugs — state operations	45.4	58.0	59.4	5,346	10,368	12,075	16.5
Subtotals, state operations	(177.1)	(223.8)	(234.1)	($14,192)	($22,447)	($24,853)	(10.7%)
Totals	177.1	223.8	234.1	$149,703	$213,101	$197,508	−7.3%
Funding Sources							
General Fund				*$76,641*	*$80,894*	*$80,990*	*0.1%*
Federal funds				*63,905*	*120,176*	*104,420*	*−13.1*
Drinking Driver Program Licensing Trust Fund				*469*	*685*	*1,112*	*62.3*
Methadone Program Licensing Trust Fund				*337*	*537*	*553*	*3.0*
Audit Repayment Trust Fund				*—*	*100*	*100*	*—*
Reimbursements				*8,351*	*10,709*	*10,333*	*−3.5*

[a] Not a meaningful number.

The budget proposes an appropriation of $81 million from the General Fund for the DADP in 1990-91. This is an increase of $96,000, or 0.1 percent, over estimated current-year expenditures. This increase reflects adjustments in salaries and benefits for state operations. The proposed General Fund appropriation includes $6.6 million for support of the department and $74 million for local assistance.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1990-91. The major increases proposed in the budget are (1) $4.5 million for expansion of the Services for Pregnant and Parenting Women and Their Children Pilot Project, (2) $422,000 for workload adjustments, and (3) $401,000 to license first offender drinking driver programs as required by Ch 803/89 (SB 1344, Seymour). These increases are more than offset by major reductions of (1) $14 million in federal funds carried over from 1988-89 to 1989-90 that will not be available in the budget year and (2) $7.2 million in federal funds from the federal Waiting List Reduction Program, from which

California was awarded more funds in 1989-90 than the budget anticipates receiving in 1990-91.

Table 2
Department of Alcohol and Drug Programs
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Other Funds*	*Total*
1989-90 expenditures (revised)	$80,894	$120,176	$12,031	$213,101
Proposed changes				
Cost adjustments:				
Employee compensation	$94	$84	$22	$200
Operating expense price increase	—	176	19	195
Workload adjustments:				
Various divisions	—	391	31	422
Program changes:				
Elimination of 1988-89 carry over	—	−13,768	—	−13,768
Reduction for Federal Waiting List Reduction Grant Program	—	−7,216	—	−7,216
Expansion of Services For Pregnant and Parenting Women and Their Children Pilot Project	—	4,539	—	4,539
Licensing of first offender drinking driver programs — Ch 803/89	—	—	401	401
Licensing of drug and alcohol residential treatment centers — Ch 1667/89	—	220	—	220
Reduction for community youth activity program grant	—	−69	—	−69
Reduction for office of traffic safety reimbursement contract	—	—	−295	−295
Reduction for expiring positions	—	−110	−70	−180
Other changes	2	−3	−41	−42
1990-91 expenditures (proposed)	$80,990	$104,420	$12,098	$197,508
Change from 1989-90:				
Amount	$96	−$15,756	$67	−$15,593
Percent	0.1%	−13.1%	0.6%	−7.3%

Budget Seriously Understates Amount of Federal Funds Available

We recommend that, prior to budget hearings, the department report to the Legislature on California's final allocation amount for the Alcohol, Drug Abuse, and Mental Health Services (ADMS) block grant and how it proposes to (1) distribute the increase in ADMS block grant funds between alcohol and drug programs, (2) spend the women's set-aside funds, (3) allocate the ADMS block grant to the counties, and (4) spend the increase in Drug-Free Schools and Communities (DFSC) block grant funds.

The budget proposes $104 million in federal funds to support alcohol and drug programs in 1990-91. This is a decrease of $16 million, or 13 percent, as compared with estimated federal fund expenditures in the current year. Our analysis indicates, however, that this amount does *not* include an estimated $77 million in additional federal funds. Specifically, the DADP advises that it has received a preliminary estimate that it will receive an additional (1) $40 million available in the current year and $35 million in the budget year from an increase in the ADMS block grant and (2) $1.5 million in the budget year from an increase in the DFSC block grant. The department advises that it plans to submit a request, pursuant

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

to Section 28 of the 1989 Budget Act, to spend $13 million of the $40 million of current-year ADMS block grant funds in 1989-90, thus leaving $27 million available for use in 1990-91. Therefore, based on the department's preliminary estimate and its current plans to use some of the funds in 1989-90, $64 million in additional *unbudgeted* funds will be available for use in 1990-91. However, it is important to note that the congressional conference committee meeting on the ADMS block grant had not completed its deliberations at the time this analysis was prepared. Therefore, the actual amount of unbudgeted federal funds, as well as some of the requirements of the ADMS block grant, are subject to change.

The ADMS block grant is the major source of federal funds available to the DADP for both prevention and treatment programs. Federal law requires states to use at least (1) 10 percent of the grant for alcohol and drug services designed for women — commonly referred to as the women's set-aside, (2) 20 percent for prevention programs, (3) 35 percent for alcohol programs, and (4) 35 percent for drug programs — of which at least one-half must be for programs for intravenous drug users.

The DADP receives the Governor's discretionary portion of the DFSC block grant (please see Item 6110-183-890 for a description of the State Department of Education's portion of this grant). Federal law requires states to use this grant for prevention programs and specifies that one-half of the funds must be spent on innovative community-based programs for high-risk youth.

At the time this analysis was prepared, the department had not provided the Legislature with its proposals regarding (1) the distribution of additional ADMS block grant funds between alcohol and drug programs, (2) the allocation of ADMS block grant funds to counties, or (3) how to use the additional DFSC block grant funds. We therefore recommend that the department report to the Legislature, prior to budget hearings, on California's final allocation amount for the ADMS block grant and provide its specific expenditure proposals for the additional ADMS and DFSC funds.

Budget Does not Include an Additional $2.7 Million in DFSC Block Grant Monies for a New Federal Program

We recommend that, prior to budget hearings, the Department of Finance and the DADP report to the Legislature on (1) the administration's plans for spending $2.7 million in additional federal funds and (2) the specific requirements of a new federal program.

In addition to the federal funds described above, the DADP advises that California will receive an additional $2.7 million from the DFSC block grant in 1990-91. These monies are for a new federal drug prevention program and, under federal law, must go to local education agencies, but at the discretion of the Governor. At the time this analysis was prepared, the federal Department of Education had not provided any guidelines on the use of these funds, therefore it is unknown under which department the funds will be administered. We therefore recommend that, prior to budget hearings, the Department of Finance and the DADP report to the Legislature on (1) the administration's plans for spending the $2.7 million and (2) the specific requirements of the new federal program.

The Department Needs To Develop a Treatment Oversight Plan

We recommend that, prior to budget hearings, the department report to the Legislature on how it will provide (1) technical assistance and oversight to county administrators for administration of the alcohol recovery and drug treatment programs and (2) a system to identify exemplary alcohol recovery and drug treatment programs and to disseminate information on these programs to county offices of alcohol and drug programs.

Much of the anticipated increase in ADMS block grant monies discussed above will probably be used to fund alcohol recovery and drug treatment programs. For example, the DADP estimates that in 1989-90, county offices of drug programs will spend approximately 75 percent of their ADMS block grant funds on treatment programs, and that the county offices of alcohol programs will spend approximately 62 percent on alcohol recovery programs.

The DADP does not directly administer treatment programs; instead both alcohol recovery and drug treatment programs are administered by the county offices of alcohol and drug programs in accordance with each county's approved alcohol and drug program plan. The actual treatment is provided by treatment facilities.

Currently, the DADP *licenses all* alcohol recovery and drug treatment facilities (except group homes). The department's licensing program focuses exclusively on health and safety concerns, rather than programmatic issues. The DADP also *certifies* programs. While the certification involves some oversight of programmatic issues, it is a voluntary program; treatment facilities are not required to be certified. (Providers need certification in order to receive third-party payments such as food stamps.) Otherwise, the department leaves oversight of treatment programs to the county administrators.

We have two concerns with this procedure. First, in light of the large increases in federal funds for treatment programs that has occurred in recent years and that is expected to occur again in 1990-91, it is increasingly important for treatment programs to be accountable. For this reason, we believe the DADP needs to provide more technical assistance and oversight to the counties in administering these programs.

Second, for most of the 1980s the treatment system has been working in a crisis mode, trying to expand as quickly as possible to provide slots to addicts and alcoholics who have filled up treatment waiting lists. However, with the increases in federal funds, the federal government and the research community have started to question the efficacy of treatment programs. One of the issues still under deliberation in Congress regarding pending ADMS block grant legislation is whether or not to require states

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

to submit plans detailing their systems of accountability over treatment programs.

This concern is also highlighted by data on California's public treatment system. Specifically, the DADP reports that in 1988-89, 62 percent of the clients admitted to public drug treatment programs had been previously admitted to a drug treatment program, 24 percent had been admitted previously *more than three times*. These large percentages show that clients cycle through treatment programs several times and suggest that many of the treatment programs are not successful in treating clients, at least not initially. Currently, the DADP does not have a system for identifying exemplary programs or for providing information on these programs to county administrators so that they can replicate the successful programs in their counties. The DADP advises that it has formed a work group within the department that is looking into the issues of program accountability and effectiveness and the additional policies the department should consider in this area. However, at the time this analysis was prepared, the department had not formalized its findings and suggestions for addressing treatment program accountability.

We therefore recommend that, prior to budget hearings, the department report to the Legislature on how it will provide (1) technical assistance and oversight to county administrators for administration of the alcohol recovery and drug treatment programs and (2) a system to identify exemplary alcohol recovery and drug treatment programs and disseminate information on these programs to the county offices of alcohol and drug programs.

Department's Proposal To Expand the Services For Pregnant and Parenting Women and Their Children Pilot Project Needs More Detail

We recommend that the Departments of Alcohol and Drug Programs, Health Services, Social Services, and Developmental Services report to the Legislature by March 15, 1990 on the specifics of the proposed pilot expansion, the workload justification for the requested positions, and the status of the pilot projects in the current year.

The budget proposes $4.5 million to expand the Services For Pregnant and Parenting Women and Their Children Pilot Project distributed as follows:

- $2.1 million to the DADP for alcohol and drug treatment services and two staff positions.
- $1.8 million to the Department of Health Services (DHS) for case management services, 10 planning grants, evaluation, and 3 staff positions.
- $616,000 to the Department of Social Services (DSS) for foster care recruitment and training and respite care to foster parents of substance-exposed infants and 2 staff positions.
- $55,000 to the Department of Development Services (DDS) for one staff position.

Currently, the pilot operates in 5 sites in 4 counties and provides alcohol recovery, drug treatment and case management to pregnant and parenting women and their infants, and foster care recruitment and training and respite care to foster parents of substance-exposed infants. The budget proposes to expand the pilot to approximately 2 additional counties, provide planning grants to 10 additional counties, or areas, for phase-in in later years, and provide a staff person for the DDS to compile and analyze data on substance-exposed infants and advise on implementation of the pilot.

We have identified the following three concerns with the proposal:

- First, at the time this analysis was prepared the departments were unable to provide specifics on the expansion. For example, although the budget provides $500,000 in local assistance funds to the DHS for the planning grants, the DADP advises that *it* will be funding and administering the planning grant portion of the expansion.
- Second, the departments were required by the 1989 Budget Act to report to the Legislature by January 1, 1990 on the status of the pilot projects. At the time this analysis was prepared, the departments had not submitted their report. We believe the Legislature needs information on the status of the projects in the current year in order to evaluate the administration's proposal to expand the pilots in the budget year.
- Lastly, the $4.5 million proposed for the expansion is composed of $1.9 million in local assistance and $2.6 million in departmental support. We are concerned with this apparently large ratio of administrative cost to program cost. At the time this analysis was prepared, of the four departments involved, only the DDS had provided justification for the proposed administrative expenditures. The departments advise that they intend to administratively establish positions in the current year in support of the expansion.

We therefore recommend that the DADP, DHS, DSS, and DDS report to the Legislature by March 15, 1990 on the specifics of the pilot expansion, the workload of the requested positions, and the status of the pilot projects in the current year.

Funding Source for the Foster Care Portion of the Pilot Project Is Inappropriate

We recommend transfer of $116,000 from the DADP departmental support item (Item 4200-001-890) to the DADP local assistance item (Item 4200-101-890).

The DADP proposes to use $616,000 in federal ADMS block grant women's set-aside funds to reimburse the DSS for the costs of foster care recruitment, training, and respite care for foster parents and 2 staff positions for the DSS. Our analysis indicates that this proposed use of these funds is inconsistent with federal law, which specifies that the funds must be used for alcohol and drug programs for women. We therefore recommend deleting $616,000 in reimbursements proposed in the DSS budget to expand the foster care portion of the pilot. (Please see Item 5180-151-001 for our discussion of this issue.) Consistent with this recommendation, we recommend transferring $116,000 budgeted in the DADP

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

departmental support item (Item 4200-001-890) to the DADP local assistance item (Item 4200-101-890). No action is needed with respect to the $500,000 budgeted in DADP's local assistance item and scheduled to reimburse the DSS' local assistance budget. This is because elimination of the reimbursement authority from the DSS budget will ensure that the DADP will use these funds for its own alcohol and drug programs.

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE

Item 4220 from the General Fund — Budget p. HW 39

Requested 1990-91	$259,000
Estimated 1989-90	251,000
Actual 1988-89	236,000
Requested increase (excluding amount for salary increases) $8,000 (+3.2 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 $259,000 from the General Fund for the committee's support during 1990-91. This amount is $8,000, or 3.2 percent, more than estimated current-year expenditures. The proposed increase is due to additional personnel costs.

DEPARTMENT OF HEALTH SERVICES

Item 4260 from the General Fund and various funds — Budget p. HW 40

Requested 1990-91	$10,534,493,000
Estimated 1989-90	10,266,920,000
Actual 1988-89	8,135,937,000
Requested increase (excluding amount for salary increases) $267,573,000 (+2.6 percent)	
Total recommended increase	14,165,000
Recommendation pending	8,155,297,000
Recommended reversion	1,700,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4260-001-001—Department support	General	$173,829,000
4260-001-014—Department support	Hazardous Waste Control	8,606,000
4260-001-044—Department support	Motor Vehicle	339,000
4260-001-129—Department support	Water Device Certification	118,000
4260-001-135—Department support	AIDS Vaccine Research and Development Grant	207,000
4260-001-137—Department support	Vital Records Improvement Project	4,958,000
4260-001-177—Department support	Food Safety	3,144,000
4260-001-179—Department support	Environmental Laboratory Improvement	1,820,000
4260-001-203—Department support	Genetic Disease Testing	26,671,000
4260-001-227—Department support	Low-Level Radioactive Waste Disposal	1,131,000
4260-001-231—Department support	Health Education Account, Cigarette and Tobacco Products Surtax (C&T)	2,186,000
4260-001-232—Department support	Hospital Services Account, C&T	1,827,000
4260-001-233—Department support	Physician Services Account, C&T	616,000
4260-001-234—Department support	Research Account, C&T	1,658,000
4260-001-236—Department support	Unallocated Account, C&T	1,292,000
4260-001-335—Department support	Registered Environmental Health Specialist	137,000
4260-001-455—Department support	Hazardous Substance	5,625,000
4260-001-478—Department support	Mosquitoborne Disease Surveillance	26,000
4260-001-693—Department support	Disproportionate Share and Emergency Services	98,000
4260-001-823—Department support	Alzheimer and Related Disorders Reserve	837,000
4260-001-890—Department support	Federal	104,666,000
4260-001-900—Department support	Local Health Capital Expenditure	150,000
4260-005-890—Department support	Federal—special projects	317,976,000
4260-007-890—Department support	Federal—flow through to other departments	22,739,000
4260-011-001—Department support—toxics	General	5,000,000

DEPARTMENT OF HEALTH SERVICES—Continued

4260-011-014—Department support—toxics	Hazardous Waste Control	38,952,000
4260-011-428—Department support—toxics	Hazardous Waste Management Planning	26,000
4260-011-455—Department support—toxics	Hazardous Substance	27,518,000
4260-011-890—Department support—toxics	Federal	5,722,000
4260-015-455—Department support—toxics	Hazardous Substance	5,375,000
4260-021-890—Department support—toxics	Federal—special projects	20,435,000
4260-101-001—Medi-Cal local assistance	General	3,815,167,000
4260-101-890—Medi-Cal local assistance	Federal	4,036,476,000
4260-103-890—Medi-Cal refugees	Federal	23,482,000
4260-105-001—Medi-Cal abortions	General	14,485,000
4260-111-001—Public health local assistance	General	957,579,000
4260-111-137—Public health local assistance	Vital Records Improvement Project	540,000
4260-111-231—Public health local assistance	Health Education Account, C&T	80,591,000
4260-111-232—Public health local assistance	Hospital Services Account, C&T	10,156,000
4260-111-233—Public health local assistance	Physicians' Services Account, C&T	2,653,000
4260-111-236—Public health local assistance	Unallocated Account, C&T	21,741,000
4260-111-890—Public health local assistance	Federal	25,872,000
4260-121-001—Alzheimer's disease	General	3,564,000
Control Section 23.50—Support	State Legalization Impact Assistance Grant (SLIAG)	4,879,000
Control Section 23.50—Local assistance	SLIAG	333,479,000
Health and Safety Code Section 25330.5	Hazardous Site Operations and Maintenance	1,932,000
Welfare and Institutions Code Section 16702	County Health Services	2,450,000
Welfare and Institutions Code Section 16709	County Medical Services Program Account, County Health Services	1,293,000
Ch 376/84	Superfund Bond Trust	5,350,000
Ch 1331/89	C&T	372,263,000
Prior-year balance available, Ch 1446/89	General	750,000
Prior-year balance available—public health	General	301,000
Prior-year balance available—toxics	General	1,248,000
Prior-year balance available—toxics	Hazardous Substance Cleanup	6,000,000
Reimbursements	—	27,255,000
Family repayments	—	1,303,000
Total		$10,534,493,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

Department Support

1. Proposition 99 Expenditures. Withhold recommendation on 94 positions and $5.9 million from various accounts of the Cigarette and Tobacco Products Surtax (C&T) Fund proposed for activities related to the implementation of Proposition 99. 489
2. ***Overhead Costs. Reduce Item 4260-001-001 by $337,000.*** Recommend a reduction of $337,000 from the General Fund to correct overbudgeting for overhead costs. 489

Licensing and Certification

3. Survey Workload. Withhold recommendation on $2.9 million ($971,000 General Fund) and 35.5 positions proposed to implement new federal long-term care survey requirements pending submission of the results of workload studies. 490
4. Nurse Aide and Home Health Agency Workload. The new workload associated with nurse aide and home health agency certification may be different than estimated by the department. 491
5. ***Filling Authorized Positions. Reduce Item 4260-001-001 by $140,000 and Item 4260-001-890 by $283,000.*** Recommend a reduction for the nurse aide and home health agency workload proposal to reflect a more realistic phase-in for the positions. 492

Public Health

6. Information on the Public Health Budget Request. Recommend that the deputy directors responsible for the Administration Division and public health programs, and the Department of Finance, report at budget hearings regarding (a) why the department has not been able to provide basic information to the Legislature on its public health budget request and (b) what they plan to do to rectify this situation in the future. 499
7. $150 Million AB 8 Reduction. Recommend that the department submit to the fiscal committees, prior to budget hearings, a plan for implementing its proposed $150 million reduction in the AB 8 county health services program and documentation of its assumptions regarding county revenues. 502
8. Medically Indigent Services Program (MISP) "Deferral." The proposed deferral of $25 million in MISP expenditures has the same effect as a budget reduction. 503
9. Court Decision. A recent court decision in the *Kinlaw* case could increase state costs for health services provided to medically indigent persons by up to $605 million annually. In addition, the state could be liable for reimbursing counties for uncompensated costs in providing services back to 1986-87. 503
10. County Medical Services Program (CMSP) Budget. Recommend that, prior to budget hearings, the department (a) reconcile the proposed budget and its estimates of caseload and costs and submit revised proposals and (b) provide information on the impact of proposed Medi-Cal optional benefits changes on the CMSP. 507
11. California Healthcare for Indigents Program (CHIP) Augmentation. Recommend that, prior to budget hearings, the department submit information to the fiscal committees on the allocation of the proposed $34.6 million augmentation 507

DEPARTMENT OF HEALTH SERVICES—Continued

from the Cigarette and Tobacco Products Surtax Fund for the CHIP.

12. Implementation of Expanded Access to Primary Care Program. Recommend that, prior to budget hearings, the department report on specified issues involving program implementation. 508
13. Medically Indigent Services Program: Newly Legalized Persons. Recommend that the department report, prior to budget hearings, on (a) the status of State Legalization Impact Assistance Grant (SLIAG) program implementation and claiming issues and (b) the federal government's response to the department's revised application for SLIAG reimbursements. 510
14. County Medical Services Program (CMSP): Newly Legalized Persons. Recommend that, prior to budget hearings, the department report on (a) the status of CMSP claiming using the federal Cost Documentation System (CDS) and (b) any adjustments to its budget proposal based on the CDS results. 511
15. Clinic Services to Newly Legalized Persons. Withhold recommendation on $27.8 million in SLIAG funds to reimburse clinics for services to newly legalized persons, pending receipt of (a) a required report and (b) information from the department justifying its proposal. We also recommend that the Legislature adopt Budget Bill language requiring the department to (a) cover specified information in its audit reviews of clinic SLIAG claims and (b) audit clinics with the largest claim amounts first. 512
16. Vital Records Improvement Project (VRIP) Reports. Withhold recommendation on $5 million for the VRIP pending receipt of required reports. 513
17. Office of AIDS Budget. Withhold recommendation on the entire $50.9 million budget for the Office of AIDS because the department has provided no information on its spending proposal for this program. 515
18. ***Alternative Test Site (ATS) Program. Reduce Item 4260-111-001 by $1.1 Million.*** Recommend a reduction of $1.1 million (General Fund) in the ATS Program due to overbudgeting. 515
19. HIV-Infected Children. The department has not submitted required reports on the status of funds for HIV-infected children. 517
20. AIDS Cost-of-Care Reports. The department has not submitted required reports on the costs of providing care to persons with AIDS and AIDS-related conditions. 517
21. Early Intervention Projects (EIP). The Office of AIDS is making some progress in improving implementation of the EIP program. It is too soon to tell whether its efforts in data 520

collection and evaluation will provide the Legislature the information it needs regarding program effectiveness.

22. Family Planning Funds Restored During the Current Year. Recommend that the department report at budget hearings on the status of the restoration in the current year of current-year funding for the Office of Family Planning (OFP). 521
23. ***Restore Family Planning Services. Augment Item 4260-001-001 by $900,000 and Item 4260-111-001 by $23,100,000.*** Recommend that the Legislature restore the budget of the OFP to be consistent with its action in restoring current-year funding. 522
24. No Information on Maternal and Child Health (MCH) Budget. Withhold recommendation on the entire $35.2 million local assistance budget for MCH programs because the department has not provided any information on its spending proposal for these programs. 522
25. Proposed Budget Language. Recommend that the Legislature delete language proposed in the 1990 Budget Bill allowing the department to transfer funds from MCH local assistance to support upon approval of the Department of Finance because this language circumvents legislative review. 523
26. New MCH Health Block Grant Requirements. Recommend that the department provide information to the fiscal committees by April 1 on (a) the status of regulations to implement new federal requirements imposed on MCH funds and (b) how the department plans to comply with the new requirements. 524
27. Community-Based Perinatal Services (CBPS) Program. Recommend that, prior to budget hearings, the department submit to the fiscal committees information on (a) its plan for spending CBPS funds during 1990-91 and (b) options for operating the program and redirecting funds. 526
28. Adolescent Family Life Program (AFLP). The department has not complied with legislation direction to target funds in order to address black infant mortality. 528
29. Targeted Case Management Option for AFLP. Recommend that the department submit to the fiscal committees, by April 1, (a) a proposed work plan for obtaining federal reimbursements for AFLP case management services, (b) an estimate of the amount of federal reimbursements the AFLP could receive, and (c) information on targeting clients and service areas. 529
30. Proposal to Expand the Perinatal Substance Abuse Pilot. Recommend that the Departments of Health Services, Alcohol and Drug Programs, Social Services, and Developmental Services report to the Legislature by March 15, 1990 on 531

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the specifics of the proposed pilot expansion, the workload justification for the requested positions, and the status of the pilot projects in the current year.

31. California Children's Services (CCS) Program Current-Year Deficiency. The primary reasons for the current-year deficiency of $22 million in the CCS Program are (a) county delays in billing the state and (b) state and county delays in claims payment. 531
32. CCS Budget Likely to be Underfunded. Recommend that the department address specified problems in its estimates when it updates them in May. 532
33. CCS Program. Recommend that the policy committees hold hearings on restructuring the CCS Program. 533
34. Cancer Registry. Withhold recommendation on 15 positions and $8,956,000 from various funds requested for implementation of the cancer registry, pending receipt and review of a data analysis plan. Recommend that the department report at budget hearings on the reasons it failed to notify the Legislature, as required by the *Supplemental Report of the 1989 Budget Act*, prior to moving the cancer registry from the Berkeley area to Sacramento. 536
35. Immunization Program. Recommend that the department report, prior to budget hearings, on (a) its plan to meet the estimated demand in 1990-91 for vaccines against childhood illnesses and (b) the options available for reducing the costs of vaccines in future years. 537
36. Various Public Health Projects. Withhold recommendation on a total of $5,748,000 from various fund sources requested for five projects, pending receipt and review of information justifying the requests. 539
37. Birth Defects Monitoring Program. Recommend reversion of the $1.7 million (General Fund) appropriated for program expansion of the Birth Defects Monitoring Program into Los Angeles County in the current year, thereby freeing up these funds for other purposes because the department does not intend to expand the program in the current year. 539

Toxic Substances Control

38. Future Funding of Toxics Program. Funding for the toxics program may be insufficient to continue existing levels of site mitigation and hazardous waste management activities in 1991-92 and future years. 544
39. ***Administrative and Support Personnel. Reduce Item 4260-011-014 by $570,000, Item 4260-011-455 by $422,000, Item 4260-011-890 by $84,000, and Item 4260-021-890 by $299,000.*** Recommend a reduction of $1,375,000 and 30 personnel-years from various funds because the department has over-budgeted administrative and clerical positions. Further rec- 547

ommend that department submit, prior to budget hearings, information on the time required by certain personnel for training and administrative activities.

40. Permitting of Hazardous Waste Facilities. Recommend that the department report, prior to budget hearings, on the effect of recent and projected closures of hazardous waste disposal, treatment, and storage facilities on (a) permitting and enforcement workload and (b) statewide capacity for the disposal of hazardous wastes. 549
41. Cost Recovery Program. Withhold recommendation on 14 positions and $718,000 requested from the Hazardous Substance Account to recover costs from responsible parties for site mitigation activities, pending receipt of an evaluation of the cost recovery program. 551
42. Site Mitigation Program. Withhold recommendation on a total of $10,375,000 requested from various funds for contracts for the cleanup of hazardous waste sites, pending receipt of information justifying the amounts requested for each site. 552
43. Funding Site Evaluation Work. Recommend that the department report, prior to budget hearings, on (a) which positions it will redirect to conduct preliminary assessments and site inspections of hazardous waste sites, (b) how these positions currently are funded, and (c) the programmatic effect of the redirections. 552

Medi-Cal

44. May Estimates. Withhold recommendation on $8 billion ($3.8 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. 558
45. 1990-91 Long-Term Care Cost-of-Living Adjustment (COLA). Recommend that in its May revision of expenditure estimates, the department incorporate estimates of costs resulting from long-term care COLAs. 564
46. Active Treatment Requirements. Recommend that the department submit to the fiscal committees before budget hearings an estimate of nursing facilities' costs to comply with expanded federal treatment requirements. 564
47. Drug Discount Program. Recommend that, prior to budget hearings, the department provide additional details on how it would implement its proposals to achieve savings through a drug discount program. 564
48. Price Controls on Incontinence Supplies. Recommend that, prior to budget hearings, the department provide additional details on how it would implement its proposal to impose price controls on incontinence supplies. 565
49. Restructuring Reimbursement Rates. Recommend that, prior to budget hearings, the department (a) submit addi- 566

DEPARTMENT OF HEALTH SERVICES—Continued

tional information on how it intends to implement this proposal and (b) report on the staffing and funds it would require to develop alternative methods for restructuring physician reimbursement rates.

50. Elimination of Optional Benefits. The savings assumed in the budget from elimination of optional benefits may be overstated. 567
51. Medicare Catastrophic Coverage Act. The actual costs for qualified Medicare beneficiaries may be much lower than the department estimates. 568
52. Costs for Newly Legalized and Undocumented Persons. General Fund costs for undocumented persons are almost triple the department's estimates. The reasons are unknown. 570
53. ***Estimate for Active Treatment Costs for Mentally Ill Individuals. Reduce Item 4260-101-001 by $1.3 Million and Item 4260-101-890 by $1.3 Million.*** Recommend a reduction in funds for providing active treatment to mentally ill individuals due to lower-than-projected caseload. 574
54. Expansion of Perinatal Services. Medi-Cal perinatal services have expanded significantly since 1986-87. It is too soon to tell whether these changes will increase the number of providers participating in the Medi-Cal Program or the number of women receiving perinatal services. 575
55. Reappropriation. We recommend that the Legislature reappropriate $1.2 million of the 1989-90 appropriation for perinatal services in Ch 1331/89 (AB 75, Isenberg) for use in 1990-91. 577
56. Federal Funds Needed for Targeted Case Management. The budget does not include $28.8 million in federal funds needed to reimburse the Department of Developmental Services (DDS) for Medi-Cal targeted case management services for persons with developmental disabilities. 577
57. Cost Control Work Measurement Study. Recommend that the Legislature require the Departments of Health Services (DHS) and Social Services (DSS) to (a) report to the fiscal committees during budget hearings on the status of their work measurement study involving the Medi-Cal, Aid to Families with Dependent Children, and Nonassistance Food Stamp Programs and (b) adopt supplemental report language requiring the DHS and the DSS to report on the findings of the completed studies. 580
58. Reprocurement of Dental Contract. Recommend that the Legislature adopt supplemental report language requiring the department to report on Delta Dental's compliance with the new dental contract, including a discussion of new contract requirements and system enhancements. 581

59. Drug Discount Program. Withhold recommendation on $1.8 million ($659,000 General Fund) and 40 positions requested for a drug discount program pending receipt of the department's plan for implementing the program. 585

60. ***Budgeted Federal Reimbursements for Nursing Facility Preadmission Screening. Reduce Item 4260-007-890 by $4 Million.*** Recommend a reduction in federal funds to reflect lower preadmission screening caseload and costs. 585

Department of Health Services
Table of Contents

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 4,283.1 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $10.5 billion from all funds for support of Department of Health Services programs in 1990-91, which is an increase of $268 million, or 2.6 percent, above estimated current-year expenditures. The largest proposed budget changes are an increase of $321.4 million ($126.2 million General Fund) for Medi-Cal caseload and

DEPARTMENT OF HEALTH SERVICES—Continued

cost adjustments and a decrease of $150 million (General Fund) in the county health services (AB 8) program. The budget reflects a reduction of $173.2 million in Proposition 99 funding, primarily resulting from the expenditure in the current year of revenues carried over from 1988-89.

Table 1 shows the proposed budget, by program category, for 1990-91 and the two previous years.

Table 1
Department of Health Services
Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in thousands)

Expenditures	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change Amount*	*Change Percent*
State operations					
Support—excluding toxics	$292,373	$372,817	$382,044	$9,227	2.5%
Support—toxics	88,239	142,835	118,858	−23,977	−16.8
Distributed departmental services—toxics	−2,984	−3,071	−3,055	16	−0.5
Special projects—excluding toxics	214,496	284,705	320,526	35,821	12.6
Public health local assistance	1,422,959	2,072,926	1,738,247	−334,679	−16.1
Medi-Cal local assistance	6,120,854	7,396,708	7,977,873	581,165	7.9
Totals	$8,135,937	$10,266,920	$10,534,493	$267,573	2.6%
Funding Sources					
General Fund	*$4,356,944*	*$4,940,075*	*$4,971,923*	*$31,848*	*0.6%*
Federal funds	*3,456,264*	*4,198,189*	*4,557,368*	*359,179*	*8.6*
Hazardous Substance Cleanup (Bond)	*26,467*	*11,839*	*6,000*	*−5,839*	*−49.3*
Hazardous Substance Account	*11,775*	*44,487*	*33,143*	*−11,344*	*−25.5*
Hazardous Substance Account, responsible parties	*2,753*	*3,400*	—	*−3,400*	*−100.0*
Hazardous Waste Control Account	*41,161*	*44,747*	*47,558*	*2,811*	*6.3*
Genetic Disease Testing Fund	*22,343*	*26,713*	*26,671*	*−42*	*−0.2*
County Health Services	*2,450*	*2,450*	*2,450*	—	—
Vital Records Improvement Fund	*1,060*	*4,939*	*5,498*	*559*	*11.3*
Local Health Capital Expenditure Account	*150*	*147*	*150*	*3*	*2.0*
State Legalization Impact Assistance Grant	*187,495*	*288,924*	*338,358*	*49,434*	*17.1*
Health Education Account, Cigarette and Tobacco Products Surtax (C&T) Fund	—	*115,000*	*82,777*	*−32,223*	*−28.0*
Hospital Services Account, C&T Fund	—	*298,252*	*210,470*	*−87,782*	*−29.4*
Physician Services Account, C&T Fund	—	*85,215*	*59,997*	*−25,218*	*−29.6*
Unallocated Account, C&T Fund	—	*168,038*	*140,081*	*−27,957*	*−16.6*
Research Account, C&T Fund	—	*1,658*	*1,658*	—	—
Reimbursements	*14,932*	*15,058*	*27,255*	*12,197*	*81.0*
Other funds	*12,143*	*17,789*	*23,136*	*5,347*	*30.1*

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes expenditures for department support — excluding toxics — of $382 million (all funds) in 1990-91. These expenditures account for 3.6 percent of the department's budget. The Toxic Substances Control Division has its own budget items, and support for that division is discussed separately. (Please see Section 4.)

The department proposes 4,531.9 personnel-years in the budget year (excluding those assigned to toxics and special projects), an increase of 248.8 personnel-years, or 5.8 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
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Change From 1989-90 Percent*
Expenditures					
Public health	$121,609	$163,810	$158,692	−$5,118	−3.1%
Medical assistance	67,651	87,758	91,012	3,254	3.7
Licensing and certification	26,344	33,689	38,832	5,143	15.3
Audits and investigations	19,271	22,301	23,324	1,023	4.6
Administration and Director's office	54,514	65,259	70,184	4,925	7.5
Totals	$289,389	$372,817	$382,044	$9,227	2.5%
Personnel-years					
Public health	1,390.2	1,630.9	1,730.3	99.4	6.1%
Medical assistance	1,025.3	1,100.8	1,122.1	21.3	1.9
Licensing and certification	296.3	388.0	481.5	93.5	24.1
Audits and investigations	360.1	391.6	385.6	−6.0	−1.5
Administration and Director's office	751.0	771.8	812.4	40.6	5.3
Totals	3,822.9	4,283.1	4,531.9	248.8	5.8%

Table 3 identifies the main components of the changes proposed in the department's support budget for 1990-91, excluding toxics and special projects. The request for 1990-91 is $9.2 million, or 2.5 percent, above estimated 1989-90 expenditures.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 3
Department of Health Services Support
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (Budget Act)	$159,348	$340,182
Adjustments, 1989-90:		
Chaptered legislation	4,690	11,203
Cigarette and Tobacco Products Surtax (C&T) Fund, Ch 1331/89	—	5,797
Retirement reduction	–177	–314
Control Section 23.50 — State Legalization Impact Assistance Grant (SLIAG) carry-over funds	—	328
Employee compensation increase	3,906	6,869
Site mitigation support restoration, Ch 1032/89	—	4,249
County personnel services, Ch 1430/89	50	100
Nurse aide certification, Ch 1177/87	–73	–73
Board of Control adjustment	–19	–19
Reimbursement adjustments	—	773
AIDS reappropriations	58	58
AIDS Vaccine Research and Development Grant Fund redirection	—	–83
Medi-Cal funds to other departments	—	2,465
Reduction in federal funding for refugees	77	—
Transfer federal maternal and child health (MCH) funds from local assistance	—	1,282
1989-90 expenditures (revised)	$167,860	$372,817
Adjustments, 1990-91:		
Back out chaptered legislation	–4,690	–11,203
Back out reappropriations	–3,465	–3,813
Back out county personnel services, Ch 1430/89	–50	–100
Back out SLIAG carry-over funds	—	–328
Back out MCH funds transferred from local assistance	—	–1,282
Back out one-time equipment	–38	–333
Add back nurse aide certification, Ch 1777/87	73	73
Add back Board of Control adjustment	19	19
Reimbursement adjustments	—	96
SLIAG adjustment	—	–4,740
Medi-Cal funds to other departments	—	–242
Reduction in federal funding for refugees	150	—
Expiration of limited-term positions	–512	–1,182
Full-year effect of 1989-90 costs	1,169	1,970
Pro rata adjustment	—	145
Reallocation of overhead and data processing costs	499	—
Full-year effect of 1989-90 employee compensation increases	2,707	4,851
Equipment fund shift	316	—
Budget change proposals:		
Public health	5,488	11,213
Medical assistance	1,434	3,373
Licensing and certification	2,482	8,018
Audits and investigations	341	1,556
Administration and Director's office	46	1,136
1990-91 expenditures (proposed)	$173,829	$382,044
Change from 1989-90 expenditures (revised):		
Amount	$5,969	$9,227
Percent	3.6%	2.5%

No Justification Submitted for Proposition 99 Expenditures for Support

We withhold recommendation on 94 positions and $5.9 million from various accounts of the Cigarette and Tobacco Products Surtax (C&T) Fund proposed for activities related to the implementation of Proposition 99.

The budget proposes 94 positions and $5.9 million from various accounts of the C&T Fund for department support costs associated with implementing Ch 1331/89 (AB 75, Isenberg). This is $124,000, or 2.1 percent, above current-year support funding. Chapter 1331 requires the department to distribute C&T funds through various programs. (Please see *The 1990–91 Budget: Perspectives and Issues* for a discussion of the implementation of Chapter 1331.) The $5.9 million proposed for support includes $4.8 million for public health, $229,000 for Medi-Cal, $343,000 for audits and investigations, and $518,000 for administration.

At the time we prepared this analysis, the department had not submitted justification for its proposed support expenditures. Specifically, the department had not provided (1) fiscal details of the proposal, (2) information on activities proposed, and (3) estimated workload. Therefore, we withhold recommendation until the department submits the necessary information.

Overhead Costs Overbudgeted

We recommend a reduction of $337,000 from the General Fund to correct overbudgeting for overhead costs. (Reduce Item 4260-001-001.)

The budget reflects a shift of $369,000 from the State Legalization Impact Assistance Grant (SLIAG) Fund to the General Fund for distributed overhead costs. Overhead costs are the costs of department-wide administrative functions such as accounting, budgets, and personnel. These are functions shared by the various programs in the department. To cover these costs, the department annually redistributes overhead among its various programs based on the number of personnel in each program. The programs, in turn, cover their share of the administrative costs using their various funding sources.

According to the department, the funding shift of overhead costs reflected in the budget is the result of the expiration of funding for SLIAG positions. The department indicates that the expiration of current-year SLIAG positions necessitates a redistribution of the $369,000 overhead costs previously attributed to the SLIAG Fund.

We identified two technical problems with this funding shift. First, a redistribution of the $369,000 SLIAG overhead costs is only necessary if the SLIAG positions were terminated permanently. This is not the case in this situation, however, because the department has proposals to renew funding for its SLIAG positions in the budget year. In fact, one of these proposals includes a $313,000 augmentation from SLIAG funds for overhead costs. Hence, the department has double-funded $313,000 of its overhead costs — once from SLIAG funds and once from the General Fund. SLIAG funds are the appropriate funding source for these costs; the General Fund amount should be deleted.

DEPARTMENT OF HEALTH SERVICES—Continued

Second, the department has incorrectly distributed the remaining amount of overhead costs — $56,000 — entirely to the General Fund. The department advises that the General Fund portion of distributed overhead costs is 56 percent. Therefore, only $32,000 in distributed overhead costs should be charged to the General Fund out of the $56,000, not the full amount.

To correct these errors, we recommend a reduction of $337,000 from the General Fund from the department's budget. (Reduce Item 4260-001-001.)

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 $47.6 million ($25.8 million General Fund) for support of the Licensing and Certification Program (including administrative overhead) in 1990-91. This is an increase of $8.9 million, or 23 percent, above estimated current-year expenditures.

The division has 388 personnel-years in the current year. The budget proposes an increase of 93.5 personnel-years, or 24 percent, in the budget year.

Survey Workload

We withhold recommendation on $2.9 million ($971,000 General Fund) and 35.5 positions proposed to implement new federal long-term care survey requirements pending submission of the results of workload studies.

The budget proposes $2.9 million ($971,000 General Fund) and 35.5 positions to meet additional long-term care survey requirements resulting from the Omnibus Budget Reconciliation Act (OBRA) of 1987.

The OBRA made major changes in federal Medicare and Medicaid laws relating to nursing facilities. Among other changes, the OBRA imposed additional requirements on Medicare- and Medi-Cal-certified nursing facilities. Because the department has to assure compliance with these new requirements, the OBRA has an impact on the department's workload. In addition to these new facility requirements, the OBRA expanded current survey requirements. For example, the department is currently required to conduct follow-up visits only on nursing facilities that have deficiencies. Effective October 1990, the OBRA requires the department to conduct follow-up visits on all nursing facilities, regardless of whether or not they have deficiencies.

The department's proposal is based on a federal Health Care Financing Administration (HCFA) estimate that under the OBRA, each survey would take 106 staff hours, or 66 percent longer than the current standard of 64 hours. Based on these figures, the department estimates that it would need an additional 48,594 hours, or 27 positions, to comply with OBRA survey requirements. The department's request also includes nine consultant positions to perform aspects of the surveys that generalists or nurses cannot perform.

The department could not provide us with details on how the HCFA estimates were derived. At the time we prepared this analysis, the department was conducting sample surveys to validate the HCFA workload estimates. The department advises that the results of its surveys will be available by the end of February. Therefore, we withhold recommendation on this proposal until the department submits the results of its validation studies.

Nurse Aide and Home Health Agency Workload

The new workload associated with nurse aide and home health agency (HHA) certification may be different than estimated by the department.

The budget proposes $2.6 million ($866,000 General Fund) and 47.5 positions to implement new OBRA requirements related to HHA certifications, nurse aide training, and nurse aide registration. Specifically, the OBRA (1) expands HHA certification requirements, (2) requires the department to approve nurse aide training and competency programs, and (3) requires the department to establish a certified nurse aide registry containing specified information. The department's proposal includes 12 positions for nurse aide training and competency program evaluations, 25 positions for the nurse aide registry, Los Angeles County contract funds to support 5 positions for HHA certification, and 10.5 positions in HHA certification for the rest of the state.

Like the long-term care survey proposal, the department developed its request based on HCFA estimates of the additional workload. Once again, there are no details for these estimates. Unlike the long-term care survey, however, the department is not validating these estimates. This is because, according to the department, the HCFA has not yet issued guidelines upon which the department can base a validation survey. The department expects the HCFA to release these guidelines by mid-March. Even with this anticipated release date, however, a validation sample may not be completed before the Legislature completes action on the 1990 Budget Bill.

The lack of details on the federal estimate makes it difficult for the Legislature to evaluate whether or not this is an appropriate basis for funding. For example, the HCFA estimates that it will take 40 hours per facility for the department to develop and maintain a nurse aide registry. We identified two issues with this estimate. First, it is not clear to us why an estimate of workload associated with a nurse aide registry should be

DEPARTMENT OF HEALTH SERVICES—Continued

based on the number of facilities. Second, as required by Ch 1177/87 (SB 1111, Presley), the department already has a listing of certified nurse aides that includes certain information. Although the OBRA requirements are more extensive than Chapter 1177 requirements, it is likely that a portion of the workload identified in the HCFA estimate is already being performed by state staff. However, due to the lack of details on the federal estimate, we cannot determine how much of the workload is already being performed. Consequently, we do not have adequate information to develop an analytically sound alternative estimate.

Division Has Difficulty Filling Authorized Positions

We recommend a reduction of $423,000 ($140,000 General Fund) for the nurse aide and home health agency workload proposal to reflect a more realistic phase-in for the positions. (Reduce Item 4260-001-001 by $140,000 and Item 4260-001-890 by $283,000.)

The budget proposes full-year funding for the two requests discussed earlier related to the Omnibus Budget Reconciliation Act (OBRA) of 1987, with a 5 percent salary savings rate. The term "salary savings" refers to personal services costs for authorized positions that are not incurred. Salary savings arise because (1) authorized positions may be vacant due to delays in filling vacated or new positions or delays in implementing new programs and (2) positions may be filled with personnel who are paid lower salaries than received by predecessors. Five percent is the general salary savings rate used to budget new positions in state agencies.

In proposing full-year funding with a 5 percent salary savings rate, the department is assuming that it can fill 95 percent of the positions on July 1. We do not believe this is realistic, because the division has had difficulties in filling its existing authorized positions. In the current year, for example, the division's estimated salary savings rate is 17.7 percent. The division reports that it has not been able to fill its positions primarily because many positions are in specialized and highly competitive classifications: nurses and physicians. Many of the OBRA positions are also in these classifications.

We believe that a three-month phase-in is more realistic for these positions than the 5 percent salary savings included in the proposal. Accordingly, we recommend reducing the budget by $423,000 ($140,000 General Fund) to reflect a more realistic phase-in for these positions. Funding the proposals at this level would not prevent the department from starting its hiring process at the beginning of the 1990-91 and would not jeopardize compliance with federal regulations.

Our recommended reduction is based on deleting three months of funding for one of the two proposals: the nurse aide and home health agency workload proposal. We will calculate the reduction due to a three-month phase-in for the survey workload proposal when we receive additional information regarding the workload estimates and can make a recommendation on necessary staffing levels.

3. PUBLIC HEALTH

MAJOR ISSUES

- ☑ The department has not submitted sufficient information on its public health budget for the Legislature to be able to (1) determine whether proposed budget changes are justified and (2) evaluate the department's spending priorities. We are withholding recommendation on two entire public health program budgets—for maternal and child health local assistance and AIDS programs.

- ☑ A recent court decision could increase state costs for health services provided to medically indigent persons by up to $605 million annually. In addition, the state could be liable for reimbursing counties for their uncompensated costs in providing services back to 1986-87.

- ☑ There continue to be major uncertainties over estimated State Legalization Impact Assistance Grant (SLIAG) expenditures for health services provided to newly legalized persons due to program implementation and claiming issues involving counties, the state, and the federal government.

- ☑ The department has not complied with legislative direction to give high priority to black infant mortality when spending the $1.8 million augmentation for the Adolescent Family Life Program provided in the current year.

- ☑ The Legislature can make services provided through the Adolescent Family Life Program a Medi-Cal benefit and serve an additional 1,455 women or free up $2 million (General Fund) for other purposes.

DEPARTMENT OF HEALTH SERVICES—Continued

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

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.
7. *The Office of Drinking Water* regulates public water systems in the state.

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 $176 million for department support attributable to public health programs in 1990-91. (This amount excludes funding for special projects.) The request is $3.2 million, or 1.8 percent, less than estimated current-year expenditures for department support. Table 4 displays staffing and operating support for each public health program in the past, current, and budget years.

Table 4
Public Health Support
Budget Summary — All Funds
1988-89 through 1990-91
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Rural and community health	214.7	228.9	268.2	$14,353	$21,031	$24,103	14.6%
Family health services	207.3	208.2	209.3	22,931	25,818	26,274	1.8
AIDS	77.3	115.2	93.7	5,796	10,681	6,541	−38.8
Preventive medical services	198.6	230.6	272.5	31,112	44,841	40,966	−8.6
Environmental health	300.7	325.0	310.8	23,052	28,550	24,135	−15.5
Office of drinking water	—	44.0	95.6	—	4,178	6,681	59.9
Laboratory services	391.6	479.0	480.2	38,474	44,062	47,311	7.4
Subtotals	1,390.2	1,630.9	1,730.3	$135,718	$179,161	$176,011	−1.8%
Special projects	224.1	538.3	598.0	214,496	284,705	320,526	12.6
Totals	1,614.3	2,169.2	2,328.3	$350,214	$463,866	$496,537	7.0%

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

- Implement a processed food inspection program as required by Ch 1200/89 (AB 2161, Bronzan) ($3.8 million General Fund).
- Fund the full-year costs of employee compensation agreements that were made in the current year ($1.9 million from various funds).
- Expand existing programs to review risk assessments on toxic hot spot air emissions ($786,000 in reimbursements).

These increases are offset by reductions resulting primarily from the expenditure of one-time funds available in the current year due to legislation ($11.7 million from various funds) and reappropriations ($3.7 million from various funds).

Table 5 details the budget changes proposed for each public health program in 1990-91.

Table 5
Department of Health Services
Public Health Support
Proposed 1990-91 Budget Changes
(dollars in thousands)

	Positions	General Fund	All Funds
1989-90 expenditures (Budget Act)	1,793.5	$93,914	$155,635
Adjustments, 1989-90:			
Rural and community health			
Cigarette and Tobacco Products Surtax (C&T) Fund, Ch 1331/89	—	—	1,673
Family health			
C&T Fund, Ch 1331/89	—	—	246
Transfer federal maternal and child health funds from local assistance	—	—	1,282
Preventive medical services			
C&T Fund, Ch 1331/89	—	—	3,227
Site mitigation support restoration, Ch 1032/89	—	—	604
Hazard Evaluation System and Information Services (HESIS) expansion	—	—	393
Environmental health			
Site mitigation support restoration, Ch 1032/89	—	—	225
Reorganization — Office of Drinking Water	−94.1	−2,839	−4,178
Office of Drinking Water			
Reorganization — establish office	94.1	2,839	4,178
Laboratories			
Site mitigation support restoration, Ch 1032/89	—	—	3,265
Federal Superfund reduction	—	—	−222
Employee compensation increase	—	1,959	2,598
Chaptered legislation	—	4,080	10,344
Administrative adjustments	−1.0	−54	−109
1989-90 expenditures (revised)	1,792.5	$99,899	$179,161
Adjustments, 1990-91:			
Rural and community health			
State Legalization Impact Assistance Grant (SLIAG) adjustment	3.0	—	594
C&T Fund	38.5	—	1,399
Vital Records Improvement Project	—	—	350

DEPARTMENT OF HEALTH SERVICES—Continued

Table 5—Continued
Department of Health Services
Public Health Support
Proposed 1990-91 Budget Changes
(dollars in thousands)

	Positions	*General Fund*	*All Funds*
Family health			
SLIAG adjustment	—	—	−59
C&T Fund	7.0	—	130
Transfer positions from maternal and child health to Medi-Cal	−4.0	−121	−202
Reduce transfer of federal funds from local assistance	—	—	−484
Perinatal substance abuse program expansion	3.0	—	654
Office of AIDS			
Data management increase	2.0	108	108
Preventive medical services			
SLIAG adjustment	—	—	−21
C&T Fund	24.0	—	−1,846
Air toxic hot spots	8.4	—	786
Proposition 65 health function centralization	3.0	331	331
Childhood lead poisoning prevention program	—	163	163
HESIS expansion	10.5	—	325
Processed foods testing program	6.5	447	447
Environmental health			
Review and approval of drugs for AIDS	2.0	−207	—
Processed foods testing program	12.0	1,057	1,057
Ionizing radiation inspections	8.2	211	211
Low-level radioactive waste	1.0	—	217
Reorganization — Office of Drinking Water	−10.5	−3,480	−2,503
Office of Drinking Water			
Reorganization — establish office	10.5	3,480	2,503
Safe drinking water program expansion	11.0	578	578
Laboratories			
SLIAG adjustment	—	—	−22
Low-level radioactive waste	—	—	10
Cytology lab testing program	5.0	428	428
Federal Superfund reduction	—	—	−74
Environmental laboratory accreditation	2.0	—	160
Processed foods testing program	21.0	2,334	2,334
Full-year costs of 1989-90 employee compensation increases	—	1,427	1,879
Back out chaptered legislation	—	−4,080	−10,344
Back out current-year reappropriations	—	−3,428	−3,719
Administrative adjustments	−1.0	1,162	1,517
1990-91 expenditures (proposed)	1,955.6	$100,309	$176,068
Change from 1989-90 (revised):			
Amount	163.1	$410	−$3,093
Percent	3.2%	0.4%	−1.7%

Local Assistance. The budget proposes $1.7 billion (all funds) in local assistance for public health services in 1990-91. This represents a decrease of $335 million, or 16 percent, below estimated current-year expenditures. Table 6 presents local assistance expenditures, by program, for 1988-89 through 1990-91.

Table 6
Department of Health Services
Public Health Local Assistance
Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in thousands)

	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Percent*
Family health					
Family planning	$35,323	$13,300	$12,800	−$500	−3.8%
Maternal and child health	30,599	36,911	$35,182	−1,729	−4.7
Genetically handicapped persons	8,012	10,361	13,821	3,460	33.4
California children's services	68,054	94,958	90,663	−4,295	−4.5
Child health and disability prevention	22,035	41,314	40,544	−770	−1.9
Genetic disease prevention	2,248	2,741	1,679	−1,062	−38.7
Subtotals	$166,271	$199,585	$194,689	−$4,896	−2.5%
Rural and community health					
Primary health care	$23,043	$51,298	$54,367	$3,069	6.0%
County health services	1,164,333	1,329,060	1,017,309	−311,751	−23.5
Vital Records Improvement Project	400	600	540	−60	−10.0
California Healthcare for Indigents Program	—	336,716	350,404	13,688	4.1
Subtotals	$1,187,776	$1,717,674	$1,422,620	−$295,054	−17.2%
Office of AIDS	$52,437	$50,429	$44,375	−$6,054	−12.0%
Preventive medical services					
Infectious diseases	$8,673	$6,902	$8,318	$1,416	20.5%
Chronic diseases	6,794	6,798	7,099	301	4.4
Smoking prevention program	—	91,538	61,146	−30,392	−33.2
Subtotals	$15,467	$105,238	$76,563	−$28,675	−27.2%
Division of laboratories	1,008	—	—	—	—
Totals	$1,422,959	$2,072,926	$1,738,247	−$334,679	−16.1%
Funding Sources					
General Fund	*$1,203,113*	*$1,136,735*	*$961,444*	*−$175,291*	*−15.4%*
Federal funds	*31,560*	*35,396*	*25,872*	*−9,524*	*−26.9*
State Legalization Impact Assistance Grant	177,709	255,628	276,577	20,949	8.2
*Miscellaneous reimbursements (audit re-*coupments)	84	—	1,152	1,152	[a]
Family repayments	*1,152*	*1,303*	*1,303*	—	—
County Health Services Fund	*2,450*	*2,450*	*2,450*	—	—
County Medical Services Program Account	*6,095*	—	*1,293*	*1,293*	[a]
Medically Indigent Services Account	*249*	—	—	—	—
Local Health Capital Expenditure Account	*147*	—	—	—	—
Vital Records Improvement Project Fund	*400*	*600*	*540*	*−60*	*−10.0*
Cigarette and Tobacco Products Surtax Fund	—	640,814	467,616	−173,198	−27.0

[a] Not a meaningful figure.

The changes proposed for local assistance are primarily due to:

- A decrease of $208 million in Cigarette and Tobacco Products Surtax (C&T) funds appropriated by Ch 1331/89 (AB 75, Isenberg) for various health-related programs. The reduction is primarily due to expenditure of one-time funds in the current year.
- A proposal to reduce the AB 8 county health services program by $150 million (General Fund).

DEPARTMENT OF HEALTH SERVICES—Continued

Table 7
Department of Health Services
Public Health Local Assistance
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (Budget Act)	$1,085,852	$1,382,511
Baseline adjustments, 1989-90:		
Cigarette and Tobacco Products Surtax (C&T) Fund, Ch 1331/89	—	640,814
Increase Medically Indigent Services Program (MISP), Ch 1331/89	26,597	26,597
Reappropriate unspent funds from 1988-89	1,872	1,872
Transfer funds to Medi-Cal for outstationing eligibility workers, Ch 1446/89	−1,000	−1,000
Transfer federal maternal and child health (MCH) funds to support	—	−1,282
Subtotals	($27,469)	($667,001)
Caseload adjustments:		
California children's services	22,008	22,008
Genetically handicapped persons	1,016	1,016
Child health and disability prevention	390	390
Subtotals	($23,414)	($23,414)
1989-90 expenditures (revised)	$1,136,735	$2,072,926
Baseline adjustments, 1990-91:		
Reduce C&T appropriation, Ch 1331/89	—	−207,748
Back out reappropriations	−1,872	−1,872
Back out one-time funds for AIDS research center	−4,595	−4,595
Add back funds from Medi-Cal, Ch 1446/89	1,000	1,000
Add back MCH funds transferred to support	—	1,282
Reappropriate Lyme Disease funds	301	301
Subtotals	(−$5,166)	(−$211,632)
Caseload adjustments:		
California children's services	−4,295	−4,295
Genetically handicapped persons	3,460	3,460
Child health and disability prevention	−519	−519
County medical services	—	1,293
County health services (AB 8) population	1,431	1,431
Subtotals	($77)	($1,370)
Program change proposals:		
Increase State Legalization Impact Assistance Grant (SLIAG)	—	20,949
Reduce county health services (AB 8)	−150,000	−150,000
Reduce MISP	−25,000	−25,000
Increase California Healthcare for Indigents Program	—	34,550
MCH — federal funding changes	7,795	−3,011
Perinatal substance abuse reimbursement	—	1,152
Transfer to Medi-Cal, Ch 980/88	−3,400	−3,400
Poliomyelitis vaccine	291	291
Reduce Vital Records Improvement Project	—	−60
Increase AIDS Medi-Cal waiver	220	220
Transfer AIDS pilot care data funds to support	−108	−108
Subtotals	(−$170,202)	(−$124,417)
1990-91 expenditures (proposed)	$961,444	$1,738,247
Change from 1989-90 (revised):		
Amount	−$175,291	−$334,679
Percent	−15.4%	−16.1%

- A proposal to reduce the Medically Indigent Services Program (MISP) by $25 million (General Fund).
- A proposed appropriation of $35 million in C&T funds for the California Healthcare for Indigents Program (CHIP).
- An increase of $21 million in State Legalization Impact Assistance Grant (SLIAG) funds for various health services to newly legalized persons.

Table 7 reflects proposed budget changes affecting local assistance expenditures in 1990-91.

Major Problems Getting Information on the Public Health Budget Request

We recommend that the deputy directors responsible for the Administration Division and public health programs, and the Department of Finance, report at budget hearings regarding (1) why the department has not been able to provide basic information to the Legislature on its public health budget request and (2) what they plan to do to rectify this situation in the future.

The Legislature is confronted with major problems in its review of the department's public health budget request this year. In the past, in order to facilitate legislative review, we have always requested additional information from the department on some program budgets or proposed changes, or withheld recommendation on funds requested by the department pending submission of additional information. This is the first year that we have withheld on two entire budgets — for maternal and child health local assistance and AIDS programs — because the Legislature has not been presented a spending plan and an accounting of available funds.

Maternal and Child Health (MCH) Local Assistance. The budget requests a total of $35.2 million for MCH local assistance. This amount includes a General Fund augmentation of $7.9 million based on anticipated reductions in available federal funds. At the time we prepared this analysis (early February), the department had not provided a plan for spending the funds requested. Specifically, the department has *not provided* (1) the amounts of federal and General Fund monies it plans to spend for each of the various MCH programs, (2) information on current-year spending, and (3) information on the current status of the federal MCH block grant. We requested this information in early December 1989. Without this information, the Legislature cannot assess (1) the amount of current-year federal funds the department expects to carry over for expenditure into the budget year and to what extent federal funds will be insufficient to support programs at their current-year level or (2) the department's proposed spending priorities.

We discuss the problems with the MCH budget request in more detail in our section on family health programs.

Office of AIDS. The budget proposes a total of $50.9 million, excluding federal special projects, for AIDS programs in 1990-91. At the time we prepared this analysis, the department had not provided (1) the amounts

DEPARTMENT OF HEALTH SERVICES—Continued

it plans to spend for each of the various AIDS programs, (2) information on current-year spending, and (3) information on the amount of funding reappropriated into the current year and how these funds are being spent. We requested this information in mid-October, as part of a request we submit every year for information needed to compile tables for the *Analysis*. Without this information, the Legislature cannot assess the status of the existing programs or the department's proposed spending priorities.

We discuss these programs in more detail in our section on AIDS programs.

We Do Not Know the Cause of the Problem. We do not know why the department has been unable to provide the basic information the Legislature requires. We have identified the following possibilities:

- ***Poor Coordination Between Fiscal and Program Staff.*** It is possible that the public health and fiscal units of the department do not communicate when the budget is being developed. We found some evidence that this is a problem in our examination of the County Medical Services Program (CMSP) budget. The figures contained in the budget differed from the figures cited by program staff. (We discuss the inconsistencies in the CMSP budget in our section on rural and community health programs.)
- ***Problems in the Budget Office.*** The department reports in one of its budget requests that its budget office is having difficulty keeping pace with (1) the Legislature's requests for detailed budget documentation, tables, and explanations; (2) service demands of programs; and (3) requirements for efficient budget preparation and maintenance, accurate budgetary record-keeping and monitoring, budget management and control, and sophisticated and timely budget analyses. The department's assessment might explain the difficulty it has in providing basic budget information.
- ***Lack of Fiscal and Administrative Expertise Among Program Staff.*** It is possible that program staff lack the expertise required for monitoring, assessing, and compiling fiscal information. For example, the Office of AIDS indicated that it was unable to provide fiscal information, by program, on current-year and proposed 1990-91 expenditures because the person who had compiled this information last year had left the office.
- ***Low Departmental Priority.*** It is possible that the department assigns a low priority to explaining and justifying the department's public health budget request.

Explanations Needed. The department's failure to provide basic budget information severely reduces the Legislature's ability to review the department's proposed public health budget, set policy and program priorities, and oversee the department's expenditures. However, the Legislature cannot take effective action to improve this situation without knowing the reason for the administration's inability to provide the Legislature with the basic budget information it requires. Accordingly, we recommend that the deputy directors responsible for the Administration Division and public health programs, and the Department of Finance, report at budget hearings on (1) why the department has not been able to provide basic budget information to the Legislature on its public health budget request and (2) how they plan to rectify this situation in the future.

A. RURAL AND COMMUNITY HEALTH

Funding for County Health Services Programs

The budget proposes $1.4 billion (all funds) for county health services in 1990-91. This is a decrease of $300 million, or 18 percent, below estimated expenditures in the current year. Table 8 presents county health services expenditures for 1988-89 through 1990-91.

Table 8
Department of Health Services
County Health Services
Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in millions)

	Fund	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 to 1990-91 Amount*	*Change From 1989-90 to 1990-91 Percent*
Medically Indigent Services Program	General	$494.9	$394.9	$369.9	−$25.0	−6.3%
	SLIAG	143.2	208.9	219.3	10.4	5.0
County Medical Services Program	General	55.2	60.4	60.4	—	—
	C&T	—	16.9	16.5	−0.4	−2.4
	SLIAG	—	4.0	5.3	1.3	32.5
County health services (AB 8)	General	448.2	470.1	321.5	−148.6	−31.6
Public health subvention	General	0.7	0.7	0.7	—	—
	SLIAG	12.8	13.9	17.5	3.6	25.9
	Federal	0.5	0.6	0.6	—	—
California Healthcare for Indigents *Program*	*C&T*	—	*336.7*	*350.4*	*13.7*	*4.1*
Uncompensated care assistance	C&T	—	61.9	—	−61.9	−100.0
County capital outlay	C&T	—	82.3	—	−82.3	−100.0
Children's hospitals	C&T	—	2.0	1.9	−0.1	−5.0
County data systems	C&T	—	10.0	—	−10.0	−100.0
Totals		$1,155.5	$1,663.3	$1,364.0	−$299.3	−18.0%
Funding Sources						
General Fund		*$999.0*	*$926.1*	*$752.5*	*−$173.6*	*−18.7%*
Cigarette and Tobacco Products Surtax (C&T) Fund		—	*509.8*	*368.8*	*−141.0*	*−27.7*
State Legalization Impact Assistance Grant (SLIAG) Fund		*156.0*	*226.8*	*242.1*	*15.3*	*6.7*
Federal funds		*0.5*	*0.6*	*0.6*	—	—

The changes proposed for county health services are primarily due to:

- A reduction of $154.2 million in Cigarette and Tobacco Products Surtax (C&T) funds to reflect the expenditure in the current year of one-time appropriations in Ch 1331/89 (AB 75, Isenberg).
- A net reduction of $148.6 million (General Fund) in the AB 8 county health services program — consisting of a $150 million reduction offset by a $1.4 million increase for population growth.

DEPARTMENT OF HEALTH SERVICES—Continued

- A reduction of $25 million (General Fund) in the Medically Indigent Services Program (MISP).
- An increase of $15.3 million in State Legalization Impact Assistance Grant (SLIAG) funds for services to newly legalized persons.
- A net increase of $13.7 million in C&T funds for the California Healthcare for Indigents Program (CHIP) — a $20.9 million reduction scheduled in Chapter 1331, offset by a $34.6 million increase.

No Department Plan for Implementing $150 Million Reduction

We recommend that the department submit to the fiscal committees, prior to budget hearings, a plan for implementing its proposed $150 million reduction in the AB 8 county health services program and documentation of its assumptions regarding county revenues.

The budget proposes $321.5 million in General Fund support for the AB 8 county health services program. This is a decrease of $148.6 million, or 32 percent, from estimated expenditures in the current year. This decrease is the net result of a proposed reduction of $150 million, offset by a proposed increase of $1.4 million for population growth. The administration is proposing legislation to authorize the $150 million reduction.

The AB 8 (Ch 282/79, Leroy Greene) county health services program provides block grants to counties for funding inpatient care, outpatient care, and public health programs. Each county's allocation is based on a formula consisting of (1) a per capita grant and (2) state sharing funds that must be matched by county funds. This allocation is capped at a maximum amount each year, adjusted annually for inflation and population growth.

The administration justifies the $150 million reduction on the basis that counties have received an additional $150 million in revenue through the Medi-Cal Program under the federal Omnibus Budget Reconciliation Act (OBRA) of 1986 and Ch 1441/88 (SB 175, Maddy), which implemented the OBRA in California. Under Chapter 1441, undocumented aliens may receive pregnancy-related and emergency services through the Medi-Cal Program. Prior to enactment of Chapter 1441, these services were provided by counties through their indigent health care programs, which are funded, in part, using AB 8 funds.

At the time we prepared this analysis, the department had no plan for implementing this reduction. Specifically, the department could not provide (1) information on how the proposed AB 8 funding reduction would be allocated to counties, (2) documentation of its premise that counties have received $150 million of additional revenue from Medi-Cal since enactment of Chapter 1441, and (3) information regarding how any additional revenues were distributed to counties.

Without this information, the Legislature has no basis for determining the impact of the proposed reduction on county health services. We recommend that the department submit to the fiscal committees, prior to budget hearings, its plan for implementing this reduction and documentation of its assumptions regarding county revenues.

Medically Indigent Services Program (MISP) "Deferral"

The proposed deferral of $25 million in MISP expenditures has the same effect as a budget reduction.

The budget proposes a General Fund appropriation of $369.9 million for the MISP. This is a decrease of $25 million, or 6 percent, from estimated expenditures in the current year. The budget presents this reduction as a "deferral" of the last 1990-91 MISP payment to counties from June 1991 to July 1991. The administration is proposing legislation to authorize this payment schedule.

Although the budget refers to this proposal as a deferral, our analysis indicates it is actually a budget reduction. This is because, absent an appropriation or funding entitlement, counties have no guarantee of actually receiving the $25 million in 1991-92.

In some programs, such as the Medi-Cal Program, deferrals would not be considered reductions. In fact, payment deferrals have been scheduled for the last several years in the Medi-Cal Program. However, the Medi-Cal Program differs from the MISP in several ways. First, expenditures are made on a "cash" basis; in other words, expenditures are recorded in the year bills are paid, not the year obligations are incurred. Consequently, delaying a payment by several days — into a new fiscal year — can have a major effect on expenditures. In the MISP, because expenditures are recorded in the year an obligation is made, delayed payments are recorded in the year of the appropriation, not the year of the payment.

Second, the Medi-Cal Program is an entitlement program. The budget appropriation amount does not affect the state's obligation to pay Medi-Cal bills. In contrast, the amount counties receive under the MISP is controlled by the appropriation for the MISP. Without an appropriation, there is no obligation to make the payment.

The proposed legislation does not resolve these problems. In fact, the proposed legislation appears to merely authorize payment of $25 million of the proposed 1990 Budget Act appropriation after the close of 1990-91. This does not change expenditures that would be recorded in 1990-91, nor create an obligation for paying counties an additional $25 million above the 1990-91 appropriation.

Court Decision Could Significantly Increase State Costs

A recent court decision in the **Kinlaw** ***case could significantly increase state costs for health services provided to medically indigent persons.***

On January 18, 1990, the State Court of Appeals handed down a decision in *Frances Kinlaw et al v. State of California* that could significantly increase state costs for health services provided to medically indigent persons. The effect of this decision could be to require the state to fund all costs for medically indigent adults (MIAs).

Background. In 1982, Ch 328/82 (AB 799, Robinson) eliminated Medi-Cal coverage for MIAs, thereby making counties responsible for

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providing health care for MIAs. The Legislature established the MISP in 1982 to distribute funds to counties for indigent health care costs resulting from this change. The level of funding was initially set based on 70 percent of Medi-Cal costs for MIA health services plus 100 percent of Medi-Cal MIA eligibility determination costs. Counties with populations of less than 300,000 (1980 Census) may contract with the state to provide these services through the County Medical Services Program (CMSP).

Prior to 1985-86, funding for both programs was distributed from the same appropriation. Since 1985-86, the CMSP's funding level has been established separately, based on caseload and cost trends. State funding for the MISP has decreased from $520 million in 1985-86 to $395 million in 1989-90. This is a decrease of $125 million, or 24 percent. State funding for the CMSP has increased from $46 million in 1985-86 to $60 million in 1989-90. This is an increase of $14 million, or 31 percent.

The MISP counties have received several new sources of funding for indigent health care in recent years. The federal Immigration Reform and Control Act (IRCA) of 1986, the Omnibus Budget Reconciliation Act (OBRA) of 1986, and Ch 1441/88 (SB 175, Maddy) extend Medi-Cal coverage to newly legalized persons and undocumented aliens. County services for these populations had previously been funded primarily from county funds. Counties also receive a share of State Legalization Impact Assistance Grant (SLIAG) funds, provided by the IRCA, to support services provided to newly legalized persons that are not reimbursable through Medi-Cal. Chapter 1331, Statutes of 1989 (AB 75, Isenberg), appropriates $336 million from the Cigarette and Tobacco Products Surtax (C&T) Fund in 1989-90 for indigent health care services in MISP counties through the California Healthcare for Indigents Program.

The* Kinlaw *Case. The plaintiffs in *Frances Kinlaw et al v. State of California* asked for a temporary injunction against the state's 1982 action eliminating Medi-Cal coverage for MIAs. The suit seeks to compel the state to provide the resources necessary for providing health services to MIAs by arguing that the state imposed an unfunded mandate on counties in its 1982 action. This argument is similar to that made by Los Angeles and San Bernardino Counties in their ongoing appeal of the Commission on State Mandates decision on the same issue.

Initially, the Alameda County Superior Court ruled that the plaintiffs, who are indigent persons in Alameda County, did not have "standing" to bring the suit. The Court of Appeals subsequently ruled that the Alameda County Superior Court erred in rejecting the suit and remanded the case to the Superior Court. In making its ruling, the Court of Appeals held that shifting costs for indigent health care from the state to Alameda County constituted a state-mandated program.

It is likely that the state will appeal the Court of Appeals decision to the State Supreme Court. The ultimate outcome of the case is uncertain. If the plaintiffs eventually win, the state could be required to fully fund health care costs for MIAs back to 1986-87, when the first mandate claim was filed.

Estimating the Costs of Funding Services for MIAs. The magnitude of these cost increases could vary significantly depending on the answers to the following questions:

- What standard of care would the state be required to fund?
- Would the state be required to fund services based on Medi-Cal costs for MIA care? If so, would the state be required to fund services at the 70 percent or 100 percent level?
- Could SLIAG and C&T funds be counted towards the state obligation to fund health services for MIAs?
- Would counties be required to document their costs for services to MIAs? What if they were unable to separate costs for MIAs from costs for other indigents?

Putting aside these questions, we estimated state costs for funding MIA services in several different ways. These estimates are based on estimates we have developed over the past several years of the level of underfunding in the MISP. It should be noted that these are very rough estimates, each with a number of caveats. These caveats, which result from lack of data, include:

- We cannot estimate who is currently eligible for the MISP and how this differs from the former MIA caseload in the Medi-Cal Program. This is complicated by different county eligibility requirements for the MISP.
- We do not know if 70 percent of Medi-Cal funding covers county costs in providing services for this population, as was assumed when the MISP was initiated in 1982. We include estimates for both 70 percent and 100 percent of Medi-Cal funding for services to this population.

We cannot recommend which, if any, of the five methods we used are the most appropriate way to estimate the level of underfunding in the MISP. Table 9 identifies the five methods and displays the level of underfunding calculated using each method.

Table 9 shows that our estimates of funding MIA services in the current year range from $633 million to $1 billion. The first column shows that this translates into increases of $238 million, or 60 percent, to $605 million, or 153 percent, over budgeted General Fund expenditures for the MISP in 1989-90.

The second column shows that, if $100 million in SLIAG funds were considered to be available for funding MIA services, the increases needed would be $138 million to $505 million. The third column shows that, if $100 million in SLIAG funds *and* the $337 million for the CHIP were considered to be available for funding MIA services, the increases needed would be up to $168 million.

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Table 9
Department of Health Services
Costs of Funding Services for Medically Indigent Adults (MIAs)
From Alternative Funding Sources
1989-90
(in millions)

	Alternative Funding Sources		
	General Fund	General Fund and $100 Million SLIAG[a]	General Fund, $100 Million SLIAG, and CHIP[b]
1989 Budget Act	$395	$495	$832
Method 1: Compare the level of Medically Indigent Services Program (MISP) funding to County Medical Services Program (CMSP) funding			
Full funding	681	681	681
Difference from 1989 Budget Act	286	186	-151
Method 2: Reestimate 70 percent of the health services costs and 100 percent of the administrative costs for MIAs in the Medi-Cal Program in 1982-83; increase by (a) population growth and (b) inflation			
Full funding	749	749	749
Difference from 1989 Budget Act	354	254	-83
Method 3: Reestimate 100 percent of health services and administrative costs for MIAs in the Medi-Cal Program in 1982-83; increase by (a) population growth and (b) inflation			
Full funding	1,000	1,000	1,000
Difference from 1989 Budget Act	605	505	168
Method 4: Reestimate 70 percent of the health services costs and 100 percent of the administrative costs for MIAs in the Medi-Cal Program in 1982-83; increase by Medi-Cal cost increases			
Full funding	633	633	633
Difference from 1989 Budget Act	238	138	-199
Method 5: Reestimate 100 percent of health services and administrative costs for MIAs in the Medi-Cal Program; increase by Medi-Cal cost increases			
Full funding	875	875	875
Difference from 1989 Budget Act	480	380	43

[a] State Legalization Impact Assistance Grant. $100 million is the amount the Governor reduced from the 1989 General Fund MISP appropriation on the basis that SLIAG funds were available.

[b] California Healthcare for Indigents Program. The CHIP was established by Ch 1331/89 (AB 75, Isenberg) in order to fund health services for indigent persons.

Potential Impact of an Adverse Ruling. The final outcome of this case will not be known for some time. This is because after the Supreme Court considers the issue, the Superior Court would be required to determine what remedy to impose, if any. Additional litigation could follow.

If this case is finally resolved in favor of the plaintiffs, the additional liability for ongoing services is potentially up to $605 million annually, as we discussed earlier. In addition, the state could be liable for reimbursing counties for their uncompensated costs in providing services back to 1986-87. These costs are clearly considerable.

Inconsistencies in County Medical Services Program (CMSP) Budget

We recommend that, prior to budget hearings, the department (1) reconcile the proposed budget and its estimates of caseload and costs and submit revised proposals and (2) provide information on the impact of proposed Medi-Cal optional benefits changes on the CMSP.

The budget proposes $60.4 million in General Fund support for the CMSP. This is the same level of General Fund support as in the current year. The budget proposes $83.4 million from all funds, which is an increase of $2 million, or 3 percent, above estimated current-year expenditures.

Our review of the budget proposal revealed two inconsistencies that need to be resolved:

1. *The CMSP budget is inconsistent with the caseload and cost estimates provided by the department.* The Fund Condition Statement for the CMSP Account in the Governor's Budget indicates that the program will have a reserve of $7 million at the end of the current year and $16 million at the end of the budget year. This implies that $9 million of the proposed General Fund appropriation will be used to add to program reserves.

The caseload and cost estimates submitted by the department contain entirely different numbers on the reserves. The estimates reflect a reserve of $2.8 million at the end of the current year and $640,000 at the end of 1990-91. The estimates assume that the program will spend $2.2 million of its reserves to pay for program costs in 1990-91.

The department was unable to reconcile these inconsistencies.

2. *The CMSP budget does not reflect proposed Medi-Cal changes.* The scope of benefits provided by the CMSP is tied to the scope of benefits provided by Medi-Cal. However, the CMSP budget does not reflect the administration's proposal to eliminate six optional benefits currently funded under Medi-Cal. Therefore, to the extent that Medi-Cal reduces these benefits, the CMSP budget would be affected. The department was unable to provide a complete estimate of CMSP costs related to these services. However, it estimated that the CMSP will spend roughly $480,000 in the current year on emergency medical transportation, one of the services proposed for elimination.

We recommend that, prior to budget hearings, the department (1) reconcile the proposed budget and its estimates of caseload and costs and submit revised proposals and (2) provide information on the impact of proposed Medi-Cal optional benefits changes on the CMSP.

No Information on California Healthcare for Indigents Program (CHIP) Augmentation

We recommend that, prior to budget hearings, the department submit information to the fiscal committees on the allocation of the proposed $34.6 million augmentation from the Cigarette and Tobacco Products Surtax (C&T) Fund for the CHIP.

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The budget proposes $350.4 million from the C&T Fund for the CHIP in 1990-91. This includes $315.8 million appropriated in Ch 1331/89 (AB 75, Isenberg), which established the CHIP, and an augmentation of $34.6 million proposed in the 1990 Budget Bill. The proposed 1990-91 funding level is an increase of $13.7 million, or 4 percent, from estimated expenditures in the current year. This increase is the net result of a $20.9 million reduction in appropriations available from Chapter 1331 offset by the proposed augmentation of $34.6 million.

At the time we prepared this analysis, the department had not provided information on how the $34.6 million in C&T funds proposed in the Budget Bill would be distributed. The distribution of funds may be different from that authorized by Chapter 1331 because the proportion of the proposed augmentation coming from each C&T Fund account differs from the proportions assumed in Chapter 1331. For example, 60 percent of the funds appropriated by Chapter 1331 comes from the Hospital Services Account, while 30 percent of the proposed augmentation comes from the Hospital Services Account.

The Legislature needs information about the distribution of these funds in order to determine if it is consistent with Chapter 1331. Therefore, we recommend that, prior to budget hearings, the department submit information to the fiscal committees on the allocation of the proposed $34.6 million augmentation from the C&T Fund for the CHIP.

We discuss alternate uses for these funds as part of our status report on implementation of Proposition 99 in *The 1990-91 Budget: Perspectives and Issues.*

Concerns Over Implementation of Expanded Access to Primary Care (EAPC) Program

We recommend that, prior to budget hearings, the department (1) report on how it intends to establish funding priorities, (2) submit documentation supporting the statewide uniform rates it developed, (3) provide the basis for its decisions regarding capacity expansion funds, and (4) report on how it intends to address concerns regarding proposals precluded from the funding process.

Chapter 1331, Statutes of 1989 (AB 75, Isenberg), established the EAPC Program and appropriated $19.7 million in 1989-90 and $18.3 million in 1990-91 from the C&T Fund to support the program. The purpose of the EAPC Program is to reimburse primary care clinics for expanding services to indigent persons.

Chapter 1331 requires the department to:

- *Give funding priority to clinics providing services in medically underserved areas or to medically underserved populations.* Specifically, the department must (1) take into account the availability of primary care services in the various geographic areas of the state, (2) determine which areas within the state have populations with clear and compelling difficulty in obtaining access to primary care, and (3) give equal consideration to proposals from new and existing providers to extend services to these populations.

- *Develop a statewide uniform rate for reimbursing clinics for outpatient visits.* Chapter 1331 also allows the department to establish a separate, statewide uniform rate for reimbursing clinics for case management services. In developing these rates, the department must consider existing rates of payment for comparable types of services. The reimbursement rate for case management services may not exceed 10 percent of the rate established for an outpatient visit.

Chapter 1331 also specifies that $10 million of the $19.7 million appropriated for 1989-90 may be used for grants to modernize clinic facilities or expand primary care capacity in order to provide adequate access to clinic services.

The department is currently implementing Chapter 1331. It has established a statewide uniform reimbursement rate for outpatient visits ($65) and case management services ($6.50). A request for application (RFA) was distributed to over 500 clinics in late December. The RFA consists of two parts: part I for funding expanded services and part II for funding clinic modernization or capacity expansion.

We have several concerns with the implementation activities currently underway by the department:

1. *The department has not established specific funding priorities.* Chapter 1331 requires the department to examine the availability of primary care services and use this information to establish funding priorities for the EAPC Program. The department advises that it will rely on federal designations of medically underserved areas and populations, supplemented by its experience with primary care providers, in making funding decisions. Given the number of applications the department may receive, we believe the department needs more specific criteria for establishing funding priorities.

2. *The department has not provided any documentation supporting the statewide uniform rates it has developed.* We requested a copy of information considered by the department in developing the rates, including existing rates for these services paid by Medi-Cal, Medicare, and any other payors. Although the department indicated that it reviewed other rates in establishing the outpatient visit and case management rates, it was unable to provide these rates or any specific documentation supporting the rates it established.

3. *The RFA appears to preclude some capacity expansion proposals from the funding process.* The RFA specifies that a clinic may only receive as much in modernization or capacity expansion funds as it receives in expanded services funds. This precludes proposals for major capacity expansions (new clinics, for example) that could significantly increase access to primary care in underserved areas or populations but would cost more than this criterion would allow. It also appears to preclude proposals from clinics that are currently at maximum capacity and therefore cannot expand their services until after they expand their capacity.

Our analysis suggests that the department's decisions on implementing the EAPC Program may reduce the program's effectiveness. We recom-

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mend that, prior to budget hearings, the department (1) report on how it intends to establish funding priorities, (2) submit documentation supporting the statewide uniform reimbursement rates it developed, (3) provide the basis for its decisions regarding capacity expansion funds, and (4) report on how it intends to address concerns regarding proposals precluded from the funding process.

Medically Indigent Services Program (MISP): Services to Newly Legalized Persons

We recommend that the department report, prior to budget hearings, on (1) the status of State Legalization Impact Assistance Grant (SLIAG) program implementation and claiming issues and (2) the federal government's response to the department's revised application for SLIAG reimbursements.

The budget proposes $219.3 million in SLIAG funds to reimburse MISP counties for health services provided to newly legalized persons. This is an increase of $10.4 million, or 5 percent, above estimated expenditures in the current year.

In the 1989-90 *Analysis*, we raised concerns over the proposed level of SLIAG reimbursements to MISP counties for health services to newly legalized persons. Our review indicated that the department's estimates of SLIAG funds needed for county health services might not be reliable. At the time of our analysis last year, the department had not processed any claims for 1988-89, or completed processing claims for 1987-88. As a result, there was very little actual data with which to compare the estimates.

We have continuing concerns over the department's estimates:

- *The department has not updated its estimates to reflect any actual caseload experience.* The department simply took the 1989-90 estimate and increased it by 5 percent to account for increased medical care costs. The estimate has not been revised to reflect actual experience to date.
- *Final cost reports for 1987-88 or 1988-89 claims have not been prepared.* The result is that we have no better information with which to advise the Legislature than was available a year ago.
- *The department has not executed any agreements with counties for 1989-90.* Therefore, counties have not submitted any claims for the current year.

The department informs us that these problems are due to a number of program implementation and claiming issues involving counties, the state, and the federal government. First, implementation of the new federal Cost Documentation System (CDS) has been delayed due to contracting requirements. The department has not completed final cost reports for 1987-88 and 1988-89 because it anticipates that counties may be able to increase their claims using this system. The CDS uses social security number matching to identify newly legalized persons in the caseload of various state and county programs. Eight MISP counties are currently using the CDS, and additional counties may choose to participate.

Second, the methodologies proposed by Los Angeles, Riverside, and some other counties for documenting costs using sampling techniques are still under federal review. The counties, the state, and the federal government have been discussing these methodologies for over a year. One of the major problems has been that the federal regulations were issued after some of the counties completed their sampling.

Third, new federal regulations require changes in the method for estimating SLIAG-reimbursable expenditures. Specifically, the new federal regulations require that estimated expenditures reflect actual experience. The department advises that it has revised its methodology and updated its 1989 and 1990 federal SLIAG applications to reflect the revised methodology. The new spending estimates contained in the revised application are for federal fiscal years, so comparisons are not exact. However, the new spending estimates appear to be higher: the estimates for federal fiscal year 1990 (October 1989 through September 1990) are 19 percent higher than the amounts shown in the state's 1989-90 expenditure estimate and 14 percent higher than proposed 1990-91 spending. At the time this analysis was prepared, the federal government had not responded to the revised applications.

As a result of these circumstances, there continues to be major uncertainty over the budget proposal for reimbursing MISP counties for SLIAG-related costs. We recommend that the department report, prior to budget hearings, on (1) the status of SLIAG program implementation and claiming issues and (2) the federal government's response to the department's revised application for SLIAG reimbursements.

County Medical Services Program (CMSP): Services to Newly Legalized Persons

We recommend that, prior to budget hearings, the department report on (1) the status of CMSP claiming using the federal Cost Documentation System (CDS) and (2) any adjustments to its budget proposal based on the CDS results.

The budget proposes $5.3 million in SLIAG funds to reimburse the CMSP for services to newly legalized persons. This is an increase of $1.3 million, or 31 percent, above estimated expenditures in the current year.

The department advises that it will claim SLIAG funds for services provided to newly legalized persons using the new federal CDS. The CDS uses social security number matching to identify newly legalized persons in the caseload of various state and county programs. The department has used the CDS on a trial basis to estimate the number of newly legalized persons in the CMSP caseload. However, there have been delays implementing the CDS because of contracting requirements. As a result, the department has not determined the actual amounts it will claim for 1987-88 and 1988-89. The department anticipates that these amounts will be identified by April 1990.

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Given this situation, the department's budget proposal for the CMSP may need adjustment. Therefore, we recommend that the department report, prior to budget hearings, on (1) the status of CMSP claiming using the federal CDS and (2) any adjustments to its budget proposal based on the CDS results.

Department Fails to Provide Information and Oversight

We withhold recommendation on $27.8 million in SLIAG funds to reimburse clinics for services to newly legalized persons, pending receipt of (1) a required report and (2) information from the department justifying its proposal. We also recommend that the Legislature adopt Budget Bill language requiring the department to (1) cover specified information in its audit reviews of clinic SLIAG claims and (2) audit clinics with the largest claim amounts first.

The budget proposes $27.8 million in SLIAG funds to reimburse clinics for services provided to newly legalized persons. This is an increase of $4.7 million, or 20 percent, above estimated expenditures in the current year. The budget also includes $471,000 in SLIAG funds to continue six audit and two investigative positions in the Audits and Investigations Division. These are positions initially established in the 1989 Budget Act.

In the 1989-90 *Analysis,* we raised several concerns over the department's SLIAG claims reimbursement process for clinics, and the lack of documentation supporting clinic claims for SLIAG reimbursements. Our review revealed unjustified amounts that could result in federal audit exceptions. Due to these problems, the Legislature adopted language in the *Supplemental Report of the 1989 Budget Act* requiring the department to report by January 1, 1990 on (1) its process for reviewing clinic claims for reimbursement and (2) the results of its clinic-by-clinic evaluation of documentation supporting these claims.

We have two major concerns regarding the department's claims review process and SLIAG audit review program:

1. Failure to Provide Information. At the time we prepared this analysis, the department had not submitted the required report detailing its claims review process. Additionally, final cost reports for 1987-88 claims had not been prepared. The proposed budget is based on estimated costs that have not been revised to reflect actual experience to date. The result is that we have no better information with which to advise the Legislature than was available a year ago.

2. Slow Start of Audit Oversight Program. At the time we prepared this analysis, the Audits and Investigations Division had conducted only five audits of clinic SLIAG claims. Our review of two of the audit reports conducted so far indicates that these audits do not appear to be meeting the needs of the Legislature in protecting the state from possible federal audit exceptions. We identified the following problems:

- The audit reports did not answer the most critical question: Do documented costs substantiate the amounts the department has paid to clinics for SLIAG-related services?

- The audit reports contained information conflicting with information we received from the Rural and Community Health (RCH) Division. For example, one report stated that the department had made no payment to the clinic being reviewed, while RCH Division records indicate that over $40,000 had actually been paid.
- The methodology used to determine SLIAG-reimbursable costs includes costs that may not be reimbursable under federal regulations.
- Both audits reviewed clinics with relatively low (less than $60,000) claiming levels — in fact, one clinic had not received *any* SLIAG reimbursements. Other nonaudited clinics have been paid hundreds of thousands of dollars in SLIAG reimbursements.

The Audits and Investigations Division informs us that it conducted these audits on a pilot basis and is currently revising the audit criteria to incorporate reviews of client eligibility, based on its discussions with the RCH Division. However, this may still leave unanswered the question of whether documented costs justify the amounts paid for SLIAG-related services.

Based on these concerns, we withhold recommendation on the $27.8 million in SLIAG funds proposed to reimburse clinics for services provided to newly legalized persons, pending receipt of (1) the required report and (2) information from the department justifying its proposal. We also recommend that the Legislature adopt Budget Bill language requiring the department to (1) cover specified information in its audit reviews of clinic SLIAG claims and (2) audit clinics with the largest claim amounts first. Specifically, we recommend that the Legislature add the following language to Item 4260-001-001:

> In conducting its audit reviews of clinic SLIAG claims and reimbursements, the Audits and Investigations Division shall determine how total documented costs for visits by eligible persons compare with the amounts paid by the department. The division shall audit clinics in order of the size of their SLIAG claims and reimbursements, beginning with clinics with the largest claim amounts.

Department Fails to Comply with Legislative Reporting Requirements

We withhold recommendation on $5 million for the Vital Records Improvement Project (VRIP) pending receipt of required reports.

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

The budget proposes $5 million for the VRIP to (1) continue a pilot project established in the current year and (2) contract for conversion of existing vital records to the new storage medium. The department

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established a pilot project because the VRIP involves the development of highly advanced, untested technology. To implement the pilot, the department entered into a $3.7 million contract with the IBM Corporation in May 1989. The projected completion date is August 1991.

Due to concerns over the newness of the technology and uncertainty over the results of the pilot project, the Legislature added Budget Act language requiring the department to submit quarterly progress reports on the VRIP beginning September 30, 1989. The reports are to include any changes in timing, costs, or scope of the pilot project, and the results of each phase of the pilot project. The Budget Act also specified that the department could undertake activities outside the scope of the pilot project only after (1) approval of a feasibility study report by the Department of Finance and (2) notification of the Legislature.

At the time we prepared this analysis, the department had not submitted either the September 30, 1989 or the December 30, 1989 reports. Therefore, we withhold recommendation on $5 million for the VRIP pending receipt of these required reports.

B. OFFICE OF AIDS

As of December 1989, over 23,000 Californians have been diagnosed with AIDS, and almost 15,000 have died. This is 6,000, or 35 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 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 $50.9 million, excluding federal special projects, in 1990-91 for the Office of AIDS. This is a decrease of $10.2 million, or 17 percent, below estimated spending levels in the current year.

The department reports that the $10.2 million reduction in General Fund support results primarily from the elimination in 1990-91 of one-time funds appropriated in the current year. This includes $4.6 million for the San Francisco AIDS Research Center and $3.8 million for AIDS vaccine-related activities.

In addition, the budget proposes $31.3 million in federal special project funds. This is a decrease of $700,000, or 2 percent, below estimated current-year expenditures. The department advises that it is not able to estimate the amount of federal funding that actually will be available in the budget year. This is because of the uncertainty of the level of AIDS funding that will be available in the federal fiscal year beginning on October 1, 1990.

Department Provides No Information on Office of AIDS Budget

We withhold recommendation on the entire $50.9 million budget for the Office of AIDS because the department has provided no information on its spending proposal for this program.

The budget proposes a total of $50.9 million in 1990-91 for the Office of AIDS. In past years, the department has provided detailed information on its baseline budget and programmatic changes, as well as information on expenditures in prior years. In the current year, however, the department has failed to provide basic information on current-year spending and the proposed budget-year expenditures that the Legislature requires in order to review the Office of AIDS budget. At the time we prepared this analysis (early February), the department had provided no information detailing the amounts of state and federal funds it proposes to spend for each Office of AIDS program in 1990-91. In addition, the department had not provided the following information:

- Justification of proposed budget changes.
- Proposed staffing levels and historical vacancy rates by program.
- Comparisons of actual expenditures with the amounts budgeted for each program in the prior and current years.
- Details on how the department has spent in the current year and proposes to spend in 1990-91 (1) reappropriated funds, by program, (2) augmentations included in the 1989 Budget Act, (3) AIDS vaccine-related funds, and (4) federal funds for special projects.
- A list of contracts by program and status reports on the implementation of recently enacted legislation.

Without any of this information, we have no basis for advising the Legislature on (1) the accuracy of the department's proposed budget for AIDS activities and (2) the reasonableness of the department's spending priorities. We withhold recommendation on the entire Office of AIDS budget pending receipt of the information listed above.

Alternative Test Site (ATS) Program Overbudgeted

We recommend a reduction of $1.1 million (General Fund) in the ATS Program due to overbudgeting. (Reduce Item 4260-111-001.)

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

The 1989 Budget Act included $5.4 million from the General Fund for the ATS Program. According to the department, the budget continues current funding levels for ongoing programs. Thus, the budget for 1990-91 also includes $5.4 million for this program. (At the time we prepared this analysis, the department had not submitted a spending plan identifying the amounts proposed for individual AIDS programs.)

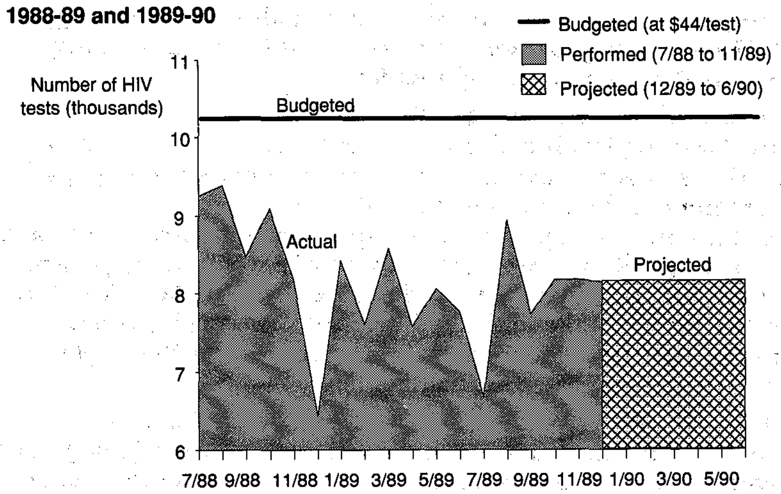
DEPARTMENT OF HEALTH SERVICES—Continued

Our review of ATS utilization data from July 1988 through November 1989 indicates that this level of funding is too high for both years. Chart 1 displays the budgeted number of tests and the actual number of tests for this period.

Chart 1

Alternative Test Site (ATS) Program Overbudgeted: Number of Human Immunodeficiency Virus (HIV) Tests Performed, Budgeted and Projected

1988-89 and 1989-90



Prior to July 1987, test sites experienced a rapid increase in the number of tests they performed. However, utilization has stabilized since July 1987. For the period from July 1988 through November 1989, test sites performed an average of 8,148 tests per month, ranging from 6,433 (December 1988) to 9,381 (August 1988).

So far, the level of testing has not noticeably increased as a result of new developments in the treatment of HIV disease, including the finding that asymptomatic individuals could benefit from zidovudine (AZT) under some circumstances. In fact, data from the first five months of 1989-90 reflect a lower average number of tests performed monthly (7,941) than the average number of tests performed monthly in 1988-89 (8,235).

Based on these data, we believe it is reasonable to assume that the ATS Program will continue to test no more than an average of 8,148 individuals per month. This is the average number of tests performed monthly in the period July 1988 through November 1989. This number of tests costs $4.3 million annually. Based on this expenditure level, the ATS Program is overbudgeted by $1.1 million in both the current and budget years. Accordingly, we recommend a reduction of $1.1 million from the budget for the ATS Program. The Legislature could redirect these funds to alternate uses, either within the Office of AIDS or elsewhere, without affecting ATS services.

HIV-Infected Children

The department has not submitted required reports on the status of funds for HIV-infected children.

The 1989 Budget Act appropriated $1.1 million for providing medical care and treatment to children infected with HIV, the virus that causes AIDS.

According to the department, the budget continues current funding levels for ongoing programs. Thus, we assume that the budget proposes the same amount for this program in 1990-91. (At the time we prepared this analysis, the department had not submitted a spending plan identifying the amounts proposed for individual AIDS programs.)

The *Supplemental Report of the 1989 Budget Act* requires the department to submit, on a quarterly basis beginning September 1, 1989, information to the Legislature on the status of this program. The department has not submitted this information. As a result, we have no information on (1) how the program is being implemented, (2) how the funds are being allocated, and (3) the costs of treating HIV-infected children. Without this information, the Legislature has no basis for determining whether the $1.1 million appropriated for the program is being used effectively for the medical care and treatment of HIV-infected children.

AIDS Cost-of-Care Reports

The department has not submitted required reports on the costs of providing care to persons with AIDS and AIDS-related conditions.

The 1989 Budget Act appropriates $6.9 million for pilot care projects providing home- and community-based services for persons with AIDS and AIDS-related conditions (ARC). According to the department, the budget continues current funding levels for ongoing programs. Thus, we assume that the budget proposes the same amount for this program in 1990-91. (At the time we prepared this analysis, the department had not submitted a spending plan identifying the amounts proposed for individual AIDS programs.)

Chapter 767, Statutes of 1985 (SB 1251, Roberti), required the department to fund pilot projects to "demonstrate the value of noninstitutional health care services such as hospice, home health, and attendant care in controlling costs and providing humane care to people with AIDS and ARC." Chapter 767 also required the department to contract for a two-year study of the medical costs of AIDS, comparing inpatient care, outpatient care, physician services, and community support services. The final report was due by June 1988.

Additionally, the *Supplemental Report of the 1986 Budget Act* required the department to (1) submit an evaluation of the cost-effectiveness of

DEPARTMENT OF HEALTH SERVICES—Continued

skilled nursing facilities, home health, attendant, and hospice care for persons with AIDS and ARC by September 1, 1987 or (2) submit this information as part of the report required by Chapter 767.

The department has not submitted either of these reports. As a result, the Legislature has no information on (1) the relative costs of various medical services for persons with AIDS and ARC and (2) the cost-effectiveness of home- and community-based programs. Without this information, the Legislature has no basis for determining whether these pilot projects are the most cost-effective approach for providing medical care and treatment of persons with AIDS and ARC.

Early Intervention Projects

Chapter 978, Statutes of 1988 (AB 4475, Willie Brown), Ch 974/88 (AB 1903, Vasconcellos), and Ch 949/89 (AB 1600, Speier) established the AIDS early intervention projects (EIP) program so that people who test positive for Human Immunodeficiency Virus (HIV), the virus that causes AIDS, could receive follow-up health screening, psychosocial evaluation, and education services.

The 1989 Budget Act included a total of $5 million for early intervention services. Up to $3.5 million of this amount may be used for medications approved for the treatment of HIV disease. Presumably, funding is continued at this level in the budget year. (At the time we prepared this analysis, the Office of AIDS had not submitted its spending plan for 1990-91.)

In this analysis, we (1) describe the early intervention model, (2) summarize data collected from the existing EIP program, and (3) discuss implementation issues.

The Early Intervention Model

The purpose of early intervention services is to teach HIV-positive persons how to avoid transmitting the virus to uninfected persons, while at the same time providing ongoing evaluation and support services to assist them in staying healthy for as long as possible. Specifically, the early intervention model consists of (1) initial screening, including a baseline medical and psychosocial evaluation; (2) a medical care and behavior change plan with appropriate follow-up, including medical, drug treatment, mental health, or social support referrals as needed; (3) risk reduction counseling sessions; (4) an intensive skill-building/HIV education course; and (5) follow-up medical and behavioral evaluations at regular (approximately four-month) intervals. A case manager is assigned to each client and acts as the primary contact for personal guidance, counseling, and referral to outside resources.

The state-funded early intervention projects may include minor medical treatment as part of their services. Other medical interventions, such as preventive use of zidovudine (AZT), aerosolized pentamidine, or other drug treatments for certain asymptomatic HIV-positive individuals, are handled on a referral basis, not by the projects themselves. (AZT and aerosolized pentamidine are provided under a separate state program.)

State-Funded Early Intervention Projects — What Have We Learned So Far?

The Office of AIDS is currently contracting with 12 EIPs in the following counties: Alameda, Contra Costa/Solano, Los Angeles (2 sites), Orange, Riverside, Sacramento, San Diego, San Francisco, Santa Clara, San Mateo, and Sonoma. Two of these — Long Beach in Los Angeles County and Santa Clara County — were initially federally funded.

Several of these EIPs are still in the implementation stage. Most of the sites started seeing clients in the summer of 1989. Each EIP is required to see between 200 and 250 clients annually for initial visits, and a certain percentage of these clients for follow-up visits.

The Office of AIDS has completed a preliminary summary of data from the Long Beach and Santa Clara EIPs, based on a random sample of 25 percent of the records from each site (a total of 143 records). The following summarizes the available data on these projects.

Who is Being Served? Overall, the characteristics of EIP clients at the two sites appear to be similar to the characteristics of reported adult and adolescent AIDS cases in the state — predominantly white and gay or bisexual men. Specifically:

- Almost all (93 percent) of the clients are men.
- Most (81 percent) are white; 15 percent are Hispanic and 4 percent are black.
- The average age of clients is 34 years.
- Most (79 percent) are gay or bisexual men; 10 percent are IV drug users, and 11 percent are in other risk categories.
- The most common known referral source (41 percent) is the Alternative Test Site (ATS) Program.
- Most (76 percent) are relatively healthy; 24 percent have seriously damaged immune systems.

What Services are Being Provided? Although the early intervention model includes ongoing, periodic assessment of clients' medical conditions and behavior changes, 56 percent of the clients at the two sites received only an initial evaluation. Another 30 percent of the clients received an initial and one follow-up evaluation and 14 percent returned for further follow-up visits. In part, this may be due to the inclusion of newly enrolled clients in the data. Additional analysis is needed to determine whether there is a real drop-off in persons returning for follow-up visits, and what may be contributing to the problem.

The data also indicate that very few clients at the two EIPs are receiving health education and behavior change support as part of their visits. Specifically, while almost all (93 percent) of the clients received a health assessment and 40 percent received medical treatment, only 11 percent appear to have received health education and 4 percent behavior change support. Again, additional analysis is needed to determine whether there is a continuing problem in providing health education as part of EIP services, and what may be contributing to this problem.

How Effective Have EIPs Been in Altering High-Risk Behavior? The data do not provide any information regarding clients' behavior change

DEPARTMENT OF HEALTH SERVICES—Continued

over time. A separate analysis of sexual practices at the Santa Clara EIP found that, of 74 clients returning for a follow-up visit, the number practicing "safe sex" increased from 57 percent at the first visit to 87 percent at the follow-up visit. While this provides some evidence of behavior change, it is impossible to determine how much of a role the EIP played in altering clients' high-risk behavior, particularly in light of the low percentage of clients receiving health education and behavior change support. Information on other high-risk behaviors such as IV drug use is incomplete because this information is not recorded consistently in client records.

Since evidence of behavior change will ultimately determine the success or failure of the EIP program as an effective education and prevention activity, obtaining additional data to determine whether EIPs have been effective in altering high-risk behavior is essential.

How Much Do Services Cost? The data available do not include information on costs. In establishing the EIP program, the Office of AIDS assumed annual costs of $1,000 per client.

Implementation Issues

The Office of AIDS is making some progress in improving implementation of the EIP program. It is too soon to tell whether its efforts in data collection and evaluation will provide the Legislature the information it needs regarding program effectiveness.

Our discussions with local EIP program administrators indicate that there have been a number of implementation issues in the EIP program. Following is a discussion of these issues:

1. Memoranda of Understanding (MOUs) and Protocols Not Issued in Timely Manner. As of December 1, 1989, the Office of AIDS had not completed preparing MOUs for the current year. As a result, no current-year funds had been distributed to EIPs. Additionally, the Office of AIDS did not issue final protocols for program operation until January 19, 1990. It also has not yet issued the final case management and data reporting protocols. This makes it difficult for EIPs to conform to a statewide model. Many of them have created their own protocols in the meantime.

2. No Data System in Place. Data recorded by the EIPs have been incomplete and have not included some of the most important information required to evaluate program effectiveness such as behavior change information. Additionally, although data are being recorded in individual patient records by each EIP, there is no uniform statewide data collection system for the EIP program. As a result, the Office of AIDS currently does not have consistent data to compile and analyze. Another problem is that the Office of AIDS has revised the forms used by EIPs to collect data a number of times, making it difficult for data already collected to be easily incorporated once a data system is in place.

3. Frequent Changes in State Program Staff. According to the EIPs, staff changes have contributed to a lengthy, repetitive implementation process. For example, the two original EIPs indicated that they had four different staff monitoring their contracts within an 18-month period. Part of the delay in issuing MOUs and protocols may have been due to these staff changes.

4. Lack of Communication Between the Office of AIDS and Local EIPs. Some local EIP administrators expressed frustration that the Office of AIDS had made decisions without consulting the people directly involved in implementing the program. As a result, some EIPs may be implemented in a manner that is inconsistent with the goals set by the Legislature. This may have contributed to the problems with implementing the health education and behavior change components of the programs in the two original EIPs.

Implementation Improving. The Office of AIDS advises that it has taken steps to address implementation problems in the program. It has improved communication with EIP program administrators by holding meetings on the protocols, for example. It indicates that it plans to send program staff to the EIPs in order to compile data from EIP records dating back to July 1989. It is also working on revising its data collection protocols and forms to incorporate behavior change information.

Our review indicates that the Office of AIDS is making progress in most areas. It is too soon to tell, however, whether the office's efforts will successfully address the issues of data collection and evaluation discussed above. The success of these efforts is critical to providing the Legislature the information it needs regarding program effectiveness.

C. FAMILY HEALTH

Family Planning

Family Planning Funds Restored During the Current Year

We recommend that the department report at budget hearings on the status of the restoration in the current year of the Office of Family Planning (OFP).

The budget proposes $12.2 million from the General Fund for family planning services in 1990-91. This amount consists of $700,000 for support of the OFP and $11.5 million for contracts with local agencies. Under these contracts, the agencies provide clinical services primarily related to contraceptives and information and education services.

This is $100,000 higher than the amount included in the 1989 Budget Act. The 1989 Budget Bill, as enacted by the Legislature, included a total of $36.2 million for family planning. However, the Governor vetoed $24.1 million.

Legislation Restores $20 Million to Current-Year Budget. In response to the Governor's veto, the Legislature enacted Ch. 1/90 (AB 99, Bronzan), which appropriates $20 million to restore family planning services in the current year.

Specifically, Chapter 1 provides (1) $845,000 for department support and (2) $19.2 million for local assistance to family planning contractors in 1989-90. The act specifies that the $19.2 million can be used to open project sites, fund retroactive billings for services provided in the current

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year, provide outreach, and expand the current level of services. In order to expedite the department's ability to provide funds to local family planning contractors, the act excludes current-year family planning contracts from the customary process for reviewing and approving contracts.

How Soon Can the Department Restore Family Planning Operations? Our analysis indicates that the department has made restoring OFP services a top priority. The department reports that all of the program's former staff who volunteer to return to their former positions in the OFP will be returned immediately. In addition, the department indicates that it intends to (1) administratively establish positions in the OFP to restore the program to its 1988-89 staffing level and (2) quickly restore funding to all of its former contractors that have not closed.

Restoring the OFP's personnel and financial assistance to local providers clearly has been a high priority of the Legislature. Accordingly, we recommend that the department provide the Legislature a status report on the restoration of the program in the current year. Specifically, we recommend that the department report at budget hearings on (1) the status of the department's efforts to establish and fill positions, (2) the status of contracts, and (3) the number of contractors that closed due to lack of funding and the department's plan for providing services previously provided by those contractors.

Family Planning Services Should Be Restored

We recommend that the Legislature restore the budget of the OFP to be consistent with legislative action in Ch 1/90 (AB 99, Bronzan). (Augment Item 4260-001-001 by $900,000 and Item 4260-111-001 by $23,100,000.)

The budget proposes $12.2 million from the General Fund for the OFP in 1990-91. As we discussed in the previous section, this is based on continuing the level of services funded in the 1989 Budget Act. Since the 1990 Budget Bill was introduced, however, the Legislature enacted Chapter 1, which appropriated $20 million in additional funds to restore current-year family planning services to their 1988-89 levels. To restore 1990-91 services to 1988-89 levels as well, we estimate that an augmentation of $24 million would be needed in the budget for 1990-91.

To be consistent with legislative action in Chapter 1, we recommend these funds be restored.

Maternal and Child Health

No Information on Maternal and Child Health (MCH) Budget

We withhold recommendation on the entire $35.2 million local assistance budget for MCH programs because the department has not provided any information on its spending proposal for these programs.

The budget proposes General Fund expenditures of $11.5 million in 1990-91 for MCH local assistance, which is $5.4 million, or 87 percent, above estimated General Fund expenditures in the current year. The budget proposes expenditures of federal MCH funds totaling $20.6 million. This is $9.5 million, or 32 percent, less than estimated expenditures of federal funds during the current year. Overall, the budget proposes $35.2 million from all funds, including the General Fund, federal funds, and various other sources. This is a reduction of $1.7 million, or 4.6 percent, below estimated current-year expenditures.

Federal Funding Reduction. The department reports that the current-year federal spending level cannot be continued because it is being supported by prior-year funds carried over into the current year. The department estimates that no carry-over funding will be available in 1990-91.

General Fund Increase. The department states that the General Fund increase of $5.4 million is necessary to maintain programs, except for the Community-Based Perinatal Services (CBPS) Program, at the level funded in the current year. The CBPS Program is being reduced due to the implementation of Ch 980/88 (SB 2579, Bergeson), which made former CBPS clients eligible for Medi-Cal. The $5.4 million consists of (1) a $7.8 million augmentation and (2) a $1 million transfer from Medi-Cal, offset by (3) a $3.4 million transfer to the Medi-Cal Program related to Chapter 980.

No Information Provided. The department has failed to provide the Legislature with basic information on current-year spending and the proposed budget that the Legislature requires in order to review the MCH budget. Although we requested much of this information in early December, at the time we prepared this analysis (early February), we had not even received information on the amounts of state and federal funds the department proposes to spend for each MCH program in 1990-91. In addition, the department has not submitted its estimates of (1) current-year expenditures of state and federal funds by program, (2) the amount of federal MCH funds the department will receive each year, (3) the amount of federal MCH funds that were carried over from 1988-89 to the current year and will be carried over from the current year to 1990-91, and (4) the target population and actual population served by each program.

Without this information, we have no basis for advising the Legislature on (1) the accuracy of the department's assumptions regarding the availability of federal funds and the need for General Fund support and (2) the reasonableness of the department's spending priorities.

We withhold recommendation on the MCH local assistance budget pending receipt of the information listed above.

Proposed Budget Language Circumvents Legislative Review

We recommend that the Legislature delete language proposed in the 1990 Budget Bill allowing the department to transfer funds from MCH local assistance to support upon approval of the Department of Finance because this language circumvents legislative review. (Delete provision 2(b) in Item 4260-111-001.)

The Budget Bill proposes language that allows the department, upon approval of the Department of Finance, to transfer funds provided for

DEPARTMENT OF HEALTH SERVICES—Continued

MCH local assistance to department support. The 1989 Budget Act contains similar language because the Legislature was forced to develop its plan for augmenting MCH programs with federal MCH funds without input from the department on the number of positions the department might need to implement the program expansions required by the Legislature.

The proposed language would be justified if such transfers were entirely routine and lacked policy implications. This situation does not meet these criteria. For example, such transfers may affect the department's ability to ensure that local assistance priorities of the Legislature will be met. Accordingly, we recommend that the Legislature delete the proposed language.

New MCH Health Block Grant Requirements

We recommend that the department provide information to the fiscal committees by April 1 on (1) the status of regulations to implement new federal requirements imposed on MCH funds and (2) how the department plans to comply with the new requirements.

Background. Since 1981, California has received a block grant from the federal government to support a variety of MCH services. The federal government requires that some portion of the funds be allocated to programs serving "children with special health care needs." The California Children's Services (CCS) Program is the program serving children with special health care needs in California. The Legislature has historically allocated $4.7 million of the federal MCH grant to the CCS Program in order to comply with this requirement.

The federal government attached additional requirements to the expenditure of a grant increase received in 1988. Specifically, it required California to spend $1.2 million of its increase on (1) services provided through the CCS Program and (2) innovative primary health care and case management services for children. During the current year, the department (1) transferred $1 million to the CCS Program and decreased General Fund support to the program by a like amount and (2) spent an additional $1.8 million on perinatal substance abuse. The department does not know the extent to which these actions comply with federal requirements.

Additional Federal Requirements. Congress imposed additional requirements on the federal MCH grant in the Omnibus Budget Reconciliation Act of 1989 (OBRA 89). The amendments contained in OBRA 89 do not state whether the additional requirements apply to the entire federal grant or only to the increase provided during federal fiscal year 1990 (October 1989 through September 1990). This has a major effect on the impact of the requirements. The current federal grant is $28.3 million, while the projected increase is approximately $300,000.

At the time we prepared this analysis, the federal government had not yet issued regulations; and, as a consequence, the department was not able to assess the impact of the federal requirements on California. We summarize the major requirements below.

1. Allocation of MCH Funds. OBRA 89 requires that states use at least 30 percent of federal MCH funds for preventive and primary care for children and another 30 percent for children with special health care needs. The federal government may waive this requirement under certain circumstances.

It is possible that California can meet this requirement by substituting federal support for existing General Fund support in the CCS Program and Child Health and Disability Prevention (CHDP) Program, which provides medical examinations and referrals. However, it is unclear whether the federal government will permit this.

2. Maintenance of Effort. OBRA 89 requires states to provide the same amount of state funds for MCH services in future years as was provided in the current year. This does not appear to be a problem in 1990-91 because the budget proposes a General Fund increase of $5.4 million for MCH local assistance.

It is not clear, however, to what extent the federal government will allow recent increases in the Medi-Cal and CHDP Programs to count towards California's maintenance of effort in future years.

3. Public Information. OBRA 89 requires the department to establish a toll-free telephone number for obtaining information about providers participating in the MCH and Medi-Cal Programs. Our analysis indicates that establishing the type of system envisioned in federal law may be cumbersome and costly.

4. Outreach. OBRA 89 requires the department and its MCH contractors to (a) identify pregnant women and their infants who are eligible for Medi-Cal and (b) assist them in applying for services. The department provides a variety of outreach services to women and children potentially eligible for Medi-Cal through the Community-Based Perinatal Services (CBPS) and Prenatal Care Guidance Programs. It is unclear to what extent these activities meet the federal requirements.

5. Data Collection. OBRA 89 requires the department's application to contain data including, but not limited to, (a) the number of persons with health insurance who are served through MCH programs, (b) the number of children in the state with chronic illness by type of illness, (c) the proportion of infants born with fetal alcohol syndrome and drug dependency, (d) the proportion of children vaccinated against a variety of diseases by their third birthday, and (e) the number of specific types of medical providers licensed in the state. The department indicates that it currently does not have some of this information and had not yet assessed the resources required for compliance.

More Information Needed. The Legislature needs additional information from the department regarding how it proposes to address these additional requirements. Accordingly, we recommend that the department report to the fiscal committees by April 1 on the status of the federal regulations and how the department plans to comply with the new requirements.

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Community-Based Perinatal Services (CBPS) Program

We recommend that, prior to budget hearings, the department submit to the fiscal committees information on (1) its plan for spending CBPS funds during 1990-91 and (2) options for operating the program and redirecting funds.

The 1989 Budget Act appropriated $11.5 million for the CBPS Program during the current year. This amount consists of $11.3 million from federal MCH funds and $220,000 from the General Fund. The department reports that the budget includes an undetermined, but lesser, amount of funds for the CBPS Program during 1990-91. (The department had not submitted a spending plan for MCH programs at the time we prepared this analysis.)

The CBPS Program provides prenatal care to women whose family incomes are at or below 200 percent of the federal poverty level. The CBPS Program's budget is decreasing because the women previously served by the CBPS Program have become eligible for Medi-Cal under recent legislation. Specifically, recent legislation has extended Medi-Cal eligibility for perinatal care to (1) women with family incomes at or below 200 percent of the federal poverty level and (2) newly legalized and undocumented women. (We discuss Medi-Cal perinatal services in detail in our section on the Medi-Cal Program.)

During the current year, the department transferred $1 million in CBPS funds to the Medi-Cal Program pursuant to Ch 1446/89 (SB 822, Rosenthal), to fund Medi-Cal eligibility workers stationed at locations other than welfare offices. The department allocated the remaining $10.5 million to CBPS providers. In light of anticipated caseload reductions, the department has allowed providers to use the funds for purposes other than prenatal care. The department advises that providers have used the current-year funds as follows: (1) $2.3 million to address black infant mortality and other special needs, (2) $2.4 million for outreach to low-income women, and (3) $5.8 million for prenatal services.

The need for prenatal services provided by the CBPS Program is likely to be reduced further during 1990-91 as the new Medi-Cal eligibility categories are fully phased in. As a result, the Legislature faces decisions on (1) whether to continue the program in its current form or change its mission and (2) how to redirect any available funds.

To assist the Legislature in these decisions, we recommend that, prior to budget hearings, the department submit to the fiscal committees information regarding (1) its plan for spending CBPS funds during 1990-91 and (2) options for operating the program and redirecting funds.

Status of Current-Year Augmentations

The 1989 Budget Act included an augmentation of $7.6 million in federal funds for various MCH programs. This was an increase of 37 percent over the amount of federal MCH funds appropriated for MCH programs during the prior year. The Legislature appropriated all of these funds for local assistance but adopted Budget Act language allowing the department, upon approval of the Department of Finance, to transfer to support funds for staff and related costs necessary to support the local assistance augmentations.

Table 10 displays the programs augmented by the Budget Act and the amount of funds the department transferred to its support budget for additional positions and related expenditures. In this section, we discuss the department's status in implementing these augmentations.

Table 10
Department of Health Services
Maternal and Child Health Program
1989-90 Augmentations
Federal Funds
(dollars in thousands)

Program	*Total*	*Local Assistance*	*Support*	*Positions Established*
Adolescent family life	$1,800	$1,650	$150	3.0
Black infant mortality	1,400	1,278	162	2.0
Childhood injury	200	90	110	1.0
High-risk infant follow-up	1,161	1,068	98	1.5
Diabetes prevention	221	205	16	—
Sudden infant death syndrome	800	533	267	4.0
Perinatal substance abuse	1,843	1,500	343	3.0
Comprehensive perinatal services	141	—	141	3.0
Administration	—	—	—	1.0
Totals	$7,606	$6,324	$1,282	18.5

Adolescent Family Life Program (AFLP) ($1.8 Million). We discuss the AFLP expansion in a subsequent section.

Black Infant Mortality ($1.4 Million). The Legislature allocated $140,000 of these funds for a Black Infant Mortality Committee and the remaining funds for grants to local agencies. The department established the committee in August 1989. The department worked with the committee to develop the request for proposals used to solicit local funding requests. The department is currently evaluating 16 requests for funding. It anticipates signing contracts with local agencies by April 1990.

Childhood Injury Control Projects ($200,000). At the time we prepared this analysis, the department reported that it had not filled the position it established for this program or developed a request for proposals for distributing the local assistance funds.

High-Risk Infant Follow-Up ($1.2 Million). The department has used the local assistance portion of these funds ($1,068,000) as follows: (1) $1,050,000 to serve 676 additional children and (2) $18,000 for travel and meetings of the 17 local program coordinators. The department reports that it has signed amended contracts reflecting these changes with 15 of the 17 contractors.

Diabetes Prevention ($221,000). The 1989 Budget Act allocated these funds to (1) data collection activities ($105,000), (2) growth in five existing diabetes prevention programs ($100,000), and (3) department administration ($16,000).

The department reports that funds for the data collection contract will be provided to the contractor effective February 15, 1990. Two of the five

DEPARTMENT OF HEALTH SERVICES—Continued

local agencies receiving expansion funds have signed contracts and are receiving their additional funds. The department indicates that it will complete a third agency contract by the beginning of February. The department reports that it approved the remaining two contracts in November and is currently awaiting approval and return by the local contractors.

Sudden Infant Death Syndrome (SIDS) ($800,000). The 1989 Budget Act required the department to use these funds to support a variety of projects. The department received additional direction on spending these SIDS funds through four measures enacted by the Legislature. These measures consist of Chapters 955, 1111, 1112, and 1118, Statutes of 1989 (SB 1069, SB 1067, SB 1070, SB 1068 — Boatwright).

The department used $267,000 of the funds appropriated to establish four positions, of which two are filled. The department reports that it has appointed members to its SIDS Advisory Committee. The department reports that it will spend the remaining $533,000 in local assistance funds for a training contract and to reimburse counties for nursing visits provided families after a SIDS death.

Perinatal Substance Abuse Pilot Projects ($1.8 Million). These funds were part of an $8 million proposal administered by three state agencies to establish five pilot projects in four areas.

The Legislature adopted extensive language (1) directing the department to require proposals to be reviewed by local coordinating councils and grant local areas some flexibility in developing service plans and (2) establishing timelines for local development of proposals and administration review.

The department used $282,000 of the funds appropriated to establish four positions and related support and evaluation activities. The department intends to spend the remaining $61,000 in support funds for evaluation.

At the time we prepared this analysis, the department had approved final plans from one of the four local areas. It had not signed contracts with any of them. The department anticipates approving two more plans by the first week in February and signing one contract by the end of February. The fourth plan is currently being reviewed by the county. The department indicates it will allow agencies to bill retroactively to the date their contracts are approved.

Comprehensive Perinatal Services ($141,000). The department used these funds to make permanent three limited-term positions for the Comprehensive Perinatal Services Program. The department reports that all of these positions are filled.

Adolescent Family Life Program (AFLP)

The department has not complied with legislative direction to target funds in order to address black infant mortality through the AFLP.

The 1989 Budget Act included an augmentation of $1.8 million in federal MCH funds for the AFLP, which provides case management services to pregnant and parenting teens. The Legislature specified that the department should give spending priority to projects targeting black infant mortality. The department allocated $1,650,000 to local assistance and $150,000 to department support. It used $730,000 of the local assistance funds to increase the standard case management rate it uses in paying contractors to $1,375 per client.

The department used the remaining $920,000 to give priority to projects targeting black infant mortality in two different ways. First, it set aside $206,000 to establish two new AFLP projects. At the time we prepared this analysis, the department had not developed a request for proposals. However, the department reports that it will give priority to new projects addressing black infant mortality when determining which projects to fund.

Second, the department distributed $714,000 among existing contractors to assist them in serving persons on their waiting lists. Each contractor received an augmentation based on its proportion of the total number of AFLP clients served statewide. The department required contractors to give priority to serving blacks on the waiting list when determining who to serve. As discussed below, however, distribution of funds in this manner did not comply with legislative direction.

Department Has Not Complied with the Legislature's Direction. Our analysis indicates that the department has not complied with the Legislature's directions in using this $714,000 to address black infant mortality among its existing contractors. By apportioning funds for serving new black clients based on existing allocations, the department did not recognize the variation in the degree to which the existing contractors currently serve black women and infants. The variation is significant; 17 of the 32 existing AFLP contractors serve a caseload that is less than 10 percent black, while 10 AFLP contractors serve a caseload that is 30 percent to 70 percent black. All of these contractors received new funding based on their existing allocations.

We believe the department has not complied with the Legislature's direction that it give spending priority to projects targeting black infant mortality. For example, it could have distributed funds based on (1) each contractor's proportion of the total number of black clients served statewide or (2) the rate of black infant mortality within the contractor's service area. Either of these distribution methods would have more effectively targeted the funds than the one chosen by the department.

Targeted Case Management Option for AFLP

We recommend that the department submit to the fiscal committees, by April 1, (1) a proposed work plan for obtaining federal reimbursements for AFLP case management services, (2) an estimate of the amount of federal reimbursements the AFLP could receive, and (3) information on targeting clients and service areas.

The 1989 Budget Act included a total of $7.9 million for the AFLP, including $3.2 million from the General Fund and $4.7 million from federal MCH block grant funds. The $4.7 million in federal funds

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included the augmentation of $1.8 million shown in Table 10. Presumably, the budget proposes to continue this funding level. (The department has not submitted an expenditure plan for MCH programs.) The AFLP provides case management services to pregnant or parenting teens in order to assist them in staying in school, remaining or becoming employed, obtaining prenatal and infant care, and obtaining public services for which they are eligible.

Our review indicates that the state could fund a portion of AFLP services through the Medi-Cal Program. This would free up General Fund resources amounting to up to $2 million for expanding the program or other purposes.

Background. Chapters 1384 and 1985, Statutes of 1987 (SB 375, Watson and AB 1371, Bronzan), established case management services as a Medi-Cal benefit, contingent upon federal approval. In order to obtain federal approval, states are generally required to (1) identify the target group by age, type of illness or condition, or any combination of identifiable characteristics; (2) identify whether the services will be provided statewide or in specified geographical subdivisions; and (3) demonstrate that individuals will be free to choose among qualified providers. Federal guidelines specify that recipients can be limited to obtaining services from providers meeting state standards.

The federal government has approved the Department of Mental Health's proposal to obtain Medi-Cal reimbursement for case management services provided by counties. A Department of Developmental Services proposal to obtain Medi-Cal reimbursement for case management services provided by regional centers to persons with developmental disabilities has been rejected because federal law does not require the federal government to reimburse for services that are free. Services provided using MCH funds are specifically exempted from this federal policy on free services.

Targeted Case Management an Option for the AFLP. Our analysis indicates that AFLP services meet all of the criteria required for federal reimbursement as targeted case management services. The only potential problem with providing AFLP services through the Medi-Cal Program is that the state would no longer have direct control over the number of clients served by each approved provider, because Medi-Cal is an entitlement. The state could overcome this problem, however, by tightly targeting the characteristics of clients to be served.

The department estimates that it may take only a few months to develop the necessary Medi-Cal State Plan amendment because the AFLP is fully developed and has already established the requisite standards, regulations, and program evaluation.

We estimate that the potential additional federal funding available to the state by reimbursing AFLP case management services through Medi-Cal is $2 million based on data indicating that over 50 percent of clients are Medi-Cal-eligible. These funds could be used to offset General Fund costs or to expand the AFLP. Based on costs of $1,375 per client, an additional $2 million could serve 1,455 more AFLP clients.

Because of the potential benefits of reimbursing for AFLP services through the Medi-Cal Program, we recommend that the department submit to the fiscal committees, by April 1, a proposed work plan for developing and obtaining approval of the required state plan amendment. We also recommend that the department submit (1) a precise estimate of the potential savings associated with this action and (2) information on the extent to which it can target program clients and service areas.

Proposal to Expand the Perinatal Substance Abuse Pilot Needs More Detail

We recommend that the Departments of Health Services, Alcohol and Drug Programs, Social Services, and Developmental Services report to the Legislature by March 15, 1990 on the specifics of the proposed pilot expansion, the workload justification for the requested positions, and the status of the pilot projects in the current year.

The budget proposes additional reimbursements of $1.8 million from the federal alcohol, drug abuse, and mental health services funds in order to expand the perinatal substance abuse pilot program initiated during the current year. The increase would double funding for this purpose in the department.

This proposal is one of a set of four proposals submitted by the various departments involved in the pilot program. We discuss the proposal and our findings in greater detail in our analysis of the Department of Alcohol and Drug Programs budget. In that analysis, we recommend that the four departments report to the Legislature by March 15, 1990 on the specifics of the proposed pilot expansion, the workload justification for the requested positions, and the status of the pilot projects in the current year. (Please see Item 4200.)

California Children's Services (CCS)

Current-Year Deficiency

The primary reasons for the current-year deficiency of $22 million in the CCS Program are (1) county delays in billing the state and (2) state and county delays in claims payment.

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 that current-year General Fund expenditures for CCS local assistance will be $88.7 million, or $22 million greater than the amount included in the 1989 Budget Act. The department reports that the current-year deficiency shown in the budget results from three factors.

1. Deficiency in Los Angeles County. The department reports that Los Angeles County anticipates incurring a deficiency of $20.9 million. The state's share of this deficiency is 75 percent, or $15.7 million. Much of this

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deficiency in Los Angeles County can be attributed to the county's installation of a computerized claiming system for the CCS Program during 1987-88.

As the county began implementation of this system, it accumulated a backlog in claims. This had two effects. First, as a result of delays in paying claims, the county did not bill the state for its share of the costs in a timely manner; and, consequently, the department's estimate of the county's CCS budget needs was too low. Second, payment of the backlogged claims in later years caused costs to increase.

The General Fund deficiency attributable to Los Angeles County's CCS Program consists of:

- $4 million in prior-year claims that the county did not pay until the current year.
- $3.5 million in claims paid by the county in prior years but were (a) not paid by the state due to insufficient state funding or (b) not billed to the state.
- $3.5 million to reduce the delay in claims payment from five to three months.
- $4.7 million to recognize increased caseload and utilization.

The department reports that the county has paid all of its prior-year claims and billed the state for its share of the costs. The department reports also that it will begin receiving monthly reports on claims received by the county. This information will assist the department in developing more accurate estimates for the county's program.

2. Deficiency in Other "Independent" Counties. The department estimates that other counties operating their own CCS programs (independent counties) will incur a deficiency of $4.4 million, for an additional state cost of $3.3 million. The department does not know to what extent these increased current-year costs are due to (a) delays in submitting billings for prior-year claims or (b) increased caseload and utilization.

3. Deficiency in "Dependent" Counties. The department reports that counties which do not operate their own programs (dependent counties) will incur a deficiency of $3.5 million, costing the state an additional $2.6 million. The department indicates that this deficiency is related to transferring responsibility for paying dependent county claims to the Medi-Cal fiscal intermediary, Electronic Data Systems Federal Corporation (EDS). The department reports that at the time it transferred claims payment responsibility (January 1989), approximately 90 percent of claims were being rejected by EDS due to lack of adequate documentation. This deficiency of $2.6 million reflects the costs of paying 1988-89 claims in the current year.

CCS Budget Likely to be Underfunded

The CCS budget request for 1990-91 is probably underfunded. We recommend the department address specific problems in its estimates when it updates them in May.

The department proposes $90.7 million (all funds) for CCS local assistance during 1990-91. This is $4.3 million, or 4.5 percent, less than estimated expenditures for local assistance in the current year. The reduction is primarily due to deletion of one-time expenditures in the current year due to backlogs in claims. The estimate is based on a reduction in direct service expenditures of 1 percent.

Our analysis indicates that the department's budget proposal probably underestimates funds that will be needed by local CCS programs in 1990-91. First, in developing its estimate of Los Angeles County expenditures for 1990-91, the department projected annual costs using four months of current-year expenditure information. It did not make any adjustments for increases in utilization or costs. The department plans to update the county's estimate in the spring when it has more current-year data. Second, the department's estimate shows that all independent counties other than Los Angeles experienced a 12 percent increase in expenditures between 1988-89 and 1989-90. The department projects expenditure increases of 4.5 percent for these same counties between 1989-90 and 1990-91.

We recommend that the department address these problems in its May estimates.

CCS Program Needs an Overhaul

We recommend that the policy committees hold hearings on restructuring the CCS Program.

Program Overview. The Legislature established the CCS Program in 1927 in order to ensure that children with medically handicapping conditions receive necessary diagnosis, treatment, and therapy services. Some of the specific services provided through the program include diagnosis, medical and surgical treatment, hospital care, medical appliances, physical and occupational therapy, and necessary transportation.

Health and Safety Code Section 265 requires each county Board of Supervisors to appropriate for CCS diagnosis, treatment, and therapy services a sum of money not less than one-tenth of one mill on each dollar of assessed valuation of taxable property. By May 1 of each year, the department may certify that a smaller amount is needed or may allow a county to appropriate up to or above two-tenths of a mill. The county funds are matched in a ratio of three state dollars to each county dollar. Counties do not share in the costs of providing diagnosis and treatment services for Medi-Cal-eligible children. These services are funded by the Medi-Cal Program.

Counties receive state funding for administrative costs in an amount equal to 4.1 percent of the total gross expenditures on diagnosis, treatment, and therapy services. Administrative costs associated with approving services for Medi-Cal-eligible children are reimbursed through the Medi-Cal Program.

Counties with populations exceeding 200,000 persons are required to administer their own CCS programs. These 27 counties are called "independent" counties. Independent counties determine patient eligibility, provide case management services, authorize care, and process claims.

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Counties with populations under 200,000 may administer their own programs or request that the state assume responsibility for case management, authorizing care, and claims processing. A total of 31 counties currently exercise this option and are referred to as dependent counties. The department maintains three CCS offices that are responsible for administering the programs in the nearby dependent counties.

The department estimates that the CCS Program will serve approximately 115,000 children during 1989-90, at a total cost of $115.6 million, including county matching funds, for diagnosis, treatment, and therapy services. This amount includes $91.9 million for diagnosis and treatment and $23.7 million for therapy. These costs do not include costs for diagnosis and treatment services provided to Medi-Cal-eligible children. These services are funded through the Medi-Cal Program.

Problems Continue. The Legislature and administration have made several attempts to identify and address administrative and structural problems with the CCS Program. The department has (1) conducted internal reviews, (2) contracted for an independent evaluation, and (3) appointed task forces to review and make administrative recommendations. The Auditor General also has reviewed the program and made accompanying recommendations.

In addition, we have identified and discussed in prior *Analyses*, problems related to:

- County lags in submitting claims for payment.
- Inaccurate forecasts of the program's budget needs.
- Review of client utilization of services.
- Current methods for paying hospital and pharmaceutical bills.
- County adherence to program and fiscal standards.
- Monitoring by the department of independent counties for compliance with program and fiscal standards.
- Failure by the department to adopt regulations and prepare legislative reports on a timely basis.

Comprehensive Approach Needed. In light of these problems, we believe a comprehensive approach is warranted to address the causes of the problems we and others have identified. Accordingly, we recommend that the policy committees hold hearings on redesigning the CCS Program. Following is a discussion of what we believe are the major causes of the problems in the program.

1. State Program Guidance. Our review indicates that the state has played a weak role in establishing program guidelines, monitoring compliance with guidelines, and requiring changes in county programs. We believe that this is in part due to the lack of a strong statutory mandate to oversee county programs. Specific problems are:

- *Staffing Standards for County Programs.* The department has never adopted standards, only guidelines. Neither the department nor the counties are in compliance with these guidelines. The guidelines are over 10 years old and fail to recognize the increasing complexity of the caseload.

- *Utilization Review*. Counties have different policies regarding whether and how frequently they review inpatient services provided to CCS beneficiaries. Because hospital inpatient services are a costly component of the program, we believe that a standardized utilization review process is fiscally prudent.
- *Program Reviews*. The department has improved the frequency with which it reviews independent county programs since language requiring more frequent reviews was adopted in the 1985 Budget Act. However, department data indicate that of the nine independent programs in southern California, seven have not had a comprehensive review in approximately 3.5 years. The department has not reviewed three of these county programs in approximately 4.5 years. The department indicates that these reviews consume more staff time than the department can afford.

*2. **County Administrative Funding Arrangements.*** Existing law provides little incentive for the counties to adequately staff their CCS programs or seek third-party reimbursements. The state provides funding for county administrative expenses equal to 4.1 percent of a county's diagnosis, treatment, and therapy expenditures. Counties bear 100 percent of their administrative costs above this level. In contrast, counties bear 25 percent of costs for diagnosis, treatment, and therapy.

As a result of these incentives, counties may limit CCS staffing. This can result in delayed claims and insufficient case management and cost control. We recommend the Legislature consider matching county administrative expenses by at least the same 75 percent that it shares in diagnosis, treatment, and therapy expenditures.

*3. **Cost Control.*** The Legislature should examine potential changes to the program that could reduce or control costs. For example, the CCS Program generally pays interim, or noncontract, Medi-Cal rates to hospitals. It is possible that other payment methods would reduce costs significantly. Payment methods for outpatient services, durable medical equipment, and drugs also need review.

*4. **Claims Processing.*** County CCS programs currently are automated to varying degrees. Lack of automation and variation in the design of the county systems severely limits the department's ability to analyze spending and service utilization trends in the program and impose cost control measures such as requiring uniform reimbursement rates for drugs. To address these problems, the Legislature may want to consider having the Medi-Cal fiscal intermediary process claims for independent counties. The Medi-Cal fiscal intermediary began processing dependent county claims in January 1989. Another potential advantage to this change is that it would free up existing county administrative staff for case management activities.

*5. **Therapy Services.*** The CCS Program provides medically necessary therapy services, in a school setting, to CCS-eligible children whose medical conditions will be improved or maintained by these services. Additional therapy services are provided by school districts if the services are necessary for the child to benefit from his or her education. As an

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alternative, the Legislature may want to consider requiring one agency to provide all needed therapy services.

D. ENVIRONMENTAL HEALTH, PREVENTIVE MEDICAL SERVICES, LABORATORY SERVICES, AND OFFICE OF DRINKING WATER

Legislature Needs Data Analysis Plan for Cancer Registry

We withhold recommendation on 15 positions and $8,956,000 from various funds requested for implementation of the cancer registry, pending receipt and review of a data analysis plan required in the Supplemental Report of the 1989 Budget Act. *We also recommend that the department report at budget hearings on the reasons it failed to notify the Legislature, as required by language in the supplemental report, prior to moving the cancer registry from the Berkeley area to Sacramento.*

The budget requests $8,956,000 ($7,698,000 from the General Fund) for implementation of the cancer registry. The purpose of the cancer registry program, as mandated by Ch 841/85 (AB 136, Connelly), 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." The department has established 10 regional registries throughout the state and one central registry.

During hearings on the 1989 Budget Bill, the Legislature expressed concern that although the department has spent a total of $16 million over the last six years to collect cancer incidence data, it has not begun to analyze the data. Specifically, the department has not begun any in-depth analysis to determine the causes of, and remedies for, 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.

As a result, the Legislature adopted language in the *Supplemental Report of the 1989 Budget Act* requiring the department to submit, by October 1, 1989, a plan for using data collected by the cancer registry. The plan is to include, at a minimum:

- A review and summary of the existing epidemiological studies and data analysis being conducted by the regional and central registries.
- A discussion of the appropriate roles the central registry, department staff, and regional registries in analyzing registry data.
- A work plan detailing the priorities for study during 1989-90 and 1990-91, including the costs and funding sources associated with the studies.

At the time this analysis was prepared (early February), the department had not submitted the required plan. Without this information, the Legislature has no basis to evaluate whether (1) the department is implementing the program in a manner consistent with legislative priorities and (2) the budget proposes a reasonable level of funding to enable the department to collect and analyze cancer incidence data.

Accordingly, we withhold recommendation on 15 positions and $8,956,000 from various funds requested for support of the cancer registry, pending receipt and review of the department's data analysis plan for cancer incidence rates in California.

The Department Has Moved the Cancer Registry Without Notifying the Legislature. In addition to the specific concerns regarding the delay in data analysis of cancer incidence, the Legislature also expressed concern during hearings on the 1989 Budget Bill over the department's proposal to move existing health program operations from the Berkeley area to the Sacramento area. Specifically, the Legislature was concerned such transfers would reduce the effectiveness of Berkeley-based health programs.

As a result, the Legislature adopted language in the *Supplemental Report of the 1989 Budget Act* requiring the department to submit to the Legislature, 30 days prior to any transfer of personnel from the Berkeley area to the Sacramento area, an evaluation of the costs and programmatic effects of transferring the positions. The department is required to submit the evaluation if the transfer involves 10 percent or more of the positions assigned to any specific program.

Our review indicates that the department began moving the cancer registry program from Berkeley to Sacramento in October 1989 without notifying the Legislature. Apparently, departmental staff prepared an evaluation of the effect of the move; however, *the department has not and does not intend to submit the report to the Legislature.*

The department's failure to notify the Legislature prior to the move of the fiscal and programmatic effects of moving the cancer registry from Berkeley to Sacramento is contrary to legislative intent and limits the Legislature's ability to oversee program implementation. Accordingly, we recommend that the department report, during budget hearings, on why it failed to notify the Legislature prior to moving the registry from Berkeley to Sacramento.

Immunization Program is Underfunded

We recommend that the department report, prior to budget hearings, on (1) its plan to meet the estimated demand in 1990-91 for vaccines against childhood illnesses and (2) the options available for reducing the costs of vaccines in future years.

The budget requests a total of $10.9 million, consisting of $2.2 million from the General Fund and $8.7 million in federal funds, to purchase vaccines against various childhood illnesses. Under the immunization program, the department purchases vaccines, at a reduced price, from the federal Centers for Disease Control (CDC) and distributes the vaccines to local health departments for use in public clinics. The program immunizes more than two million children annually against diseases such as polio, measles, mumps, rubella, diphtheria, tetanus, and pertussis.

Our analysis indicates that the amount requested is insufficient to meet the department's estimated demand for vaccines in 1990-91. Table 11

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shows the amount available for purchasing vaccines compared with the amount the department estimates is needed to meet the demand for vaccines.

Table 11
Department of Health Services
Childhood Immunization Program
Funding for Vaccines Against Childhood Illnesses, 1990-91
(dollars in thousands)

Vaccine	*Amount Required*	*Amount Available*	*Difference*
Diphtheria, tetanus, and pertussis	$6,178	$4,200	−$1,978
Oral polio	1,707	1,564	−143
Measles, mumps, and rubella	5,912	3,876	−2,037
Measles and rubella	948	555	−393
Haemophilus influenzae type B	774	683	−91
Totals	$15,519	$10,878	−$4,642

Source: Department of Health Services.

As shown in Table 11, the amount needed to meet estimated demand for vaccines in 1990-91 exceeds the amount available by $4.6 million, or 42 percent of proposed expenditures. This $4.6 million shortfall translates into a shortfall of 498,000 doses of vaccine.

In addition, our review indicates that the shortfall in funding may exceed the $4.6 million estimated by the department. This is because the department indicates that the CDC recently has recommended that physicians double the number of doses of vaccine used to prevent measles, mumps, and rubella. If the state implements the CDC recommendation beginning with children vaccinated in 1990-91, the department estimates that the shortfall in funding could increase by as much as $4.7 million.

Based on our review of the program, the shortfall in funding appears to have two major causes. First, the costs of the vaccines have increased significantly over the past several years without corresponding increases in state funding. For instance, the costs of the measles, mumps, and rubella vaccine increased from $6.85 per dose in 1985 to $16.18 per dose in 1989, an increase of 136 percent. Similarly, the costs of the diphtheria, pertussis, and tetanus vaccine increased from $2.21 per dose in 1985 to $7.96 per dose in 1989, an increase of 260 percent. These price increases significantly reduce the amount of vaccine that can be purchased within the current funding level.

Second, federal funding for vaccine purchases has declined. For instance, federal funding for the purchase of pediatric vaccines in California decreased from $11 million in 1989 to $8.5 million in 1990. This represents a 23 percent decrease in federal funding for vaccine purchases.

In order to assist the Legislature in assessing the funding needs in the immunization program, we recommend that the department report, prior to budget hearings, on (1) its plan for meeting the estimated demand for pediatric vaccines in 1990-91 and (2) the options available for reducing the costs of purchasing vaccines in future years.

Too Little, Too Late

We withhold recommendation on a total of $5,748,000 from various fund sources requested for five projects, pending receipt and review of information justifying the requests.

The budget includes the following requests for 1990-91:

- $3,838,000 from the General Fund to implement a processed foods testing program as required by Ch 1200/89 (AB 2161, Bronzan).
- $786,000 in reimbursements from the Air Resources Board to review risk assessments and other information on air toxics hot spots.
- $578,000 from the General Fund to expand the safe drinking water program, as required by Ch 823/89 (AB 21, Sher).
- $428,000 from the General Fund to establish a testing program for cytologists and cytology labs, as required by Ch 927/89 (AB 32, Tanner).
- $118,000 from the AIDS Vaccine Research and Development Grant Fund for two positions to review proposals to test AIDS drugs.

In our review of these requests, we asked the department to provide specific information, including (1) workload information to justify the need to add positions and the basis for the workload estimates, (2) information justifying the need for specific types of equipment, and (3) schedules for the implementation of programs and assessment of various fees. In addition, in the *Supplemental Report of the 1989 Budget Act*, the Legislature required the department to submit, by January 1, 1990, a status report on the implementation of the safe drinking water program. This report will provide the Legislature with the information necessary to evaluate whether the department has taken actions to correct program deficiencies.

At the time we prepared this analysis, the department had provided none of the information we requested nor the status report on the safe drinking water program. Without this information, the Legislature has no basis to determine whether (1) the amounts requested for each project are reasonable, (2) the department intends to assess fees sufficient to pay for the costs of the programs that are required to be fee-supported, and (3) the programs are being implemented in a manner that is consistent with legislative directives. Accordingly, we withhold recommendation on a total of $5,748,000 from various funds for five specific projects pending receipt and review of information justifying the projects.

Birth Defects Monitoring Program

The budget assumes that the department will obtain legislation authorizing expansion of the Birth Defects Monitoring Program into Los Angeles County beginning in January 1991. We recommend reversion of the $1.7 million (General Fund) appropriated for program expansion in the current year, thereby freeing up these funds for other purposes, because the department does not intend to expand the program in the current year.

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The budget proposes $1.7 million from the General Fund to expand the Birth Defects Monitoring Program to include Los Angeles County. The Birth Defects Monitoring Program is designed to track the incidence of birth defects and determine the environmental factors that cause the defects. In order to track birth defects accurately, the department gathers data from a variety of sources so that all defects, some of which may not be evident until more than a year after birth, are detected.

Over the past eight years, the Legislature has expanded the number of counties in which the monitoring program operates. Since 1988, the Legislature has authorized the department to operate the monitoring program in all counties except Los Angeles County. Chapter 8, Statutes of 1989 (AB 52, Killea), consolidated sections of existing law, specifically directing the department to operate the monitoring program in all counties except Los Angeles County.

In the 1989 Budget Act, the Legislature appropriated $1.7 million from the General Fund for the department to expand the monitoring program, beginning January 1, 1990, to include Los Angeles County. The department indicates, however, that despite the $1.7 million appropriation in the 1989 Budget Act, it does not have the authority to spend the funds. According to the department, current law (as amended by Chapter 8) does not specifically authorize it to operate in Los Angeles County. Without specific authorization to expand the program into Los Angeles County, the department does not intend to spend the funds. The department indicates that it is pursuing legislation to address this problem.

The budget assumes that the department will be successful in obtaining legislative authority for expanding the program into Los Angeles County. The budget also assumes that expansion of the program will be delayed until January 1, 1991, or one full year after the Legislature originally appropriated funds for this purpose. This is because the budget proposes only $1.7 million in 1990-91 for expanding the monitoring program to include Los Angeles County. The department indicates that the full-year costs of operating the program in Los Angeles County would be $3.4 million.

Because the department does not intend to spend the $1.7 million appropriated in the current year to expand the program, we recommend that the Legislature revert these funds, thereby freeing them up for other purposes.

4. TOXIC SUBSTANCES CONTROL

MAJOR ISSUES

- ☑ Funding for the toxics program may be insufficient to continue existing levels of site mitigation and hazardous waste management activities in 1991-92 and future years.

- ☑ Administrative and clerical positions in the toxics program are overbudgeted by at least $1,375,000 and 30 personnel-years because the division underestimates the number of hours positions are available to work in a year.

- ☑ Hazardous waste disposal, treatment, and storage facilities are closing, rather than seeking final operating permits. This will have an unknown effect on the division's permitting and enforcement workload, revenue from fees imposed on facilities, and capacity statewide for the disposal and storage of hazardous wastes.

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

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Table 12
Department of Health Services
Toxic Substances Control Division
Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in thousands)

Programs	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change from 1989-90* Amount	*Change from 1989-90* Percent
Hazardous waste management and planning					
Hazardous Waste Control Account	$34,629	$36,245	$38,952	$2,707	7.5%
Hazardous Waste Management Planning Subaccount	2,743	1,015	26	−989	−97.4
Federal funds	5,467	5,715	5,722	7	0.1
Subtotals	($42,839)	($42,975)	($44,700)	($1,725)	(4.0%)
Site mitigation					
General Fund	−383	16,069	6,248	−9,821	−61.1
Hazardous Substance Account	13,256	42,292	37,893	−4,399	−10.4
Hazardous Substance Cleanup Fund (bond funds)	23,334	11,839	6,000	−5,839	−49.3
Hazardous Site Operations and Maintenance Account	139	608	1,932	1,324	217.8
Superfund Bond Trust Fund	160	512	350	−162	−31.6
Special Account for Capital Outlay	—	2,000	—	−2,000	−100.0
Federal funds	8,894	26,540	20,435	−6,105	−23.0
Reimbursements	—	—	1,300	1,300	—[a]
Subtotals	($45,400)	($99,860)	($74,158)	(−$25,702)	(−25.7%)
Totals	$88,239	$142,835	$118,858	−$23,977	−16.8%

[a] Not a meaningful figure.

The budget proposes expenditures of $118.9 million (all funds) for the toxics division in 1990-91. This is a decrease of $24 million, or 17 percent, below estimated current-year expenditures. The net reduction in expenditures results primarily from the following:

- A decrease in funding for site cleanup contracts of $10.8 million, including $5 million from the General Fund and $5.8 million from the Hazardous Substance Cleanup Fund. The budget proposes a total of $16.4 million from various funds for site cleanup contracts in 1990-91.
- A net reduction of $13 million from various funds to reflect federal funding changes and expenditure of one-time funds appropriated in legislation during the current year.

The budget proposes a total of 988.7 positions for the division in 1990-91, which is an increase of 32.2 positions above the 1989-90 authorized staffing level. This increase reflects the budget's request for 45.2 new positions, offset by a reduction of 13 positions due to reduced federal grant funds and a reduction in personnel needed for hazardous waste management planning.

Table 13 displays the changes proposed in the toxics division budget for 1990-91.

Table 13
Department of Health Services
Toxic Substances Control Division
Proposed 1990-91 Budget Changes
(dollars in thousands)

	Positions	*Amount*	*Fund*
1989-90 expenditures (Budget Act)	974.5	$80,940	Various
Baseline adjustments, 1989-90:			
Statutory appropriations	—	56,644	Various
Debt service for bond funds	—	5,512	Various
Federal funds for operations and maintenance of Stringfellow	—	608	Federal
Miscellaneous personal services adjustments	—	1,131	Various
Federal special projects reduction	−18.0	−2,000	Federal
1989-90 expenditures (revised)	956.5	$142,835	
Baseline adjustments, 1990-91:			
Full-year effect of 1989-90 employee compensation increases	—	918	Various
Pro rata, Statewide Cost Allocation Plan, and operating expense adjustment	—	−1,312	Various
Decrease in debt service for bond funds	—	−162	Various
Accounting change in responsible-party recoveries	—	−2,100	Various
Decrease in federal special projects	−9.0	−6,013	Various
Increase in site operations and maintenance of Stringfellow	—	1,419	HSOMA
Reduction in bond funds available for site mitigation	—	−5,839	HSCF
Elimination of statutory appropriations:			
Cleanup of Stringfellow and San Gabriel sites, Ch 1428/85	—	−4,480	General
Hazardous waste fees, Ch 1376/88	—	−150	HWCA
Cleanup of ASARCO site, Ch 1508/86	—	−341	General
Cleanup of ASARCO site, Ch 1624/88	—	−2,000	SAFCO
Subtotals, baseline adjustments	(−9.0)	(−$20,060)	
Program change proposals:			
Increase inspections of state-only regulated facilities	23.3	1,316	HWCA
Continue hazardous waste management planning at a reduced level	−4.0	−526	Various
Decrease in site mitigation funding	—	−5,000	General
Hazardous waste reduction program	7.0	416	HWCA
Miscellaneous changes	14.9	−123	Various
Subtotals, program changes	(41.2)	(−$3,917)	
1990-91 expenditures (proposed)	988.7	$118,858	
Change from 1989-90 (revised):			
Amount	32.2	−$23,977	
Percent	3.4%	−16.8%	

HSCF—Hazardous Substance Cleanup Fund (bond funds)
HWCA—Hazardous Waste Control Account
HSOMA—Hazardous Site Operations and Maintenance Account
SAFCO—Special Account for Capital Outlay

DEPARTMENT OF HEALTH SERVICES—Continued

Future Funding of Toxics Program Uncertain

Our analysis indicates that funding for the toxics program may be insufficient to continue existing levels of site mitigation and hazardous waste management activities in 1991-92 and future years.

Legislature Restructures Toxics Program Funding. In recent years, the Toxic Substances Control Program has been supported by a combination of fees, special taxes, and bond funds. Specifically, the program has been supported from three major fund sources.

The Hazardous Waste Control Account (HWCA) has funded the state's hazardous waste management programs. The account has been supported by fees assessed against (1) disposers of hazardous waste; (2) storage, treatment, and disposal facility operators; and (3) facilities that generate hazardous waste.

The Hazardous Substance Account (HSA) and the Hazardous Substance Cleanup Fund (HSCF, bond funds) have funded the state's site mitigation program. The HSA has been supported by a tax paid on all hazardous waste disposed to land. The tax rate has been adjusted annually to reflect the total amount and type of hazardous waste disposed of in-state and was set at a level sufficient to generate total revenue of $15 million annually. The HSCF has been supported by $100 million in bond funding approved by the voters in 1984. The law requires that $5 million be transferred each year from the HSA to a special fund to pay the principal and interest on the bonds. The division estimates that all but $9.8 million of the bond funds will be spent in the current year.

In order to address the decline in bond funds available for site mitigation and the sunset of the HWCA fees in July 1989, the Legislature enacted Ch 269/89 (SB 475, Torres) and Ch 1032/89 (AB 41, Wright). These two acts (1) restructure funding for the toxics program and (2) appropriate funds needed for operation of the program in 1989-90. Among their provisions, the acts:

- Continue existing fees on hazardous waste generators, disposers, and facilities. The acts establish a base rate for these fees and taxes, and eliminate formulas contained in prior law.
- Impose an environmental fee on corporations that use, generate, store, or conduct activities related to hazardous materials.
- Establish an activity fee charged to all responsible parties to cover the costs of the department for overseeing site cleanups.
- Expand the tax on hazardous waste disposal to include hazardous waste disposed in other states.
- Eliminate the $15 million cap on the HSA.
- Shift from the HWCA to the HSA revenue from the hazardous waste disposal fee.
- Appropriate $10 million from the General Fund for site mitigation activities in 1989-90.
- Accelerated the collection of the tax on hazardous waste disposal by shifting, from July 1 to March 1, the collection date of the tax. This

results in a one-time $17 million windfall to the HSA in the current year.

These acts are designed to fund site mitigation and hazardous waste management activities without the continued need for bond funds by providing new and increased fees and taxes.

Reduction in Site Cleanup Contracts Proposed for 1990-91. According to the budget, the total resources available in the HWCA, consisting of funds carried over from prior years as well as fee revenues resulting from Chapters 269 and 1032, are sufficient to (1) continue the current level of toxics program activities in 1990-91 and (2) leave a reasonable reserve for contingencies and emergencies.

The resources available in the HSA and HSCF, however, are *not* sufficient to continue the current level of site cleanup contracts. The budget reflects a reduction of $5.8 million in 1990-91 as a result of declining bond funds. Overall, the reduction in site cleanup contracts is $10.8 million, however, due to a related reduction of $5 million in General Fund support.

Reductions in Both Hazardous Waste Management and Site Mitigation Programs May Be Necessary in 1991-92. As a result of the problems the division has had historically in adequately funding site mitigation and hazardous waste management activities, we projected expenditures and revenues for the division beyond the budget year into 1991-92. Our analysis indicates that resources do not appear sufficient to continue toxics program activities in 1991-92 at proposed 1990-91 levels.

As shown in Table 14, we estimate that the costs of maintaining the 1990-91 level of site mitigation activities may exceed the resources available by $15 million, or 27 percent of 1990-91 site mitigation expenditures. A portion of this funding shortfall is due to a decline from $6 million in 1990-91 to $3.8 million in 1991-92 in the amount of HSCF bond funds available for site cleanup. Furthermore, we estimate that the costs of maintaining 1990-91 levels of hazardous waste management activities funded from the HWCA will leave little reserve in the HWCA in 1991-92 for contingencies and emergencies.

The projected shortfall in the HSA and the inadequate reserve for contingencies and emergencies in the HWCA result primarily because fee revenues to the HWCA and HSA are insufficient to maintain the proposed 1990-91 level of toxics program activities. Essentially, the division proposes to fund its 1990-91 expenditures by drawing down reserves. However, in 1991-92 the beginning reserves do not appear sufficient to both fill the gaps between revenues and expenditures and allow an adequate ending reserve.

Gap Between Resources and Expenditures Likely to Grow Beyond 1991-92. We estimate that the shortfall between resources and expenditures is likely to grow in future years. We reach this conclusion for four major reasons. First, the projected resources for 1991-92 include a beginning reserve of $3.9 million in the HSA and $3.3 million in the

DEPARTMENT OF HEALTH SERVICES—Continued

Table 14
Department of Health Services
Toxic Substances Control Program
Revenue and Expenditures
1989-90 through 1991-92
(dollars in thousands)

	Est. 1989-90	Prop. 1990-91	Legislative Analyst's Office Estimate 1991-92
Hazardous Substance Account [a]			
Beginning reserves	$1,590	$15,836	$3,902
Revenue	67,978	33,777	29,091 [b]
Expenditures	53,732	45,711 [c]	45,920
Ending reserves	15,836	3,902	−12,927
Hazardous Substance Cleanup Fund [a]			
Beginning reserves	$21,600	$9,800	$3,800
Revenue	—	—	—
Expenditures	11,800	6,000	6,000
Ending reserves	9,800	3,800	−2,200
General Fund and reimbursements			
Expenditures	$10,000	$6,300 [d]	$6,300
Hazardous Waste Control Account [a]			
Beginning reserves	$11,678	$7,889	$3,262
Revenue	50,124	53,033	53,033
Expenditures	53,913	57,660 [c]	55,761
Ending reserves	7,889	3,262	534

[a] The numbers for these funds do not tie to the numbers in the Governor's Budget due to different methods used for accounting for expenditures and revenue, and adjustments for technical errors.
[b] Assumes an 18 percent annual decline in hazardous waste disposed to land.
[c] Assumes 3.9 percent increase in employee compensation beginning January 1, 1991.
[d] This consists of $5 million from the General Fund and $1.3 million in reimbursements. The $1.3 million increase in reimbursements in 1990-91 is due to an accounting change.

HWCA. These reserves will help fill part of the gap between revenues and expenditures in 1991-92. However, we project that little or no beginning reserves will be available in future years to help fill the gap between revenues and expenditures.

Second, the amount of hazardous waste disposed to land has declined in recent years, and it is expected to continue to decline in future years. This will result in a continued decline in the amount of revenue deposited into the HSA from fees and taxes on hazardous waste disposal. The budget estimates that the tonnage of hazardous waste disposed to land will decline by 18 percent from current year to budget year. The decline in hazardous waste disposed to land and the decline in revenue from disposal fees are likely to continue in the future. This is due to recent legislation and continuing departmental activities encouraging industries to reduce the amount of hazardous waste generated, and restricting the types of wastes that can be disposed to land.

Third, although revenues to the HSA for cleaning up hazardous waste sites are likely to decline in the future, the costs of cleaning up hazardous waste sites are likely to increase in the future as a result of inflation.

Although Chapters 269 and 1032 do allow many fees to be adjusted to compensate for inflation, these acts do not allow fees or taxes on hazardous waste disposal to be adjusted for inflation until 1994-95. Accordingly, between 1991-92 and 1994-95, the costs of site mitigation will grow, without corresponding increases in revenue.

Fourth, Chapters 269 and 1032 do not provide a mechanism to increase fees to pay for the costs of new or expanded programs resulting from new legislation. Accordingly, in order to implement any future legislation or expand existing programs to address new problems, the department will have to either (1) reduce expenditures in other programs to fund the new or increased level of activities or (2) seek additional legislation to provide for increased fees.

Administrative and Support Personnel Overbudgeted

We recommend a reduction of $1,375,000 and 30 personnel-years from various funds because the department has overbudgeted administrative and clerical positions. We further recommend that the department submit, prior to budget hearings, information on the time required by personnel for training and administrative activities. (Reduce Item 4260-011-014 by $570,000, Item 4260-011-455 by $422,000, Item 4260-011-890 by $84,000, and Item 4260-021-890 by $299,000.)

The budget proposes a total of $42.2 million from various funds for support of 988.7 technical, clerical, and administrative positions to carry out site mitigation and hazardous waste management programs.

To determine the number of positions needed to carry out these programs, the division has identified (1) the specific activities to be performed and (2) the number of hours required to perform each activity. The division determined the number of personnel needed by dividing the total number of hours required to accomplish each activity by the total number of hours a position is available to work in a year.

State regulations specify that for budgeting and accounting purposes a position is available to work 1,778 hours per year. The regulations allow for time taken off for vacations, holidays, sick leave, jury duty, bereavement leave, informal time off, and military leave.

The division, however, in calculating the number of positions needed, estimates that each position is available to work only 1,568 hours per year, or 210 hours less than the number of hours specified in regulations. The division indicates that it bases its personnel needs on 1,568 hours per year, rather than 1,778 hours per year, because (1) division personnel spend approximately 125 hours per year performing administrative duties and (2) division personnel who enter hazardous waste sites are required to attend annually a series of training courses. The division estimates that employees entering hazardous waste sites spend 85 hours in training each year.

We identified two major problems with the division's method of calculating the number of positions it needs. First, the division has overbudgeted the number of clerical and administrative positions needed

DEPARTMENT OF HEALTH SERVICES—Continued

for support of the division. Second, the division has not justified the amount of time needed for training and administration.

Clerical and Administrative Positions Overbudgeted. The division uses 1,568 working hours per year per position to determine the number of all types of positions, including clerical and administrative positions. Our review indicates, however, that clerical positions are available to work 1,778 hours per year and administrative positions are available to work at least 1,653 hours per year. This is for two reasons. First, neither clerical nor administrative personnel require 85 hours of training to enter hazardous waste sites because they do not enter sites. Second, clerical positions do not need 125 hours for administrative duties because clerical personnel have few, if any, administrative duties above their specific job requirements. In fact, the division appears to specifically budget time for administrative activities as part of the job requirements for some clerical positions. The workload calculations do not specifically identify these activities for all types of positions.

Based on these revised estimates for clerical and administrative positions, the division's funding request overstates by $1,375,000 and 30 personnel-years the amount actually needed for support of the division. Accordingly, we recommend a reduction of $1,375,000 and 30 personnel-years from various funds because the budget overstates the amount of clerical and administrative positions needed.

Division Has Not Justified the Time Needed for Training and Administration. The division could not provide justification for the need for (1) 85 hours of training each year for persons required to enter hazardous waste sites or (2) 125 hours each year for administrative or technical personnel to perform administrative activities. Although the division requires personnel entering hazardous waste sites to have special training, the division's list of required training courses totals to only 24 hours, or 61 hours less than the time budgeted. In addition, the division could provide no basis for its estimate of the amount of time needed by personnel for administrative activities. Further, it is not clear how the administrative duties included in individual job descriptions relate to the 125 hours of administrative activities used in calculating available working hours.

In order to provide the Legislature with the information necessary to determine the number of technical and administrative personnel necessary to carry out the functions of the division, we recommend that the division submit, prior to budget hearings, information on the time required for (1) training and (2) administrative activities for each classification of professional, technical, and administrative personnel. We recommend that the department also submit, prior to budget hearings, information identifying for each classification the number of hours budgeted for training and administrative activities in the department's workload standards.

A. HAZARDOUS WASTE MANAGEMENT

Permitting of Hazardous Waste Facilities

We recommend that the department report, prior to budget hearings, on the effect of recent and projected closures of hazardous waste disposal, treatment, and storage facilities on (1) permitting and enforcement workload and (2) statewide capacity for the disposal of hazardous wastes.

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 in California the federal hazardous waste regulatory program. The division's budget proposes a total of $31.6 million, consisting of $25.9 million from the Hazardous Waste Control Account (HWCA) and $5.7 million in federal funds, to issue permits to hazardous waste management facilities, enforce hazardous waste management laws, and ensure proper closure of facilities.

Upon implementation of the RCRA program, 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 are required to comply with general requirements involving reporting of the amount of waste disposed or treated, emergency procedures, groundwater monitoring, and design and operation.

Federal law provides a schedule for federal or state regulatory agencies to issue final permits or deny permits. Specifically, federal law requires regulatory agencies to issue final permits or deny permits for (1) land disposal facilities by November 8, 1988, (2) incineration facilities by November 8, 1989, and (3) treatment and storage facilities by November 8, 1992. Prior to receiving a final permit, facilities must meet detailed construction and operating requirements.

The department indicates that many facilities operating under interim permits have decided to cease operations and close, rather than seek final permits. Table 15 compares the number of land disposal, incineration, and treatment and storage facilities that have operated in the state under interim permits with the number that received (for land disposal and incineration facilities) or applied for (for treatment and storage facilities) final permits. As shown in Table 15, as a result of requiring facilities to obtain final permits or close, the number of (1) land disposal facilities declined by 93 percent, (2) incineration facilities declined by 33 percent, and (3) treatment and storage facilities declined by 48 percent. In addition, the department indicates that although 183 treatment and storage facilities have *applied* for final permits, the number of facilities that actually will *receive* final permits is likely to be much smaller. The department indicates that most facilities have closed, rather than seek final permits, because of the high costs of retrofitting existing facilities and operations to meet final permit requirements.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 15
Department of Health Services
Toxic Substances Control Division
Interim and Final Permits by Facility Type
1989-90

Facility Type	*Interim Permits*	*Final Permits*	*Percent Change*
Land disposal	80	6	−92.5%
Incineration	12	8	−33.3%
Treatment and storage	350	183 (est.) [a]	−47.7%

[a] Based on the number of facilities applying for final permits.

As a result of the large number of facilities that have decided to close, much of the department's workload has shifted from permitting facilities to ensuring proper closure of facilities. The department indicates that the workload associated with ensuring proper closure of a facility is equal to the workload associated with permitting a facility, and therefore the shift will have no effect on overall department staffing levels or program costs. Our review of the department's annual work plan, however, indicates that the workload associated with facility closure appears to be less than the workload associated with permitting facilities. Furthermore, once the department has certified that a facility has closed properly, the department no longer needs to inspect the facility, and the facility is no longer required to pay fees to both the HWCA and HSA. Accordingly, the shift from permitting to closure appears to result in (1) reduced costs to the HWCA as a result of reduced regulatory and enforcement workload and (2) reduced revenue to the HWCA and HSA in the long run as facilities close and stop paying fees. At this time, however, we do not have sufficient information to estimate the reductions in costs or revenues.

In addition, the closure of these facilities will reduce the amount of capacity statewide for the treatment, storage, and disposal of hazardous wastes. However, we do not have information to evaluate whether the closure of facilities will result in insufficient capacity to treat and dispose of waste generated in the state.

The Legislature needs information on the effect of facility closures on costs and revenues to the HWCA and HSA, and on statewide disposal capacity, to evaluate the department's budget request and assess the long-term viability of the HWCA and HSA. Accordingly, we recommend that the department submit prior to budget hearings (1) an assessment of the number of positions and funding needed in 1990-91, 1991-92, and 1992-93 for (a) certifying the closure of land disposal, incineration, and treatment and storage facilities and (b) permitting facilities compared with the number of positions and funding budgeted in 1990-91 for these activities; (2) the basis for the department's estimates, including (a) a schedule for certifying facility closures and for permitting facilities and (b) an evaluation of the workload associated with certifying the closure of a land disposal facility, incineration facility, and treatment and storage facility compared with permitting similar facilities; (3) an estimate of the revenue loss to the HWCA and the HSA in 1990-91, 1991-92, and 1992-93 that will result from the closure of facilities, and the basis for the estimated revenue loss; and (4) an estimate of the reduction in statewide capacity for land disposal, incineration, and treatment and storage resulting from facility closures, and an assessment of whether such a reduction will result in shortfalls in the capacity to treat and dispose of hazardous wastes in-state.

B. SITE MITIGATION

Legislature Needs Information on Cost Recovery Program

We withhold recommendation on 14 positions and $718,000 requested from the Hazardous Substance Account (HSA) to recover costs from responsible parties for site mitigation activities, pending receipt of an evaluation of the cost recovery program that was due December 1, 1989.

The budget proposes 14 positions and $718,000 from the HSA to recover costs from responsible parties for site mitigation activities. Under current law, responsible parties are liable for the costs of site cleanup and state oversight of hazardous waste site cleanup. In the past, responsible parties could pay for state costs in advance or after the costs were incurred. However, Ch 269/89 (SB 475, Torres) and Ch 1032/89 (AB 41, Wright) require the department to collect, in advance, fees for state oversight of hazardous waste site cleanups. If the actual costs of oversight exceed the fees paid, the DHS is required to bill the responsible parties for the difference. When payments are not made by a responsible party, state law requires the costs to be recovered by the Attorney General's Office.

In 1988-89 and 1989-90, the department requested, and the Legislature approved, 14 positions and $718,000 to implement a post-expenditure cost recovery program. However, during hearings on the 1989-90 budget, the Legislature expressed concern over the department's implementation of the cost recovery program. As a result, the Legislature adopted language in the *Supplemental Report of the 1989 Budget Act* requiring the department to submit, by December 1, 1989, a report on the cost recovery program. Specifically, the department was required to provide the following information:

- Justification for the 14 positions budgeted for the purposes of responsible party cost recovery.
- A schedule for program implementation.
- Identification of the number of responsible parties that have and have not been billed and an explanation as to why some have not been billed.
- The number of responsible parties that have been referred to the Attorney General's Office, and the number of cases involving responsible party reimbursement that the Attorney General has successfully resolved.
- A cost analysis of the total amount of funds recovered.

At the time we prepared this analysis (early February), the department had not submitted to the Legislature the report on the cost recovery program. Without the information in the report, the Legislature has no basis for evaluating (1) whether the department is making

DEPARTMENT OF HEALTH SERVICES—Continued

reasonable progress in recovering costs from responsible parties or (2) the need for 14 positions and $718,000. Accordingly, we withhold recommendation on 14 positions and $718,000 from the HSA pending receipt and review of the department's report on the cost recovery program.

Additional Information Needed on Site Mitigation Program

We withhold recommendation on a total of $10,375,000 requested from various funds for the contracts for cleanup of hazardous waste sites, pending receipt of information justifying the amounts requested for each site.

The budget identifies a total of $16,375,000 for site cleanup contracts at sites where the department has not identified a responsible party, or where a responsible party refuses to take corrective action. This amount consists of $5 million from the General Fund, $5,375,000 from the Hazardous Substance Account (HSA), and $6 million from the Hazardous Substance Cleanup Fund (HSCF — bond funds).

In accordance with Ch 1032/89 (AB 41, Wright), the Budget Bill schedules expenditures from the HSA and General Fund for site mitigation on a site-specific basis. In addition, the department has submitted a site-specific schedule for proposed expenditures from the HSCF. (The HSCF funds are not scheduled in the Budget Bill because they have already been appropriated.)

In our review of the department's expenditure plan, we asked the department to explain the basis for the amounts requested for each site. At the time we prepared this analysis, however, the department had not provided this information. Without information justifying the amounts requested for each site, we have no basis for determining whether the amounts requested are reasonable. Accordingly, we withhold recommendation on $10,375,000 requested from various funds for contracts for cleanup of hazardous waste sites, pending receipt of information justifying the amounts requested for each site.

Additional Information Needed on Funding Site Evaluation Work

We recommend that the department report, prior to budget hearings, on (1) which positions it will redirect to conduct preliminary assessments and site inspections of hazardous waste sites, (2) how these positions currently are funded, and (3) the programmatic effect of the redirections.

The budget proposes approximately $1.1 million for departmental personnel to conduct "preliminary assessments and site inspections" (PA/SIs) of potential hazardous waste sites. The PA/SI process is the first phase of a multi-phase process to identify the type and extent of contamination at a hazardous waste site, and to clean up contamination at a site. The preliminary assessment consists of reviewing information from various sources to identify (1) whether activities conducted on the site are likely to have resulted in contamination of the site and (2) potential responsible parties that the department can require to clean up the site. The preliminary assessment also entails viewing the site for obvious signs of contamination.

Once the department has completed the preliminary assessment, it conducts a site inspection in which it analyzes samples taken from the site and looks for additional evidence regarding potential contamination and potentially responsible parties. If the department identifies contamination at the site inspection, it (1) stabilizes the site to prevent further contamination and to reduce the threat to the public health and the environment, (2) develops an initial assessment of the public health and environmental hazard of the site to determine whether the site should be referred to the Environmental Protection Agency (EPA) for ranking on the federal Superfund list or assigned a departmental cleanup priority, and (3) begins other phases of mitigation that include developing plans for cleanup.

In recent years, the department has funded PA/SI activities primarily from federal funds pursuant to an agreement with the EPA. The department indicates that over the last several years, it has spent $1 million to $2 million annually in federal funds on PA/SI. In the current year, the department notified the Legislature that it has discontinued the agreement with the EPA, and will no longer receive federal funding for PA/SI activities. The department indicates that the EPA has increased significantly the type and amount of information that the department must develop and submit to EPA, but reduced the amount it will pay for PA/SI activities. The department indicates that the funding from EPA would not pay for the costs of developing the information.

The department indicates that it will continue PA/SI activities without federal funds in two ways. First, the department will impose a $7,500 fee on responsible parties, if a responsible party can be identified, to pay for the costs of the PA/SI. Chapters 269 and 1032, Statutes of 1989 (SB 475, Torres, and AB 41, Wright), authorize a $7,500 fee on responsible parties to pay for the costs of a "preliminary endangerment assessment," which is essentially the same as a PA/SI.

In addition, the department indicates that it intends to redirect personnel from various other toxic programs to perform PA/SIs. The department, however, has not identified (1) which positions it will redirect, (2) how these positions currently are funded, or (3) the programmatic effect of the redirections. Without this information, the Legislature cannot evaluate whether the proposed redirections are consistent with legislative priorities.

Accordingly, we recommend that the department report on these issues prior to budget hearings.

DEPARTMENT OF HEALTH SERVICES—Continued

5. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

MAJOR ISSUES

- Proposals to save $62.1 million (General Fund) through a drug discount program, reduced reimbursement for incontinence supplies, and restructuring rates for physicians are not fully developed.
- A proposal to save $36.4 million (General Fund) by eliminating six optional benefits could increase Medi-Cal costs for other services.
- The department estimates that General Fund costs for undocumented persons will be $100.4 million higher in the current year than estimated in the 1989 Budget Act, and will increase an additional $31.4 million in 1990-91. The increase in the current-year estimate is due to increases in caseload, rather than increases in anticipated cost per case. The cause of the increase is unknown.

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 $8.1 billion ($3.9 billion General Fund) in 1990-91, including $110.2 million ($31 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 $210.4 million, or 5.8 percent, as compared with estimated expenditures in the current year.

Table 16 shows Medi-Cal expenditures for 1988-89 through 1990-91.

Table 16
Department of Health Services
Medi-Cal Program
Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in thousands)

	Fund	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Percent Change From 1989-90
Health services	General	$2,915,437	$3,475,310	$3,664,082	5.4%
	All	5,899,146	7,019,567	7,597,173	8.2
County administration	General	79,817	131,785	152,229	15.5
	All	171,954	320,781	324,461	1.1
Claims processing	General	12,888	14,770	14,091	−4.6
	All	49,754	56,360	56,239	−0.2
Subtotals	General	$3,008,142	$3,621,865	$3,830,402	5.8%
	All	6,120,854	7,396,708	7,977,873	7.9
State administration	General	27,676	29,137	30,996	6.4
	All	87,777	107,996	110,191	2.0
Totals	General	$3,035,818	$3,651,002	$3,861,398	5.8%
	All	6,208,631	7,504,704	8,088,064	7.8

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

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

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

DEPARTMENT OF HEALTH SERVICES—Continued

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.

Recent state and federal legislation has extended eligibility for some Medi-Cal services to people in four additional categories: (1) newly legalized persons, (2) undocumented persons, (3) pregnant women and their children under age one in families with incomes up to 200 percent of the federal poverty level, and (4) qualified Medicare beneficiaries. We discuss the services provided to these persons in our section on Medi-Cal health services.

Eligibles, Users, and Expenditures by Eligibility Category in 1990-91

Eligibles. Table 17 shows the average number of persons per month who were eligible for Medi-Cal in each eligibility category in 1988-89 and the number that the budget estimates will be eligible in 1989-90 and 1990-91. The table shows that an average of 3,498,200 persons will be eligible for Medi-Cal benefits each month during 1990-91. This is 101,600 individuals, or 3 percent, more than the average number of beneficiaries eligible in the current year.

Expenditures by Eligibility Category. Table 18 shows the percentages of eligibles and expenditures that each eligible group is anticipated to account for in 1989-90. It also shows average cost per eligible. As the table shows, families receiving AFDC grants constitute 58 percent of Medi-Cal eligibles and 24 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 1.9 percent of the caseload, yet they account for 18 percent of expenditures.

Table 17
Department of Health Services
Average Monthly Medi-Cal Program Eligible Recipients
By Eligibility Category
1988-89 through 1990-91

	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Change From 1989-90 Percent*
Categorically needy					
AFDC	1,916,700	1,963,200	1,989,800	26,600	1.4%
SSI/SSP	801,600	833,200	864,400	31,200	3.7
Medically needy					
Families	219,100	221,600	220,900	−700	−0.3
Aged, blind, or disabled	56,500	58,100	57,900	−200	−0.3
Long-term care	63,200	63,700	64,300	600	0.9
Medically indigent					
Children	115,800	130,700	133,900	3,200	2.4
Adults	8,600	7,900	8,200	300	3.8
Refugees	10,300	11,600	11,900	300	2.6
Newly legalized persons	5,600	16,100	28,900	12,800	79.5
Undocumented persons	31,000	90,500	118,000	27,500	30.4
Totals	3,228,400	3,396,600	3,498,200	101,600	3.0%

Table 18
Department of Health Services
Medi-Cal Expenditure Patterns by Eligibility Category [a]
1989-90

	Percent of Eligibles	*Percent of Expenditures*	*Cost Per Eligible*
Categorically needy			
AFDC	58.0%	23.6%	$831
SSI/SSP	24.6	38.1	3,173
Medically needy			
Families	6.5	6.0	1,865
Aged, blind, or disabled	1.7	5.1	6,081
Long-term care	1.9	17.6	19,205
Medically indigent			
Children	3.9	3.3	1,738
Adults	0.2	1.2	10,754
Newly legalized persons	0.5	0.8	3,416
Undocumented persons	2.7	4.3	3,261
Totals	100.0%	100.0%	$2,001

[a] Excludes refugees. 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 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 outpa-

DEPARTMENT OF HEALTH SERVICES—Continued

tient; 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 currently provides 30 of these 32 optional benefits.

Estimates Will be Updated in May

We withhold recommendation on $8 billion ($3.8 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 1989. The department will present revised estimates in May, which will be based on program costs through February 1990. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1990-91 expenditures. We therefore withhold recommendation on the amounts requested in local assistance for the Medi-Cal Program, pending review of the May estimates.

A. MEDI-CAL HEALTH SERVICES

General Fund Deficiency of $149.2 Million in 1989-90

The budget anticipates that expenditures for Medi-Cal health services during 1989-90 will exceed available funds by $240.9 million ($149.2 million General Fund). Table 19 shows the components of the deficiency.

Table 19
Department of Health Services
Medi-Cal Health Services
Proposed Budget Changes
1989-90 and 1990-91
(dollars in millions)

	General Fund	*All Funds*
1989-90		
Funds available, 1989 Budget Act and other legislation:		
Health benefits item	$3,187.6	$6,439.2
Refugee reimbursements	—	30.8
Cost-of-living adjustment (COLA) item	123.6	246.6
Abortion item	14.5	14.5
Cigarette and Tobacco Products Surtax Fund	—	18.7 [a]
State Legalization Impact Assistance Grant (SLIAG) funds	—	28.5
Unanticipated reimbursements	0.4	0.4
Subtotals, 1989-90 funds available	$3,326.1	$6,778.7
Unfunded costs and other changes:		
Increased costs for undocumented persons	100.4	185.9
Deficiency carry-over	61.5	103.9
Drug cost containment proposals	25.0	49.9
Abortions	14.0	11.7
Audit settlements	12.5	—
Delayed payments to CIGNA	10.2	20.4

Reduced federal funding for refugees	3.9	—
Medicare Catastrophic Coverage Act (MCCA)	2.3	6.4
Checkwrite deferral	−45.0	−90.0
Medicare buy-in premiums	−5.8	−10.0
Increased recoveries	−5.7	−6.8
Revised estimates of long-term care and other provider rate increases	−4.9	−6.6
Short-Doyle	—	11.7
Changes in caseload, utilization, and all other	−19.2	−35.6
1989-90 expenditures (revised)	$3,475.3	$7,019.6
Projected deficiency	−$149.2	−$240.9
1990-91		
Caseload and cost adjustments:		
Increase in eligibles	$45.3	$90.5
Decrease in percent using services	−21.5	−43.2
Increases in cost per unit and units per user	102.4	204.6
Subtotals, caseload and cost adjustments	$126.2	$251.9
Full-year costs of 1989-90 COLAs and rate adjustments:		
Statutory COLAs for providers	$16.6	$34.4
Long-term care and other provider COLAs	26.3	54.0
Beneficiary COLA "spin-off"	4.1	8.2
Subtotals, 1989-90 COLAs and rate adjustments	$47.0	$96.6
Proposed program changes:		
Elimination of six optional benefits	−$36.4	−$72.5
Price controls for incontinence supplies	−28.2	−56.3
Drug discount program	−23.9	−50.0
Restructuring reimbursement rates	−10.0	−20.0
Back out savings due to 1989-90 checkwrite deferral	45.0	90.0
Payment of 1989-90 checkwrite deferral	45.0	90.0
1990-91 checkwrite deferral	−48.0	−96.0
Restrictions on abortions	−14.0	−11.7
Elimination of 1990-91 beneficiary COLA "spin-off"	−9.0	−17.9
MCCA: qualified Medicare beneficiaries	118.9	248.4
MCCA: income and resource provisions	12.1	24.1
MCCA: repealed items	11.0	24.2
Increased costs for undocumented persons	31.4	113.1
Statutory COLAs for providers	14.5	29.3
Reduced federal funding for refugees	13.3	—
Expansion of pregnancy coverage, Ch 980/88	9.3	18.6
Family Support Act 12-month continuing eligibility	3.7	7.5
Department of Developmental Services reimbursement	−10.8	—
Back out one-time audits and federal disallowances	−45.6	—
Back out 1988-89 deficiency carry-over	−61.5	−103.8
All other changes	−1.2	12.1
Subtotals, proposed program changes	$15.6	$229.1
1990-91 expenditures (proposed)	$3,664.1	$7,597.2 [b]
Change from 1989-90:		
Amount	$188.8	$577.6
Percent	5.4%	8.2%

[a] Excludes $1.2 million of the Cigarette and Tobacco Products Surtax Fund appropriation that is displayed in county administration.

[b] Excludes $2.6 million of the Cigarette and Tobacco Products Surtax Fund appropriation that is displayed in county administration.

DEPARTMENT OF HEALTH SERVICES—Continued

The major elements of the current-year deficiency are:

- ***Undocumented Persons ($100.4 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 newly legalized and undocumented persons. Chapter 1441, Statutes of 1988 (SB 175, Maddy), specifies how California implements these changes. Based on data through September 1989 on the use of services by undocumented persons, the department projects that current-year expenditures for this population will be almost triple the level anticipated in the Budget Act. We discuss these expenditures in more detail below.
- ***Deficiency Carry-Over ($61.5 Million General Fund).*** The 1989 Budget Act assumed that the Legislature would pass the 1988-89 deficiency bill before the end of that year. The Legislature did not pass the deficiency bill, resulting in increased costs during the current year.
- ***Failure to Implement Drug Cost-Containment Proposals ($25 Million General Fund).*** The administration developed the current-year budget on the assumption that it could implement two drug cost-containment proposals to reduce Medi-Cal expenditures. The department was unable to obtain the savings because (1) it did not secure legislation needed to implement its proposal for rebates from drug manufacturers ($20 million General Fund) and (2) its proposal to reduce reimbursement to pharmacists to 12 percent below average wholesale price (AWP) was changed to reimbursement at 5 percent below AWP ($5 million General Fund).
- ***Abortions ($14 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 $16.3 million (General Fund) more for abortions in 1989-90 than was provided for in the Budget Act and $4.5 million ($2.3 million General Fund) less for deliveries and infant care.
- ***Audit Settlements ($12.5 Million General Fund).*** The department is paying the federal government a settlement of an audit related to services provided to undocumented persons while the Immigration and Naturalization Service was verifying their immigration status. The 1989 Budget Act did not include funds for this federal disallowance.
- ***Delayed 1989-90 Payments to CIGNA ($10.2 Million General Fund).*** CIGNA operates a prepaid health plan. Due to delays in contract negotiations, payments to CIGNA for April through June 1989 were delayed until the current year.

- ***Reduced Federal Funding for Refugees ($3.9 Million General Fund).*** The federal government reduced the time period of full federal funding for some categories of refugees from 24 months to 4 months. Because the refugees remain eligible for Medi-Cal for 24 months, the department must use General Fund dollars to pay for the last 20 months of eligibility.
- ***Medicare Catastrophic Coverage Act (MCCA) ($2.3 Million General Fund).*** The department estimates that the current-year costs of the federal MCCA will be $6.4 million ($2.3 million General Fund) higher than anticipated in the Budget Act. We discuss this legislation, and the effect of the Congress' repeal of portions of it, in more detail below.

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

- ***1989-90 Deferred Checkwrite (Savings of $45 Million General Fund).*** The Budget Act anticipated that the department would pay all of the checkwrites scheduled for 1989-90 during the current year. The administration now proposes to defer the last current-year checkwrite to the budget year.
- ***Medicare Buy-In Premiums (Savings of $5.8 Million General Fund).*** The Budget Act assumed that the monthly Part B premiums for Medicare coverage would increase to $31.40 in 1990. The premiums actually increased to only $29.00.
- ***Increased Recoveries (Savings of $5.7 Million General Fund).*** The department has increased its estimate of recoveries in 1989-90.
- ***Long-Term Care and Other Provider Rate Increases (Savings of $4.9 Million General Fund).*** The 1989 Budget Act included $227.2 million ($113.9 million General Fund) for estimated long-term care rate increases. Actual rate increases will result in costs of only $217.9 million ($109.2 million General Fund). In addition, actual General Fund costs of rate increases for adult day health centers and dental services will be $200,000 below the 1989 Budget Act appropriation.

Proposed Changes for 1990-91

Table 19 also displays the changes proposed for the Medi-Cal Program in 1990-91. The budget projects that Medi-Cal expenditures will increase by $577.6 million ($188.8 million General Fund). This represents a General Fund increase of 5.4 percent over estimated current-year expenditures. Table 19 groups these changes into three categories: (1) caseload and cost increases ($126.2 million General Fund), (2) full-year costs of 1989-90 cost-of-living adjustments (COLAs) and other rate increases ($47 million General Fund), and (3) proposed program changes ($15.6 million General Fund).

The caseload and cost increases are due to the net effect of (1) increases in eligible beneficiaries ($45.3 million General Fund), (2) a reduction in the percent of eligible beneficiaries using services (reduction of $21.5 million General Fund), and (3) increases in the cost per unit of service and the number of units of service per user ($102.4 million General Fund).

DEPARTMENT OF HEALTH SERVICES—Continued

The 1990-91 increases for full-year costs of 1989-90 COLAs and rate adjustments consist of (1) statutory COLAs for providers ($16.6 million General Fund), (2) long-term care COLAs ($25.8 million General Fund), (3) rate increases for dental and adult day health care providers ($526,000 General Fund), and (4) the beneficiary COLA "spin-off" ($4.1 million General Fund).

The proposed program changes consist of the following items:

- ***Elimination of Six Optional Benefit Categories (Savings of $36.4 Million General Fund).*** The budget proposal assumes that the Legislature will enact legislation to eliminate six optional benefit categories: medical transportation, psychology, chiropractic, podiatry, heroin detoxification, and acupuncture services. We discuss this proposal in more detail below.
- ***Price Controls for Incontinence Supplies (Savings of $28.2 Million General Fund).*** The budget proposal assumes that the department will implement price controls for incontinence supplies that will reduce expenditures for these products by 36 percent. We discuss this proposal in more detail below.
- ***Drug Discount Program (Savings of $23.9 Million General Fund).*** The budget assumes the department will be able to save $50 million ($23.9 million General Fund) by implementing a drug discount program. We discuss this proposal in more detail below.
- ***Restructuring Reimbursement Rates (Savings of $10 Million General Fund).*** The budget proposal assumes that the department will save $20 million ($10 million General Fund) by restructuring reimbursement rates for physicians. We discuss this proposal in more detail below.
- ***1989-90 Checkwrite Deferral ($90 Million General Fund).*** The deferral of the last checkwrite of the current year to the budget year requires two adjustments to the 1990-91 budget: (1) elimination of the one-time savings in the current year ($45 million General Fund) and (2) payment of the checkwrite in the budget year ($45 million General Fund).
- ***1990-91 Checkwrite Deferral (Savings of $48 Million General Fund).*** The budget proposes to defer payment of the last checkwrite of 1990-91 until 1991-92.
- ***Restrictions on Abortions (Savings of $14 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 $30.7 million to $14.5 million and (2) increase by $4.5 million ($2.2 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 Million General Fund).*** The budget proposal assumes that the Legislature will enact legislation to waive the requirement for inflation adjustments for AFDC benefits during 1990-91. 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 4.28 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. The commission has since determined that the actual COLA would be 4.62 percent, rather than 4.28 percent. Costs to the Medi-Cal Program of providing a 4.62 percent COLA would be $20.7 million ($10.3 million General Fund).

- ***Medicare Catastrophic Coverage Act (MCCA) ($142 Million General Fund).*** Various requirements of the MCCA result in increased Medi-Cal costs, and repeal of portions of the act will eliminate savings that Medi-Cal experienced in the current year. We discuss this legislation in more detail below.
- ***Undocumented Persons ($31.4 Million General Fund).*** The department projects that expenditures for services for undocumented persons will continue to grow during the budget year. We discuss these expenditures in more detail below.
- ***Statutory COLAs for Providers ($14.5 Million General Fund).*** The budget contains $12.8 million ($6.5 million General Fund) for an 8.7 percent increase for noncontract hospital inpatient services and $16.4 million ($8 million General Fund) for a 5.1 percent increase on drug ingredients.
- ***Reduced Federal Funding for Refugees ($13.3 Million General Fund).*** The full-year effect of the reduction of federal funding for refugees will increase General Fund costs in the budget year.
- ***Full-Year Costs of Expanded Coverage of Pregnancy-Related Services ($9.3 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 department implemented this requirement in July 1989.
- ***Family Support Act ($3.7 Million General Fund).*** The federal Family Support Act 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. Chapter 1016, Statutes of 1989 (AB 894, Allen), requires Medi-Cal to implement this change effective April 1, 1990.
- ***Department of Developmental Services (DDS) Reimbursements (Savings of $10.8 Million General Fund).*** The budget proposes to transfer $10.8 million to the DDS. These funds are scheduled as reimbursements in the Medi-Cal budget. They are budgeted in the

DEPARTMENT OF HEALTH SERVICES—Continued

DDS budget rather than the DHS budget so that the DDS education-related expenditures can count toward the Proposition 98 minimum funding requirement.

1990-91 Long-Term Care COLA Costs Unfunded

We recommend that in its May revision of expenditure estimates, the department incorporate estimates of costs resulting from 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 1989 Budget Act provided $227 million ($113.9 million General Fund) to recognize these costs. It is too early to determine if 1990-91 long-term care COLA expenditures will be in the same cost range.

Costs From Expanded Active Treatment Requirements Not Recognized

We recommend that the department submit to the fiscal committees before budget hearings an estimate of nursing facilities' costs to comply with expanded federal active treatment requirements.

The Medi-Cal Program funds treatment provided to mentally ill and developmentally disabled beneficiaries in nursing facilities, including state developmental centers and hospitals. The budget proposes $4.6 million ($2.3 million General Fund) for increases in the caseload needing active treatment as a result of Omnibus Budget Reconciliation Act of 1987 requirements.

Our review indicates that in addition to the caseload increase, active treatment costs for current clients in nursing facilities would increase in the budget year as a result of new federal regulations that require facilities to provide continuous active treatment. The department advises that it is interpreting this new "continuous" active treatment requirement to mean 112 to 168 hours per client week. In the past, the department has interpreted federal regulations to require 56 active treatment hours per client week. While this increase in the required active treatment hours implies increased costs to facilities providing these services, the budget does not propose additional funds to recognize these costs. Therefore, we recommend that the department submit to the fiscal committees before budget hearings an estimate of the additional costs to nursing facilities to comply with these new federal active treatment requirements.

Drug Discount Program

We recommend that, prior to budget hearings, the department provide additional details on how it would implement its proposals to achieve savings through a drug discount program.

The budget proposes savings of $50 million ($23.9 million General Fund) from implementation of a drug discount program. The Medi-Cal state administration budget proposal includes $1.8 million ($659,000 General Fund) and 40 positions to implement this proposal. The department indicates that this program will probably have two major components. The first component involves the department negotiating with (1) pharmaceutical manufacturers for discounts on purchases of drugs and (2) distribution companies for distribution of the drugs to pharmacies throughout the state. The department can implement this component *without* legislation.

In the second component, the department may pursue regulatory changes to (1) delete drugs from the Medi-Cal drug formulary for manufacturers who do not negotiate discounted prices and (2) replace the deleted drugs with less expensive or discounted drugs. Under current law, the regulation process to delete a drug from the formulary takes approximately 12 months. The department indicates that it may pursue legislation permitting it to immediately remove drugs from the formulary if manufacturers do not negotiate discount prices. The Legislature considered, but did not pass, similar legislation last year.

The Legislature does not have sufficient information about how this proposal would be implemented to determine whether the department can achieve the proposed savings. For example, the department has not provided information on the logistics of distributing state-owned drugs to pharmacies, the schedule of implementation, what types of drugs would be subject to deletion from the formulary, and other details. We recommend that the department submit details of its proposal prior to budget hearings.

Price Controls on Incontinence Supplies

We recommend that, prior to budget hearings, the department provide additional details on how it would implement its proposal to impose price controls on incontinence supplies.

The budget proposes savings of $56.3 million ($28.2 million General Fund) from reducing reimbursement for incontinence supplies by 36 percent. Currently, reimbursement for incontinence supplies is set at the average wholesale price plus 50 percent. The department's proposal to achieve these savings may include (1) establishing a limit on the quantity of incontinence supplies that can be provided for any individual in a month, (2) establishing a rate schedule through either regulation or legislation, (3) reducing reimbursement rates for companies whose catalog prices are lower than the prices they charge Medi-Cal, and (4) changing the reimbursement policy to eliminate the 50 percent markup. The department did not provide individual savings estimates for any of these options.

Until the department decides which of these changes it will pursue, and provides details of its savings estimates, the Legislature does not have enough information to evaluate whether the department can achieve the projected savings. We recommend that the department submit details of its proposal prior to budget hearings.

DEPARTMENT OF HEALTH SERVICES—Continued

Restructuring Reimbursement Rates

We recommend that, prior to budget hearings, the department (1) submit additional information on how it intends to implement this proposal and (2) report on the staffing and funds it would require to develop alternative methods for restructuring physician reimbursement rates.

The budget proposes savings of $20 million ($10 million General Fund) from restructuring reimbursement rates for physicians and other providers.

Background. Currently, the department sets Medi-Cal reimbursement rates for physician services based on related value studies (RVS) values. The RVS, which was developed by the California Medical Association (CMA) in 1969, assigns a value to each procedure that physicians perform. The "value" assigned to a given procedure indicates that procedure's value relative to the values for other procedures. Generally, the value for a given procedure is intended to be a composite measure of the various factors affecting the charge for that procedure. The CMA developed the values by surveying physician charges and comparing the median charges for the various procedures. In general, reimbursement for a particular procedure is determined by multiplying the RVS value for that procedure by a dollar conversion factor. (We discuss the rate-setting process in more detail in a separate report entitled *Review of Medi-Cal Reimbursement Rates for Emergency Physician Services*, which was published in December 1989.)

Budget Proposal. The *Governor's Budget Summary* indicates that the reimbursement rate restructuring proposal is similar to changes that the Congress, in the Omnibus Budget Reconciliation Act of 1989 (OBRA 89), required the federal Medicare Program to study. Under the rate system envisioned by OBRA 89, reimbursement rates would be based on "resource-based" values that would represent the amount of time that a physician requires to complete a procedure, and the facilities, equipment, and supplies required. Like the RVS rate system, a resource-based rate system would measure the value of procedures relative to other procedures.

Because the basis for assigning relative values in a resource-based rate system — resources — is different than the basis for values in the existing RVS rate system — physician charges — a resource-based rate system would assign values that are different than the values assigned by the current RVS. This would have significant implications for the distribution of Medi-Cal payments among physicians.

Department's Implementation Plan. The department indicates, however, that it does not plan to change from an RVS rate system to a resource-based rate system. Implementation of such a large, systemwide change would probably require increased staff, and the budget does not propose a staff increase for this purpose. Instead, the department plans to increase rates for some procedures and reduce rates for other procedures to achieve the proposed savings of $20 million. The department indicates that it will increase rates for "cognitive and/or preventative" services and reduce rates for "procedurally oriented" services. At the time this analysis was prepared, however, the department had not (1) defined cognitive versus procedural services, (2) determined which procedures would receive rate increases or reductions, or (3) decided on the size or timing of the rate changes. These details could significantly affect the department's ability to achieve the projected savings.

We recommend that the department submit details of its proposal prior to budget hearings.

Reimbursement Rate Restructuring is Justified. In our *Review of Medi-Cal Reimbursement Rates for Emergency Physician Services*, we discuss several problems with basing rates on the RVS and conclude that restructuring the rate system is justified. Our primary concern with the current RVS rate system is that the data used to develop the RVS values are over 20 years old, and it is unlikely that the values accurately reflect the current relative "value" of one procedure to another. We identified several options that the department could pursue to update the data. One option is a resource-based rate system. Another option is for the department to develop a new RVS based on recent data on physician charges from Medi-Cal claims. Either of these options would probably require increased staffing.

Because we believe that a restructuring of the rate system is justified, we recommend that the department report on the funds it would need in order to develop alternative rate systems. Specifically, we recommend that the department submit, prior to budget hearings, estimates of the staffing and funds it would require to (1) develop and implement an RVS system based on recent Medi-Cal claims data and (2) implement a resource-based rate system for Medi-Cal.

Elimination of Optional Benefits

The savings assumed in the budget from elimination of optional benefits may be overstated.

The budget assumes that the Legislature will enact legislation that will result in savings of $72.5 million ($36.4 million General Fund) by eliminating the following six optional benefit categories from coverage through Medi-Cal:

- Medical transportation services. This includes emergency ambulance services, nonemergency ambulance services, wheelchair vans, litter vans, and air transportation.
- Outpatient psychology services.
- Podiatry services.
- Acupuncture services for the treatment of severe, persistent, chronic pain.
- Heroin detoxification services by private providers. The budget proposes elimination of heroin detoxification services that are billed directly to Medi-Cal by private providers. The budget does not propose elimination of Medi-Cal services that counties provide with funding from the Department of Alcohol and Drug Programs.
- Chiropractic services.

DEPARTMENT OF HEALTH SERVICES—Continued

The department indicates that it is proposing elimination of these benefits solely to reduce Medi-Cal costs, not because it believes the benefits are unnecessary. Table 20 lists the department's estimate of the Medi-Cal savings from eliminating each of these benefits and the average number of Medi-Cal beneficiaries who use these services each month.

Table 20
Department of Health Services
Medi-Cal Health Care Services
Estimate of Savings From
Proposed Elimination of Optional Benefits
(dollars in millions) [a]

	1990-91 Savings		*Annual Savings*		*Average*
	General Fund	*All Funds*	*General Fund*	*All Funds*	*Monthly Users*
Services					
Medical transportation	$23.5	$46.9	$30.2	$60.3	26,796
Psychology	7.1	14.1	8.8	17.5	15,762
Podiatry	2.9	5.7	3.6	7.1	22,785
Acupuncture	1.9	3.8	2.3	4.7	8,216
Heroin detoxification	0.7	1.5	0.9	1.8	948
Chiropractic	0.2	0.5	0.3	0.6	3,128
Totals	$36.4	$72.5	$46.1	$91.9	—[b]

[a] Detail may not add to totals due to rounding.
[b] Not a meaningful figure.

Costs May Shift to Other Medi-Cal Categories. Medi-Cal will only achieve the estimated savings if beneficiaries do not respond to the elimination of some benefits by increasing their use of other covered services. For example, beneficiaries who currently receive psychology, podiatry, acupuncture, or chiropractic services might seek physician services or increase use of prescription drugs, instead of going without services altogether. Ironically, because rates for physician services are higher than those for these benefits, elimination of these services could actually *increase* Medi-Cal costs.

Costs May Shift to Counties. To the extent that services are eliminated by the Medi-Cal Program, counties may experience increased demands for services they provide.

Medicare Catastrophic Coverage Act (MCCA)

The actual costs for qualified Medicare beneficiaries may be much lower than the department estimates.

The budget proposes expenditures of $385.6 million ($182.8 million General Fund), including county administration expenditures, to implement the federal MCCA. Although the Congress repealed portions of the MCCA, it retained several provisions that affect Medi-Cal costs. In general, the Congress (1) retained the portions of the MCCA that expanded Medicaid (Medi-Cal in California) coverage and (2) repealed the portions of the MCCA that expanded Medicare coverage of services. (The Medicare provisions affected 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.) *Consequently, the Congress retained the provisions that increase Medi-Cal costs and repealed the provisions that would have reduced Medi-Cal costs.*

Congress retained the following provisions of the MCCA:

- ***Qualified Medicare Beneficiaries (QMBs).*** The MCCA requires Medi-Cal to pay Medicare premiums, coinsurance, and deductibles for people with incomes below the poverty level whose assets are less than 200 percent of the SSI/SSP limit.
- ***Treatment of Resources in Eligibility Determination.*** The MCCA changes the amount of income and resources that the at-home spouse of a nursing home resident may keep.

Congress repealed the following provisions of the MCCA:

- New premiums for catastrophic coverage.
- Expanded coverage of nursing home care.
- Expanded inpatient hospital services.
- Prescription drug coverage and drug premiums.
- Limitation on out-of-pocket expenses.

Table 21 outlines the costs and savings associated with various provisions of the MCCA and shows the increased costs estimated for the budget year.

Table 21
Department of Health Services
Medi-Cal Program
Proposed Budget Changes Related to the Medicare Catastrophic Coverage Act
1989-90 and 1990-91
(dollars in thousands)

	Estimated 1989-90		*Proposed 1990-91*		*Change From 1989-90 to 1990-91*	
	General Fund	*All Funds*	*General Fund*	*All Funds*	*General Fund*	*All Funds*
Qualified Medicare beneficiaries						
Health services	$9,816	$28,595	$128,706	$277,041	$118,890	$248,446
County administration	23,561	47,122	35,132	70,595	11,571	23,473
Fiscal intermediary	835	1,670	—	—	−835	−1,670
Income and resources provisions						
Health services	6,918	13,836	18,967	37,935	12,049	24,099
County administration	142	285	25	49	−117	−236
Repealed provisions						
Health services	−11,002	−24,207	—	—	11,002	24,207
Totals	$30,270	$67,301	$182,830	$385,620	$152,560	$318,319

Costs for Qualified Medicare Beneficiaries (QMBs) May be Overstated. The budget proposes $347.6 million ($163.8 million General Fund), including county administration costs, for costs related to the QMB program. Based on data provided by the federal Department of Health and Human Services, the department estimates that 340,000

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persons will be eligible for the QMB program in 1990-91. While the assumptions the department made are reasonable, it is possible that the actual caseload could be considerably different.

The federal Health Care Financing Administration sent notices to 1.2 million people in California outlining the QMB program and its eligibility requirements. The department sent notices to an additional 86,000 people. Both notices gave a toll-free telephone number that the department established to provide more information about the program. The notices also referred people to their local welfare departments for more information. The initial response to the notices has been significantly lower than the department anticipated. Based on Texas' experience of 15,000 calls per day, the department had established 80 phone lines with 50 operators per shift. During the first month after the notices were sent, however, the department received fewer than 16,000 calls on its toll-free lines. In addition, counties have reported very few inquiries about this program.

Enrollment for the QMB program began January 1, 1990. Consequently, the department will have several months of actual data on which to base its May revision of the expenditures required for the QMB program. Based on initial response to the program, we believe that actual costs for the QMB program may be significantly lower than the department estimates.

Costs for Newly Legalized and Undocumented Persons

Current-year General Fund costs for undocumented persons are almost triple the department's estimates. The reasons are unknown.

The budget proposes expenditures of $463.2 million ($190.8 million General Fund) in 1990-91 related to Medi-Cal services for newly legalized persons and undocumented persons mandated by the federal Immigration Reform and Control Act (IRCA), 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 persons who have lived in the United States for a long period of time to become legal residents. The IRCA provides that persons receiving legal status are entitled to Medi-Cal coverage if they are otherwise eligible for Medi-Cal. Newly legalized persons 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. These services are funded using 100 percent federal funds — 50 percent federal Medicaid funds and 50 percent State Legalization Impact Assistance Grant (SLIAG) funds.

The OBRA extended Medi-Cal coverage to undocumented persons and aliens with visas. Under the OBRA, these people 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.

Table 22 displays the proposed expenditures for services for undocumented persons and newly legalized persons, the average monthly eligibles, and the average expenditures per eligible in each category.

Table 22
Department of Health Services
Medi-Cal Program
Newly Legalized and Undocumented Persons
Expenditures and Caseload
1989-90 and 1990-91
(dollars in millions)

	1989 Budget Act	*Change 1989 Budget Act to Current Estimates*	*Est. 1989-90*	*Prop. 1990-91*	*Change 1989-90 to 1990-91*
Undocumented persons					
Expenditures					
General Fund	$59.0	$100.4	$159.4	$190.8	$31.4
All funds	109.2	185.9	295.1	353.3	58.2
Average monthly eligibles	20,873	69,627	90,500	118,000	27,500
Expenditures per eligible (actual dollars) [a]	5,233	−1,972	3,261	2,994	−267
Newly legalized persons					
Expenditures					
Federal funds	$56.9	−$1.9	$55.0	$109.9	$54.9
Average monthly eligibles	93,557	−77,488	16,069	28,857	12,788
Expenditures per eligible (actual dollars) [a]	608	2,815	3,423	3,809	386
Totals					
Expenditures					
General Fund	$59.0	$100.4	$159.4	$190.8	$31.4
All funds	166.1	184.0	350.1	463.2	113.1
Average monthly eligibles	114,430	−7,861	106,569	146,857	40,288

[a] These figures are given for comparison purposes only. The figures do not represent a true cost per eligible due to billing and payment lags that reduce costs relative to the number of beneficiaries.

Undocumented Persons. As Table 22 illustrates, the department projects that current-year General Fund expenditures for undocumented persons will exceed the amount in the 1989 Budget Act by $100.4 million, or 170 percent. The department estimates that current-year caseload will exceed the caseload assumed in the 1989 Budget Act by 334 percent but that the average expenditures per eligible will be 38 percent lower than anticipated. Expenditures in 1990-91 will increase by $31.4 million, or 20 percent, above estimated current-year expenditures. The department estimates that average monthly eligibles will increase to 118,000, or 30 percent above estimated current-year levels and that the average expenditures per eligible will decrease by 8 percent.

Newly Legalized Persons. Table 22 also shows that the department's estimate of current-year expenditures for newly legalized persons is substantially the same as the estimate incorporated in the 1989 Budget Act, even though its estimate of average monthly eligibles *declined* by 83

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percent. The department's estimate of average expenditures per eligible increased by 463 percent. For 1990-91, the department projects that (1) expenditures will double, (2) average monthly eligibles will increase by 80 percent, and (3) average expenditures per eligible will increase by 11 percent.

Reasons for Caseload Differences are Unknown. There are no data available to explain why (1) the caseload for undocumented persons in the current year substantially exceeds the department's estimates or (2) the caseload for newly legalized persons has been so much lower than anticipated. However, there are several factors that probably explain part of the changes:

- ***There may be more undocumented persons in California than the administration estimated.*** The caseload estimates incorporated in the 1989 Budget Act assumed that there were 2.2 million undocumented persons in California prior to passage of the IRCA and that 765,000 of these persons were not legalized under the IRCA, and thus remained undocumented. To the extent that the undocumented population was larger than the department anticipated, the number remaining undocumented after implementation of the IRCA — and the Medi-Cal-eligible undocumented population — would also be larger.
- ***Newly legalized persons may not be identifying themselves as such, and may be included instead in the undocumented persons category.*** As we discussed in the *Analysis of the 1989-90 Budget Bill,* in *Crespin v. Kizer,* the Alameda County Superior Court issued an injunction that, among other things, prohibits eligibility workers from asking individuals who apply for restricted-scope services to disclose information concerning their citizenship or immigration status. As a result, the department categorizes as undocumented any persons who (1) apply for restricted services and (2) do not voluntarily identify themselves as newly legalized.
- ***Newly legalized persons may not be applying for Medi-Cal because they fear being labeled a "public charge."*** Under the IRCA, if newly legalized persons are found to have been a "public charge" (that is, receiving welfare or health benefits), they may have difficulty qualifying for permanent residency. Although receipt of Medi-Cal services does *not* put a person at risk of being labeled a public charge, newly legalized persons may fear that it would.
- ***People who are not eligible for Medi-Cal may be applying for restricted services and being categorized as undocumented.*** One of the effects of the *Crespin v. Kizer* injunction is that the department is not able to verify eligibility for people who apply for restricted benefits, unless they voluntarily provide information. Under the injunction, eligibility workers cannot ask applicants for restricted-scope services for their 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.

Because there are no data available about the undocumented population, the department will probably never know the precise effect of any of these factors on total caseload.

The administration believes that the increase in the caseload of undocumented persons represents a shift to Medi-Cal of persons who had been receiving services from county health services programs. As we discussed in our earlier section on rural and community health programs, the administration used this reasoning as the basis for its proposal to reduce AB 8 county health services funding by $150 million (General Fund). There are no data available to determine the extent to which counties received Medi-Cal funds for undocumented persons prior to implementation of the OBRA. Consequently, it is not possible to determine the extent to which the Medi-Cal funds counties are now receiving result in *additional* revenue.

Caseload Changes May Reduce Ability to Claim Federal Funds. In addition to increasing Medi-Cal General Fund expenditures, the caseload and cost changes for newly legalized and undocumented persons may mean that Medi-Cal can claim fewer State Legalization Impact Assistance Grant (SLIAG) funds. To the extent that newly legalized persons are being categorized as undocumented, the department is able to claim fewer 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.

Reasons for Cost Differences Also Unknown. The reasons for the changes in costs per eligible — reductions for undocumented persons and increases for newly legalized persons — are difficult to determine, in part because the data are misleading: lags in billing and payment of claims reduce costs relative to the number of beneficiaries. There are two factors, however, that may explain the higher-than-anticipated cost per eligible for newly legalized persons:

- ***The department's original estimate did not consider that newly legalized persons would apply for Medi-Cal only if they have an immediate need.*** The department's estimate assumed that costs for newly legalized persons would be similar to costs for other groups of Medi-Cal eligibles, including AFDC cash grant recipients. AFDC cash grant recipients automatically become eligible for Medi-Cal when they receive AFDC, regardless of whether they have an immediate medical need.

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Newly legalized persons generally are not eligible for AFDC. Consequently, newly legalized persons probably apply for Medi-Cal only when they have an immediate medical need. This increases the average cost per eligible because a large proportion of the newly legalized persons who apply for Medi-Cal services use the services immediately. By assuming that the costs of some newly legalized persons are similar to the costs of AFDC cash grant recipients, the department's methodology may have understated the costs per person.

- *Newly legalized persons may have more extensive medical needs.* Prior to enactment of the IRCA, newly legalized persons were undocumented, and were therefore at risk of deportation if they made themselves known to public agencies. As a result of having limited medical care prior to implementation of the IRCA, they may have greater medical needs now.

Estimate for Active Treatment Costs for Mentally Ill Individuals Too High

We recommend a reduction of $2.6 million ($1.3 million General Fund) for costs to provide active treatment to mentally ill individuals due to lower-than-projected caseload.

The budget proposes $4.6 million ($2.3 million General Fund) to provide active treatment to 5,075 mentally ill individuals as required by the Omnibus Budget Reconciliation Act (OBRA) of 1987.

The OBRA made major changes in federal Medicare and Medicaid laws related to nursing facilities. Under the OBRA, the DHS must screen all clients in nursing facilities to identify mentally ill or developmentally disabled clients, and refer those clients to the Departments of Mental Health (DMH) and Developmental Services (DDS), respectively. The DMH and DDS, in turn, screen these clients to evaluate their active treatment needs. The OBRA requires the DMH and DDS to assure that mentally ill and developmentally disabled clients receive active treatment, if necessary.

Our review indicates that the estimated Medi-Cal active treatment costs for mentally ill clients is not realistic. The department estimates that Medi-Cal will incur active treatment costs of $4.6 million ($2.3 million General Fund) for mentally ill patients in 1990-91. (The developmentally disabled active treatment caseload is negligible.) This estimate was based on a DMH projection that (1) the DHS will refer 18,000 mentally ill nursing facility clients to the DMH and (2) 30 percent of them would require active treatment. Based on actual data, however, these assumptions appear to be too high. First, the referral rate from the DHS is substantially lower than originally expected. The data indicate that the DHS will refer approximately 8,500 mentally ill clients to the DMH. Second, the DMH advises that the percentage of mentally ill clients requiring active treatment is 26 percent, not 30 percent.

Based on these revised estimates, the Medi-Cal budget is $2.6 million ($1.3 million General Fund) too high. Accordingly, we recommend a reduction of $2.6 million ($1.3 million General Fund) from the Medi-Cal budget.

Expansion of Perinatal Services

Medi-Cal perinatal services have expanded significantly since 1986-87. It is too soon to tell whether these changes will increase the number of providers participating in the Medi-Cal Program or the number of women receiving perinatal services.

During the last four years, the Legislature and the administration have increased and improved the perinatal services provided through the Medi-Cal Program. In addition, Ch 1331/89 (AB 75, Isenberg) appropriated $1.9 million in 1989-90 and $19.8 million in 1990-91 from the Cigarette and Tobacco Products Surtax (C&T) Fund for perinatal services expansion. The changes made since 1986-87 can be classified in four categories: expanded eligibility, expanded benefits, rate increases, and outreach. Below we briefly outline the changes in each of these categories.

Expanded Eligibility. There have been three major expansions in eligibility for perinatal services since 1986-87:

- ***Coverage of 60 Days of Postpartum Care.*** The federal Consolidated Omnibus Budget Reconciliation Act required Medi-Cal to provide 60 days of postpartum care, without a share of cost, to women who were eligible for Medi-Cal during the month of delivery.
- ***Newly Legalized and Undocumented Persons.*** As we discussed earlier, Chapter 1441 extends coverage of pregnancy-related services to all newly legalized and undocumented women who are otherwise eligible for Medi-Cal.
- ***Women in Families with Incomes up to 185 Percent of the Poverty Level.*** Chapter 980, Statutes of 1988 (SB 2579, Bergeson), extends coverage of pregnancy-related services to women and children under the age of one in families with incomes up to 185 percent of the federal poverty level, beginning July 1, 1989.
- ***Women in Families with Incomes up to 200 Percent of the Poverty Level.*** Chapter 1331 extends pregnancy-related services to women and children under one year of age in families with incomes up to 200 percent of the federal poverty level, beginning October 1, 1989. The department estimates that it will encumber $12.6 million during 1989-90 and $21 million during 1990-91 for these services.

Expanded Benefits. Beginning in 1987-88, there have been three major expansions in the perinatal services covered by Medi-Cal.

- ***Comprehensive Perinatal Services Program (CPSP).*** Chapter 1404, Statutes of 1984 (AB 3021, Margolin), established the CPSP. The CPSP expands Medi-Cal-covered services to include nutrition, psychosocial, health education, and case coordination services to pregnant women. Providers must meet specified requirements in order to be reimbursed through the CPSP. The CPSP was implemented in 1987-88.
- ***Prenatal Care Guidance.*** Prenatal care guidance programs are administered by counties through the Child Health and Disability Prevention (CHDP) Program. They provide case management and follow-up services to improve access to early obstetrical care and

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various support services, including transportation, child care, social services, and alcohol and drug abuse support services.

- ***Prenatal Vitamins.*** The department added prenatal vitamins to the Medi-Cal drug formulary, making them available to women without prior authorization.

Rate Increases.

- ***Physician Services.*** Since July 1986, the department has increased Medi-Cal rates for global reimbursement for non-Caesarean deliveries by 85 percent. Most deliveries are billed on a global basis, where physicians submit one claim for prenatal care, the delivery, and postpartum care. The current reimbursement rate for routine obstetrical care, including the initial visit, is $1,073.
- ***CPSP Providers.*** In order to encourage CPSP providers to give early and frequent prenatal care, the department provides additional reimbursement of $50 if prenatal care begins in the first 16 weeks of pregnancy and $100 if the provider bills for at least 10 prenatal visits.

Outreach. Outreach programs focus on both increasing provider participation and encouraging beneficiaries to apply for Medi-Cal and take advantage of prenatal care coverage.

- ***Provider Outreach.*** In its fiscal intermediary contract, the department requires Electronic Data Systems Federal Corporation (EDS) to provide additional assistance to providers. These requirements include (1) toll-free telephone lines dedicated to obstetrical providers, (2) custom training sessions in coordination with obstetric professional meetings, and (3) individual, on-site technical assistance to providers who have billing difficulties. In addition, the budget proposes to transfer four positions to Medi-Cal from the Maternal Child Health Branch. These positions will be specifically responsible for (1) conducting training sessions and outreach for Medi-Cal providers, CPSP providers, and county welfare departments and (2) reviewing the claims processing system to determine whether changes could be made to simplify billing requirements for obstetrical providers.
- ***Beneficiary Outreach.*** Chapter 1446, Statutes of 1989, (SB 822, Rosenthal), transferred $1 million from the General Fund from the Maternal and Child Health Branch to the Medi-Cal Program. These funds will be matched with $1 million in federal funds to permit counties to station eligibility workers at locations other than welfare offices. The department also plans to use $3.1 million in C&T funds appropriated by AB 75 for this purpose. When combined, these appropriations provide a total of $5.1 million that counties can use to reach more pregnant women who are eligible for Medi-Cal. In addition, the four positions proposed for transfer from the Maternal and Child Health Branch to the Medi-Cal Program will be responsible for reviewing and simplifying county eligibility determination processes.

- *Assembly Bill 75 Outreach Contract.* The department is developing a request for proposals to hire a public relations contractor to (1) develop a campaign to encourage providers to participate in Medi-Cal and (2) develop and implement a statewide campaign to inform women about Medi-Cal coverage of perinatal services and to encourage them to receive early prenatal care. The department plans to spend $3 million of the funds appropriated by AB 75 during 1989-90 for this contract.

While the Legislature and the administration have significantly expanded the perinatal services that Medi-Cal provides, it is too soon to determine whether these changes will increase provider participation in the Medi-Cal Program, or the number of women receiving perinatal services. This is because many of the expansions were implemented within the last two years, or are just being implemented now. Moreover, the department's outreach activities have been limited to date, but should increase considerably during the budget year.

Reappropriation Needed

We recommend that the Legislature reappropriate $1.2 million of the 1989-90 appropriation in AB 75 for use in 1990-91.

The department proposes to encumber $18.7 million in C&T funds during 1989-90 and $21 million in C&T funds during 1990-91. However, AB 75 appropriated $19.9 million for 1989-90 and $19.8 million for 1990-91. In order for the department to implement this spending plan, it needs authority to carry over $1.2 million of the 1989-90 appropriation into 1990-91.

Accordingly, we recommend that the Legislature reappropriate $1.2 million of the 1989-90 appropriation in AB 75 for use in 1990-91.

Federal Funds Needed for Targeted Case Management

The budget does not include $28.8 million in federal funds needed to reimburse the Department of Developmental Services (DDS) for Medi-Cal targeted case management services for persons with developmental disabilities.

In our review of the budget proposal for the DDS, we note that the budget proposal assumes that the DDS will receive $28.8 million in reimbursements from the DHS for the federal share of the costs of providing targeted case management for persons with developmental disabilities. (Please see Item 4300.) The Medi-Cal budget proposal does not include federal funds for this purpose.

B. COUNTY ADMINISTRATION

The budget proposes $324.5 million ($152.2 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 $17.6 million, or 15 percent, higher

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than the amount appropriated for the current year. Table 23 shows the principal current-year changes. The anticipated deficiency is due primarily to the following factors:

- ***Increased Costs for Undocumented Persons ($10.1 Million General Fund).*** As we discussed in our earlier section on health care services, the caseload of undocumented persons has been considerably larger than the department estimated in May. Based on actual caseload through September 1989, the department now estimates that almost five times more undocumented persons than anticipated will apply for Medi-Cal during the current year.
- ***Qualified Medicare Beneficiaries ($4.8 Million General Fund).*** As we discussed in our earlier section on health care services, the Medicare Catastrophic Coverage Act requires Medi-Cal to pay Medicare premiums, deductibles, and copayments for qualified Medicare beneficiaries beginning January 1, 1990. This results in additional eligibility determination workload.
- ***1988-89 Deficiency Carry-Over ($3.2 Million General Fund).*** The current-year budget anticipated that the Legislature would pass the deficiency bill for 1988-89 during 1988-89. The Legislature did not pass the deficiency bill, thereby shifting these costs to 1989-90.

The budget also reflects current-year expenditures of $38.3 million in federal funds for Los Angeles County. The department had withheld $31.9 million of these funds pending resolution of a federal audit exception regarding the federal share of costs for patient financial service workers (PFSWs) from 1981-82 through 1987-88. The federal Health Care Financing Administration withdrew its audit exception in November 1989. The remaining $6.4 million is for the federal share of 1988-89 PFSW costs.

Budget Year. The proposed 1990-91 General Fund appropriation of $152.2 million for county administration represents an increase of $20.4 million, or 16 percent, over estimated current-year expenditures. The current estimates of county administrative costs for 1990-91 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 23 shows that the 1990-91 increases result primarily from the following factors:

- ***Full-Year Costs of Current-Year Changes ($18.4 Million General Fund).*** These changes are implementation of the qualified Medicare beneficiaries program ($11.6 million), the growth of the caseload of undocumented persons ($5.3 million), and expansion of pregnancy-related services ($1.5 million).

Table 23
Department of Health Services
Medi-Cal County Administration
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1989 Budget Act and other legislation:		
Eligibility item	$112,094	$238,813
Federal refugee reimbursements	—	492
State Legalization Impact Assistance Grant (SLIAG)	—	2,655
Cigarette and Tobacco Products Surtax Fund, Ch 1331/89	—	1,150
Outstationing eligibility workers, Ch 1446/89	250	250
County personnel services, Ch 1430/89	−50	−100
Unanticipated reimbursements	1,939	1,939
Subtotals, 1989-90 funds available	$114,233	$245,199
Unanticipated 1989-90 changes:		
Increased costs for undocumented persons	10,101	20,202
Reduced costs for newly legalized persons	—	−3,244
Qualified Medicare beneficiaries	4,788	9,576
Deficiency carry-over	3,162	6,993
Caseload increases	1,231	1,564
Los Angeles County patient financial service workers pass-through	—	38,347
1988-89 expenditure reconciliation	—	2,270
Other changes	−1,730	−126
1989-90 expenditures (estimated)	$131,785	$320,781
Projected deficiency	−17,552	−75,582
Proposed 1990-91 changes:		
Qualified Medicare beneficiaries	11,571	23,472
Increased costs for undocumented persons	5,285	10,571
Increased costs for newly legalized persons	—	1,645
1989-90 salary increases	2,506	5,011
Expansion of pregnancy coverage, Ch 980/88	1,488	2,976
Expansion of pregnancy coverage, Ch 1331/89	—	1,464
Statewide Automated Welfare System implementation	880	1,481
Outstationing eligibility workers, Ch 1446/89	500	1,000
Back out 1989-90 one-time costs	−3,162	−47,610
Other changes	1,376	3,670
1990-91 expenditures (proposed)	$152,229	$324,461
Change from 1989-90 (estimated):		
Amount	$20,444	$3,680
Percent	15.5%	1.1%

- ***1989-90 Salary Increases ($2.4 Million General Fund).*** The budget proposes to fund a 4.7 percent salary increase for county welfare department employees. This is consistent with the Legislature's policy in recent years to fund the actual salary increases that local officials provide to their welfare department employees one year after the counties provide the cost-of-living adjustments. The 4.7 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.

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- ***Statewide Automated Welfare System (SAWS) ($880,000 General Fund).*** The SAWS is being expanded to additional counties in 1990-91. Medi-Cal pays a portion of the costs of this system.
- ***Outstationing Eligibility Workers ($500,000 General Fund).*** Chapter 1446, Statutes of 1989 (SB 822, Rosenthal), transferred $1 million (General Fund) from the Maternal and Child Health Branch to the Medi-Cal Program to fund county proposals for stationing eligibility workers at locations other than welfare offices in efforts to reach more pregnant women who are eligible for Medi-Cal. Of this total, $250,000 will be spent in the current year, leaving $750,000 for expenditure in 1990-91.

Qualified Medicare Beneficiaries Workload May Be Overstated

The budget proposal includes $70.6 million ($35.1 million General Fund) for eligibility costs related to the qualified Medicare beneficiaries program. As we discussed in our earlier section on health services, the initial enrollment in this program has been much lower than the department anticipated. Consequently, the workload estimated in the budget proposal may be significantly overstated. The department advises that it will reexamine its workload assumptions in preparing the May revision to the budget.

Cost Control Work Measurement Study

We recommend that the Legislature require the Departments of Health Services (DHS) and Social Services (DSS) to (1) report to the fiscal committees during budget hearings on the status of the work measurement study of the Medi-Cal, Aid to Families with Dependent Children, and Nonassistance Food Stamp Programs and (2) adopt supplemental report language requiring the DHS and the DSS to report on the findings of the completed studies.

In our review of Item 5180-141, the DSS, we provide an update on the work measurement study currently being conducted by the DSS and DHS, in conjunction with the County Welfare Director's Association. The Legislature required this study to evaluate the current procedure used to determine productivity targets for county eligibility workers and to identify alternative approaches. In our review, we discuss delays in completion of the work measurement study that have forced the DHS and DSS to use productivity standards that are several years old in developing their budgets for county administration.

The Legislature had planned to use the results of the work measurement study during the 1989-90 budget process. We believe the earliest time the Legislature can now reasonably expect to implement the results of the work measurement study would be in the 1991-92 budget. We therefore recommend that the Legislature (1) require the DHS and DSS to report at the time of budget hearings on the status of the work measurement study and (2) adopt supplemental report language requiring the DHS and the DSS to report on the findings of the completed studies. Please see Item 5180-141 for additional discussion of this issue and our recommended language.

C. MEDI-CAL CLAIMS PROCESSING

The DHS 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 Federal Corporation (EDS). EDS replaced the previous contractor, Computer Sciences Corporation, 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.

The Current Year. The budget anticipates that General Fund claims processing costs for 1989-90 will be $14.8 million. This is $1.3 million, or 9.7 percent, higher than the amount appropriated in the 1989 Budget Act. Table 24 shows that the largest component of the current-year deficiency results from increased payments to EDS. The primary reasons for the increase are (1) one-time changes to accommodate the qualified Medicare beneficiaries program created by the Medicare Catastrophic Coverage Act ($835,000 General Fund) and (2) contract payments that were delayed from 1988-89 because EDS had not met cycle-time requirements for processing claims ($486,000 General Fund), partially offset by (3) a reduction in the number of total claims (savings of $433,000 General Fund).

The Budget Year. The budget proposes an appropriation of $56.2 million ($14.1 million General Fund) for fiscal intermediary services in 1990-91. This is a net decrease of $121,000 ($679,000 General Fund decrease and $558,000 federal funds increase). Table 24 shows that this decrease is due primarily to a reduction in the EDS contract and increased costs for the Delta Dental contract. The reduction in the EDS costs results primarily from backing out one-time payments made to EDS in the current year and a reduction in the cost per claim. The increased costs for the Delta Dental contract result primarily from one-time payments related to Delta's takeover of a new contract and new contract requirements for enhancements to the dental claims processing system.

Reprocurement of Dental Contract

We recommend that the Legislature adopt supplemental report language requiring the department to report on Delta Dental's compliance with the new dental contract, including a discussion of new contract requirements and system enhancements.

Delta Dental will continue to be the contractor for the Medi-Cal dental program after winning the contract award through a competitive procurement process in 1989. Under the new contract, Delta is responsible to provide dental services for the Medi-Cal Program from August 1990 through August 1994, with two optional extensions of one year each. The dental contract requires Delta to process Medi-Cal dental claims, process

DEPARTMENT OF HEALTH SERVICES—Continued

Table 24
Department of Health Services
Medi-Cal Claims Processing
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1989 Budget Act		
Fiscal intermediary item	$13,359	$53,182
Refugee reimbursements	—	179
State Legalization Impact Assistance Grant	—	6
Board of Medical Quality Assurance reimbursements	100	100
Unanticipated reimbursements	2	2
Subtotals, 1989-90 funds available	$13,461	$53,469
Unanticipated 1989-90 changes:		
Electronic Data Systems (EDS) contract	1,080	2,160
Delta Dental contract	258	845
State Controller agreement	−29	−114
1989-90 expenditures (estimated)	$14,770	$56,360
Projected deficiency	−1,309	−2,891
Proposed 1990-91 changes:		
EDS contract	−2,282	−6,714
Medicare crossover contract	16	66
Decrease in State Controller contract	−57	−226
Delta Dental contract	1,644	6,753
1990-91 expenditures (proposed)	$14,091	$56,239
Change from 1989-90 (estimated):		
Amount	−$679	−$121
Percent	−4.6%	−0.2%

treatment authorization requests (TARs), and develop and implement enhancements to the claims processing system. Delta is an "at-risk" fiscal intermediary, so it is responsible for both controlling dental costs and processing claims.

New Contract Requirements. The new contract includes new requirements for various efforts intended to improve provider relations and increase provider participation. The new requirements include increased provider training, on-site visits to help providers with billing problems, and increased reporting requirements to permit the department to monitor Delta's provider relations.

Enhancements. The new contract requires Delta to make several enhancements to its claims processing system between June 1990 and August 1991. Among other things, the enhancements are intended to improve Delta's efficiency in paying claims and assist beneficiaries who have access difficulties or other types of problems.

Specific enhancements to improve efficiency include establishment of reporting requirements to assist the department in monitoring Delta's performance and improvements to TAR processing. The contract also permits the department to identify specific claims and require Delta to process them on a priority basis. The enhancements to beneficiary services include the establishment of toll-free telephone lines where beneficiaries can receive assistance in finding a dentist or resolving other problems.

Delta-Initiated Enhancements. The contract includes a number of additional enhancements proposed by Delta in its contract bid. To improve provider relations, Delta will expand training resources, provide monthly summary statements of billings to providers, and review denied claims to determine the most frequent reasons for claim denials and identify providers who need assistance in submitting claims. Delta will also establish, in conjunction with California dental schools, mobile dental clinics in underserved areas.

Report to Legislature. Chapter 996, Statutes of 1987 (SB 57, Marks), required the department to report on the Medi-Cal fiscal intermediary's compliance with the new contract that became effective in 1988. These reports were comprehensive and were very useful in enabling the Legislature to monitor the transition of fiscal intermediary responsibilities to EDS and the implementation of various enhancements required in the contract. Because the Legislature has a similar interest in monitoring the new dental contract requirements, particularly those regarding provider participation and beneficiary services, we recommend that the Legislature adopt supplemental report language requiring the department to provide similar reports on Delta's compliance with the new contract requirements. The following language is consistent with our recommendation:

> The department shall report to the fiscal committees by December 1, 1990 and May 1, 1991 on the dental fiscal intermediary's general contract compliance, including compliance with the performance requirements and the requirements to implement enhancements.

D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $146.7 million ($52 million General Fund) in various departments for state administration of the Medi-Cal Program in 1990-91. The General Fund amount represents an increase of $2.4 million, or 4.8 percent, above estimated expenditures in the current year. Table 25 displays Medi-Cal state administrative expenditures in 1989-90 and 1990-91.

The budget proposes to increase General Fund spending by the DHS by $2.1 million, or 5.5 percent, above estimated spending levels in the current year. This increase primarily reflects (1) a proposal for staff to implement a drug cost-containment program, (2) a reduction in the federal funding for fiscal intermediary oversight costs, (3) a proposal for staff to implement requirements in the Medicare Catastrophic Coverage Act, (4) a redirection of staff to expand perinatal outreach activities, and (5) proposals to increase staff for early fraud detection and investigation of long-term care overpayments.

The budget proposes 1,701.4 positions in the DHS that can be attributed directly to the administration of the Medi-Cal Program. This is 37 positions, or 2.2 percent, more than the number of authorized positions in 1989-90. The increase reflects the expiration of 34 limited-term positions and an increase of 71 positions.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 25
Medi-Cal Program
State Administration Expenditures [a]
1989-90 and 1990-91
(dollars in thousands)

	Estimated 1989-90		*Proposed 1990-91*		*Percent Change in General Fund*
	General Fund	*All Funds*	*General Fund*	*All Funds*	
Department of Health Services [b]	$39,098	$121,803	$41,245	$124,868	5.5%
Department of Social Services	7,139	14,511	7,320	14,889	2.5
Department of Mental Health	1,081	2,163	1,090	2,181	0.8
California Medical Assistance Commission	974	1,948	996	1,992	2.3
Department of Aging	1,290	2,656	1,330	2,731	3.1
Totals	$49,582	$143,081	$51,981	$146,661	4.8%

[a] Funds are shown where they are actually spent, not where they are appropriated. All federal funds shown for departments other than Health Services are appropriated in the budget for Health Services and then transferred to the department where the funds are expended.

[b] This includes the 98 percent of the state administration expenditures for the Audits and Investigations Division that are attributable to Medi-Cal Program activities.

Table 26 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 26
Department of Health Services
Medi-Cal Program Proposed Positions [a]
1990-91

Program	*Existing Positions*	*Limited-Term Positions*	*Proposed Changes*	*Proposed Positions*	*Percent Change*
Eligibility [b]	120.1	−8.0	18.0	130.1	8.3%
Benefits	47.9	—	12.0	59.9	25.1
Rate development	44.1	—	—	44.1	—
Contract operations	61.0	—	2.0	63.0	3.3
Utilization control [b]	545.0	−16.0	23.0	552.0	1.3
Health recovery	224.3	—	—	224.3	—
Fiscal intermediary [b]	137.4	—	4.0	141.4	2.9
Medi-Cal reprocurement project	18.0	—	—	18.0	—
Program development [b]	35.1	—	—	35.1	—
Audits and investigations [b,c]	431.5	−10.0	12.0	433.5	0.5
Totals	1,664.4	−34.0	71.0	1,701.4	2.2%

[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.

Department Has Not Developed Drug Discount Program

We withhold recommendation on $1.8 million ($659,000 General Fund) and 40 positions requested for a drug discount program, pending receipt of the department's plan to implement this program.

The budget proposal includes $1.8 million ($659,000 General Fund) and 40 positions to implement a drug discount program. As we discussed in our earlier section on health services, the budget assumes savings of $50 million ($23.9 million General Fund) as a result of this proposal. However, at the time this analysis was prepared (January 1990), the department had not completed development of its proposal. As a result, we are unable to determine whether the funds and positions requested are justified. We therefore withhold recommendation on $1.8 million ($659,000 General Fund) and 40 positions pending receipt of the department's plan to use the positions requested to achieve the savings of $50 million.

Budgeted Federal Reimbursements for Nursing Facility Preadmission Screening Too High

We recommend a reduction of $4 million in federal funds to reflect lower preadmission screening caseload and costs. (Reduce Item 4260-007-890.)

The department's budget contains $11.2 million in federal funds to reimburse other agencies for evaluation of active treatment needs of mentally ill and developmentally disabled nursing facility clients, as required by the federal Omnibus Budget Reconciliation Act (OBRA) of 1987. Of this total, $8.7 million is allocated to the Department of Mental Health (DMH) and $2.5 million to the Department of Developmental Services (DDS). The General Fund portion of the program is included in the DMH and DDS budgets.

Our review indicates that the budgeted amounts should be reduced because the screening caseload and costs are lower than expected. The DDS has already reduced its General Fund portion of the program to recognize this change. We recommend a conforming reduction of $249,000 in federal funds budgeted for allocation to the DDS. We also recommend a reduction of $3.8 million in federal funds budgeted for allocation to the DMH to reflect projected screening caseload and costs in the budget year. (Please see Item 4440 for a more detailed discussion of the DMH screening caseload and recommended reduction.)

Capital Outlay

The Governor's Budget proposes an appropriation of $235,000 in Item 4260-301-036 for capital outlay expenditure in the Department of Health Services. Please see our analysis of that item in the capital outlay section of this *Analysis*, which is in the back portion of this document.

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund and federal funds — Budget p. HW 109

Requested 1990-91	$1,992,000
Estimated 1989-90	1,948,000
Actual 1988-89	1,471,000
Requested increase (excluding amount for salary increases) $44,000 (+2.3 percent)	
Total recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4270-001-001—Support	General	$996,000
Reimbursements	Federal	996,000
Total		$1,992,000

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 $1,992,000 ($996,000 from the General Fund and $996,000 in federal funds) for the support of the commission during 1990-91. This is an increase of $44,000, or 2.3 percent, above estimated current-year expenditures. This increase is due primarily to the full-year effect of 1989-90 salary increases.

DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General
Fund and various other funds — Budget p. HW 110

Requested 1990-91	$1,166,204,000
Estimated 1989-90	1,092,546,000
Actual 1988-89	973,948,000
Requested increase (excluding amount for salary increases $73,700,000 (+6.7 percent)	
Total recommended reduction	866,000
Recommendation pending	6,427,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-001-001—Support	General	$23,399,000
4300-001-172—Support	Developmental Disabilities Program Development	580,000
4300-001-890—Support	Federal	1,757,000
4300-003-001—Developmental centers	General	24,503,000
4300-003-814—Developmental centers	Lottery Education	907,000
4300-003-890—Developmental centers	Federal	856,000
4300-004-001—Developmental centers, Proposition 98	General	24,989,000
4300-101-001—Local assistance	General	498,339,000
4300-101-172—Local assistance	Developmental Disabilities Program Development	2,975,000
4300-490—Reappropriation	General	10,794,000
4300-496—Reversion	General	—
Ch 1396/89	General	2,131,000
Reimbursements	—	574,974,000
Total		$1,166,204,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Early Intervention Services. Recommend that the department submit a revised expenditure plan to the fiscal committees by April 1, 1990. 592
2. Regional Center Estimate Package. The department has done an excellent job in complying with the Legislature's request to revise the format of the regional center budget proposal. 597
3. Regional Center Budget. The regional center budget is likely to be underfunded due to problems in estimating current-year expenditures. The department will be addressing these problems in its May revision. 597
4. Alternative Residential Model (ARM). Withhold recommendation on the $2.8 million from the General Fund proposed for ARM geographic and wage rate adjustments, pending submission of a report upon which the proposed rates are based. 599

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

5. "Red-Circling" Policy. The department is unable to justify why it proposes applying different red-circle policies to different groups of residential care providers. 599
6. *Technical Adjustment. Reduce Item 4300-101-001 by $200,000.* Recommend a reduction in the amount contained in the budget for a quality assurance study to correct a technical budgeting error. 600
7. SSI/SSP Cost-of-Living Adjustment (COLA). The budget assumes passage of legislation waiving COLAs for the SSI/SSP Program in 1990-91. 600
8. *Targeted Case Management. Add $33.8 Million to Item 4300-101-001 and to General Fund Revenues, and Schedule $9.1 Million from Item 4300-001-001 to a Separate Item.* To assure full funding of the regional centers in the event that the department is unsuccessful in obtaining legislation to establish fees for regional center services or the federal government continues to deny reimbursement for case management services, we recommend that the Legislature (a) add $33.8 million (General Fund) to the regional centers item (Item 4300-101-001) and the same amount to General Fund revenues and (b) schedule $9.1 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. 601
9. Home- and Community-Based Services. Recommend that the department submit to the fiscal committees, by April 1, 1990, information regarding this program. 602
10. *Intermediate Care Facilities for the Developmentally Disabled-Nursing (ICF/DD-Ns). Reappropriate the Unencumbered Balance of Funds Available in Item 4300-490(i) of the 1989 Budget Act.* Recommend that the Legislature reappropriate the unencumbered balance of a $500,000 appropriation from the Program Development Fund for development of ICF/DD-Ns. 605
11. 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. 607
12. Budget Bill Proposes Authority to Spend Without Legislative Review. Recommend that the Legislature delete proposed Budget Bill language allowing for expenditure of excess Medi-Cal reimbursements without legislative review. 610
13. Proposed Reduction in Salary Savings. Recommend that the department submit to the fiscal committees before April 1 a work plan for developing new staffing standards for the state developmental centers. 610

14. ***Phase-In of Additional Positions for Staff Coverage. Reduce Item 4300-003-001 by $666,000.*** Recommend a reduction in the General Fund amount budgeted for coverage factor increases in order to more accurately reflect the timing of new staff hiring. 613
15. Janitorial Contractor. The department has continued to experience problems with its janitorial contractor in the current year. It is too soon to tell whether the contractor's performance will improve under the new contract effective in January 1990. 614
16. Implementation Plan for *Sherry S.* Withhold recommendation on $3.6 million proposed for holding judicial reviews and establishing conservatorships for state developmental center clients. Recommend that the department submit to the fiscal committees, by April 1, 1990, a revised proposal that outlines and supports its assumptions. 615

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 10,231.7 personnel-years in the current year to carry out the following two programs:

1. The *Community Services Program* develops, maintains, and coordinates services for developmentally disabled persons residing in the community. The program's activities are carried out primarily through 21 regional centers, which are operated statewide by private nonprofit corporations under contract with the department.

2. The *Developmental Centers Program* provides services in 7 of the state's 11 developmental centers and hospitals. Agnews, Fairview, Lanterman, Porterville, Sonoma, and Stockton State Developmental Centers (SDCs) operate programs exclusively for the developmentally disabled, while Camarillo State Hospital/Developmental Center operates programs for both the developmentally disabled and the mentally disabled through an interagency agreement with the Department of Mental Health.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

MAJOR ISSUES

- ☑ The budget for the regional centers is likely to be underfunded due to problems with the methodology for estimating day program costs.
- ☑ The department is proposing legislation to impose fees for services provided by regional centers in order to obtain federal funding. Absent this legislation, the budget would be underfunded by $33.8 million.
- ☑ The department may be able to expand its Home- and Community-Based Services Program and receive an additional $65 million in federal reimbursements each year.
- ☑ The state developmental centers (SDCs) are experiencing major problems with licensing, accreditation, and certification that the proposed $8.7 million augmentation to reduce the salary savings rate will not solve.
- ☑ The department has continued to experience problems with its janitorial contractor in the current year.
- ☑ The department's proposal to hold judicial reviews and establish conservatorships for SDC clients—the first phase of an eight-year plan costing $31.4 million—needs a lot of work before warranting legislative approval.

OVERVIEW OF THE BUDGET REQUEST

Expenditures from all funding sources are proposed at $1.2 billion for support of the DDS in the budget year. This is an increase of $73.7 million, or 6.7 percent, above estimated current-year expenditures. The budget proposes appropriations of $584.2 million from the General Fund to support DDS programs in 1990-91. This is an increase of $44.6 million, or 8.3 percent, above estimated current-year expenditures.

The change in expenditures from all funds is due primarily to proposals for (1) $11.5 million to reflect the full-year cost of 1989-90 employee compensation increases — $9.2 million for developmental center employees and $2.3 million for regional center employees; (2) $8.7 million to reduce salary savings at the developmental centers; (3) $21.6 million to reflect caseload, cost, and utilization changes at the regional centers; and (4) $17.9 million for final implementation and expansion of the Alternative Residential Model (ARM) system for setting residential care rates.

The General Fund increase is lower than the increase in all funds due to the anticipated receipt of $5 million in client fees and $28.8 million in federal funds resulting from enactment of proposed legislation establishing fees for regional center services. 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
1988-89 through 1990-91
(dollars in thousands)

Expenditures	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Department support	$23,213	$32,279	$26,896	−16.7%
Regional centers and community development programs	463,703	520,287	579,058	11.3
Developmental centers	487,032	539,980	560,250	3.8
Totals	$973,948	$1,092,546	$1,166,204	6.7%
Funding Sources				
General Fund	*$511,816*	*$539,528*	*$584,155*	*8.3%*
Special Account for Capital Outlay	—	*4,000*	—	*−100.0*
Lottery Education Funds	—	*1,108*	*907*	*−18.1*
Developmental Disabilities Program Development Fund	*4,642*	*4,123*	*3,555*	*−13.8*
Federal funds	*3,141*	*10,653*	*2,613*	*−75.5*
Reimbursements	*454,349*	*533,134*	*574,974*	*7.8*
Personnel-years				
Department support	384.1	411.6	424.3	3.1%
Developmental centers	10,665.3	10,820.1	10,970.5	1.4
Totals	11,049.4	11,231.7	11,394.8	1.5%

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $23.4 million for support of the department in 1990-91. This is an increase of $2 million, or 9.4 percent, above estimated current-year expenditures.

Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $26.9 million, which is $5.4 million, or 17 percent, below estimated current-year expenditures.

Table 2 identifies the major changes in the department's support budget proposed for 1990-91.

Table 2
Department of Developmental Services
Department Support
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (Budget Act)	$20,811	$28,778
Adjustments, 1989-90:		
Retirement adjustment	−31	−33
Employee compensation increases	531	565
Board of Control	−1	−1
Early intervention services	—	2,971
Career opportunity development reimbursement	—	−76
Alternative Residential Model regulations	75	75
1989-90 expenditures (revised)	$21,385	$32,279
Baseline adjustments, 1990-91:		
Full-year effect of 1989-90 employee compensation increases	446	465
Compensatory education	—	139
Early intervention services	—	−8,044
Career Opportunity Development Program	132	132
Alternative Residential Model	−75	−75
Board of Control	1	1
Reimbursement adjustment	—	69
Program change proposals:		
Cost recovery system	729	729
Implementation of *Sherry S.* hearings	1,110	1,110
Substance-exposed infants	—	55
Parental fees administration	−329	36
1990-91 expenditures (proposed)	$23,399	$26,896
Change from 1989-90 (revised):		
Amount	$2,014	−$5,383
Percent	9.4%	−16.7%

Revised Spending Plan Needed for Early Intervention Services

We recommend that the department submit a revised expenditure plan to the fiscal committees by April 1, 1990.

The budget proposes to spend $1.6 million in federal funds on the Early Intervention Services Program during 1990-91. This is a reduction of $8.1 million, or 83 percent, below estimated current-year expenditures. The department proposes to allocate $1.3 million of these funds to local planning agencies for planning, coordinating, and delivering services to handicapped infants and their families. The department plans to spend the remaining $300,000 on state administration and support of the Interagency Coordinating Council.

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, 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). 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 they have adopted a state policy for early intervention services that addresses specified federal requirements. However, the federal regulations allow for a waiver of this requirement under certain conditions. 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.

Current-Year Budget. The budget reflects current-year expenditures of $9.7 million. This amount includes (1) $3.9 million for local agency planning and coordination, (2) $1.2 million for community projects and studies, (3) $1.4 million for state administration, and (4) $3.2 million for direct services. According to direct service plans submitted by the 26 local agencies participating in the program, these agencies estimate they will actually spend only $2.3 million of the $3.2 million for direct services. Local planning agencies propose to carry over the remaining $900,000 for expenditure during 1990-91.

Revised Budget Estimates Likely. Our review indicates that the budget is based on two assumptions that are likely to be inaccurate.

First, the budget assumes that the department will not apply for, or receive, third-year funding from the federal government. We believe it is likely, however, that the department *will* apply for these funds. This is because neither we nor department staff could identify any budgetary or programmatic reason not to continue participating in the federal program for an additional year. The department has secured written assurances from the federal government that (1) acceptance of third-year funds does not obligate the department to apply for funding in

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

subsequent years and (2) a future decision not to continue participating in the federal program would not require California to return any program funds.

The deadline for applying for third-year funds is June 30, 1990. The department reports that it will decide by February whether it will submit an application. The department estimates that this grant would be approximately $8 million.

The second budget assumption that is likely to be inaccurate relates to carry-over funds. The budget assumes that there will be no funds carried over into 1990-91 from earlier years. We believe carrying over current-year funds is likely because (1) the department has carried over prior-year funding for the past two years and (2) local planning agencies already plan to carry over $900,000 of their direct services funds.

Because the assumptions contained in the budget as introduced are likely to be inaccurate, we recommend that the department prepare a revised spending plan for early intervention services funds that reflects (1) receipt of third-year funding and (2) revised estimates of available carry-over funds.

2. REGIONAL CENTERS AND COMMUNITY PROGRAM DEVELOPMENT

The budget proposes expenditures of $579 million for regional centers and community development programs in 1990-91. This is an increase of $58.8 million, or 11 percent, above estimated current-year expenditures. Total expenditures, including the expenditures of SSI/SSP payments to residential care providers, are proposed at $719 million, which is an increase of $65.2 million, or 10 percent, above estimated current-year expenditures. The increase in expenditures is primarily due to increases of $21.6 million based on regional center caseload, utilization, and cost trends; $17.9 million proposed for further implementation and expansion of the Alternative Residential Model (ARM); $8.5 million related to community placement of former state developmental center clients; and $4.8 million for regional center employee compensation ($2.3 million for the full-year cost of 1989-90 increases and $2.5 million for increases beginning January 1991).

Expenditures from the General Fund are proposed at $511 million, an increase of $25.5 million, or 5.2 percent, over estimated expenditures in the current year. The General Fund increase is lower than the increase in all funds due to the anticipated receipt of $5 million in client fees and $28.8 million in federal funds resulting from enactment of proposed legislation establishing fees for case management services.

Expenditures from the Program Development Fund (PDF) are proposed at $4.7 million. This is $600,000, or 12 percent, less than estimated expenditures in the current year. This reduction is due primarily to the anticipated expenditure of $500,000 for conversion of community care facilities to medical facilities in the current year.

Table 3 displays the components of regional center and community program development expenditures for the prior, current, and budget years. Table 4 shows the changes to the budget for regional centers and community program development proposed in 1990-91.

Table 3
Department of Developmental Services
Regional Centers and Community Program Development
Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in thousands)

Expenditures	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Change From 1989-90 Percent*
Regional centers					
Operations	$126,680	$147,347	$159,926	$12,579	8.5%
Purchase of service	333,329	370,172	416,976	46,804	12.6
Subtotals, regional centers	($460,009)	($517,519)	($576,902)	($59,383)	(11.5%)
Community program development					
Community placement	($5,861) [a]	($5,825) [a]	($6,224) [a]	($399)	(6.8%)
Program development	3,548	2,622	2,010	−612	−23.3
Cultural center	146	146	146	—	—
Subtotals, community program development	($3,694)	($2,768)	($2,156)	(−$612)	(−22.1%)
Subtotals	$463,703	$520,287	$579,058	$58,771	11.3%
Supplemental Security Income/State Supplementary Program (SSI/SSP) reimbursements	122,690	133,371	139,819	6,448	4.8
Totals	$586,393	$653,658	$718,877	$65,219	10.0%
Funding Sources					
General Fund					
Regional centers	*$457,444*	*$485,814*	*$511,264*	*$25,450*	*5.2%*
SSP [b]	*67,725*	*73,221*	*74,524*	*1,303*	*1.8*
Program Development Fund					
Parental fees	*4,474*	*3,915*	*2,975*	*−940*	*−24.0*
Federal reimbursements	*1,739*	*1,372*	*1,700*	*328*	*23.9*
Federal funds (SSI) [b]	*54,965*	*60,150*	*65,295*	*5,145*	*8.6*
Reimbursements	*46*	*29,186*	*63,119*	*33,933*	*116.3*

[a] These amounts are incorporated in the regional center purchase-of-service budget.
[b] Assumes funding split of 55 percent General Fund/45 percent federal funds in 1988-89 and 1989-90, and 53 percent to 47 percent in 1990-91.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 4
Department of Developmental Services
Regional Centers and Community Development Programs
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	Program Development Fund: Parental Fees	Program Development Fund: Federal Funds	Medi-Cal and Other Reimbursements	All Funds
1989-90 expenditures (Budget Act)	$498,107	$3,415	$1,364	$26,094	$528,980
Adjustments, 1989-90:					
Reappropriation for intermediate care facilities for the developmentally disabled-nursing (ICF/DD-Ns)	—	500	—	—	500
Board of Control claim	−5	—	—	—	−5
Home- and community-based waiver	−3,047	—	—	3,047	—
Compensatory education	—	—	—	45	45
Increased allocation from state council	—	—	8	—	8
Revision to Alternative Residential Model (ARM) schedule	−1,494	—	—	—	−1,494
Revisions in caseload and cost estimates	−8,295	—	—	—	−8,295
Implementation of *Sherry S.* hearings	548	—	—	—	548
1989-90 expenditures (revised)	$485,814	$3,915	$1,372	$29,186	$520,287
Baseline adjustments, 1990-91:					
Program service standards, Ch 1396/89	2,131	—	—	—	2,131
Back out reappropriation	—	−500	—	—	−500
Home- and community-based services	470	—	—	−470	—
Nursing home reform	−259	—	—	−773	−1,032
Full-year effect of 1989-90 employee compensation increases	2,319	—	—	—	2,319
Revision to ARM schedule	2,450	—	—	—	2,450
Caseload, utilization, and cost changes:					
Purchase of service	16,015	—	—	—	16,015
Operations	5,559	—	—	—	5,559
ARM expansion	15,439	—	—	—	15,439
Increase in allocation from state council	—	—	328	—	328
Decrease in parental fees	—	−440	—	—	−440
Community placement	8,523	—	—	—	8,523
Other	716	—	—	—	716
Proposed program changes:					
Targeted case management reimbursements	−28,800	—	—	28,800	—
Regional center fees	−5,000	—	—	5,000	—
ARM rate increase: geographic differential	1,603	—	—	—	1,603
ARM rate increase: wage rate differential	1,209	—	—	—	1,209
Moving vendor types between categories	−940	—	—	—	−940
Implementation of *Sherry S.* hearings	1,563	—	—	—	1,563
Compensatory education	—	—	—	1,376	1,376

1990-91 employee compensation increase	2,452	—	—	—	2,452
1990-91 expenditures (proposed)	$511,264	$2,975	$1,700	$63,119	$579,058
Change from 1989-90 (revised):					
Amount	$25,450	−$940	$328	$33,933	$58,771
Percent	5.2%	−24.0%	23.9%	116.3%	11.3%

Regional Center Estimate Package Much Improved

The department has done an excellent job in complying with the Legislature's request to revise the format of the regional center budget proposal.

Pursuant to language in the *Supplemental Report of the 1989 Budget Act*, the department has revised the format for its regional center funding request. Our review of the request for 1990-91 indicates that the department has done an excellent job in (1) identifying and explaining budget requests originating from caseload and policy changes and (2) providing backup information on its budget assumptions and estimating methodology. To do this, the department has created a new estimating section. This section deserves commendation for the highly professional work it has done in building and formatting the regional center caseload request.

Regional Center Caseload

The department estimates that the midyear regional center caseload in 1990-91 will be 102,531, an increase of 5,040, or 5.2 percent, above the estimated current-year level. As Table 5 displays, the department estimates that the residential care caseload will increase by 508 clients, or 2.7 percent, above the estimated current-year level.

Table 5
Regional Centers' Midyear Caseload
1984-85 through 1990-91

	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	92,316	4.3	18,085	1.4
1989-90 (estimated)	97,491	5.6	18,645	3.1
1990-91 (proposed)	102,531	5.2	19,153	2.7

Regional Center Budget Likely to be Underfunded

The regional center budget is likely to be underfunded due to problems in estimating current-year expenditures. The department will be addressing these problems in its May revision.

The budget reflects savings of $15.2 million from the General Fund in the regional center budget during the current year. The budget proposes to reappropriate $10.7 million of these funds for use during 1990-91. The budget identifies $4.5 million as a reversion to the General Fund.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

The department indicates that $8.3 million of the $15.2 million in savings is due to revisions in its estimates of regional center caseload and costs. The department estimates that the community caseload will be 90,353 in the current year. This is a reduction of 1,541 clients below the community caseload figures used as the basis for this 1989 Budget Act. The $8.3 million in savings consists of $1.8 million in regional center operations related to the reduction in caseload and $6.5 million in expenditures for client services due to the caseload changes and changes in the department's estimating methodology.

The remaining reasons for the savings are as follows:

- Federal reimbursements for services provided through the department's home- and community-based services program will be $3 million higher than anticipated.
- There is an additional $3 million available from Ch 85/87 (SB 1513, Craven) because the department's accounting section failed to charge some 1988-89 Alternative Residential Model (ARM) implementation costs against this appropriation. The budget shows these funds reverting to the General Fund.
- There will be savings of $1.5 million due to delaying expansion of the ARM to Lanterman Regional Center from the current year to the budget year.

These savings are offset by additional costs of $548,000 for implementation of *Sherry S.* hearings.

Revised Methodology for Estimating Caseload. The department's revised current-year caseload estimate is based on a new methodology involving examination of caseload trends over a three-year period ending June 1989, using data submitted weekly by regional centers. Previously, the department developed estimates of caseload growth using past *budgeted* growth for each regional center, not *actual* growth. These estimates were modified based on negotiations with regional centers. The department has changed its estimating process because it was not based on historical growth trends.

Current-Year Savings May Not Materialize. Our analysis indicates that actual current-year costs may be more than the amount assumed in the budget. This is because the data used to develop per-client costs for day programs do not reflect recent and anticipated rate increases granted under a recent court ruling. In fact, regional centers project that they will spend approximately $4.3 million more than provided by the 1989 Budget Act. The projected deficiency is due to the day program rate increases and increased expenditures for out-of-home care and other services. The department has not reconciled the deficiency projected by regional centers with the figures contained in the budget.

The department reports that it is currently reexamining the methodology and data used to develop the current-year regional center caseload and expenditure estimate.

Effect on Budget for 1990-91. These problems with the current-year savings estimate mean that the 1990-91 budget is likely to be underfunded. Revisions in the current-year savings estimate affect the 1990-91 budget in two ways. First, any adjustments the department makes in caseload and costs are likely to affect both years. Second, reduction of the projected savings may jeopardize availability of funds for reappropriation, thereby requiring a larger Budget Act appropriation. The department indicates that it intends to issue revised estimates in May.

Alternative Residential Model (ARM)

We withhold recommendation on the $2.8 million from the General Fund proposed for ARM geographic and wage rate adjustments, pending submission of a report upon which the proposed rates are based.

The budget requests a General Fund augmentation of $20.7 million for expenditures under the ARM rate-setting system. Of this augmentation, $17.9 million is related to expansion of the ARM in order to meet the statutory implementation deadline of January 1, 1991. The remaining $2.8 million is for rate increases. The rate increase amount consists of (1) $1.6 million for adding a geographic rate differential to levels II, III, and IV providers and (2) $1.2 million to provide a wage rate differential to level III providers.

Chapter 85, Statutes of 1985 (SB 1513, Craven), which established the ARM, requires the department to report annually to the Legislature, by March 1, on the sufficiency of ARM rates. Chapter 85 also specifies that rates paid by the department shall reflect differences in (1) wages paid care-giving staff and (2) geographic location of the provider. The department contracted for a study to assist it in complying with these requirements. The department states that the contractor's report is undergoing the administration's review and anticipates submitting it to the Legislature by March 1, as required.

Prior to receiving the report, we have no basis for assessing the reasonableness of the proposed rate augmentations. Accordingly, we withhold recommendation on the rate increase funds pending receipt of the department's report.

Red-Circling Policy Applied Inconsistently

The department is unable to justify why it proposes applying different red-circle policies to different groups of residential care providers.

The budget proposes to discontinue on January 1, 1991 its policy of "red-circling" residential care providers who otherwise would receive rate reductions upon their conversion to the ARM. However, it proposes to continue this policy for residential care providers who otherwise would receive rate reductions as a result of implementing a proposed geographic rate differential.

Red-circling ensures that individual providers do not experience rate reductions upon conversion to the ARM. Under the red-circling policy, providers whose ARM rates are lower than their existing rates when they convert to the ARM continue to receive their existing rates until the ARM

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

rate is equal to, or more than, the existing rate. The department has red-circled providers converting to the ARM throughout the implementation of the ARM.

The budget proposes to end this red-circle policy on January 1, 1991, when the last providers will convert to the ARM. The department reports that to continue red-circling providers for the remainder of the budget year would require an additional $1.4 million from the General Fund.

However, the department proposes to red-circle ARM providers who otherwise would receive rate reductions as a result of implementing the geographic rate differential proposed for 1990-91. Under the department's proposal, providers would receive a rate *increase* if they operate in high-cost areas but would not receive a rate *decrease* if they operate in lower-cost areas. At the time we prepared this analysis, the department was unable to provide information regarding the cost of this policy during 1990-91.

The department justifies red-circling for providers affected by the geographic rate differential on the basis that red-circling is needed to stabilize rates in the residential care system. It states that reducing rates might cause some providers to close. However, this same logic applies to providers converting to the ARM. The department was unable to supply justification for applying different red-circling policies to different groups of residential care providers.

Technical Adjustment Required

We recommend deleting $200,000 from the amount contained in the budget for a quality assurance study to correct a technical budgeting error (Item 4300-101-001).

The 1989 Budget Act contains $200,000 for a one-time survey of regional centers and residential care providers related to quality assurance standards. The department indicates that the study is almost completed. However, the department neglected to subtract these funds from its budget while constructing the 1990-91 budget. Because the $200,000 is a one-time expenditure, we recommend that the Legislature delete $200,000 from the 1990-91 budget.

SSI/SSP Cost-of-Living Adjustment (COLA)

The budget assumes passage of legislation waiving COLAs for the SSI/SSP Program in 1990-91.

Current law requires that the SSI/SSP Program receive a COLA equal to the annual increase in the California Necessities Index (CNI). The Commission on State Finance estimates the CNI increase to be 4.6 percent. The department indicates that providing a 4.6 percent COLA for the SSI/SSP Program would allow a General Fund reduction in the regional center budget of $3.2 million. This is because residential care services in the regional center budget are partially funded by SSI/SSP payments.

Targeted Case Management Revisited

To assure full funding of the regional centers in the event that the department is unsuccessful in obtaining legislation to establish fees for regional center services, or the federal government continues to deny reimbursement for case management services, we recommend that the Legislature (1) add $33.8 million (General Fund) to the regional centers (Item 4300-101-001) and the same amount to General Fund revenues and (2) schedule $9.1 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 proposes a General Fund reduction of $33.8 million resulting from establishing fees for regional center services. The department is proposing legislation to authorize these fees. The reduction would be offset by new reimbursements of (1) $5 million from fees and (2) $28.8 million in federal funds. The federal funds would become available because establishing these fees would enable the state to claim federal funds through the Medi-Cal Program for case management services.

Background. Chapters 1384 and 1385, Statutes of 1987 (SB 375, Watson and AB 1371, Bronzan), established case management services provided to persons with developmental disabilities as a Medi-Cal benefit, contingent upon federal approval. The 1988-89 budget, as proposed by the Governor, assumed 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 federal Medi-Cal reimbursements based on these billings. The 1989-90 budget, as proposed by the Governor, made similar assumptions. It assumed that the regional centers would receive $28.8 million in Medi-Cal reimbursements for case management services.

During deliberations on both the 1988-89 and 1989-90 budgets, 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 ensure that the regional centers received full funding, the Legislature (1) scheduled approximately one-third of the department's support budget in a separate item and (2) adopted Budget Bill language specifying that the department could not spend these funds until (a) it received federal approval of its targeted case management proposal or (b) the Department of Finance notified the Legislature that it had restored funds to the regional center budget. In the 1989-90 budget, the Legislature also augmented the budget to restore the funds.

The department has not yet received federal approval for billing Medi-Cal or regional center case management services and does not anticipate receiving federal approval in the current year. As a result, the regional centers have been fully funded from the General Fund — in 1988-89 through a deficiency bill and in 1989-90 through the budget augmentation.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

According to the department, the only barrier to federal approval for billing Medi-Cal is that statute specifies that regional center case management services are free. Federal law does not require federal reimbursement for services that are free.

Budget Reduction of $33.8 Million Tied to Passage of Legislation. The budget proposal assumes passage of legislation enacting fees for regional center services and implementation of the fees by July 1, 1990. As a result of implementing these fees, the department projects it will receive $5 million in fees and $28.8 million in federal reimbursements.

Our review indicates that the final decision on the department's legislative proposal may not occur until after work on the budget is completed. Consequently, the Legislature is faced with the same dilemma it faced in constructing the budget during the past two years: how to reflect these funds in the budget, while, at the same time, assuring that regional centers will have enough funds to continue operating their programs if the legislation is not enacted or federal funding is delayed.

In order to resolve this dilemma, we recommend that the Legislature take a similar approach in the 1990 Budget Bill that it took in the 1989-90 budget to assure full funding of the regional centers. Specifically, we recommend that the Legislature (1) add $33.8 million to the regional centers item (Item 4300-101-001) and the same amount to General Fund revenues and (2) schedule $9.1 million from the department's support budget in a separate item, with Budget Bill language specifying that funds may be released if the Department of Finance notifies the Legislature that (a) the department has implemented its fee proposal and has received written assurance from the federal government of its intent to pay for targeted case management services provided by regional centers, (b) it has approved creation of a deficiency in the regional center budget to restore the funds, or (c) the funds are scheduled as revenues rather than reimbursements. The Budget Bill language would be identical to language in the 1989 Budget Act.

The $9.1 million amount in a separate item is 39 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 department fails to receive approval of its legislative proposal or federal agreement to pay for targeted case management services provided by regional centers.

Possible Expansion of Home- and Community-Based Services

We recommend that the department submit to the fiscal committees, by April 1, 1990, (1) information on the status of the department's request for a renewal of its existing federal waiver, (2) a schedule and work plan for requesting that the federal government increase the present limit on the number of participants, and (3) an estimate of regional center costs required to enroll and monitor additional clients.

The 1990-91 budget proposes federal reimbursements of $24.2 million associated with the department's home- and community-based services program. This reflects a decrease of $470,000, or 1.9 percent, below estimated current-year reimbursements. The reduction in reimbursements is due to a federal decision not to pay for case management services under the waiver program.

Background. In the Omnibus Budget Reconciliation Act of 1981, Congress authorized states to seek waivers of certain Medicaid rules in order to provide a broad array of home- and community-based services to persons who, without these services, would require the level of care provided in a skilled nursing facility or intermediate care facility. Participating states must provide the federal government with several assurances, including that the estimated average per capita expenditure for all services provided under the waiver would not exceed services provided individuals without the waiver. The federal government initially grants waivers for three years, and extends them for five-year periods, at the state's request, unless it determines that the state has failed to provide the assurances required.

The federal government approved the department's request to provide home- and community-based services to persons with developmental disabilities in 1982. The department sought, and was granted, renewals covering the period through September 1988. Since September 1988, the department has been negotiating a five-year renewal of the waiver with the federal government. It has been operating under a series of 90-day extensions since October 1988. The latest 90-day extension expires on March 8, 1990.

The department reports that the federal government's main objection to the state's waiver proposal centers on an issue known as "factoring." Federal law prohibits "factoring payments to providers"; in other words, it requires direct payment to the service provider by the state agency administering the Medicaid Program (the Department of Health Services in California). Currently, the regional centers reimburse the providers. Federal legislation or a change in California's system of operation are the only two solutions to this problem. The department reports it is pursuing both options.

Budget Assumes Program Will Continue. The budget reflects the assumption that regional centers will continue to receive federal reimbursements under the waiver. In fact, the federal government may not continue granting extensions to the department's present waiver absent any change in the existing payment system or in federal law. Approximately $8.2 million in reimbursements are at stake. If regional centers do not receive these funds, they will require a General Fund augmentation of the same amount. We recommend the department report to the fiscal committees on the status of its waiver extension request.

Budget Assumes Program Will Serve 3,360 Clients. The budget is based on continuing to serve 3,360 clients under the waiver program. This is the maximum number of clients allowed under the current agreement with the federal government. Our review indicates that the state could obtain additional federal funding if it secures federal agreement to raise the cap on the number of clients served.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

The department estimates that there are currently an additional 18,000 regional center clients who meet the eligibility criteria for the waiver program. The department also reports that due to a variety of factors, roughly one-half of those eligible actually obtain services under the waiver. Based on 9,000 additional clients bringing in the same level of reimbursements — $7,200 annually — as existing waiver participants, we estimate that regional centers could obtain an additional $65 million in federal reimbursements each year.

The department indicates that it plans to request the federal government to raise the cap on the number of clients the regional centers can serve under the waiver when the federal government approves the existing request for an extension. However, the department reports that it has not yet determined (1) by what amount it will propose to raise the cap, (2) the amount of staff regional centers will require related to this change, and (3) how soon after the federal government renews the department's existing plan it will request that the cap be raised.

In view of the significant savings potentially available to the General Fund from increased waiver reimbursements, it is important that the department is ready to submit its request for an increase in the cap as soon as the extension request is granted. Accordingly, we recommend that the department submit to the fiscal committees by April 1, 1990 (1) the status of the department's request for a renewal of its existing waiver, (2) a schedule and work plan for requesting that the federal government increase the present limit on the number of participants, and (3) an estimate of regional center costs required to enroll and monitor additional clients.

Proposed Budget Bill Language Requires Detailed Information From Regional Centers

The Budget Bill proposes language requiring detailed information from regional centers regarding their staffing and caseload. Specifically, the proposed language requires regional centers to submit information by October 15, 1990 on:

- The number of positions established and filled and the salary and benefits staff receive.
- Outside employment or educational activities affecting certain regional center staff.
- How the cost-of-living adjustment provided in the current year was distributed among regional center staff.
- Minimum hiring qualifications for specified positions.
- The ratio of certain types of clients to client program coordinators.
- The number of persons applying for, and receiving, regional center services.
- The number of clients receiving services generically available in the community.
- Activities related to program development.

- Number of clients where the person, his or her family, or the conservator acts as the coordinator for the client's Individual Program Plan.
- The number of residential and day programs that have closed or are no longer serving regional center clients.
- The number of clients referred to, accepted by, and placed out of the state developmental centers.

Currently, regional centers receive funds sufficient to support the number and type of positions the department considers necessary to provide regional center services, based on the client population. Regional centers may spend these funds however they choose, and need not report this information to the department.

The department reports that receiving the information required by the language would assist it in (1) justifying budget augmentations requested for the regional centers and (2) responding to requests from the Department of Finance, the Legislature, and members of the public. The department indicates that when it receives requests for this information currently, it must rely on voluntary compliance of the regional centers.

The department reports that regional centers will not incur additional workload related to obtaining and submitting the information required, for two reasons. First, the department indicates that several regional centers collect this type of information currently in order to effectively manage their programs and budgets. Second, the department reports that it will eliminate other information currently required of the regional centers in order to ensure that they incur no net costs associated with compliance.

Our analysis indicates that obtaining some of the information required by the proposed language would assist in the analysis of budget and legislative proposals related to the regional centers. For example, knowing how the regional centers actually use the personal services funds allocated to them would enable an assessment of the reasonableness of the staffing formula used by the department for budgeting purposes.

Community Program Development

The budget proposes expenditures of $8.4 million for community program development from various funds. Table 6 displays the programs that would be funded with the $8.4 million.

Intermediate Care Facilities for the Developmentally Disabled-Nursing (ICF/DD-Ns)

We recommend that the Legislature reappropriate the unencumbered balance of a $500,000 appropriation from the Program Development Fund for development of ICF/DD-Ns. (Reappropriate the unencumbered balance of funds available in Item 4300-490(i) of the 1989 Budget Act.)

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 6
Department of Developmental Services
Community Program Development
1990-91
(in thousands)

Program	General Fund	Program Development Fund: Parental Fees	Program Development Fund: Federal Reimbursements	All Funds
State council projects	—	—	$1,700	$1,700
Department projects	—	$310	—	310
Place clients from developmental centers	$3,559 [a]	2,665 [a]	—	6,224 [a]
Cultural center	146	—	—	146
Totals	$3,705	$2,975	$1,700	$8,380

[a] These amounts are reflected in the regional center budget.

The budget reflects expenditures of $500,000 from the Program Development Fund in the current year to assist community care facilities (CCFs) in converting to licensure as ICF/DD-Ns. These funds were originally appropriated in the 1986 Budget Act and have been reappropriated in several subsequent Budget Acts.

Chapter 1496, Statutes of 1985 (SB 851, Craven), directed the Department of Health Services (DHS), working jointly with the DDS, to develop licensing and Medi-Cal regulations for a new health facility 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 state developmental center (SDC) clients into the community.

The Office of Administrative Law has recently approved the Medi-Cal regulations relating to the facilities. However, it rejected the licensure regulations on what the DDS indicates are nonsubstantive reasons. The DHS will again adopt these regulations under its authority to promulgate emergency regulations, pending the resubmission of final regulations to the office.

The department has spent approximately $50,000 assisting three CCFs in converting to ICF/DD-Ns. It doubts it will fully spend the remaining $450,000 during the current year. The department also reports that 15 of the 18 ICF/DD-Ns in existence were not conversions but new programs beginning operation as ICF/DD-Ns.

We do not believe that it makes any sense to reappropriate these funds again for converting CCFs to ICF/DD-N licensure. The Legislature has reappropriated $500,000 for this purpose for several years, and the department seems unable to spend it.

The department agrees with our assessment that appropriating these funds for use on facility conversions has not been effective. The department reports it could assist in the development of many more *new* ICF/DD-Ns — and place more SDC residents into the community — if it was not limited to assisting CCFs with conversion. The department indicates that allowing the department to award funds to providers starting up as ICF/DD-Ns would greatly improve the department's ability to place more SDC residents.

We believe that assisting in the development of new ICF/DD-Ns is important for successful placement of SDC residents into the community. Accordingly, we recommend that the Legislature reappropriate the unencumbered balance of the $500,000 appropriation from the Program Development Fund for assistance to providers developing ICF/DD-Ns.

3. STATE DEVELOPMENTAL CENTERS

The budget proposes expenditures of $560.3 million (all funds) for programs to serve state developmental center (SDC) clients in 1990-91. This is an increase of $20.3 million, or 3.8 percent, above estimated current-year expenditures. The proposed General Fund appropriation for the SDCs is $49.5 million. This appropriation is $17.2 million, or 53 percent, above estimated current-year expenditures. The primary reasons for these increases are (1) the full-year effect of employee compensation increases granted in the current year and (2) a proposal for additional funds to reduce the salary savings rate from 7.4 percent to 4.9 percent.

The budget reflects an average population of 6,746 developmentally disabled clients in 1990-91 for the SDCs. This is the same as the average population estimated for the current year. The average cost per client in 1990-91 is $76,000, an increase of $2,400, or 3.3 percent, above the cost per client in the current year. The budget proposes 10,046.9 personnel-years for developmental services programs at the SDCs in the budget year. This is 238.5, or 2.4 percent, more than the personnel-years budgeted in the current year.

Table 7 displays expenditures, funding sources, population, personnel-years, and the cost per client for developmental services programs at the SDCs. Table 8 shows the changes to the current-year budget proposed for 1990-91.

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 budget proposes an increase of $3.1 million (General Fund) due to anticipated changes in SDC client characteristics. The budget proposal is based on a population of 6,746 at the end of the current year. This is 116 clients above the 6,630 clients used as the basis for the 1989 Budget Act. The budget proposal estimates no change in the SDC population during 1990-91.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 7
Department of Developmental Services
Developmental Centers Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Expenditures	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1988-89*
Developmental services programs	$444,806	$495,773	$512,112	3.3%
Mental health programs	42,226	44,207	48,138	8.9
Totals	$487,032	$539,980	$560,250	3.8%
Funding Sources				
General Fund	*$34,610*	*$32,329*	*$49,492*	*53.1%*
Special Account for Capital Outlay	—	*4,000*	—	*−100.0*
Federal funds	*759*	*856*	*856*	—
Lottery Education Fund	—	*1,108*	*907*	*−18.1*
Mental health reimbursements	*42,226*	*44,207*	*48,138*	*8.9*
Medi-Cal reimbursements	*409,437*	*452,625*	*456,006*	*0.7*
Other reimbursements	—	*4,855*	*4,851*	*−0.1*
Developmental services programs				
Average developmentally disabled population	6,714	6,746	6,746	—
Personnel-years	9,716.1	9,808.4	10,046.9	2.4%
Cost per client (actual dollars)	$66,251	$73,491	$75,913	3.3

Table 8
Department of Developmental Services
Programs for the Developmentally Disabled
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*Medi-Cal Reimbursements*	*Other*	*All Funds*
1989-90 expenditures (Budget Act)	$31,440	$431,910	$56,709	$520,059
Baseline adjustments, 1989-90:				
Retirement adjustment	−681	—	−65	−746
Employee compensation	12,376	—	1,262	13,638
Population adjustment	3,639	—	—	3,639
Board of Control	−77	—	—	−77
Implementation of *Sherry S.* hearings	529	—	—	529
Cost reporting system	550	—	—	550
Salary savings reduction	2,640	—	—	2,640
Transfer to the Department of Mental Health	2,628	—	−2,628	—
Additional Medi-Cal reimbursements	−20,715	20,715	—	—
Lottery education funds	—	—	−252	−252
1989-90 expenditures (revised)	$32,329	$452,625	$55,026	$539,980
Baseline adjustments, 1990-91:				
Full-year effect of 1989-90 population changes	−347	—	−124	−471
Full-year effect of 1989-90 employee compensation increases	8,378	—	814	9,192

Lottery education funds	—	—	−201	−201
Board of Control	77	—	—	77
Janitorial contract	136	—	—	136
Career Opportunity Development Program adjustment	−132	—	—	−132
Special Account for Capital Outlay	—	—	−4,000	−4,000
Transfer from the Department of Health Services	10,823	−10,823	—	—
Cost reporting system	−550	—	—	−550
Back out transfer to the Department of Mental Health	−2,628	—	2,628	—
Caseload and cost adjustments:				
Developmentally disabled population	3,146	—	—	3,146
Additional Medi-Cal reimbursements	−14,203	14,203	—	—
Mentally disabled population	—	—	−374	−374
Coverage factor	2,664	—	—	2,664
Salary savings rate reduction	7,681	—	984	8,665
Program change proposals:				
Implementation of *Sherry S.* hearings	−123	—	—	−123
Client education	2,241	—	—	2,241
1990-91 expenditures (proposed)	$49,492	$456,005	$54,753	$560,250
Change from 1989-90 (revised):				
Amount	$17,163	$3,380	−$273	$20,270
Percent	53.1%	0.7%	−0.5%	3.8%

The department reports that the increase in population during the current year is due primarily to unanticipated closures in community facilities. The budget proposal assumes that closures of community facilities will have no net effect on the SDC population in 1990-91. Our analysis indicates that unanticipated closures of community facilities may increase the 1990-91 SDC population just as they did the current-year population.

The department indicates that it will update these population estimates in May.

Budget Fails to Reflect Medi-Cal COLAs. The department's budget request assumes there will be no Medi-Cal rate increases for long-term care in the budget. Although the administration proposes waiving statutory COLAs in other programs, it is likely that the long-term care COLAs will be provided 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 Medi-Cal COLA provided to long-term care facilities would offset $4.4 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 of expenditures. 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.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Budget Bill Proposes Authority to Spend Without Legislative Review

We recommend that the Legislature delete proposed Budget Bill language allowing for expenditure of excess Medi-Cal reimbursements without legislative review. (Delete Provision 4 of Item 4300-003-001.)

The Budget Bill includes proposed new language authorizing the department to spend additional Medi-Cal reimbursements received due to an increase in SDC population for costs associated with the increase, upon approval of the Director of Finance. The effect of this language is to allow the department to spend funds without legislative review.

Currently, expenditures of additional Medi-Cal reimbursements are subject to legislative review through the process established by Section 28 of the 1989 Budget Act. Under Section 28, the Director of Finance must notify the Legislature 30 days before approving such expenditures.

The proposed language would be justified if the reimbursement adjustments were entirely routine and lacked policy implications. This situation does not meet these criteria. For example, the Section 28 process allows for legislative scrutiny of the department's assumptions on (1) population trends, (2) the timing and amount of reimbursements, and (3) what expenditures are related to the anticipated increase in caseload. Accordingly, we recommend that the Legislature delete the proposed language.

Proposed Reduction in Salary Savings Will Not Facilitate Certification

The proposed augmentation to reduce the salary savings rate will not fully address problems with licensing, accreditation, and certification at the SDCs. We recommend that the department submit to the fiscal committees before April 1 a work plan for developing new staffing standards for the SDCs.

The budget proposes an augmentation of $8.7 million ($7.7 million General Fund) to lower the proposed salary savings rate for most staff to 4.9 percent. "Salary savings" is an amount deleted from the budget to reflect vacancies in authorized positions.

The 1989 Budget Bill as passed by the Legislature included $6.8 million to lower the SDC salary savings rate from 7.2 percent to 5.7 percent. The Governor vetoed $2.7 million, leaving $4.1 million to lower the SDC salary savings rate to 6.3 percent. During the current year, (1) the department identified savings of $2.4 million that it used to lower its salary savings and (2) the administration submitted a Section 28 letter to the Legislature increasing the SDC budget by an additional $2.6 million. Together, these two actions lowered the salary savings rate to 5 percent.

The department reports that without additional funding, the salary savings rate for the SDCs would be 7.4 percent in 1990-91, primarily due to the need to hold additional positions open in order to provide merit salary adjustments for staff. The budget proposal would lower the SDC salary savings rate to 4.9 percent — 3 percent at Stockton and 5 percent at the other centers.

The department reports that it needs this additional funding in order to prevent (1) licensing violations and (2) the loss of certification for federal Medi-Cal funding and accreditation by the Accreditation Council on Services for People with Developmental Disabilities (ACDD). Losing certification would jeopardize approximately $170.4 million in federal funds that the state receives annually for intermediate care facility services provided by the SDCs. Losing accreditation is primarily a matter of professional prestige. Currently, five of the seven SDCs are fully accredited. However, the federal government tends to base its federal certification standards on the accreditation standards used by the ACDD.

Current Licensure, Certification, and Accreditation Problems. Our review of various reports issued by the licensing, certifying, and accrediting agencies confirms that the SDCs have major operating problems that warrant attention.

With respect to licensing, our review of Department of Health Services (DHS) records indicates that the number of licensure violations at SDCs increased from 8 during 1987 to 30 during 1989; and 7 of the 30 citations issued by the DHS to the SDCs in 1989 were for class A violations, indicating that client injury or death was at issue.

With respect to accreditation, one of the three centers reviewed during the last calendar year lost its accreditation; another received a "deferral." According to the ACDD, accreditation of the facility receiving a deferral will depend on strong improvement in its next survey. Of the four centers scheduled for review during the budget year, two are currently not fully accredited. Our review of ACDD reports indicates that protecting the civil rights of SDC clients, providing adequate staffing and active treatment, and ensuring facility cleanliness are areas targeted for improvement by the ACDD.

With respect to certification, DHS staff recommended decertification for two SDCs during the current year. The DHS certification reports target the same areas for improvement as the accreditation reports. The problems encountered by the DDS in meeting certification requirements are likely to become more serious in the future for several reasons:

- Federal certification regulations issued in 1989 require centers to provide continuous active treatment to clients in intermediate care wards. The DHS interprets this to mean that centers are required to provide 112 to 168 hours of active treatment per client per week. The DHS had interpreted previous federal regulations to require 56 hours of active treatment per client per week. Beginning in October 1990, similar requirements will apply to certain clients receiving care in skilled nursing wards. Any costs incurred for additional active treatment would be 50 percent federally funded through the Medi-Cal Program.
- The federal government, and not the DHS, will be reviewing SDCs for compliance with federal regulations beginning in October 1990.

Chart 1 shows the accreditation and certification status of each of the seven SDCs.

Augmentations Will Not Solve the Problems at the SDCs. The Governor's Budget proposes additional funds for three of the four areas noted by the various reviewing agencies: (1) supervision and active treatment (the salary savings proposal), (2) staff training (the coverage factor proposal), and (3) client rights (the *Sherry S.* proposal). (We

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Chart 1

Status of the State Developmental Centers Accreditation and Certification

January 1990

State Developmental Center	Accreditation Status	Federal Certification Status
Agnews	Deferred	Certified
Camarillo	Accredited	Certified
Fairview	Accredited	Certified, but initially recommended for decertification in last review
Lanterman	Accredited	Certified
Porterville	Unaccredited	Certified
Sonoma	Accredited	Certified
Stockton	Accredited	Certified, but initially recommended for decertification in last review

examine the fourth issue — janitorial services — in the next section.) These proposals, in aggregate, will add roughly 170 new staff to direct-care staffing of roughly 4,600 on intermediate care wards. Our analysis indicates that the proposed augmentation for salary savings will not fully address the supervision and treatment problems identified for two reasons.

First, at most the department will use only $1.6 million of the $8.7 million requested to place additional staff on client wards. The department reports that the remaining $7.1 million will be used to provide required merit salary adjustments and associated benefit increases to staff. The department reports that the augmentation will enable it to fill only 16 additional positions. Taking into account the augmentation of $2.6 million the department received pursuant to Section 28 for a salary savings reduction in the *current year*, the department reports that it will be able to fill a total of only 40 new positions with these funds.

Funding merit salary adjustments (MSAs) is justified; these are costs that the department cannot avoid. In fact, our review indicates that staffing problems at SDCs are, in part, due to the administration's policy of not recognizing the costs of MSAs in the budget over the last several years. This policy has forced the SDCs to hold authorized positions open in order to fund these required adjustments. However, our analysis indicates that these 40 new positions — or 6 additional positions per center — will not be sufficient to meet the overall staffing needs of the SDCs.

Second, without updated staffing standards, the Legislature has no basis for determining the amount of staff needed to address ACDD and certification standards. The standards last developed by the department are close to 12 years old and were developed prior to development of the current ACDD or federal requirements. The department reports that it is examining how to best update its standards but could not tell us (1) whether it would use state staff or an outside contractor, (2) when the development of new standards would be initiated or completed, and (3) the costs associated with updating the staffing standards.

We cannot adequately assess the number of new staff that would be required to enable the department to address adequately its accreditation and certification problems without updated staffing standards. We recommend that the department provide to the fiscal committees before April 1 a proposed work plan for developing new staffing standards for the SDCs. The work plan should include a schedule and cost estimates. The staffing standards and cost estimates should specifically address the impact of new federal regulations regarding active treatment.

Phase-In of Additional Positions for Staff Coverage

We recommend a reduction of $666,000 from the General Fund amount budgeted for coverage factor increases in order to more accurately reflect the timing of new staff hiring. (Reduce Item 4300-003-001 by $666,000.)

The budget proposes an augmentation of $2.6 million from the General Fund for 127 positions in order to increase the "coverage factor" at the seven SDCs. 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 last coverage factor adjustment was in the current year, when the SDCs received funds to reflect changes in employment regulations, policies, and staffing patterns occurring since 1983-84.

The department reports that the augmentation proposed in the budget is necessary because actual training hours significantly exceed the number of training hours assumed in the current-year coverage factor adjustment, which were based on licensing regulations. The department reports that increased staff turnover, greater client complexity, more stringent accreditation and certification standards, and new federal requirements require an additional 27.4 hours of training for direct-care staff (primarily nursing) above the 40 hours per year currently budgeted. This estimate includes targeted training for staff at centers scheduled for accreditation surveys.

We believe that increasing the coverage factor is justified. Our analysis indicates that the increasing accreditation and certification standards

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

pose challenges to SDC personnel that increased training is likely to address.

However, our analysis indicates that the department's timeline for filling these 127 positions is unrealistic because it assumes all additional positions can be filled by July 1. The department reports that it will begin working to fill the positions during the current year. We believe it is unlikely that it will be successful in filling all of the positions by July 1. We believe that it is more realistic to assume that on the average, the 127 positions will be filled one quarter into the fiscal year, beginning October 1, 1990. We recommend that the budget be reduced accordingly, by deleting $666,000 from the General Fund. We note that one possible use for the funds identified is to further decrease the SDC salary savings rate.

Problems Have Continued with the Janitorial Contractor

The department has continued to experience problems with its janitorial contractor in the current year. Certification and accreditation surveyors have noted (1) unsanitary conditions and (2) direct-care staff inappropriately performing janitorial duties. It is too soon to tell whether the contractor's performance will improve under the new contract effective in January 1990.

The budget proposes an augmentation of $136,000 from the General Fund to increase funding for the SDC janitorial contract. This brings the total budget for the janitorial contract to $10.8 million during 1990-91. The department reports that this augmentation is necessary due to the State Personnel Board's requirement that the department increase the hourly wage provided the contractor.

Background. The department began contracting for janitorial services in 1986-87. Prior to this time, these services were provided by state staff. The department received an augmentation of $1.5 million during the current year to support increased costs associated with a new contract effective January 1990. The department reported that increasing the contract amount was necessary in order to reduce the problems associated with the previous contract. Specifically, the department reported that it was experiencing problems with contractor performance in four of the seven SDCs because the contractor had underbid when the contract was awarded.

In order to ensure adequate performance by the new contractor, the department advised the Legislature during last year's budget hearings that it planned to (1) award contracts in each of the seven centers rather than award one centralized contract; (2) withhold payments from contractors until problems were corrected; (3) reduce the termination period from 60 days to 30 days; (4) identify areas requiring extra attention from the contractor; and (5) require the winning bidder to provide evidence of experience, adequate employee training, and corporate management capability.

Rather than continue contracting, the Legislature augmented the budget by $3.6 million over the department's request, to allow for janitorial activities to be conducted by state employees. The Governor vetoed the funds added by the Legislature.

Continued Problems in the Current Year. The department indicates that problems have continued with the existing contractor during the current year. Our review of accreditation and certification reports indicates that surveyors also believe that the quality of housekeeping in the centers has continued to be a problem in the current year. Surveyors noted unsanitary conditions and direct-care staff inappropriately performing janitorial chores.

Performance Under the New Contract. The department reports that each of the seven SDCs awarded its janitorial contract to the same contractor with whom the department has experienced so many problems during the current and prior years. At the time this analysis was prepared, it was too soon to tell whether the contractor's performance has improved under the new contract. Improved contractor performance is necessary in order to comply with certification and accreditation standards.

Implementation Plan for *Sherry S.* Needs Work

We withhold recommendation on the department's proposal for implementing* Sherry S. *We recommend that the department submit to the fiscal committees, by April 1, 1990, a revised proposal that outlines and supports its assumptions related to judicial reviews and conservatorships for SDC clients.

The budget proposes 34.8 positions and $3.6 million from the General Fund to support regional center, department, and SDC participation in judicial proceedings required by recent court rulings. The budget reflects expenditures of $1.1 million in the current year for this purpose.

Background. In its 1981 *In re Hop* decision, the California Supreme Court ruled that persons who are unable to provide informed consent regarding their placement in an SDC are entitled to judicial reviews regarding the need for, and appropriateness of, such placement. This decision affected placements under Welfare and Institutions Code Section 4825, which authorizes the placement of nonprotesting adults with developmental disabilities upon application by a regional center at the request of a parent or conservator.

Subsequent to the court's decision in 1981, counties began providing judicial reviews (*"Hop"* reviews) for clients being admitted to SDCs who previously would have been admitted under Section 4825. In the absence of a statutory commitment scheme, counties adopted a variety of commitment procedures to provide judicial reviews for this population.

In some counties, district attorneys have handled petitions for commitment. In other counties where the district attorney has declined to seek commitments for developmentally disabled persons to SDCs due to the lack of explicit statutory authorization, regional centers have petitioned the court for admission of these clients.

Counties generally have not held hearings for those admitted to the SDCs prior to 1981. Their actions have been consistent with the admin-

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

istration's opinion that *In re Hop* did not require judicial reviews for SDC residents admitted prior to 1981.

For a detailed analysis of the counties' response to *In re Hop*, and options and associated costs for implementing the decision, please see our 1988 report *Judicial Reviews of State Developmental Center Placements: Implementation of the In re Hop Decision* (report #88-17).

Two recent appellate court decisions — *North Bay Regional Center v. Sherry S.* and *In re Violet C.* — have held that (1) regional centers cannot petition the court for a client's commitment to an SDC and (2) a parent of an adult with a developmental disability who is unable to grant informed consent may not seek admission to an SDC on behalf of the client unless the parent is also the legal conservator.

Department's Proposal. According to the department, the two court cases effectively mandate that all clients unable to grant informed consent regarding their placement require both *Hop* reviews and legal conservatorships. The department estimates that 4,300 current SDC clients require a conservatorship and that 3,400 require a *Hop* hearing. In addition, the department estimates that approximately 170 clients admitted annually require both conservatorships and *Hop* reviews. Due to the large number of clients requiring reviews and conservatorships, the department plans to schedule hearings over eight years. The department estimates that total costs to the regional centers, the department, and the SDCs will be $31.4 million over the eight-year period.

Table 9 displays the costs associated with the budget requests related to implementing the hearings required by the *Sherry S.* decision for both the current and budget years.

We identified the following major assumptions in the department's proposal:

1. *Legal, accounting, and financial services staffing:*

- The department will be the legal conservator for all affected clients.
- 10.5 attorney-hours will be needed to establish each conservatorship.
- 2 attorney-hours will be required annually for ongoing workload associated with a conservatee's needs.
- 10 percent of conservatees will have financial estates and the department will become conservator for all of them.
- The department will become a temporary conservator in approximately 20 percent of the cases. Temporary conservators are required in emergencies such as the closure of a community facility.

2. *SDC costs:*

- *Hop* hearings will be conducted annually.
- Conservatorships will be established once but will require ongoing review.
- Clients will need to appear in court in 75 percent of conservatorship and *Hop* proceedings.
- For every client requiring both a *Hop* and a conservatorship hearing, two SDC staff will need to transport and accompany clients to two separate proceedings.

Table 9
Department of Developmental Services
Costs Associated with Implementing Hearings
Required by *Sherry S.* Decision
1989-90 and 1990-91

	1989-90		1990-91	
	Positions	*Amount*	*Positions*	*Amount*
Department support				
Legal and support	5.1	—	16.0	$974,000
Accounting and financial	1.2	$396,000	4.0	135,000
Subtotals	6.3	$396,000	20.0	$1,109,000
State developmental centers				
Temporary help to prepare for, and escort, clients to hearings	4.3	$124,000	14.8	$374,000
Travel for staff and clients	—	9,000	—	32,000
Subtotals	4.3	$133,000	14.8	$406,000
Regional centers				
Staff for conservatorships	(4.9) [a]	$202,000	(18.4) [a]	$738,000
Staff for *Hop* reviews	(3.4) [a]	133,000	(10.1) [a]	389,000
Legal fees for *Hop* reviews ($1,100 per client)	—	213,000	—	985,000
Subtotals	(8.3) [a]	$548,000	(28.5) [a]	$2,112,000
Totals	10.6	$1,077,000	34.8	$3,627,000

[a] These staff are employees of regional centers, not the state.

3. *Regional centers:*

- Once established as a conservator, the department will request regional centers — as administrative arms of the department — to petition the court for admission to SDCs and thereby request a *Hop* hearing.
- Regional centers will contract with private counsel for 100 percent of the *Hop* petitions they need to prepare, and counsel will charge $1,100 per case for each case.
- Regional centers will incur an average cost of $1,700 for every *Hop* hearing held for a new admittee, and $1,200 for every *Hop* hearing held for an SDC resident.

The department reports that due to the uncertainty regarding how the *Hop* and conservatorship hearings will proceed throughout the state, it plans to (1) survey regional centers on the proportion of clients needing a conservatorship for whom no potential conservator other than the department can be identified, (2) work with judges throughout the state to develop common administrative procedures for the court hearings, and (3) propose legislation clarifying the *Hop* and conservatorship processes. The department indicates it will present a revised proposal and budget in the spring.

Budget Proposal Needs Work. We identified a variety of problems with the proposal. Generally, they fall into two categories: (1) basic information about the projected workload and costs is lacking and (2) in several instances, the department's proposal is based on "worst case" assumptions that increase costs unnecessarily. We therefore withhold recommenda-

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

tion on the 1990-91 spending proposal pending the department's revised submission. In order to provide the Legislature with the information it needs to evaluate the proposal, we recommend that the department address the following specific problems in its revised submission.

1. Estimates on Workload and Costs. We identified two major problems with the department's estimates. First, little data are currently available on the actual costs that will be incurred for this new activity. The Legislature requires cost estimates derived from actual experience whenever possible. We therefore recommend that the department study the actual costs incurred to date in the current year and incorporate these data into its revised proposal.

Second, the format and summary information provided by the department precluded a thorough analysis. The department provided detailed estimates of the number of clients requiring initial and annual *Hop* hearings and conservatorships, as well as the total annual costs required for regional center legal services, the SDCs, and department support. However, the information did not specify the following: (a) the estimated number of clients requiring a specific type of hearing and (b) the per-case costs to the department and the SDCs for each type of proceeding. Without this information, we were unable to evaluate the department's estimates on hearings and costs or to estimate potential savings resulting from changes to its assumptions. We recommend the department provide a summary and easily understood estimate of the number of hearings and per-case costs as part of its revised proposal.

2. Annual Hop Reviews. Nothing in law or the two recent court rulings requires that clients undergo *Hop* reviews every year, as assumed in the department's proposal. Although this assumption is consistent with the practice in most of the 10 counties we surveyed while preparing our report, we found a consensus among professional staff working with these clients that in a large majority of cases the annual *Hop* reviews are of minimal, if any, benefit because the condition of a client is unlikely to change substantially within a year. The staff we interviewed included staff at SDCs, regional centers, county public defenders, and district attorneys. They agreed that these reviews should be conducted every two or even three years.

The frequency of reviews has a major effect on ongoing costs of these proceedings. For example, conducting reviews every two years instead of every year would halve ongoing costs. Because of the minimal benefit to clients and the potential cost implications, we recommend that the department address the feasibility of holding *Hop* hearings less frequently than every year in its implementation discussions this spring and adjust its budget proposal accordingly.

3. Scheduling, Location, and Client Attendance at Hearings. Our analysis indicates that the department's budget assumptions related to the scheduling, location, and proportion of clients attending hearings are inflated. First, the budget proposal reflects the assumption that 75 percent of clients will attend both *Hop* and conservatorship proceedings.

However, in our recent report, we found that public defenders tend, in most instances, to waive a client's appearance in court for a *Hop* hearing. The department reports that this tendency also applies to conservatorship proceedings.

Second, although the department indicates that it will attempt to schedule a client's *Hop* and conservatorship hearings on the same day to minimize costs related to SDC staff and travel, the budget proposal assumes a separate trip for each hearing. Third, although some SDCs currently hold *Hop* hearings on the SDC grounds, the budget proposal neither recognizes nor incorporates this possibility into its cost estimates. Holding hearings on developmental center grounds can also reduce costs related to travel and SDC staff.

We recommend the department raise these issues in its implementation discussions this spring and adjust its budget proposal accordingly.

4. Need for the Department to Become Conservator. We question whether it is realistic to assume that regional centers will be unable to find a family member or friend to become a conservator for 100 percent of SDC clients needing a conservator. Furthermore, as generic agencies, public guardians are responsible for becoming conservators for persons who cannot find others to serve. We recommend that in its implementation discussions the department (a) obtain an estimate from regional centers on the proportion of clients who have family members or friends who potentially would assume conservatorship responsibilities and (b) explore the possibility of public guardians acting as conservators in lieu of the department.

5. Costs Incurred by Regional Centers. We believe that the estimated regional center costs are too high. The department assumes that regional center staff will incur for *Hop* reviews, on average, costs of $1,700 for a review for a new client and $1,200 for a review of an SDC resident. These costs contrast with the average costs reported to us by 11 of the 21 regional centers when we prepared our report: $700 for a new admission to an SDC and $615 for a review of a current SDC resident.

Our analysis indicates that a central difference in these cost estimates is due to the assumption regarding who performs the legal work required for a *Hop* review. In the budget proposal, legal costs account for 65 percent and 92 percent, respectively, of regional center costs for new admissions and current SDC residents.

We have identified three flaws in the department's assumption that regional centers will need to contract for private counsel for 100 percent of the *Hop* hearings required. Many of the regional centers we surveyed used their own legal staff rather than hiring private counsel to perform this work. Overall, the regional centers we surveyed reported average cost for legal work of $439. The regional centers we surveyed that did use private counsel had costs similar to the $1,100 estimated by the department.

Second, we believe that if all regional centers chose to use private counsel, they could probably secure a lower cost per case due to the

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

volume of cases involved. Finally, it may be more cost-effective for the department's legal staff to perform the additional legal work required. The department reports that it did not believe that it would be cost-effective for its own legal staff to perform the legal work required for *Hop* reviews because the department would incur costs for traveling to the *Hop* hearing in addition to the conservatorship proceeding. However, the department also reports that it is working to ensure that *Hop* and conservatorship hearings occur on the same day, whenever possible. We recommend that the department explore and document these options for reducing the costs associated with petitioning the courts and address them in the revised proposal it submits this spring.

Capital Outlay

The Governor's Budget proposes an appropriation of $12.8 million in Item 4300-301-036 for capital outlay expenditure in the Department of Developmental Services. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

DEPARTMENT OF MENTAL HEALTH

Item 4440 from the General Fund and various funds — Budget p. HW 127

Requested 1990-91	$1,254,431,000
Estimated 1989-90	1,226,221,000
Actual 1988-89	1,093,985,000
Requested increase (excluding amount for salary increases) $28,210,000 (+2.3 percent)	
Total recommended reduction	11,199,000
Recommended reappropriation of available current-year savings	1,500,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4440-001-001—Department support	General	$30,983,000
4440-001-845—Department support	Primary Prevention	234,000
4440-001-890—Department support	Federal	1,225,000
4440-011-001—State hospitals	General	359,468,000
4440-012-001—State hospitals, Proposition 98	General	7,263,000
4440-016-001—Conditional release	General	14,006,000
4440-101-001—Local assistance	General	516,852,000
4440-101-236—Local assistance	Unallocated Account, Cigarette and Tobacco Products Surtax (C&T)	10,000,000
4440-101-311—Local assistance	Traumatic Brain Injury	500,000

4440-101-845—Local assistance	Primary Prevention	1,738,000
4440-101-890—Local assistance	Federal	21,352,000
4440-111-001—Brain-damaged adults	General	5,257,000
4440-141-001—Institutions for mental diseases	General	73,789,000
Control Section 23.50—Department support	State Legalization Impact Assistance Grant (SLIAG)	342,000
Control Section 23.50—Local assistance	SLIAG	6,000,000
Ch 1271/87	General	45,000
Ch 1225/89	General	145,000
Ch 1331/89	Unallocated Account, C&T	25,000,000
Reimbursements	—	180,232,000
Total		$1,254,431,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. ***Conditional Release Program. Reduce Item 4440-016-001 by $1.5 Million and Reappropriate $1.5 Million of Funds Available in Item 4440-016-001 of the 1989 Budget Act.*** Recommend that the Legislature delete $1.5 million (General Fund) from the budget for conditional release services and, instead, reappropriate $1.5 million from current-year funds for providing the services in 1990-91. 627
2. ***Screening of Nursing Facility Residents. Reduce Item 4440-011-001 by $1.3 Million and Reimbursements by $3.8 Million.*** Recommend a reduction in the amount budgeted for preadmission screening and annual resident review because the number of patients who will require screening and the screening costs are lower than the budget assumes. 628
3. State Hospital Reform. Recommend that the department submit to the Legislature by April 1, 1990 a work plan to (a) develop realistic staffing standards that are related to the ward bed type, client level of illness, and planned scheduled treatment requirements and (b) conduct periodic surveys of actual client characteristics to provide a basis for level-of-illness adjustments. 630
4. ***Level-of-Illness Adjustment. Reduce Item 4440-011-001 by $1,448,000.*** Recommend deletion of 75.3 positions and $1,448,000 from the General Fund requested for patient level-of-illness adjustments because the adjustments have not been adequately justified. 635
5. ***Additional State Hospital Positions. Reduce Item 4440-011-001 by $1,283,000.*** Recommend deletion of 66.7 positions and $1,283,000 from the amount budgeted for staffing augmentation in the state hospitals because the department has not been able to justify these positions. 636
6. ***Salary Savings. Reduce Item 4440-011-001 by $896,000.*** Recommend a reduction of $896,000 (General Fund) in the amount budgeted to reduce the salary savings rate to 5 percent in order to accurately reflect the timing of new staff hiring. 636

DEPARTMENT OF MENTAL HEALTH—Continued

7. ***Registered Nursing Coverage at Vacaville. Reduce Reimbursements in Item 4440-011-001 by $172,000.*** Recommend a reduction of $172,000 (reimbursements) in the proposed augmentation for additional registered nursing staff at the inpatient psychiatric program at the California Medical Facility (CMF) in Vacaville because the overall nursing staff-to-patient ratio does not need to be increased. 638
8. Treatment Levels at Vacaville. The department is delivering less than one-third of the hours of scheduled treatment activities it is contracted and staffed to provide at the psychiatric unit it operates at the CMF at Vacaville. 639
9. Proposition 98 Minimum Funding Requirements. The budget appears to overstate by $4.2 million the amount of department expenditures that may be counted towards the Proposition 98 minimum funding requirements. 641
10. Local Assistance Augmentation. Recommend that prior to budget hearings, the department submit additional information to the fiscal committees on the allocation of the proposed $10 million augmentation for local mental health programs. 643
11. Supplemental Rates Program. Recommend that the department submit to the Legislature its review of the supplemental rates program by April 1, 1990 and that the department incorporate in its report recommendations that address the issues we have identified. 645
12. Special Education Pupils. The budget assumes enactment of legislation to transfer fiscal and programmatic responsibility for mental health services provided to special education pupils to the State Department of Education for a savings of $15.8 million ($15.1 million General Fund, $675,000 federal reimbursements) to the Department of Mental Health. 647
13. ***Institutions for Mental Diseases (IMD) Treatment Costs. Reduce Item 4440-141-001 by $3.1 Million and Increase Reimbursements by $2.3 Million.*** Recommend (a) a reduction of $3.1 million in the amount budgeted for treatment costs of IMD services and (b) an augmentation of $2.3 million in reimbursements for additional SSI/SSP receipts to correct for overbudgeting. 648
14. Administrative and Treatment Costs. Recommend that the Legislature (a) adopt Budget Bill language requiring the department to transfer responsibility for collection of SSI/SSP reimbursements to IMD service providers, and deduct estimated collections from provider contracts, and (b) enact legislation requiring IMD patients eligible for SSI/SSP to pay service providers an amount equal to the board and care portion of their SSI/SSP grant, for a General Fund savings of at least $4 million. 649

15. Bed Allocation Methodology. Recommend that the Legislature adopt Budget Bill language specifying an allocation methodology for IMD beds. 650
16. Federal Nursing Home Reform. We estimate a potential need for 144 additional IMD beds in 1990-91 above the number funded in the budget, at a cost of up to $1.4 million (General Fund), in order to comply with the nursing home reform provisions of the federal Omnibus Budget Reconciliation Act of 1987. The department will address this issue in its May revision. 651

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 7,270.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $1.3 billion (all funds) for the support of the DMH's activities in 1990-91. This is an increase of $28.2 million, or 2.3 percent, above estimated current-year expenditures. Proposed General Fund expenditures for support of the department and its programs are $1 billion, which is $20.9 million, or 2.1 percent, above estimated General Fund expenditures in the current year.

The major increases proposed in the budget are (1) $13 million (General Fund) to reduce the salary savings rate and to fund merit salary adjustments in the state hospitals, (2) $6.9 million (General Fund) for additional staff associated with increases in patient population and level of illness in the state hospitals, (3) $6.1 million (all funds) to increase the number of beds funded through the Institutions for Mental Diseases Program, (4) a $10 million augmentation (Cigarette and Tobacco Products Surtax Fund) for county mental health programs, and (5) $5.9 million (General Fund) in additional funding for pilot projects for seriously mentally ill children and adults.

These increases are partially offset by a proposed transfer of $15.8 million ($15.1 million General Fund) from the DMH to the State Department of Education for services to special education pupils.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

DEPARTMENT OF MENTAL HEALTH—Continued

MAJOR ISSUES

- The state hospitals are overstaffed relative to the department's staffing standards, yet treatment levels are below the level specified in the standards. These findings raise concerns about the department's procedures for budgeting and allocating staff.
- Treatment levels at the department's psychiatric program at the California Medical Facility at Vacaville are below the department's standards.
- Proposed augmentations of 142 positions and $2.7 million (General Fund) in the state hospitals are unjustified.
- The department has not specified how it intends to allocate an augmentation of $10 million from the Cigarette and Tobacco Products Surtax Fund for local mental health programs.
- The budget assumes enactment of legislation to transfer fiscal and programmatic responsibility for mental health services provided to special education pupils to the State Department of Education.
- Legislation authorizing collection of SSI/SSP payments to clients could reduce General Fund costs for institutions for mental diseases (IMD) services by at least $4 million annually.
- The impact of federal nursing home reform on the need for IMD services is not reflected in the budget. We estimate General Fund costs of up to $1.4 million in 1990-91.

Table 1
Department of Mental Health
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Expenditures	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change from 1989-90 Amount*	*Percent*
Department support [a]	$40,939	$59,876	$57,880	−$1,996	−3.3%
State hospitals	345,720	389,773	412,307	22,534	5.8
Local programs	622,340	674,069	691,967	17,898	2.7
Special education pupils	15,116	15,791	—	−15,791	−100.0
Brain-damaged adults	5,141	5,373	5,257	−116	−2.2
Institutions for mental diseases	64,729	80,839	86,520	5,681	7.0
Traumatic brain injury projects	—	500	500	—	—
Totals	$1,093,985	$1,226,221	$1,254,431	$28,210	2.3%
Funding Sources					
General Fund	*$930,791*	*$986,905*	*$1,007,808*	*$20,903*	*2.1%*
Federal funds	*19,409*	*22,957*	*22,577*	*−380*	*−1.7*
Cigarette and Tobacco Products Surtax Fund	—	*25,000*	*35,000*	*10,000*	*40.0*
State Legalization Impact Assistance Grant Fund	*3,132*	*6,515*	*6,342*	*−173*	*−2.7*
Primary Prevention Fund	*864*	*1,976*	*1,972*	*−4*	*−0.2*
Asset Forfeiture Distribution Fund	*64*	—	—	—	—
Special Account for Capital Outlay	—	*2,000*	—	*−2,000*	*−100.0*
Reimbursements	*139,725*	*180,368*	*180,232*	*−136*	*−0.1*
Traumatic Brain Injury Fund	—	*500*	*500*	—	—
Personnel-years					
Department support	336	398	409	11.2	2.8%
State hospitals	6,349	6,873	7,020	147.5	2.1
Totals	6,685	7,271	7,430	158.7	2.2%

[a] Includes Conditional Release Program.

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes expenditures of $57.8 million for support of the DMH in 1990-91. This amount consists of $43.8 million for department administration and $14 million for the Conditional Release Program. Overall, this is a decrease of $2 million, or 3 percent, in estimated current-year expenditures. Table 2 shows the department's expenditures and funding sources for the past, current, and budget years.

Budget Changes. Table 3 shows the changes in the department's support budget proposed for 1990-91. The major change is a reduction of $2.5 million from the General Fund to reflect revised expenditure estimates for the Conditional Release Program.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 2
Department of Mental Health Support Expenditures and Funding Sources 1988-89 through 1990-91 (dollars in thousands)

	Actual	Est.	Prop.	Change from 1989-90	
Expenditures	*1988-89*	*1989-90*	*1990-91*	*Amount*	*Percent*
Department administration	$26,570	$43,192	$43,874	$682	1.6%
Conditional release	14,369	16,684	14,006	−2,678	−16.1
Totals	$40,939	$59,876	$57,880	−$1,996	−3.3%
Funding Sources					
General Fund	*$37,933*	*$46,492*	*$45,179*	*−$1,313*	*−2.8%*
Federal funds	*748*	*1,605*	*1,225*	*−380*	*−23.7*
Primary Prevention Fund	*131*	*238*	*234*	*−4*	*−1.7*
State Legalization Impact Assistance Grant Fund	*132*	*515*	*342*	*−173*	*−33.6*
Reimbursements	*1,995*	*11,026*	*10,900*	*−126*	*−1.1*

Table 3
Department of Mental Health Support Proposed 1990-91 Budget Changes (dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (Budget Act)	$45,727	$57,666
Adjustments, 1989-90:		
Medical evaluation field manual, Ch 376/88	36	36
Community treatment facilities, Ch 1271/87	45	45
Services to wards and dependents, Ch 1294/89	100	100
PERS rate reduction	−25	−30
Employee compensation	610	689
Additional Short-Doyle/Medi-Cal administrative funds	—	610
Mental health planning rollover	—	70
Federal manpower funds	—	99
Child and adolescent services program	—	11
Various grants and carry-over funds	−1	580
1989-90 expenditures (revised)	$46,492	$59,876
Baseline adjustments, 1990-91:		
Employee compensation	487	558
Two percent price increase on operating expenses and equipment	—	12
Retirement reduction	—	1
SWCAP and pro-rata adjustments	—	11
Reverse a portion of Short-Doyle/Medi-Cal administrative funds	—	−265
Reduce mental health planning allocation	—	−151
Reduce handicapped infant program	—	−64
Services to families, Ch 1225/89, carry-over	145	145
Reduce development of field manual, Ch 376/88	−36	−36
Reduce services to wards and dependents, Ch 1294/89	−100	−100
Reduce one-time adjustments	1	−580
Program change proposals:		
Institutions for mental diseases support	413	413
State hospital automation project	—	—
Additional staff for Short-Doyle/Medi-Cal utilization review	45	164
Establish an audit appeals section	95	190

Support for Short-Doyle/Medi-Cal claims explanation	68	137
Staff for primary intervention program through funding redirection	—	(41)
Establish civil service positions through funding redirection	(178)	(178)
Services for wards and dependents, Ch 1294/89	69	69
Conditional Release Program revised expenditure estimates	−2,500	−2,500
1990-91 expenditures (proposed)	$45,179	$57,880
Change from 1989-90 (revised):		
Amount	−$1,313	−$1,996
Percent	−2.8%	−3.3%

Current-Year Savings in the Conditional Release Program

We recommend that the Legislature delete $1.5 million (General Fund) from the budget for conditional release services and, instead, reappropriate $1.5 million from current-year funds for providing the services in 1990-91. (Reduce Item 4440-016-001 by $1.5 million and reappropriate $1.5 million of funds available in Item 4440-016-001 of the 1989 Budget Act.)

The budget proposes a reduction of $2.5 million (General Fund) in expenditures for the Conditional Release Program (CONREP) for 1990-91, in recognition of the fact that the program historically has underspent its appropriation. CONREP expenditures are determined by the number of judicially committed clients and mentally disordered offenders referred to the program following their stays in the state hospital system. The department reports that the number of clients referred and accepted into the program consistently has been below levels expected at the time the budget was developed. Table 4 presents Budget Act appropriations and expenditure data for the CONREP since 1986-87.

Table 4
Department of Mental Health
Conditional Release Program
Unexpended Funds and Proposed Reduction
(in thousands)

	Budget Act Appropriations	*Actual Expenditures*	*Difference*
1986-87	$18,262	$13,605	$4,657
1987-88	17,094	14,281	2,803
1988-89	17,910	14,369	3,541
1989-90	16,684	16,684 est.	—
1990-91	14,006 prop.	—	—

As Table 4 indicates, appropriations for the program have exceeded expenditures by as much as $4.7 million in 1986-87, and presumably would exceed expenditures by $2.5 million in the budget year if the proposed reduction in funding is not approved. However, the department projects no savings in the current year. Our review indicates that the department has unencumbered balances during the current year of $1.5 million. Because all CONREP services are provided through full-year contracts with service providers, the unencumbered balance of $1.5 million will continue to be available at the end of the current year.

DEPARTMENT OF MENTAL HEALTH—Continued

Because the CONREP will not spend the full amount of its appropriation during the current year, we recommend that the Legislature (1) reappropriate $1.5 million of funds available from Item 4440-016-001 of the 1989 Budget Act for use by this program in 1990-91 and (2) delete $1.5 million from Item 4440-016-001.

Budget Overstates Amount Needed for Screening of Nursing Facility Residents

We recommend a reduction of $5.1 million in the amount budgeted for preadmission screening and annual resident review (PASARR) because the number of patients who will require screening is lower than the budget assumes. (Reduce Item 4440-011-001 by $1.3 million and reimbursements by $3.8 million.)

The department's budget includes a total of $11.5 million to complete federally required screening of persons in nursing facilities. This amount consists of $2.8 million from the General Fund and $8.7 million in reimbursements from federal funds, and represents no change from current-year expenditures.

Background. Under the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87), the state must operate a PASARR program. In this program, the Department of Health Services (DHS) must screen all patients entering nursing facilities to identify mentally ill individuals, and refer those patients to the DMH. OBRA 87 requires the DMH to conduct a second screen to evaluate treatment needs of these patients, and transfer these patients to other facilities if appropriate. The DMH also must conduct annual reviews of certain nursing facility patients to ensure that their placements continue to be appropriate.

Department's Proposal. The department's budget reflects the continuation of current funding levels to carry out the ongoing screening requirements of the PASARR program. The department's estimate for the amount needed to fund the program is based on (1) the average cost per screen and (2) an estimate of the percentage of patients entering nursing facilities who will be referred by the DHS for mental health screening.

Our review indicates that the amount budgeted for screening should be reduced due to two factors. First, the referral percentage has been substantially lower in the current year than originally anticipated, and the budget has not been revised to account for this lower referral rate. Second, the department indicates that the average cost per screen is expected to drop from $461 in the current year to approximately $390 for 1990-91. Accordingly, we estimate that the amount necessary to carry out the required screening will be $5.1 million less than the amount budgeted for 1990-91. The department indicates it expects to revise its funding request for this program during the May revision process.

Because the number of screens required will be lower than anticipated, and the average cost per screen also is expected to drop, we recommend that the amount budgeted for the PASARR screening program be reduced by $5.1 million. The reduction would consist of $1.3 million from the General Fund and $3.8 million in federal reimbursements. (Reduce Item 4440-011-001.)

Our review also indicates that, because the number of screens the department has needed to complete in the current year is less than anticipated, current-year expenditures appear to be substantially lower than the $11.5 million budgeted. We estimate the program will have General Fund savings of up to $1.3 million at the end of the current year.

2. STATE HOSPITAL PROGRAMS

The budget proposes expenditures of $412 million, all funds, in 1990-91 for clients in state hospitals for the mentally disabled. This is an increase of $22.5 million, or 5.8 percent, above estimated current-year expenditures. The budget proposes an appropriation of $366.7 million from the General Fund for these programs, which is an increase of $24.2 million, or 7.1 percent, above estimated current-year expenditures. In addition, the budget proposes to count $7.2 million in state hospital expenditures towards the Proposition 98 minimum funding requirements during 1990-91. Table 5 shows the components of the state hospital budget in the past, current, and budget years.

Table 5
Department of Mental Health
State Hospitals
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Actual	*Est.*	*Prop.*	*Change from 1989-90*	
Expenditures	*1988-89*	*1989-90*	*1990-91*	*Amount*	*Percent*
County clients	$189,542	$212,010	$226,943	$14,933	7.0%
Judicially committed clients	122,105	132,523	139,788	7,265	5.5
Other clients [a]	34,073	45,240	45,576	336	0.7
Totals	$345,720	$389,773	$412,307	$22,534	5.8%
Funding Sources					
General Fund	*$311,647*	*$342,533*	*$366,731*	*$24,198*	*7.1%*
Reimbursements	*34,073*	*45,240*	*45,576*	*336*	*0.7*
Special Account for Capital Outlay	—	*2,000*	—	*−2,000*	*−100.0*
Average population					
County clients	2,495	2,519	2,518	−1	— [b]
Judicially committed clients	1,533	1,553	1,670	117	7.5%
Other clients [a]	569	678	704	26	3.8
Totals	4,597	4,750	4,892	142	3.0%
Authorized positions					
Department of Mental Health	6,349	7,199	7,575	376	5.2%
Department of Developmental Services	677	822	796	−26	−3.2
Totals	7,026	8,021	8,371	350	4.4%
Cost per client (actual dollars)					
County clients	$75,969	$84,164	$90,128	$5,964	7.1%
Judicially committed clients	79,651	85,334	83,705	−1,629	−1.9
Other clients [a]	59,882	66,726	64,739	−1,987	−3.0
Totals	$75,206	$82,057	$84,282	$2,224	2.7%

[a] Includes clients from the Departments of Corrections, Developmental Services, and 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 (LPS).

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

Mentally disordered offenders include prison parolees who have been committed to the department for treatment and supervision.

Clients of other institutions include mentally disabled clients of the Departments of Corrections and the Youth Authority who are transferred to state hospitals to receive medication and other treatment.

Proposed Budget Changes

The major changes proposed for 1990-91 include (1) an increase of $13 million (General Fund) to fund merit salary adjustments in 1990-91 and for additional staff needed to reduce the salary savings rate to 5 percent, (2) an increase of $6.9 million (General Fund) for additional staff associated with a projected increase in judicially committed and mentally disordered offender clients in the state hospitals, and (3) an increase of $9.4 million ($8.4 million General Fund) for full-year funding of 1989-90 state hospital salary and benefit increases. Table 6 displays the budget changes proposed for 1990-91.

State Hospital Reform: Five Years Later

We recommend that the department submit to the Legislature by April 1, 1990 a work plan to (1) develop realistic staffing standards that are related to the ward bed type, client level of illness, and planned scheduled treatment requirements and (2) conduct periodic surveys of actual client characteristics to provide a basis for level-of-illness adjustments.

In our review of the budget, we evaluated the current status of state hospital staffing and treatment levels. Specifically, we compared existing treatment levels to those proposed by the department as part of its 1984 state hospitals initiative. We also compared staffing levels proposed by the department for 1990-91 to those the department previously indicated would be required to achieve specified licensing, accreditation, and treatment objectives.

Table 6
Department of Mental Health
State Hospitals
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (Budget Act)	$331,724	$378,170
Adjustments, 1989-90:		
Retirement reduction	−759	−851
Miscellaneous reimbursement adjustments	—	223
Salary and benefit increase	11,608	12,271
Allocation to Board of Control	−40	−40
1989-90 expenditures (revised)	$342,533	$389,773
Baseline adjustments, 1990-91:		
Full-year effect of 1989-90 population changes	−4,281	−4,281
Retirement adjustment	130	147
CALSTARS adjustment	—	10
Reverse one-time adjustments	—	−2,023
Full-year cost of 1989-90 salary and benefit increases	8,399	9,413
Reimbursement adjustments	—	−918
Energy costs	−7	−7
Restore allocation to Board of Control	40	40
Caseload and cost adjustments:		
Population adjustment	6,920	6,920
Program change proposals:		
Salary savings rate reduction and merit salary adjustments	12,997	12,997
Registered nursing staff at Vacaville	—	184
Nursing coordinator position at Vacaville	—	52
1990-91 expenditures (proposed)	$366,731	$412,307
Change from 1989-90 (revised):		
Amount	24,198	22,534
Percent	7.1%	5.8%

Background. Beginning in 1984-85, the Legislature approved a series of department proposals to augment staff in the state hospitals serving mentally ill persons by 682 positions over a three-year period. The staffing augmentation was associated with proposed improvements in treatment programs, hospital license category revisions, and major capital outlay proposals that allowed all five of the department's hospitals to obtain accreditation by the Joint Commission on Accreditation of Hospitals, and for the three hospitals serving the majority of county-admitted clients to be certified to receive Medi-Cal and Medicare payments.

The major components of the treatment program improvements were the creation of new ward categories, the recategorization of existing wards, and a shift in the patient population distribution toward subacute intermediate care wards. The department also proposed revised staffing standards according to ward category in order to allow more scheduled treatment activities for patients. Finally, the department proposed to implement annual staffing adjustments based on surveys of patients' levels of illness.

At the time it made its proposal, the department estimated that patients needing a subacute level of care received an average of approximately 1.5 hours of "planned scheduled treatment" per day. Scheduled treatment activities include group therapy, individual ther-

DEPARTMENT OF MENTAL HEALTH—Continued

apy, rehabilitation activities, recreation, and patient government. The proposed staffing increase, together with improvements in the use of existing staff, was intended to increase average scheduled treatment from approximately 1.5 hours to approximately 4.4 hours per patient per day.

The Legislature approved the proposed staffing increases. However, it also directed that the department distribute additional staff in each of the three years on a competitive basis, according to proposals for "model treatment programs" submitted by the individual hospital programs. In the intervening years, the department has added staff based on population adjustments and the implementation of new programs for mentally disordered offenders and for clients from the California Department of Corrections (CDC).

In conjunction with the planned scheduled treatment program, the Legislature mandated the implementation of monitoring systems to allow the department to track the amount of treatment being delivered to patients and assess the quality of the treatment services. In addition, the Legislature required the department to submit a series of reports on treatment levels.

Overstaffing at Hospitals Relative to Standards Raises Budgeting Issues. We examined how proposed 1990-91 hospital direct-care staffing compares to staffing levels that should result from applying the standards developed by the department in 1984 to the proposed ward configuration for 1990-91. Table 7 shows that the proposed 1990-91 staff level is 368 positions *above* the direct patient care staffing levels that are indicated by the department's standards. According to the department, this difference has developed because (1) programs implemented to serve CDC clients were staffed at higher levels than those in the department's standards, (2) various "level-of-illness" adjustments were implemented in the intervening years, and (3) the department's original request for staff was based on an incorrect application of the staffing standards. According to the department, the third factor accounts for 261 of the 368 excess positions.

Table 7
Department of Mental Health
Staffing in State Hospitals
Proposed Versus Department Staffing Standards
1990-91

Program Type	*Proposed*	*Standard*	*Difference*
Children	302	299.5	2.5
Adolescent	309	257.4	98.2
Acute	1,359	1,260.8	98.2
Subacute	2,920	2,718.8	201.2
Skilled nursing	317	302.4	14.6
Totals	5,207	4,838.9	368.1

The overstaffing in the hospitals relative to the 1984 standards raises questions about the way state hospital positions are budgeted and allocated. As Table 7 shows, staffing levels based on staff-to-patient ratios that appear in the department's 1984 staffing standards bear little relationship to the staffing levels proposed for 1990-91. In fact, the department indicates that it currently does not use the 1984 staffing standards for purposes of preparing its budget requests or allocating staff. Instead, the department requests staff adjustments incrementally using (1) staff ratios approved for individual hospital "model treatment programs" and (2) state hospital input regarding changes in the "level of illness" of clients enrolled in particular programs.

We believe this budgeting method poses a number of problems for the Legislature. First, without standards, the Legislature has no "yardstick" with which it can measure requests for additional staff or assess the status of hospital staffing.

Second, the department does not appear to be evaluating its experience with the model treatment programs and using the evaluations to design improved programs. Instead, the original staffing ratios approved for the model treatment programs have been continued without reexamination. We believe the department needs to evaluate individual model treatment programs on an ongoing basis and revise, abandon, or replicate various approaches depending on how individual programs are working.

Third, the level-of-illness adjustments are based on "ad hoc" input from individual hospitals regarding trends in the client population and are independent of the staffing standards. We believe the department should systematically assess trends in its population and incorporate level-of-illness data into its staffing formulas.

Treatment Levels Have Increased But Are Below Standard. We compared treatment levels delivered in 1988-89 with the amount the department committed to achieve in requesting the staffing augmentations that began in 1984-85. (We were able to estimate treatment levels for four of the state hospitals; data from the fifth were not in a usable form.) Our review indicates that in 1988-89 the hospitals delivered 65 percent of the treatment hours the department sought to achieve in its 1984-85 state hospitals initiative. This amount is double the amount of treatment hours the department estimated the hospitals were delivering before the staffing augmentations. Table 8 shows treatment hours data by type of program.

Although treatment hours have increased substantially in the state hospital system, the hospitals are not meeting standards. One-half of the patient population resided in programs that scheduled less than 80 percent of the number of treatment hours required by the standard. Over one in three patients resided in programs that delivered less than one-half of the number of treatment hours required by the standard.

The department indicates that delivery of its treatment standard has been complicated by a variety of factors. For example, it reports that the salary savings rate the department was required to meet in 1988-89 was high. Our review indicates, however, that the overbudgeting of positions *relative to the standard* partially offsets the effect of the high salary savings rate because this results in additional staffing on the wards.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 8

Department of Mental Health
Planned Scheduled Treatment
Average Weekly Hours Scheduled and Delivered
Based on Available Data [a]
1988-89

Program	*Standard*	*Scheduled*	*Scheduled as a Percent of Standard*	*Delivered*	*Delivered as a Percent of Standard*	*Delivered Before Funding Augmentations (Estimated)* [b]	*Percent Increase*
Subacute.........	30.5	27.9	91%	21.2	70%	11.1	191%
Forensic subacute.....	27.0	22.9	85	15.0	56	NA	NA
Children.........	57.0	54.0	95	48.2	85	33.8	143
Skilled nursing ..	28.0	6.9	25	9.3	33	8.5	265
Acute............	29.5	19.9	67	14.1	48	7.3	193
Adolescent.......	48.5	41.5	86	34.2	70	46.7	73
All hospitals.....	31.6	27.1	86%	20.6	65%	NA	NA

[a] Overall average based on data covering all patients at all hospitals except Atascadero. The number of patients for whom data are available by program are: subacute — 526, forensic subacute — 577, children — 177, skilled nursing — 246, acute — 145, adolescent — 95.

[b] Dates for these estimates vary from program to program.

The department also has noted that the physical layout in some hospitals facilitates delivery of the treatment standard. For example, at Camarillo State Hospital, where patients received treatment averaging 96 percent of the standard, treatment activities are conducted in buildings that are separate from patient living areas. The department indicates that this tends to make treatment a distinct part of the patient day for hospital staff. We are concerned with this response as well. In our view, treatment should be a distinct and high-priority activity, whether or not it occurs in buildings separate from patient living areas.

Finally, the department reports that the treatment standards were developed in the early 1980s and do not reflect the more difficult clients who are being placed in the state hospitals currently. We are unable to comment on this potential factor. In our view, however, to the extent that patient difficulty has increased to the point of preventing delivery of the department's standard for scheduled treatment, this problem underscores the need to base future level-of-illness adjustments on objective and measurable patient characteristics, and to make adjustments on a consistent basis.

Recommendations. We believe the issue raised in this review is not that the proposed staffing level is too high. Rather, we are concerned that the budgeting process followed by the department is not based on clear and objective criteria that can be evaluated by the Legislature. Our review of existing staffing levels relative to the department's 1984 standards and the amount of treatment scheduled and delivered indicates that it is time to reexamine and revise the staffing standards.

Accordingly, we recommend that the department submit by April 1, 1990 a work plan that will allow it to:

- Develop realistic staffing standards for budgeting purposes. These standards should tie staffing requirements to the type of beds on a ward, client dysfunction, and the amount of planned scheduled treatment.
- Conduct periodic surveys of actual client characteristics to provide a basis for level-of-illness adjustments. These surveys should be based on a random sample of sufficient size to yield reliable results, and should measure specific, objective, and quantifiable patient characteristics.

The development of such a work plan will allow the Legislature to review during budget hearings the merits and costs of implementing changes in the budgeting process we believe are required.

Augmentation for Patient Population

We recommend approval.

The department proposes to add 240.1 level-of-care (direct patient care) positions in the state hospitals it operates due to increases in the patient population. The new positions result in a General Fund cost of $5.5 million for 1990-91. The population increase is due to:

- A net increase of 82 patients resulting from (1) an increase of 90 judicially committed patients and (2) a reduction of 8 mentally disordered sex offenders (MDSOs).
- An increase of 98 mentally disordered offenders (MDOs). The department projects that this population will increase from 40 at the end of the current year to 138 by the end of the budget year.

Because the department will need to open new wards and provide treatment for these additional patients, we believe the additional positions are justified.

Level-of-Illness Adjustment Not Justified

We recommend deletion of 75.3 positions and $1,448,000 from the General Fund requested for patient level-of-illness adjustments because the adjustments have not been adequately justified. (Reduce Item 4440-011-001.)

The department proposes 75.3 positions at a General Fund cost of $1.4 million to reflect the increasing level of illness among state hospital patients. The department indicates this adjustment is in response to:

- The reclassification of psychiatric rehabilitation beds to intermediate care facility subacute beds resulting from a decrease in MDSOs and an increase in judicially committed clients.
- Reclassification of 84 beds at Patton State Hospital for judicially committed clients and 100 beds at Metropolitan State Hospital to an acute level of care.
- Generally more difficult county clients and increased numbers of clients requiring one-to-one observation.

DEPARTMENT OF MENTAL HEALTH—Continued

We have two major concerns with this proposal. First, the department reports that its level-of-illness adjustment involves staffing changes on 34 wards. However, the department has not provided a list of what all the changes are, nor has it provided any documentation to justify the need for these changes. For example, the department has been unable to explain how it has determined the need for additional acute beds at Metropolitan State Hospital, or how it determined that county clients have become more difficult. The department has indicated that the proposed level-of-illness adjustment is not related to a systematic review of patient characteristics, such as would be achieved by a random sample of patient medical records.

Our second major concern is that, as we have discussed previously, the department already has in place more staff than the correct application of its staffing standards justifies.

Due to the lack of justification for this proposal, we recommend a reduction of 75.3 positions and deletion of $1,448,000 budgeted for the level-of-illness adjustments. (Reduce Item 4440-011-001.)

Additional State Hospital Positions Not Justified

We recommend deletion of 66.7 positions and $1,283,000 from the amount budgeted for staffing augmentation in the state hospitals because the department has not been able to justify these positions. (Reduce Item 4440-011-001.)

The budget proposes 66.7 direct patient care positions that the department could not identify as being related to population increases or a level-of-illness adjustment. The department reports that these increased positions appear to be the result of various wards opening and closing in conjunction with the department's remodeling activities. For example, approximately 3.5 of these positions result from the transfer of 50 patients from Camarillo to Metropolitan State Hospitals.

We do not believe that remodeling activities or patient transfers should result in staffing increases. Rather, we believe that staffing changes should result from changes in the size of the patient population, or demonstrated changes in patient level of illness.

Because the department has not been able to adequately justify these positions, we recommend that the Legislature delete 66.7 positions and $1,283,000 from the amount budgeted for additional treatment positions. (Reduce Item 4440-011-001.)

Salary Savings

We recommend a reduction of $896,000 (General Fund) in the amount budgeted to reduce the salary savings rate to 5 percent in order to accurately reflect the timing of new staff hiring. (Reduce Item 4440-011-001.)

The budget proposes $13 million from the General Fund to add 237.7 personnel-years to reduce the department's salary savings rate at the five state hospitals with mental health programs and to fund merit salary adjustments for state hospital employees.

The term "salary savings" refers to personal services costs for authorized positions that are not incurred. Generally, salary savings arise for two reasons. First, the cost of salaries and benefits may be "saved" because authorized positions are vacant, due to unintended delays in filling vacated or new positions and delays in implementing new programs. Second, salary savings may result when positions are filled with personnel who are paid lower salaries than their predecessors received. Salary savings can also be forced. This occurs when an agency must hold authorized positions vacant in order to achieve a budgetary target.

The state hospital system's salary savings rate is budgeted at 7.4 percent in the current year. However, the DMH received an additional $2.7 million through the 1989 Budget Act's Section 28 process in February 1990 (these funds are available due to increases in Medi-Cal reimbursements at state developmental centers). These funds allowed the DMH to reduce its salary savings rate to 7 percent. Without any adjustments, the department reports that the rate would rise to 8.4 percent in 1990-91. This is primarily due to the required funding of merit salary adjustments for hospital employees in the budget year. The new funding proposed in the budget, together with the proposal for merit salary adjustment funds, would allow the hospitals to operate at a 5 percent salary savings rate in 1990-91.

As of December 1989, the hospitals had 552 vacancies in direct patient care positions. Our review indicates that the funding request is based on an assumption that the department can fill 300 positions — 62.3 of its existing vacancies and 237.7 additional positions — by July 1. Given the significant delays associated with testing, recruiting, and interviewing prospective employees, and processing personnel paperwork, this timetable normally would be unrealistic. However, the department believes it will be able to meet this timetable because of the funds it received in the current year through the Section 28 process. The $2.7 million allows the department to fill 179 vacant positions for an average of three months of the current year.

Our review indicates that the $2.7 million will not allow the department to fill a sufficient number of positions to reach a 5 percent salary savings rate by July 1. If the department filled 179 positions for the final three months of the current year, we estimate there would be 121 vacant positions remaining as of July 1, 1990. We believe it is more realistic to assume that the vacant positions will be filled continuously over a four-month period. If this timetable were followed, the salary savings adjustment in the budget year would be $896,000 less than the $13 million proposed.

Accordingly, we recommend that the Legislature reduce the amount proposed to reduce salary savings in the state hospital system by $896,000, in order to more accurately reflect when the vacancies will be filled. (Reduce Item 4440-011-001.)

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No Additional Positions Necessary to Provide Registered Nursing Coverage at Vacaville

We recommend a reduction of $172,000 (reimbursements) in the proposed augmentation for additional registered nursing staff at the inpatient psychiatric program at the California Medical Facility (CMF) in Vacaville because the number of registered nurses can be increased without a change in overall nursing staff-to-patient ratio (Item 4440-011-001).

The department proposes an augmentation of $184,000 in reimbursements from the California Department of Corrections (CDC) to add five registered nurse positions at the inpatient psychiatric program it operates at the CMF in Vacaville. According to the department, the additional registered nurse positions are necessary to correct a deficiency cited by a Department of Health Services (DHS) licensing survey.

Background. As a result of a suit involving the adequacy of treatment in CDC facilities, the Sacramento Superior Court issued an order in 1987 requiring the CDC to obtain licensure for, or cease operation of, its hospital facilities. This order affected psychiatric beds at the CMF, which were then unlicensed. To achieve licensure, the CDC in 1988-89 entered into an interagency agreement with the department to operate 150 acute psychiatric beds.

In July of 1989, the DHS granted the facility a license, but cited the department for failing to provide 24-hour registered nursing coverage, as required by licensing regulations. The regulations specify that a registered nurse (RN) must be on duty at all times in each unit of the facility. The department had been including an RN among the nursing staff for two of three shifts, and had been using medical technical assistants (MTAs) to provide nursing care on the third shift.

To address the citation, the DMH has administratively established five RN positions in the current year. The budget proposes that these positions be permanently established.

No Additional Positions Are Necessary to Provide Registered Nursing Coverage. Although the department was cited for failing to include an RN among its nursing staff on duty during certain shifts, the department's overall nursing staff-to-patient ratio was not cited as inadequate. Consequently, the department can address the issue raised by the licensing citation by substituting RN positions for five existing MTA positions. A reduction of five MTA positions would result in a savings of $172,000 and would not reduce the nursing staff-to-patient ratio below the level that was in place during the DHS review.

Because the department does not need to increase its overall nursing staff-to-patient ratio to satisfy licensing requirements, we recommend that the Legislature delete five MTA positions. This results in a reduction of $172,000 in reimbursements reflected in the department's budget (Item 4440-011-001). In Item 5240, we recommend a corresponding reduction in the General Fund appropriation to the CDC.

Treatment Levels at Vacaville Far Below Standard

The department is delivering less than one-third of the hours of scheduled treatment activities it is contracted and staffed to provide at the psychiatric unit it operates at the California Medical Facility (CMF) at Vacaville.

We reviewed the amount of planned scheduled treatment (PST) being provided to patients by the department at the 150-bed acute psychiatric inpatient program it operates at the CMF. Our review indicates the program is providing less than one-third of the amount it is contracted and staffed to provide. The program is funded as a reimbursement from the California Department of Corrections (CDC) and is budgeted at 267 positions and $15 million (General Fund) for 1990-91.

Background. In its 1988-89 proposal to operate a 150-bed acute inpatient program at the CMF at Vacaville, the department stated that its treatment program would adhere to PST guidelines for corrections patients at Atascadero State Hospital. PST includes individual and group therapy, rehabilitative therapy, patient government, and structured leisure activities. The level of PST activities needed by patients is used to determine the number and type of direct patient care staff necessary for various unit categories.

Specifically, the department indicated in its proposal that, for patients on "admissions" units (90 of the 150 beds at the CMF), it would provide approximately 19 hours of PST activities per patient per week. For patients placed on "skills" units (60 of the beds), PST activities would range from 24.5 to 26 hours per patient per week. Overall, the department indicated it would provide an average of 20 hours per patient per week. The treatment levels were included in the department's budget change proposal and were referenced in the interagency agreement the department signed with the CDC.

Treatment Levels. We reviewed the treatment levels that were delivered by the department at the 150-bed acute inpatient program it operates at the CMF for the most recent six-month period for which data were available (June through November 1989). Our review indicates that, across all units, the department scheduled an average of 7.15 hours of PST activities per patient per week, and delivered an average of 5.6 hours per patient per week. The number of hours delivered is *less than one-third* (28 percent) of the 20 hours per patient per week that the program is staffed to provide, and that the department committed to provide in its interagency agreement with the CDC. The number of hours scheduled is only slightly higher, at 36 percent of the department's standard. (The number of hours delivered may differ from the number of hours scheduled because patients may be unavailable or may refuse to attend activities, or because the activity may be cancelled by the staff person responsible for providing it.)

We asked the department to provide more detailed information on the level of PST activities it was providing for one month (October 1989). Table 9 below compares the department's standard for the two types of units in the acute program — "admissions" units and "skills" units — with

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the average amount the department actually delivered. The table also indicates the maximum and minimum hours of PST activities a patient received on the units.

Table 9
Department of Mental Health
Acute Inpatient Unit at California Medical Facility at Vacaville
Planned Scheduled Treatment Activities
Actual Weekly Hours Delivered Versus Department Standard
October 1989

	Admissions Units	*Skills Units*
Standard	19.0	25.1
Actual		
Maximum	13.0	17.8
Minimum	—	2.5
Average	5.6	8.0

As the table indicates, although patients who have advanced to the "skills" units receive more hours of scheduled treatment activities than do their counterparts on the admissions units, both groups of patients receive less than one-third of the department's standard for their respective groups. On the admissions units, some patients received no scheduled treatment activities for an entire month, while on the skills units some patients received as few as 2.5 hours of scheduled treatment activities per week.

The department indicates that it has had difficulty meeting the treatment levels it is contracted and staffed to provide for a variety of reasons. The department has stated that "space and staff limitations" have been a primary reason for its failure to provide treatment levels commensurate with its standard. It states that all units are severely limited in treatment space, and that staff time is taken up by treatment team conferences and other administrative activities. The department also reports that patients are unavailable for treatment for four hours each day due to meals and "lock-downs" for inmate counts. (As a security measure, correctional staff visually count the number of inmates to be sure that everyone is present.) Finally, the department noted that PST activities are not part of the requirements for licensure.

We are concerned with the department's responses for a number of reasons. First, the CDC has just completed a remodeling effort that was designed with the department's input to meet requirements for licensure and treatment activity needs. Second, the department's view that treatment team conferences and other administrative duties required of staff inhibit delivery of scheduled treatment activities fails to note that such activities are provided for in calculating the overall staffing level required to deliver scheduled treatment activities. We also note that the treatment levels the department committed to provide amount to an average of four hours of scheduled treatment activities each weekday.

With respect to the department's assertion that patients are unavailable for treatment during four hours each day due to meals and lock-downs for inmate counts, we note that only 45 minutes of these activities occur between the hours of 8:00 a.m. and 4:30 p.m., which are the hours during which most treatment activities occur. (The 45-minute break is for lunch.) Finally, although the department is correct in noting that PST activities are unrelated to licensure requirements, it is our view that the Legislature approved the staffing levels in the department's proposal based on the department's commitment to provide the level of treatment that justified the staffing levels it requested.

We believe the low levels of treatment being provided by the department at its acute inpatient program at the CMF are a matter of concern for the Legislature for two major reasons. First, the program was established as the result of a lawsuit regarding inadequate treatment levels. If the present situation continues, the potential may exist for further litigation. Second, the program's staffing levels are determined by a formula that is based on the number of scheduled treatment activities the treatment staff will provide. If the department is unable to provide treatment levels that are commensurate with those which justify the program's staffing level, then resources currently devoted to this program could be more effectively used in other areas.

Proposition 98 Minimum Funding Requirements

The budget appears to overstate by $4.2 million the amount of department expenditures that may be counted towards meeting the Proposition 98 minimum funding requirements.

The budget proposes to count $7.2 million in department expenditures towards the Proposition 98 minimum funding requirements. According to the department, this amount consists of teacher salaries at the five state hospitals, plus an amount to reflect support and other education-related expenditures. Of the $7.2 million, approximately $3 million is from education-related expenditures provided by the Department of Developmental Services (DDS) under contract at Camarillo State Hospital. The remaining $4.2 million reflects education-related expenditures at the four state hospitals operated by the DMH.

Chapter 82, Statutes of 1989 (SB 98, Hart), and Ch 83/89 (AB 198, O'Connell) state that expenditures for education-related activities may be counted towards the Proposition 98 minimum funding requirements only if they are provided by those agencies enumerated in Section 8880.5 of the Government Code. Section 8880.5 lists the DDS but does not include any reference to the DMH. Accordingly, the $4.2 million in education-related department expenditures at the state hospitals other than Camarillo do not appear to meet the criteria specified by the Legislature for satisfying the Proposition 98 minimum funding requirements.

3. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $516.9 million from the General Fund for assistance to local mental health programs in 1990-91. This is an increase of $8.6 million, or 1.7 percent, above estimated current-year expenditures. Total expenditures for local mental health

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programs in 1990-91, including expenditures from the Cigarette and Tobacco Products Surtax (C&T) Fund, reimbursements, and federal funds, are proposed at $692 million, which is $17.9 million, or 2.7 percent, above estimated current-year expenditures. Table 10 displays local assistance expenditures and funding sources for the past, current, and budget years.

Table 10
Department of Mental Health
Local Mental Health Programs
Expenditures and Funding Sources
1988-89 through 1990-91
(dollars in thousands)

	Actual	*Est.*	*Prop.*	*Change From 1989-90*	
Expenditures	*1988-89*	*1989-90*	*1990-91*	*Amount*	*Percent*
Short-Doyle allocations	$598,382	$635,479	$647,430	$11,951	1.9%
AIDS	1,500	1,500	1,500	—	—
Primary prevention projects	797	1,738	1,738	—	—
Federal block grant	15,516	18,242	18,242	—	—
Federal community support program	270	126	126	—	—
Federal homeless program	2,875	2,984	2,984	—	—
State Legalization Impact Assistance Grant (SLIAG)	3,000	6,000	6,000	—	—
System of care of severely mentally disabled adults, Ch 982/88	—	8,000	10,247	2,247	28.1
Services for wards and dependents, Ch 1294/89	—	—	3,700	3,700	—[a]
Totals	$622,340	$674,069	$691,967	$17,898	2.7%
Funding Sources					
General Fund	*$506,542*	*$508,276*	*$516,852*	*$8,576*	*1.7%*
Reimbursements	*93,340*	*111,703*	*111,025*	*−678*	*−0.6*
Federal funds	*18,661*	*21,352*	*21,352*	—	—
Primary Prevention Fund	*733*	*1,738*	*1,738*	—	—
Cigarette and Tobacco Products Surtax Fund	—	*25,000*	*35,000*	*10,000*	*40.0*
SLIAG Fund	*3,000*	*6,000*	*6,000*	—	—
Asset Forfeiture Distribution Fund	*64*	—	—	—	—

[a] Not a meaningful figure.

Budget Changes. Table 11 shows the changes to the budget that are proposed for 1990-91 for local mental health programs. The table also shows changes to the enacted budget for these programs, the largest of which is a $5 million increase in Short-Doyle/Medi-Cal reimbursements. This increase is due to receiving approval from the federal government to fund mental health case management services through Short-Doyle/Medi-Cal.

Table 11
Department of Mental Health
Local Mental Health Programs
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (Budget Act)	$508,276	$666,696
Adjustments, 1989-90:		
Reduction in grant award for community support program	—	−5
Disaster funds from Office of Emergency Services	—	2,148
Short-Doyle/Medi-Cal case management services	—	5,000
San Joaquin County Southeast Asian Project	—	230
1989-90 expenditures (revised)	$508,276	$674,069
Baseline adjustments, 1990-91:		
Reduce disaster funds	—	−2,148
Reduce San Joaquin County Southeast Asian Project	—	−230
Program change proposals:		
Local assistance augmentation	—	10,000
Additional funding for pilot projects, Ch 982/88	2,247	2,247
Continuation funding for the Riverside County children's program, Ch 1361/87	2,629	2,629
Short-Doyle/Medi-Cal reimbursement for case management services	—	1,700
Services for wards and dependents, Ch 1294/89	3,700	3,700
1990-91 expenditures (proposed)	$516,852	$691,967
Change from 1989-90 (revised):		
Amount	8,576	17,898
Percent	1.7%	2.7%

The major changes proposed for 1990-91 include (1) an augmentation of $10 million (C&T Fund) for local mental health programs; (2) an increase of $2.2 million for pilot projects to develop a system of care for severely mentally disabled adults, required by Ch 982/88 (AB 3777, Wright); (3) an increase of $3.7 million to partially implement mental health services for wards and dependents, required by Ch 1294/89 (SB 370, Presley); and (4) an increase of $2.6 million for pilot projects to develop a system of care for severely emotionally disturbed children, required by Ch 1361/87 (AB 377, Bronzan).

$10 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 $10 million augmentation for local mental health programs.

The budget proposes an augmentation of $10 million from the C&T Fund for local mental health programs. This brings total C&T funding for local programs to $35 million for 1990-91.

The department indicates that it would allocate the $10 million to counties based on some combination of its poverty/population equity formula and a "general percentage increase" — that is, an equal percent increase for all counties.

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

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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 general increase would be allocated like a cost-of-living adjustment (COLA).

The department's proposal does not address (1) how much of the proposed augmentation would be allocated according to the poverty/population formula versus allocation according to a COLA or (2) how the poverty/population 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.

The Legislature needs information about the allocation method in order to determine the distributive effect of the $10 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.

Mental Health Services For Wards and Dependents

Chapter 1294, Statutes of 1989 (SB 370, Presley), made substantial changes to procedures used by the Department of Social Services (DSS) to fund out-of-home placements for wards and dependents of the court. The legislation also requires county departments of mental health to begin providing mental health treatment to wards and dependents. The department proposes $3.8 million to begin implementation of this program during 1990-91.

The legislation requires the department to develop a system of payment to reimburse counties for the provision of services. The department also must promulgate regulations by October 1, 1990 that (1) define priority subgroups to receive services, (2) define categories of service and specify priority services, and (3) establish a certification procedure to be employed by local mental health departments to ensure that only approved services are reimbursed. Local mental health departments must establish interagency agreements with other affected local agencies to ensure coordinated service delivery.

Chapter 1294 requires the department, in consultation with the DSS, to report to the Legislature by July 1 on a plan for limiting treatment costs and on the availability of existing mental health services to wards and dependents. We will monitor the department's implementation of this legislation and comment further as appropriate.

Supplemental Rates Program: Implementation Problems

We recommend that the department submit to the Legislature its review of the supplemental rates program by April 1, 1990 and that the department incorporate in its report recommendations that address the issues we have identified.

The budget proposes $16.6 million in expenditures for the residential care supplemental rates program established by Ch 1352/85 (SB 155, Petris). We identified implementation problems that need to be addressed if the Legislature's objectives in establishing the program are to be met.

Background. Chapter 1352 requires counties to certify and make supplemental payments to private residential care facilities (board and care homes) for providing additional services and supervision to mentally disordered residents. Base rates charged by facility operators provide for food, shelter, and personal care for clients, and are paid through the SSI/SSP program. The rate supplements are funded as part of county Short-Doyle programs.

In approving Chapter 1352, the Legislature expressed concerns that it intended the supplemental rates program to address. Specifically, the Legislature sought to:

- Reverse a decline in the number of residential care facilities serving the mentally ill.
- Increase services for the homeless mentally ill.
- Provide operators of private residential care facilities an incentive to serve the more severely disturbed.
- Establish a rate structure that was based on patients' programmatic needs, and ensure that rates would be sufficient to provide adequate services to meet those needs.

Implementation Concerns. Our review of this program indicates three areas that are of concern. Specifically, (1) the standardized assessment required under Chapter 1352, and developed by the department, does not produce a reliable indicator of services a given client will require while placed in a board and care facility; (2) department regulations do not ensure that clients with more extensive programmatic needs will receive higher levels of service; and (3) caseload data provided by the department do not provide an accurate picture of county clients receiving board and care services.

Standardized assessment does not provide standardized results. Chapter 1352 directed the department to establish a standardized assessment tool for counties to use in determining the functional abilities and need for program services of clients in residential care facilities. The result of the assessment determines the supplemental rate, if any, that facilities are paid for providing services to a given client. Counties also must re-screen clients every 90 days while they are in placement. The instrument used by the counties, known as the level-of-care assessment or LOCA, is designed to indicate one of five potential service levels. These levels indicate what service level a client needs in addition to the basic services provided by a board and care home, if any.

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Both department and county representatives indicate that the current version of the LOCA does not provide a reliable indication of the level of care clients need in a board and care setting. For example, when the department validated the current LOCA, the department reports that in over one-fifth of cases, the department's assessment of required services was two or more levels higher or lower than the level indicated by the LOCA.

If the Legislature's objective to provide care that is appropriate for the programmatic needs of clients is to be met, it is important that the department develop a method that will reliably determine the services a client will require while in placement at a board and care facility.

Service levels not defined. As required by Chapter 1352, the department has issued regulations to guide counties in the implementation of the program. These regulations include a list of services that may be provided using supplemental rate funds. However, the regulations do not specify minimum levels of service for each client category. That is, the regulations do not guarantee that higher rates paid by the state will buy higher levels of service for clients, or that clients in a given category will receive consistent services across counties. If the Legislature is to be assured that the higher rates paid to residential care facility operators under this program are resulting in improved service for clients, the department needs to revise its regulations to include measurable, minimum levels of service for each client category.

Department caseload estimates do not reflect the number of mentally ill persons placed in residential care or the level of care they need. Chapter 1352 requires the department each year to submit to the Legislature data on actual and estimated caseload. However, because counties may only bill the department for services received by board and care clients up to the limit set in the county's Short-Doyle allocation, the department does not have access to data that accurately state the number of persons receiving board and care services through the counties.

Our review indicates that counties frequently revise downward the placement level indicated by the results of a client's assessment because funds are not available. For example, clients for whom the assessment indicates a need for level I services are placed in the "basic" category and, because no supplemental rate is required, are not reported to the department or encompassed in the department's caseload estimates. Such revisions, called "administrative overrides" are allowed under DMH procedures, and the department does not attempt to track them. We believe this approach poses a substantial problem for the Legislature if it is to determine an appropriate level of funding for the program.

Recommendations. The department indicates it is conducting a review of the supplemental rates program, which it expects to complete in early spring. The department is reviewing the problems noted above and, in addition, is evaluating the extent to which county monitoring of service delivery is adequate. Accordingly, we recommend that the department submit its report by April 1, 1990 and that the department incorporate in its report recommendations that address the issues we have identified.

4. SPECIAL EDUCATION PUPILS

Budget Proposes to Eliminate Funding for Mental Health Services Provided to Special Education Pupils

The budget assumes enactment of legislation to transfer fiscal and programmatic responsibility for mental health services provided to special education pupils to the State Department of Education (SDE), for a savings of $15.8 million ($15.1 million General Fund, $675,000 federal reimbursements) to the Department of Mental Health.

The budget proposes to transfer fiscal and programmatic responsibility for mental health services provided to approximately 12,500 special education pupils pursuant to their Individualized Education Plans to the SDE. This will result in a savings to the department of $15.8 million ($15.1 million General Fund, $675,000 federal reimbursements). The proposal assumes the enactment of legislation to repeal the provisions of current law that require county departments of mental health to provide assessment, treatment, and case management services to special education pupils referred by school districts, if these services are necessary for the student to benefit from education.

The program was established by Ch 1747/84 (AB 3632, Willie Brown) and Ch 1274/85 (AB 882, Willie Brown). Chapters 1747 and 1274 require the DMH, the Department of Social Services (DSS), and the SDE, as well as various local agencies, to enter into interagency agreements to ensure coordinated service delivery to special education pupils needing mental health services. The DMH pays for 90 percent of the costs of providing mental health services, and county mental health departments pay for 10 percent of the costs. In addition, the DSS is required to fund necessary residential care.

The budget assumes the repeal of Chapters 1747 and 1274 and proposes to transfer the fiscal and programmatic responsibility for mental health services provided to special education pupils to the SDE. We discuss this proposal further in our analysis of the SDE's budget. In that discussion, we withhold recommendation pending receipt of additional information regarding (1) whether the services provided under Chapters 1747 and 1274 may be counted towards the Proposition 98 minimum funding requirements and (2) an implementation plan to accomplish the proposed transfer without disruption to children currently receiving services. (Please see Item 6110-161-001.)

5. INSTITUTIONS FOR MENTAL DISEASES

The budget proposes a total of $86.5 million to fund the administration, care, and treatment of mentally disabled patients in institutions for mental diseases (IMDs). This is an increase of $5.7 million, or 7 percent, over estimated current-year expenditures. The increase results primarily from a proposal to pay for 226 additional beds. The $86.5 million consists of $73.8 million from the General Fund and $12.7 million in reimburse-

DEPARTMENT OF MENTAL HEALTH—Continued

ments from Supplemental Security Income/State Supplementary Program (SSI/SSP) payments to eligible beneficiaries. An IMD is a facility that, prior to August 1987, was classified as a skilled nursing facility with special treatment programs.

In 1987 the department's long-term plan outlined turning operation of the IMD Program over to counties by the start of the budget year. However, since that time, negotiations between the department and counties to transfer the program have been unsuccessful. The department indicates that contracting with facilities, collection of SSI/SSP, and administrative activities to support the IMD Program will remain the responsibility of the state through at least 1990-91.

Treatment Costs Too High

We recommend (1) a reduction of $3.1 million in the amount budgeted for treatment costs of IMD services and (2) an augmentation of $2.3 million in reimbursements for additional SSI/SSP receipts to correct for overbudgeting. (Reduce Item 4440-141-001.)

The budget proposes a total of $86.5 million to fund the care and treatment of mentally ill persons in IMDs. The $86.5 million consists of $73.8 million from the General Fund and $12.7 million in reimbursements from SSI/SSP payments to eligible beneficiaries. The budget proposes to fund a total of 3,858 IMD beds. This is an increase of 226 beds, or 6 percent, over the current year. The proposed bed increase is based on the average annual increase in the number of beds certified as skilled nursing facility/special treatment program (SNF/STP). Before 1987, IMDs had been classified as SNF/STPs and had been eligible for Medi-Cal reimbursement.

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 Veterans' Administration or individual retirement funds, and/or family share of costs. In addition, the state's net treatment costs are offset by the amount of SSI/SSP reimbursement it collects from patients or other persons designated to receive payments on a patient's behalf (designated payees). For example, in the current year, other patient revenue collected by IMD providers is estimated to be $6.5 million, and SSI/SSP reimbursements are estimated to be $11.7 million, thereby reducing the state's net treatment costs by $18.2 million.

The budget for 1990-91 is based on collections of other patient revenue totaling $6.9 million and SSI/SSP reimbursements totaling $12.7 million. The department's estimate for SSI/SSP reimbursements is based on the assumption that reimbursements will average $275 per patient per month. However, our review indicates that SSI/SSP reimbursements averaged $309 per patient per month from July through October of the current year. In addition, the SSI/SSP grant amount increased by 4.9 percent on January 1, which should lead to collections averaging $326 per patient per month.

Similarly, the department assumes that "other patient revenue" will be $6.5 million in the current year, or an average of $149 per patient per month. Our review indicates that other patient revenue collections over the first five months of the current year averaged $167 per patient per month. Based on these figures, we estimate the department will collect $800,000 more than the $6.9 million budgeted for "other patient revenue," and $2.3 million more than the $12.7 million estimated for SSI/SSP reimbursements. Consequently, the proposed budget overstates the state's share of IMD costs by $3.1 million.

We therefore recommend a reduction of $3.1 million due to overbudgeting of the state's share of the treatment costs for the proposed 3,858 IMD beds, and an increase of $2.3 million in the department's reimbursement authority for additional SSI/SSP receipts (reduce Item 4440-141-001). This recommendation does not affect the level of IMD services proposed by the department.

Legislation Would Reduce Administrative and Treatment Costs

We recommend that the Legislature (1) adopt Budget Bill language requiring the department to transfer responsibility for collection of SSI/SSP reimbursements to IMD service providers, and deduct estimated collections from provider contracts, and (2) enact legislation requiring IMD patients eligible for SSI/SSP to pay service providers an amount equal to the board and care portion of their SSI/SSP grant.

The budget proposes a total of $413,000 (General Fund) to establish 8 accounting and 3 data processing positions. Eight of the 11 positions were administratively established in the current year. These positions are in addition to 18 accounting positions established in 1989-90. The proposed new accounting staff would issue payments to IMD providers, recover SSI/SSP reimbursements from eligible patients, and provide consultation to IMD provider accounting staff. The proposed data processing positions would provide maintenance and support to the computer systems responsible for invoicing SSI/SSP reimbursements and other functions related to payment of IMD providers.

Collections of SSI/SSP Should be Transferred to Providers. We are concerned with this proposal primarily because, in our view, collection of SSI/SSP payments should properly be the responsibility of IMD service providers. In our 1989-90 *Analysis*, we recommended that the department continue to pursue negotiations with IMD service providers to achieve this end. Our review indicates that the department is not presently involved in active negotiations with IMD facility operators to transfer responsibility for SSI/SSP collection to the facility operators.

The department previously has indicated, however, that facility operators are in the best position to recover SSI/SSP payments because they have direct contact with the patient and the patient's designated payee. The department cannot perform this function efficiently because it does not currently have routine contact with patients and payees, and stationing positions at all IMD provider locations would be very costly.

Accordingly, we recommend that the Legislature adopt Budget Bill language directing the department to transfer responsibility for collec-

DEPARTMENT OF MENTAL HEALTH—Continued

tion of SSI/SSP grants to IMD service providers, and requiring that the department deduct from the contracts it signs with IMD service providers the estimated amount of SSI/SSP collections, as it presently does with other third-party revenue, from the contracted amount for treatment costs.

The following language is consistent with our recommendation:

> The collection of all third-party revenues, including SSI/SSP grants, shall be the responsibility of IMD service providers. The department shall estimate third-party revenue collections based on data provided by the Social Security Administration, facility operators, and other sources as necessary. The department shall deduct an amount equal to this revenue estimate from its contracts with IMD service providers.

Recommended Legislation. The department reports that a major obstacle for transferring SSI/SSP collection responsibility to facility operators is the absence of legislation that would require SSI/SSP-eligible patients or their designated payees to pay the facility operator the board and care portion of a patient's SSI/SSP grant.

Our review indicates that legislation requiring such payments would be consistent with current law requiring SSI/SSP-eligible clients in community care facilities (or a client's designated payee) to pay the community care facility operator an amount equal to the board and care portion of the client's SSI/SSP grant. If similar legislation were enacted with respect to patients in IMDs, we estimate that, as a result of additional SSI/SSP reimbursement collections, net treatment costs for IMD services would decrease by at least $4 million for 1990-91.

Accordingly, we recommend that the Legislature enact legislation requiring that:

- Prior to admission to an IMD, SSI/SSP-eligible patients or their designated payee sign an admission agreement specifying the amount of the patient's SSI/SSP grant for board and care.
- SSI/SSP-eligible patients or their designated payees pay the IMD service provider an amount equal to the board and care portion of the patient's SSI/SSP grant.

Such legislation would reduce treatment costs and lessen the amount of administrative staff IMD providers would require to recover SSI/SSP reimbursements.

No Systematic Bed Allocation Methodology

We recommend that the Legislature adopt Budget Bill language specifying an allocation methodology for IMD beds.

Currently, there is no systematic process for the allocation of IMD beds. IMD beds are "allocated" on a first-come, first-served basis. As we have previously noted, the lack of an allocation process increases competition between counties for available beds. In some cases, additional funds are expended, increasing the cost of treating patients. For example, the department informs us that some counties, in order to ensure its clients get placed in a facility, (1) pay IMD facilities to hold future available beds and/or (2) add an additional amount to the IMD rate paid by the state. The lack of an allocation process adds to the overall costs of public mental health services.

Our review of the IMD Program indicates that the allocation of IMD beds 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 lower than the costs of other types of 24-hour care provided through the Short-Doyle system. Similarly, the state pays 100 percent of IMD net treatment costs, while it pays only 85 percent of other types of 24-hour care.

Accordingly, we recommend that the Legislature adopt 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 is due to report to the Legislature regarding this issue by May 1. We will comment further when the report becomes available.

Impact of Federal Nursing Home Reform Not Reflected in Budget

We estimate a potential need for 144 additional IMD beds in 1990-91 above the number funded in the budget, at a cost of up to $1.4 million (General Fund), in order to comply with the nursing home reform provisions of the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87). The department indicates it will address this issue in its May revision.

In formulating its request for funds for an additional 226 IMD beds for 1990-91, the department indicates it has not considered the potential need for additional IMD beds that may be required in conjunction with the nursing home reform provisions of OBRA 87.

Background. OBRA 87 made major changes in federal Medicare and Medicaid laws related to nursing facilities. The intent of OBRA 87 was to address concerns that people are inappropriately placed in nursing facilities and that many nursing facility patients are not receiving the treatment they need. OBRA 87 required the department to (1) screen nursing facility patients to assure that their placements are appropriate, (2) evaluate treatment needs of mentally ill patients and provide needed treatment services, and (3) transfer these patients to other facilities if appropriate. The law requires that the state provide treatment for mentally ill persons and complete the required transfers by April 1, 1990.

The department began implementing the screening and treatment evaluation requirements at the beginning of the current year. The department received permission from the federal Health Care Financing Administration to phase in compliance with the requirements for treatment and completion of the required transfers over five years. The department's commitments under this agreement, documented in its Alternative Disposition Plan (ADP), require it to provide treatment and complete transfers for 50 percent of these patients within three years, and

DEPARTMENT OF MENTAL HEALTH—Continued

to provide treatment and complete transfers for all patients within five years. The department must pay the treatment costs for patients transferred to IMDs. Treatment costs for patients who remain in nursing facilities are contained in the Medi-Cal budget.

We asked the department to provide the results of OBRA screens completed at the time of our review (January 1990). Based on this information, we estimate that the state will need to transfer to IMDs approximately 2,160 patients who are currently residing in nursing facilities by 1995. If 50 percent of these transfers are to be completed within three years as the ADP requires, approximately 17 percent of these patients presumably would require transfer by the end of 1990-91.

Based on these estimates, approximately 370 additional IMD beds may be required by the end of 1990-91, or 144 more beds than funded in the budget. If these beds were phased in throughout the year, the state would incur an additional General Fund cost of approximately $1.4 million in 1990-91. These costs would be partially offset by General Fund savings in the Medi-Cal Program.

The department indicates it intends to address the potential need for additional IMD beds due to the requirements of OBRA 87 during the May revision process. In addition, the department is due to report to the Legislature by April 1, 1990 on a plan that specifies how it will implement the ADP.

Capital Outlay

The Governor's Budget proposes an appropriation of $14,170,000 in Item 4440-301-036 for capital outlay expenditure in the Department of Mental Health. Please see our analysis of that item in the capital outlay section of this *Analysis*, which is in the back portion of this document.

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General Fund and various funds — Budget p. HW 147

Requested 1990-91	$4,768,156,000
Estimated 1989-90	4,805,226,000
Actual 1988-89	4,103,323,000
Requested decrease (excluding amount for salary increases) $37,070,000 (−0.8 percent)	
Recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5100-001-001—Support	General	$24,408,000
5100-001-184—Support	Benefit Audit	7,743,000
5100-001-185—Support	Contingent	39,358,000
5100-001-514—Support	Employment Training	71,059,000
5100-001-588—Support	Unemployment Compensation Disability Insurance	77,395,000
5100-001-869—Support	Consolidated Work Program	56,807,000
5100-001-870—Support	Unemployment Administration	386,604,000
5100-001-908—Support	School Employees	573,000
5100-011-890—Support	Federal Trust	(386,604,000)
5100-021-890—Support	Federal Trust	(56,807,000)
5100-101-588—Local assistance	Unemployment Compensation Disability Insurance	1,558,340,000
5100-101-869—Local assistance	Consolidated Work Program	222,299,000
5100-101-870—Local assistance	Unemployment Administration	2,910,000
5100-101-871—Local assistance	Unemployment	2,294,316,000
5100-101-890—Local assistance	Federal Trust	(222,299,000)
5100-101-908—Local assistance	School Employees	16,270,000
5100-111-890—Local assistance	Federal Trust	(2,297,226,000)
Reimbursements	—	24,614,000
Unemployment Insurance Code Section 1586	Contingent	400,000
Reimbursement to Federal Government	School Employees	−14,940,000
Total		$4,768,156,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Service Centers — Proposed Elimination. Legislature has three options with respect to the Service Center Program: (a) eliminate the program, as proposed, for a General Fund savings of $7.7 million, (b) augment the Employment Development Department's (EDD) budget to restore the program, or (c) redirect resources from other employment services programs. 659
2. Job Service Automation. Recommend the department report, prior to budget hearings, on potential for automation efficiencies to free up funds for Service Center Program. 663
3. Lease Purchase Agreement. Recommend deletion of Budget Bill language related to lease purchase agreement. 665

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

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The department has 10,145.2 personnel-years in the current year.

MAJOR ISSUES

☑ The budget proposes to eliminate the Service Center Program for a General Fund savings of $7.7 million.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $4.8 billion from various funds for support of the EDD in 1990-91. This is a decrease of $37 million, or 0.8 percent, below estimated current-year expenditures. Of the total amount proposed, $3.9 billion is for the payment of UI and DI benefits, and $911 million is for various other programs and administration.

The $911 million proposed for other programs and administration is $165 million, or 15 percent, below estimated current-year expenditures. This reduction is due primarily to two factors. First, the budget shows a $154 million reduction in funds available for the Job Training Partnership Act (JTPA) Program because the current-year budget includes $116 million in local assistance funds reappropriated from the prior year and $37 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 includes a reduction of $7.7 million due to the proposed elimination of the Service Center Program.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

Table 1
Employment Development Department
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 to 1990-91* Amount	Percent
Employment programs:					
Employment service	$111,876	$131,945	$133,446	$1,501	1.1%
Work incentive and related	12,260	14,952	15,211	$259	1.7
Service Center Program	7,109	7,675	—	–7,675	–100.0
Job agent	2,929	3,270	3,342	72	2.2
Job service reimbursable	1,350	3,492	3,572	80	2.3
Subtotals, employment programs	($135,524)	($161,334)	($155,571)	(–$5,763)	(–3.6%)
Employment Training Panel	$111,276	$85,822	$68,940	–$16,882	–19.7%
Job Training Partnership Act (JTPA):					
Administrative cost pool	$7,477	$11,091	$10,046	–$1,045	–9.4%
Incentive awards and technical assistance	10,050	26,669	10,237	–16,432	–61.6
Older workers	6,532	8,082	5,433	–2,649	–32.8
Educational linkages	24,084	23,099	14,487	–8,612	–37.3
Special local project	1,234	3,060	364	–2,696	–88.1
Dislocated workers	28,654	41,263	27,907	–13,356	–32.4
Veteran's programs	1,361	910	800	–110	–12.1
Adult and youth training	152,637	184,630	141,251	–43,379	–23.5
Summer youth program	70,081	134,273	68,581	–65,692	–48.9
Subtotals, JTPA	($302,110)	($433,077)	($279,106)	(–$153,971)	(–35.6%)
Unemployment Insurance (UI):					
Administration	$254,092	$286,680	$295,675	$8,995	3.1%
Benefits	1,712,254	2,222,700	2,298,556	75,856	3.4
Subtotals, UI	($1,966,346)	($2,509,380)	($2,594,231)	($84,851)	(3.4%)
Disability Insurance (DI):					
Administration	$68,977	$78,512	$78,398	–$114	–0.1%
Benefits	1,490,846	1,506,350	1,558,340	51,990	3.5
Subtotals, DI	($1,559,823)	($1,584,862)	($1,636,738)	($51,876)	(3.3%)
Personal income tax collections	$23,569	$25,517	$28,564	$3,047	11.9%
Employment training tax collections	1,869	2,016	2,119	103	5.1
General administration, undistributed	2,806	3,218	2,887	–331	–10.3
Total budget	$4,103,323	$4,805,226	$4,768,156	–$37,070	–0.8%
(Program)	($900,223)	($1,076,176)	($911,260)	(–$164,916)	(–15.3%)
(UI and DI benefits)	($3,203,100)	($3,729,050)	($3,856,896)	($127,846)	(3.4%)
Funding Sources					
General Fund	*$29,366*	*$31,547*	*$24,408*	*–$7,139*	*–22.6%*
Outer Continental Shelf Land Act Fund	—	*350*	—	*–350*	*–100.0*
Benefit Audit Fund	*6,742*	*8,568*	*7,743*	*–825*	*–9.6*
EDD Contingent Fund	*24,029*	*32,850*	*39,758*	*6,908*	*21.0*
Employment Training Fund	*130,912*	*104,438*	*90,159*	*–14,279*	*–13.7*
Disability Fund	*1,558,966*	*1,583,883*	*1,635,735*	*51,852*	*3.3*
Consolidated Work Program Fund	*302,110*	*433,077*	*279,106*	*–153,971*	*–35.6*
Unemployment Administration Fund	*343,722*	*394,983*	*389,514*	*–5,469*	*–1.4*
Unemployment Fund — Federal	*1,678,274*	*2,176,886*	*2,260,276*	*83,390*	*3.8*
School Employees Fund	*15,422*	*16,860*	*16,843*	*–17*	*–0.1*
Reimbursements	*13,780*	*21,784*	*24,614*	*$2,830*	*13.0*

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

General Fund and Contingent Fund Requests

The budget proposes a total appropriation of $64 million from the General Fund ($24 million) and the EDD Contingent Fund ($40 million) to support the EDD in 1990-91. This represents a net decrease of $231,000, or −0.4 percent, from these funds as compared with estimated current-year expenditures. The EDD 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 EDD Contingent Fund to the General Fund. Remaining revenues from late payment of UI, DI, and Employment Training (ET) taxes, remain in the EDD Contingent Fund. At the end of each fiscal year, the balance over $1 million is transferred to the General Fund.

Table 2 shows the factors resulting in the net decrease of $231,000. As the table shows, this decrease is primarily due to:

- A $7.7 million reduction due to the proposed elimination of the Service Center Program. (We discuss this issue in more detail later in this analysis.)
- A $3.9 million reduction due to elimination of one-time expenditures as a result of completing the first phase of the Job Service Automation System (JSAS) and a $3.9 million increase in order to complete the second phase of the JSAS. The first phase of the automation project — referred to as Job Service Order Sharing — made job orders available to each field office within local labor market areas. The second phase of the JSAS was begun in the current year and will enable the field offices to electronically match job seekers with job orders. These matches will not only be done within local labor market areas, but also statewide. The department advises that the JSAS will be fully operational by February 1, 1991.
- A $2.6 million increase to expand the department's employer tax auditing and collection activities. The EDD advises that this expansion will ultimately result in an increase in the amount of revenues collected, including General Fund and EDD Contingent Fund monies.

ANALYSIS AND RECOMMENDATIONS

DEPARTMENTAL PROGRAMS AND SUPPORT

Proposed Staffing Changes Reflect a Variety of Factors

The budget proposes a net increase of 211.3 personnel-years in 1990-91. Table 3 shows the proposed personnel-year 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 2
Employment Development Department
Proposed 1990-91 General and Contingent Fund Budget Changes
(dollars in thousands)

	General Fund	*Contingent Fund*	*Totals*
Funds available, 1989 Budget Act	$30,727	$29,987	$60,714
Baseline adjustments			
Salary, benefit, and price increase	$856	$2,472	$3,328
Retirement rate reduction	−36	−9	−45
Subtotals, baseline adjustments	($820)	($2,463)	($3,283)
Interest on refunds and judgements	—	$400	$400
1989-90 expenditures (revised)	$31,547	$32,850	$64,397
Baseline adjustments			
Elimination of one-time purchases for Job Services Automation System	—	−$3,899	−$3,899
Salary, benefit, and price increase	$602	1,729	2,331
Subtotals, baseline adjustments	($602)	(−$2,170)	(−$1,568)
Program changes			
Completion of job service automation	—	$3,906	$3,906
Expansion of personal income tax collection and auditing activities	—	2,574	2,574
Unemployment Insurance automation	—	1,525	1,525
Elimination of Service Center Program	−$7,741	−97	−7,838
Other	—	1,170	1,170
Subtotals, program changes	(−$7,741)	($9,078)	($1,337)
1990-91 expenditures (proposed)	$24,408	$39,758	$64,166
Change from 1988-89 (revised):			
Amount	−$7,139	$6,908	−$231
Percent	−22.6%	21.0%	−0.4%

Table 3
Employment Development Department
Proposed Personnel-Year Changes
and Fiscal Effect
1990-91

	Positions			*Net Fiscal Effect*				
Reason for Change	*Added*	*Reduced*	*Net*	*Salaries*	*Benefits*	*OE&E*	*Other*	*Total*
Program changes and legislation	81.6	−146.0	−64.4	−$2,474	−$644	−$424	$925	−$2,617
Workload changes	275.7	—	275.7	7,774	2,465	2,602	−1,008	11,833
Totals	357.3	−146.0	211.3	$5,300	$1,821	$2,178	−$83	$9,216

Table 4
Employment Development Department
Proposed Changes in Personnel-Years by Program
1990-91

	Unemployment Insurance	*Disability Insurance*	*Employment Service*	*Tax Collections*	*Other Employment Programs*	*Totals*
Program changes and legislation	—	—	−118.3	—	53.9	−64.4
Workload changes	139.6	77.2	—	45.2	13.7	275.7
Totals	139.6	77.2	−118.3	45.2	67.6	211.3

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The major causes for the position changes in each category shown in Tables 3 and 4 are discussed below:

- ***Program Changes and Legislation.*** The budget proposes a net decrease of 64.4 personnel-years due to program changes and legislation. The major additions are due to the department's proposals to (1) reestablish the 49 personnel-years, which are currently limited term for the JTPA dislocated worker program, (2) expand the Youth Employment Opportunity Program using Wagner-Peyser 10 percent funds, (3) expand the State/Local Cooperative Labor Market Information Program from 17 local sites to statewide, and (4) add 4.9 personnel-years to the Employment Training Panel for small business coordinators as required by Ch 926/89 (AB 28, Johnston). The budget also proposes a reduction of 146 personnel-years due to the elimination of the Service Center Program.
- ***Workload Changes.*** The department proposes to add a net of 275.7 personnel-years due to increased workload. The largest workload increases are in the UI and DI programs. In addition, the budget reflects an increase of 25.8 personnel-years in the Central Collections Division of the Tax Branch. These personnel-years reflect the greater-than-expected amount of statements, denied letters, and tax liens generated by the computerized Tax Accounting System.

EMPLOYMENT SERVICES PROGRAMS

The EDD administers Special Group Employment Services and Employment Services programs in 125 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 Program is to provide special services to individuals with particular barriers to employment (that is, the disabled, clients who are not proficient in English, and participants in the Greater Avenues for Independence Program).

Employment Services programs include the JS Program — commonly referred to as the JS 90 Percent 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 90 percent funds, which are used to operate a statewide labor exchange. The purpose of the labor exchange is to assist the unemployed in finding jobs by matching their skills with the needs of employers. The JS employees keep in constant touch with employers in order to keep track of job openings.

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.

Budget Proposal to Eliminate the Service Center Program — the Legislature's Options

The Legislature has three basic options with respect to the proposal to eliminate the Service Center Program: (1) eliminate the program, as proposed, for a General Fund savings of $7.7 million, (2) augment the EDD's budget to restore all or part of the program, and (3) redirect resources from EDD's other employment services programs to maintain the program.

Background. The budget proposes to eliminate the Service Center Program for a General Fund savings of $7,741,000. The Service Center Program serves clients who have one or more of the following employment-related barriers: (1) a lack of job skills, (2) a lack of language skills, (3) a physical disability, (4) limited education, or (5) poor work habits or attitudes. The services provided include remedial education, vocational training, counseling, job search training, and special supportive services such as transportation. The Service Centers are located in nine JS offices in communities that have a particularly heavy concentration of poverty, unemployment, and welfare. These nine offices are located in Avalon (Los Angeles), East Los Angeles, South Central Los Angeles, East Fresno, West Fresno, Richmond, San Diego, and San Francisco (two).

Table 5 shows the number of total clients served by the program and the number and percent of clients who were placed into employment lasting at least 30 days during the period 1980-81 through 1988-89. As the table shows, during the last few years the program has served approximately 14,500 clients per year, placing over 50 percent of them into employment for the minimum number of days.

Table 5
Employment Development Department
Number of Clients and Placements
in the Service Center Program
1980-81 through 1988-89

Year	*Clients*	*Placements*	*Placement Rate* [a]
1980-81	13,392	5,722	43%
1981-82	15,676	7,540	48
1982-83	16,027	7,313	46
1983-84	15,985	8,217	51
1984-85	15,785	8,115	51
1985-86	14,763	7,477	51
1986-87	14,508	7,503	52
1987-88	14,338	7,692	54
1988-89	14,439	7,541	52

[a] Reflect percentage of clients placed in employment lasting at least 30 days.

Table 6 displays selected employment services programs operated by the EDD, their funding and staffing levels, a description of each program, and the number of clients served and placed into employment in the most recent period for which data is available. As the table shows, one

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

program, the Job Agents Program, is very similar to the Service Center Program in that it serves the same type of clientele, but in 37 JS field offices, including 7 JS offices that are also designated as Service Centers. The main difference between the Job Agents Program and the Service Center Program is that the Job Agents follow their clients for 90 days instead of 30 days. Therefore, the Job Agents Program is a more intensive program.

Proposal Is a Policy Decision for the Legislature. The budget does *not* propose legislation to eliminate the Service Center Program. Because it is not clear whether action on the budget alone can serve to eliminate a state program, we have requested an opinion from the Legislative Counsel on this issue. Whether or not separate legislation is required to implement the budget proposal, however, the proposal is a policy decision for the Legislature. This is because currently there are little evaluation data available to measure the program's success. The Legislature has three basic options, as follows:

1. Program Elimination. This option, the budget proposal, would not actually result in the elimination of *all* services to the individuals who currently receive services from the Service Centers. This is because these individuals would be eligible to receive services through two other EDD programs: (1) the Job Agents Program and (2) the JS Program. To the extent that Service Center clients are served by either of these other programs, however, they would probably displace other Job Agent and JS clients, since the budget proposes to hold staffing for these programs constant at existing levels.

2. Augmentation of EDD's Budget to Restore Funds for the Service Center Program. This option also presents a dilemma for the Legislature. On the one hand, it would allow the continuation of the program. On the other hand, it would require the Legislature to reduce funds in some other portion of the budget, either by reducing funding for another program, or by reducing the amount in the already limited Reserve for Economic Uncertainties.

3. Redirection of Funds Within EDD's Budget. As Table 6 shows, the EDD administers a variety of employment services programs with a total proposed budget of $98 million. A portion of the funding for these programs comes from either the EDD Contingent Fund, federal Wagner-Peyser 10 percent funds, or the General Fund. These funding sources represent the only funding sources in the EDD's budget, over which the Legislature has broad discretion. Thus, the Legislature could fund the Service Centers using these funds, redirected from any of the programs displayed in the table.

Table 6
Employment Development Department
Employment Services Programs That Receive Discretionary Funds

Program	*Proposed 1990–91 Funding/Personnel-Years*	*Description*	*Clients*	*Placements*
Job Service (JS)	$89,881,000/1,433.4 personnel-years (PYs) ($69,296,000—Wagner-Peyser (WP) 90 percent funds—nondiscretionary—and $20,585,000 EDD Contingent Fund (CF))	Operates in all 125 JS field offices. Provides a statewide labor exchange to assist the unemployed in finding jobs.	940,000 unemployed individuals in 1988–89	330,000 individuals placed in employment in 1988–89
Service Centers	($7,580,000 General Fund and $95,000 EDD CF in 1989–90/146 PYs) The budget proposes to eliminate this program.	Operates in nine JS field offices. Provides employability services, such as remedial education and counseling.	14,439 clients who have at least one of five specified employment-related barriers, such as a lack of job skills in 1988–89	7,541 clients placed in employment and retained a minimum of 30 days in 1988–89
Job Agents	$3,342,000 EDD CF/54.8 PYs	Job Agents are assigned to 37 JS field offices located in urban communities. They provide employability services, such as remedial education and counseling.	3,749 clients who have at least one of six specified employment-related barriers in 1988–89	1,891 clients placed in employment and retained a minimum of 90 days in 1988–89
Youth Employment Opportunity Program	$1,373,000 WP 10 percent funds/47.7 PYs	Trains 100 at-risk youth as youth employment specialists who then provide services to other at-risk youth. Operates out of 24 JS field offices in the Los Angeles area.	3,272 at-risk youth, ages 15–22 during the period 7/1/89 through 10/31/89	867 placed and retained for a minimum of 30 days in jobs, school, the military, or enrolled in a vocational program during the period 7/1/89 through 10/31/89
Project IMPACT	$1,421,000/36.3 PYs ($2,279,000 in WP 10 percent funds, $621,000 in Employment Training Funds, and $521,000 in Item 8940-001-001 General Fund)	Provides military skills training, basic skills training, and preemployment training in a six-week program. Operates at eight sites throughout the state, one of which is colocated with a JS field office.	754 economically disadvantaged youth, ages 17–21 in 1988–89	588 youths placed in jobs, school, or the military in 1988–89

Table 6—Continued
Employment Development Department
Employment Services Programs That Receive Discretionary Funds

Program	*Proposed 1990–91 Funding/Personnel-Years*	*Description*	*Clients*	*Placements*
Deaf and Hearing Impaired Project	$859,000/contract, no PYs ($533,000 WP 10 percent funds, $326,000 reimbursements)	Provides staff from five statewide service provider agencies trained in signing skills and job placement and development to provide intensive employment services. Operates in 14 JS field offices.	2,144 deaf and hearing impaired clients during the period 7/1/87 through 6/30/89	899 placed in jobs for a minimum of 32 hours per week and retained at least 30 days during the period 7/1/87 through 6/30/89
Project BUILD	$367,000 WP 10 percent funds/ contract, no PYs	Provides four-day job search workshops, counseling, supportive services and referrals at six housing projects in Watts.	2,070 individuals, generally residents of one of the six housing projects, during the period 10/1/85 through 10/31/87	154 individuals placed in employment and retained at least 90 days during the period 10/1/85 through 10/31/87
Native American	$180,000 WP 10 percent funds/ contract, no PYs	Employs Native Americans to provide intensive employment services to other Native Americans in JS field offices in Santa Rosa, San Jose, Bakersfield, Porterville, Bishop, Riverside, and San Bernardino.	565 Native Americans during the period 11/1/88 through 9/30/89	296 placed in a job for a minimum of 32 hours a week during the period 11/1/88 through 9/30/89
Total	$98,423,000			

As Table 6 also shows, the JS Program is by far the largest of the employment services programs. Specifically, the budget proposes $89.9 million ($69.3 million in Wagner-Peyser 90 percent funds and $20.6 million from the EDD Contingent Fund) for the JS Program. For the past few years, the Legislature has maintained the JS staffing level constant at 1,433.4 personnel-years, despite decreases in the federal Wagner-Peyser funds. The Legislature has made up the difference in funding by replacing the reduced federal funds with monies from the EDD Contingent Fund. The funding proposed in the budget is consistent with the Legislature's past policy of holding constant the number of personnel-years allocated to the JS Program.

Redirecting all or part of the $7.7 million needed to continue the Service Centers in 1990-91 from the JS Program would reduce the level of staffing in the JS offices below the 1,433.4 personnel-year level. It would also, however, distribute the reduction across the entire state rather than focusing the cut on the nine areas served by the Service Center Program.

Efficiencies Resulting From JS Automation Could Be Used to Free Up Funds for the Service Center Program

We recommend that the department provide an estimate, prior to budget hearings, of the efficiency increases that will result from the completion of the JS automation project.

The department advises that it expects to complete the automation of the JS field offices in February 1991. Once completed, the project will allow JS staff to electronically match job seekers with job openings throughout the state.

The department expects the automation project to increase the efficiency of the JS staff thereby allowing an expansion in services provided through the program. It is also possible, however, that the efficiencies associated with the automation project could be used to soften the effect of any staff reductions in the Service Center Program by redirecting JS funds to that program. At the time this analysis was prepared, however, the department was not able to provide an estimate of the extent of the efficiency increases that will result from the automation project. Such an estimate would help the Legislature in evaluating the option of redirecting JS funds to finance continuation of the Service Center Program. We therefore recommend that the department provide the Legislature, prior to budget hearings, with an estimate of the efficiency increases associated with the JS automation project.

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 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

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

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 $296 million for UI administration and $2.3 billion for benefit payments. The level of administrative expenditures proposed for 1990-91 is $9.0 million, or 3.1 percent, above estimated current-year levels. This increase is primarily due to (1) an increase of $1.5 million to automate the California UI Appeals Board and (2) an increase of $6.5 million in salaries, benefits, and operating expenses and equipment. The $2.3 billion proposed for UI benefits in 1990-91 is $75.9 million, or 3.4 percent, higher than current-year benefit levels. This increase is primarily due to an anticipated increase in the labor force and the increase in the minimum wage that occurred July 1, 1986. The increase in the minimum wage affects UI benefits since the higher wage results in more persons being eligible for and receiving larger UI benefits.

Estimates Will be Updated in May

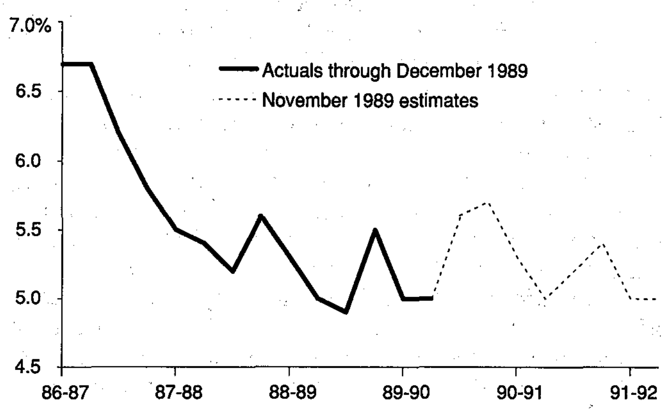
The department's estimates of UI expenditures are based on actual program costs through March 1989 and a forecast of trends in the economy, especially as they affect unemployment. The department made its projections of the state's unemployment rate in June 1989, however, and since completing the UI estimates for the 1990-91 budget, 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 lower unemployment rates for 1990. This new estimate is based, in part, on national data that continues to indicate that the economy is growing at a relatively healthy rate. Chart 1 shows the actual unemployment rate through December 1989 and the department's estimates based on its November forecast.

Although the UI estimates used in the budget are not based on this lower prediction of unemployment, the department will revise its estimates in May. The May revision will be based on data through March 1990 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 1990-91 expenditures. In addition, the UI estimates used in the budget do not include the effect of Ch 1146/89 (SB 600, Roberti), which raised the maximum UI benefit level and tightened the eligibility requirements. The EDD advises that the May revision will take into account the changes made by Chapter 1146.

Chart 1

The Employment Development Department Forecasts That Unemployment Will Remain Low

Quarterly Data
1986-87 through 1991-92



Capital Outlay

We recommend deleting Budget Bill language related to lease-purchase agreements from the departmental support item (5100-001-001). If the Legislature approves the proposed leases, the language should be inserted in the department's capital outlay item (5100-301-185), consistent with the Legislature's past practice in this respect.

The Governor's Budget proposes an appropriation of $1,284,000 in Item 5100-301 for capital outlay expenditures for the EDD. In addition, the support budget request includes Budget Bill language that would give the EDD authority to enter into lease purchase agreements with an initial option purchase price of over $2.0 million to provide office and parking facilities for area offices in Riverside, Bakersfield, Salinas, and Torrance. Our analysis of this proposed language is included in the Capital Outlay section in Item 5100-301-185 in the back of the *Analysis.* In order to be consistent with the Legislature's past practice, we recommend deleting the Budget Bill language from the department's support budget (Item 5100-001-870). If the Legislature approves the proposed leases, the language should be added to the Capital Outlay appropriation item (Item 5100-301-185).

EMPLOYMENT DEVELOPMENT DEPARTMENT—REAPPROPRIATION

Item 5100-490 from federal funds — Budget p. HW 147

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 1990-91 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, 1990 on the actual amount of JTPA local assistance funds carried over into 1990-91.

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.

DEPARTMENT OF REHABILITATION

Item 5160 from the General Fund and various funds — Budget p. HW 167

Requested 1990-91	$258,554,000
Estimated 1989-90	250,921,000
Actual 1988-89	235,065,000
Requested increase (excluding amount for salary increases) $7,633,000 (+3.0 percent)	
Total recommended reduction	None
Recommendation pending	69,808,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5160-001-001—Support	General	$27,125,000
5160-001-890—Support	Federal Trust	151,820,000
5160-101-001—Local assistance	General	73,927,000
Statutory Appropriation—Government Code Section 16370	Vending Stand Account, Special Deposit	2,150,000
Reimbursements	—	3,532,000
Total		$258,554,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Work Activity Program (WAP) and Supported Employment Program (SEP) Expenditures. Withhold recommendation on $69.8 million in General Fund support for the WAP and SEP, pending review of the May estimate and additional information on the budget proposal not to fund the anticipated increase in caseload. The budget indicates that legislation will be proposed to amend current law in order to effect a $10 million savings in these programs. 670

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 1,882.3 personnel-years in the current year.

MAJOR ISSUES

- Anticipated caseload in Habilitation Program not fully funded, for a General Fund savings of $10 million.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $258.6 million for the DOR in 1990-91. This includes $101.1 million from the General Fund, $151.8 million from federal funds, $2.2 million from the Vending Stand

DEPARTMENT OF REHABILITATION—Continued

Account, and $3.5 million in reimbursements. Total expenditures proposed for 1990-91 are $7.6 million, or 3 percent, more than estimated current-year expenditures.

The $101.1 million proposed from the General Fund for support of the DOR in 1990-91 is an increase of $818,000, or less than 1 percent, above estimated current-year expenditures. The proposed General Fund amount includes $27.1 million for support of the department and $73.9 million for local assistance.

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

Table 1
Department of Rehabilitation
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Change From 1989-90 Percent*
Vocational rehabilitation	$151,753	$171,983	$180,120	$8,137	4.7%
Habilitation services	73,602	70,885	70,686	−199	−0.3
Support of community facilities	9,710	7,489	7,748	259	3.5
Administration (undistributed)	—	564	—	−564	−100.0
Administration (distributed)	(11,654)	(13,588)	(15,363)	(1,775)	(13.1)
Totals, expenditures	$235,065	$250,921	$258,554	$7,633	3.0%
Funding Sources					
General Fund	*$97,974*	*$100,234*	*$101,052*	*$818*	*.8%*
Federal Trust Fund	*130,134*	*145,116*	*151,820*	*6,704*	*4.6*
Vending Stand Account	*2,017*	*2,108*	*2,150*	*42*	*2.0*
Reimbursements	*4,940*	*3,463*	*3,532*	*69*	*2.0*
Personnel-Years					
Vocational rehabilitation	1,496.8	1,651.5	1,610.0	−41.5	−2.5%
Habilitation services	24.4	23.7	23.4	−0.3	−1.3
Support of community facilities	13.4	14.4	14.2	−0.2	−1.4
Administration	180.8	192.7	208.0	15.3	7.9
Totals, personnel-years	1,715.4	1,882.3	1,855.6	−26.7	−1.4%

The budget proposes to reduce the number of personnel-years in the DOR by 26.7, or 1.4 percent, from the current-year estimate. This is due primarily to technical factors associated with the number of positions attributable to salary savings in the current and budget years. The budget proposes to redirect 17.9 personnel-years from vocational rehabilitation services to administration in order to support the Statewide Computer Assisted Case Service automation system. The budget also proposes to establish one position for the Independent Living Rehabilitation Services Program.

Table 2 displays the significant changes in expenditure levels proposed in the budget for 1990-91. The major budget changes proposed are:

- An increase of $7 million ($751,000 from the General Fund) for case services in the Vocational Rehabilitation Services Program, of which $2.6 million would be redirected from baseline funding for grants to rehabilitation facilities. The proposed General Fund increase is required to match an anticipated increase in federal funds.

- A General Fund savings of $10 million by not funding the anticipated caseload increase in the Habilitation Program.

Table 2
Department of Rehabilitation
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (revised)	$100,234	$250,921
Cost adjustments:		
Employee compensation adjustments	$437	$1,667
Inflation adjustments	—	1,521
Statewide cost allocation plan increase	—	871
1989-90 one-time expenditures	−564	−564
Habilitation Program caseload increase	10,000	13,775
Redirect federal funds from vocational rehabilitation	—	−3,775
Other	9	−207
Subtotals, cost adjustments	($9,882)	($13,288)
Program change proposals:		
Increase base case services	$751	$7,000
Decrease grants to rehabilitation facilities	—	−2,600
Revise Independent Living Rehabilitation Services Program	35	−205
Establish two independent living center branch offices	150	150
Cap Habilitation Program caseload	−10,000	−10,000
Subtotals, program change proposals	(−$9,064)	(−$5,655)
1990-91 expenditures (proposed)	$101,052	$258,554
Change from 1989-90:		
Amount	$818	$7,633
Percent	0.8%	3.0%

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 clients 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, primarily 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 $180.1 million for VR services in 1990-91, which includes $165.7 million for direct client services and $14.4 million for state administrative costs. Of the total amount proposed for VR services, $25 million is from the General Fund, $149.4 million is from federal funds, and $5.7 million is from fees and reimbursements. In addition to the VR funds

DEPARTMENT OF REHABILITATION—Continued

proposed for the VR Services Program itself, the budget also proposes $1.6 million in federal and state funds for grants and technical consultation for community rehabilitation facilities.

HABILITATION SERVICES

The department serves individuals through the habilitation services program who are too severely disabled to benefit from the VR Services Program. Habilitation services include (1) the Work Activity Program (WAP), (2) the Supported Employment Program (SEP), and (3) Counselor-Teacher and Reader Services for the Blind. The objectives of 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 the SEP is to provide training and supportive services to clients so that they can engage in competitive employment.

The budget proposes $70.7 million for habilitation services in 1990-91, which includes $70 million for client services and $659,000 for state administrative costs. Of the total amount proposed for habilitation services, $70.3 million is from the General Fund and $378,000 is from federal funds.

Anticipated Caseload Increase in WAP and SEP Not Funded

We withhold recommendation on $69.8 million from the General Fund requested for WAP and SEP, pending review of the May estimates of caseloads and costs and additional information on the budget proposal not to fund the anticipated caseload increase.

The budget requests $69.8 million from the General Fund for WAP ($53.5 million) and SEP ($16.3 million) in 1990-91. This assumes the same level of local assistance funding for these programs that is estimated to be expended in the current year.

The DOR currently estimates that an additional $13.8 million will be required for caseload increases in WAP and SEP. Current law provides that persons with developmental disabilities have the right to habilitation services. The budget, however, indicates that legislation will be proposed to make the level of habilitation services subject to funding in the Budget Act and thereby permit a net $10 million General Fund savings in these programs, primarily the SEP. (The remaining $3.8 million required to accommodate the caseload increase would be funded by a redirection of federal funds from the VR Services Program.)

At the time this analysis was prepared, the department could not provide any detail on the proposed legislation. We note, however, that the department estimates that the budget proposal would preclude 2,552 individuals from being served. The impact would be primarily on developmentally disabled persons who would otherwise be placed in the SEP. Under this program, the participants are employed in regular work settings — either individually or in groups — with special supervision from the DOR.

The SEP has grown significantly in recent years, showing a 40 percent increase in caseload from 1987-88 to 1988-89. The department, however, does not have data on the effectiveness of the program.

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 1990-91. Consequently, we withhold recommendation on the amount proposed for WAP and SEP, pending receipt of a detailed description of the Governor's proposed legislation and a review of the May estimates.

SUPPORT OF COMMUNITY FACILITIES

The department supports community-based services by providing technical consultation and grants to rehabilitation facilities and independent living centers.

As stated previously, the budget proposes to redirect $2.6 million from grants for rehabilitation facilities to augment case services in the VR Services Program.

The budget also proposes an augmentation of $150,000 from the General Fund to support two independent living center branch offices in Kern and Riverside Counties. These funds will replace federal funds currently used for this purpose. The independent living centers provide services to severely disabled individuals in order to assist them in achieving social and economic independence.

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 $11 billion for programs administered by the department in 1990-91. This is an increase of $644 million, or 6.2 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.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 1
Department of Social Services
Budget Summary
Expenditures and Revenues, by Program
All Funds
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Percent*
Departmental support	$228,580	$273,105	$260,119	–$12,986	–4.8%
AFDC [a]	4,846,163	5,388,451	5,847,888	459,437	8.5
Supplemental Security Income/State Supplementary Program [b]	1,976,109	2,182,412	2,230,532	48,120	2.2
Special adult	3,357	3,772	4,161	389	10.3
Refugee	33,561	44,782	51,058	6,276	14.0
County welfare department administration [a]	816,509	987,002	1,080,188	93,186	9.4
Social services [a,c]	1,242,315	1,496,114	1,485,502	–10,612	–0.7
Community care licensing	14,804	15,004	14,225	–779	–5.2
Special adjustments — COLA [a]	—	—	61,276	61,276	—
Totals	$9,161,398	$10,390,642	$11,034,949	$644,307	6.2%
Funding Sources					
General Fund [c]	*$5,238,647*	*$5,921,050*	*$6,230,639*	*$309,589*	*5.2%*
Federal funds [b]	*3,379,273*	*3,861,121*	*4,150,363*	*289,242*	*7.5*
County funds	*527,178*	*582,276*	*627,021*	*44,745*	*7.7*
Reimbursements	*10,542*	*15,027*	*12,825*	*–2,202*	*–14.7*
State Children's Trust Fund	*2,073*	*1,079*	*1,079*	—	—
Foster Family Home and Small Family Home Insurance Fund	*165*	*556*	—	*–556*	*–100.0*
Life-Care Provider Fee Fund	—	*192*	*157*	*–35*	*–18.2*
California Individual and Family Supplemental Grant Fund	*250*	—	—	—	—
State Legalization Impact Assistance Grant funds	*3,270*	*9,309*	*12,842*	*3,533*	*38.0*
Residential Care Facilities for the Elderly Administration Certification Fund	—	*32*	*23*	*–9*	*–28.1*

[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 8 in our analysis of the GAIN Program in Item 5180-151-001 displays all the funds appropriated in the Budget Bill for GAIN.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by the DSS. The budget requests a total of $6.2 billion from the General Fund for these programs in 1990-91. This is an increase of $310 million, or 5.2 percent, over estimated current-year expenditures. The increase is due largely to caseload increases in the AFDC Program.

Table 2
Department of Social Services
General Fund Expenditures
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Percent*
Departmental support	$81,152	$109,497	$95,890	−$13,607	−12.4%
AFDC	2,352,859	2,628,897	2,902,009	273,112	10.4
Supplemental Security Income/State Supplementary Program	1,962,347	2,165,655	2,216,846	51,191	2.4
Special adult	3,286	3,697	4,086	389	10.5
County welfare department administration	154,053	182,887	200,943	18,056	9.9
Social services [a]	675,521	820,890	802,288	−18,602	−2.3
Community care licensing	9,429	9,527	8,577	−950	−10.0
Totals	$5,238,647	$5,921,050	$6,230,639	$309,589	5.2%

[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 8 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 176

Requested 1990-91	$260,119,000
Estimated 1989-90	273,105,100
Actual 1988-89	228,580,000
Requested decrease (excluding amount for salary increases) −$12,986,000 (−4.8 percent)	
Total recommended reduction	116,000
Recommendation pending	676,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Support	General	$95,323,000
5180-001-131—Support	Foster Family Home and Small Family Home Insurance	740,000
5180-001-890—Support	Federal	153,358,000
5180-011-001—Support	General	504,000
5180-011-890—Support	Federal	236,000
Less General Fund transfer	—	−504,000
Less Federal Trust Fund transfer	—	−236,000
Subtotal, 5180-001-131		(—)
Reimbursements	—	9,590,000
Welfare and Institutions Code Section 1793—Appropriation	State Children's Trust	79,000
Health and Safety Code Section 1793—Appropriation	Life-Care Provider Fee	157,000

Departmental Support—Continued

Chapter 434, Statutes of 1989	Residential Care Facilities for the Elderly Administrative Certification	23,000
Health and Safety Code Section 1569.69—Appropriation	General	63,000
Control Section 23.50—Support	State Legalization Impact Assistance Grant	786,000
Total		$260,119,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Child Welfare Services (CWS) — Development of Case Management System. Recommend that, prior to budget hearings, the department provide the Legislature with (a) a more realistic timeframe for issuing the department's request for proposal, (b) an estimate of the time it will take to resolve bidder protests, and (c) a revised estimate of staffing needs for the budget year. 678
2. Aid to Families with Dependent Children-Foster Care — Group Home Audits. Withhold recommendation on $427,000 ($235,000 General Fund) pending receipt of the department's plan for auditing group homes in the budget year and an estimate of the costs of the audits. 680
3. Audit Appeals. Withhold recommendation on $249,000 ($138,000 General Fund) pending information on current and revised staffing requirements. 681
4. ***Substance Exposed/HIV-Positive Infant Demonstration Project. Reduce reimbursements to Item 5180-001-001 by $116,000.*** Recommend deletion of funding for proposed expansion of the pilot program because the proposed use of federal funds is inconsistent with federal law. 682
5. Community Care Licensing — Family Day Care Licensing. Withhold recommendation on a proposed General Fund reduction of $1.4 million, which reflects a proposed restructuring of the Family Day Care Licensing Program. Recommend that the department, prior to budget hearings, provide the fiscal committees with specified information on the health and safety effects of the proposed reduction. 683

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 3,642.5 personnel-years in the current year to administer these programs.

MAJOR ISSUES

☑ The budget proposes a 43 percent reduction of effort in family day care licensing, for a total General Fund savings of $2.8 million ($1.4 million in this item).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $260.1 million from all funds, including reimbursements, for support of the department in 1990-91. This is $13 million, or 4.8 percent, less than estimated current-year expenditures. If $19.4 million in one-time earthquake disaster relief funds were removed from current-year estimated expenditures, however, the budget proposal would represent a 2.5 percent *increase*. Of the total amount requested, $105.7 million is from state funds ($95.9 million General Fund) and $154.4 million is from federal funds. Table 1 identifies the department's expenditures by program and funding source for the past, current, and budget years.

Table 1
Department of Social Services
Expenditures for Departmental Support
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90* *Amount*	*Percent*
AFDC-Family Group and Unemployed Parent	$15,118	$16,112	$16,816	$704	4.4%
AFDC-Foster Care	3,279	4,192	4,822	630	15.0
Child support enforcement	10,164	12,526	12,302	−224	−1.8
Supplemental Security Income/State Supplementary Program	516	633	645	12	1.9
Special adult	359	345	355	10	2.9
Food stamps	20,036	22,155	22,546	391	1.8
Refugee programs	5,113	6,040	6,231	191	3.2
Child welfare services	4,765	6,885	7,832	947	13.8
County services block grant	1,050	1,200	1,195	−5	−0.4
In-home supportive services	1,688	2,241	1,982	−259	−11.6
Specialized adult services	837	762	812	50	6.6
Employment programs	7,127	7,737	7,885	148	1.9
Adoptions	8,650	10,112	10,312	200	2.0
Child abuse prevention	1,558	1,810	1,844	34	1.9
Community care licensing	35,321	39,941	42,272	2,331	5.8

Departmental Support—Continued

Table 1—Continued
Department of Social Services
Expenditures for Departmental Support
1988-89 through 1990-91
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90 Amount*	*Percent*
Disability evaluation	103,863	113,722	114,823	1,101	1.0
Administration	9,136	7,292	7,445	153	2.1
1989 earthquake relief	—	19,400	—	−19,400	−100.0
Totals	$228,580	$273,105	$260,119	−$12,986	−4.8%
Funding Sources					
General Fund	*$81,152*	*$109,497*	*$95,890*	*−$13,607*	*−12.4%*
Federal funds	*138,549*	*152,544*	*153,594*	*1,050*	*0.7*
Reimbursements	*7,911*	*9,301*	*9,590*	*289*	*3.1*
State Children's Trust Fund	*48*	*79*	*79*	—	—
State Legalization Impact Assistance Grant	*505*	*904*	*786*	*−118*	*−13.1*
Foster Family Home Insurance Fund	*165*	*556*	—	*−556*	*−100.0*
Life-Care Provider Fee Fund	—	*192*	*157*	*−35*	*−18.2*
California Individual and Family Supplemental Grant Fund	*250*	—	—	—	—
Residential Care Facilities for the Elderly Administrative Certification Fund	—	*32*	*23*	*−9*	*−28.1*

Proposed General Fund Changes

Table 2 shows the changes in the department's support expenditures that are proposed for 1990-91. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*Other Funds*[a]	*Total Funds*
1989-90 expenditures (revised)	$109,497	$163,608	$273,105
Workload adjustments			
Expiration of limited-term positions	−$1,444	−$1,539	−$2,983
Elimination of one-time costs — disaster relief	−19,400	—	−19,400
Greater Avenues for Independence — continuation of limited-term positions	851	786	1,637
Relinquishment adoptions program — continuation of limited-term positions	390	209	599
AFDC-Foster Care (FC) and county administration audits	138	111	249
Full-year funding of positions	608	27	635
Position reduction in Disability Evaluation Division	—	−545	−545
Other	56	150	206
Subtotals, workload adjustments	(−$18,801)	(−$801)	(−$19,602)

Cost adjustments			
Employee compensation	$1,496	$2,360	$3,856
Office expenses and equipment	−825	303	−522
Subtotals, cost adjustments	($671)	($2,663)	($3,334)
Program adjustments			
Implementation of Ch 1294/89:			
Development of child welfare services case management system	$904	—	$904
Implementation of AFDC-FC rate reform	310	$181	491
Community care licensing staff caseload growth	2,827	−114	2,713
Family day care home licensing — program reduction	−1,417	—	−1,417
Foster Family Home and Small Family Home Insurance Fund	320	−320	—
Expansion of pilot program for substance-exposed/HIV positive infants	—	116	116
Other	1,579	−1,104	475
Subtotals, program adjustments	($4,523)	(−$1,241)	($3,282)
1990-91 expenditures (proposed)	$95,890	$164,229	$260,119
Change from 1989-90:			
Amount	−$13,607	$621	−$12,986
Percent	−12.4%	0.4%	−4.8%

[a] Includes federal funds, special funds, and reimbursements.

Proposed Position Changes

The budget requests authorization of 3,931 positions in 1990-91. This is a net increase of 70.9 positions, or 1.8 percent. The net increase consists of 158.5 additional positions, offset by a reduction of 87.6 positions. The increase is due primarily to (1) the department's proposal to establish 41 positions (18 in AFDC-FC and 23 in Child Welfare Services [CWS]) to implement the requirements of Ch 1294/89 (SB 370, Presley), (2) the continuation of 31.5 limited-term positions associated with the GAIN Program, and (3) the addition of 32.4 positions in community care licensing (CCL) due to caseload growth. The decrease is primarily due to (1) the elimination of 50.9 positions in CCL due to restructuring of the Family Day Care Program and (2) the elimination of 30.5 positions in the Disability Evaluation Division to reflect savings due to automation.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following major change that is not discussed elsewhere in this analysis:

- A decrease of $0.5 million in federal funds and 30.5 positions in the Disability Evaluation Division due to automation.

Departmental Support—Continued

Table 3
Department of Social Services
Proposed Position Changes
1990-91

Program	*Existing Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Changes Amount*	*Net Changes Percent*
AFDC-Family Group and Unemployed Parent	285.6	−0.1	0.6	286.1	0.5	0.2%
AFDC-Foster Care	47.6	—	24.5	72.1	24.5	51.5
Child support	90.2	−2.0	0.3	88.5	−1.7	−1.9
Supplemental Security Income/State Supplementary Program	8.1	—	—	8.1	—	—
Special adult	5.5	—	—	5.5	—	—
Food stamps	273.5	−0.1	0.6	274.0	0.5	0.2
Refugee programs	70.9	—	—	70.9	—	—
Immigration Reform and Control Act	8.2	—	7.0	15.2	7.0	85.4
Child welfare services	87.0	—	24.6	111.6	24.6	28.3
County services block grant	16.6	—	0.3	16.9	0.3	1.8
In-home supportive services	39.3	—	—	39.3	—	—
Specialized adult services	3.9	—	—	3.9	—	—
Employment programs	48.2	—	31.5	79.7	31.5	65.4
Adoptions	158.7	−0.1	12.6	171.2	12.5	7.9
Child abuse prevention	26.2	—	—	26.2	—	—
Community care licensing	793.9	−54.8	54.5	793.6	−0.3	—
Disability evaluation	1,798.3	−30.5	—	1,767.8	−30.5	−1.7
Administration	98.6	—	2.0	100.6	2.0	2.0
Totals	3,860.3	−87.6	158.5	3,931.2	70.9	1.8%

Department's Schedule for the Development of the Child Welfare Services Case Management System Needs Revision

We recommend that the department provide the Legislature, prior to budget hearings, with (1) a more realistic timeframe for issuing the department's request for proposal to develop the Child Welfare Services case management system, (2) an estimate of the amount of time it will take to resolve any bidder protests, and (3) a revised estimate of the department's staffing needs in the budget year.

The budget proposes expenditures of $3.1 million ($2.6 million General Fund) to implement the provisions of Ch 1294/89 (SB 370, Presley). This represents an increase of $1.4 million ($1.2 million General Fund) over current-year expenditures for this purpose. Chapter 1294 requires the department to implement a new rate-setting system for foster care providers and to develop and implement a statewide automated Child Welfare Services (CWS) case management system. The budget proposal includes:

- $1.4 million ($972,000 General Fund) to provide full-year funding to develop and implement the new rate-setting system for the AFDC-Foster Care (AFDC-FC) Program. This represents an increase of $491,000 ($310,000 General Fund), or 53 percent, above current-year expenditures.

- General Fund expenditures of $1.7 million to develop a CWS case management system. This represents an increase of $904,000, or 121 percent, above current-year expenditures. This is due to increases of (1) $301,000 to provide full-year funding for 17.5 positions that were authorized in the current year and funded through an appropriation in Chapter 1294 and (2) $603,000 to cover the costs for the initial payment to the vendor who is awarded the contract for the system.

Our analysis indicates that the department's estimate of the costs to implement the AFDC-FC rate reform established by Chapter 1294 is reasonable. We therefore recommend approval of this component of the proposal.

However, we have three concerns regarding the department's proposal for development of the CWS case management system in 1990-91:

- *The department's schedule for issuing a request for proposal (RFP) is unrealistic.* The budget assumes that the department will issue an RFP for the case management system on May 1, 1990. At the time this analysis was prepared, however, the department advised that it will not complete the RFP before July 1990. In fact, we believe that it may be difficult for the department to achieve the July deadline. This is because the department has not filled all of the positions it estimated it would need to complete the RFP in the current year. Specifically, the department has filled only three of the 17.5 positions funded by Chapter 1294 in the current year for development of the case management system. To the extent that the department fails to meet the July deadline for issuing the RFP, other aspects of the development of the system will also be delayed in the budget year.
- *The department has not included in its timetable or budget the potential for contractor protests.* It is standard practice among state agencies to build into their automation system development schedules a period of time for contractor protests. For example, the department is estimating that it may take as much as six months to resolve contractor protests for its proposed statewide automated child support system. However, the department's CWS case management system development schedule does *not* include time to resolve any protests that might arise. This could affect (1) the department's staffing needs to manage the contract and (2) the timing of the initial payment for the vendor who is awarded the contract.
- *The proposal includes funds for staff activities that will not be performed in the budget year.* The department estimates that it will require the equivalent of two full-time staff to perform tasks, such as writing a training manual for users of the case management system and developing procedures to monitor enhancements to the system that cannot be undertaken until the department determines how the system will operate. Since the department's current schedule assumes that the contract for design of the system will be awarded in March 1991, we believe that it is unlikely that the department will be able to begin performing these types of tasks in the budget year.

Departmental Support—Continued

In enacting Chapter 1294, the Legislature recognized that the case management system represents a major opportunity to improve the performance of the program by (1) improving the ability of social workers to manage their clients' cases and (2) providing social workers, county administrators, the Department of Social Services (DSS), and the Legislature with the information about children and families they need in order to effectively operate, manage, and monitor the CWS and the AFDC-FC programs. Thus, it is especially important that the department develop a quality system. In order to allow the Legislature to closely monitor the department's development effort, therefore, we recommend that the department provide the Legislature, prior to budget hearings, with (1) a more realistic timeframe for issuing the RFP, (2) an estimate of the amount of time it will take to resolve any bidder protests, and (3) a revised estimate of the department's staffing needs in the budget year.

Proposal for Group Home Audits Lacks Justification

We withhold recommendation on $427,000 ($235,000 General Fund) for foster care group home audits, pending receipt of (1) the department's plan for auditing foster care group homes under the provisions of Chapter 1294 and (2) its estimate of the costs of the audits.

The budget includes $427,000 ($235,000 General Fund) to cover the costs of foster care group home audits. According to the department, this is because the department intends to continue performing fiscal audits of group home providers under the new rate-setting system established by Chapter 1294.

In the current year and in previous years, the department has contracted with the State Controller's Office (SCO) to audit the cost reports of one-third of the group homes in the state each year. This practice allowed the SCO to audit each group home once every three years. This frequency of auditing is warranted under the current rate-setting system because each group home is paid a rate for the board and care of foster care children that is based on the home's reported costs. Under the provisions of Chapter 1294, however, group homes will be paid a flat rate, beginning in July 1990, that is based on the level of services they provide, *not* on each home's reported costs. Accordingly, the department cancelled its contract with the SCO for group home audits in the current year. The department has *not* eliminated the funds for the contract from its budget, however.

According to the department, this is because the department intends to develop a plan for auditing group homes, pursuant to the requirements of Chapter 1294. Chapter 1294 requires the department to perform fiscal audits "as needed" to collect cost data. This cost data would potentially be useful to the Legislature in 1993 in adjusting the flat rates enacted in Chapter 1294. In fact, the measure states the Legislature's intent to develop a system for updating the rates to take effect in 1993. (It is important to note that the budget includes $355,000 and 5.7 personnel-years to review the level of care that each group home provides to ensure that the level of care justifies the rate of payment that the homes actually receive under the new rate-setting system.)

We believe that the department could maintain reliable cost data without auditing *all* group homes. Specifically, under the provisions of Chapter 1294, the department could audit a *sample* of representative group homes across the state to obtain information about the costs incurred by the average group home. Moreover, since the cost data will not be needed until 1993, it is not clear that *any* audits would have to be performed in 1990-91. At the time this analysis was prepared, however, the department had not provided a plan, or any cost estimate to implement the requirements of Chapter 1294. We therefore withhold recommendation on the proposed funding for foster care group home audits, pending receipt of (1) the department's plan for auditing foster care group homes under the provisions of Chapter 1294 and (2) its estimate of the costs of the audits.

Audit Appeals Workload Justification Is Incomplete

We withhold recommendation on $249,000 ($138,000 General Fund and $111,000 federal funds) and 3.3 personnel-years for audit appeals support pending receipt of information on current and revised staffing requirements.

Background. As noted above, under the current foster care group home rate-setting system, the department audits group homes once every three years. When these audits determine that a group home has been overpaid, the department seeks recoupment of the overpayments. Before the department can recoup any overpayments, however, the affected provider has the right to due process through an administrative appeal process. Under the new rate-setting system enacted by Chapter 1294, the department will seek to recoup overpayment whenever a review of the service level provided by a group home determines that the home provided a lower level of service than the level of service on which its rate was based.

State regulations also currently provide that when a state audit of county administrative expense claims results in demand for repayment of state and federal funds, the county is entitled to an administrative hearing.

Budget Proposal. The budget proposes an increase of $249,000 ($138,000 General Fund and $111,000 federal funds) for the extension of 3.5 limited-term positions (3.3 personnel-years) to process current and backlogged appeal hearings. The department advises that the backlog is largely due to group home audit appeals and county administrative appeals.

At the time this analysis was prepared, the department had not provided the following information necessary to evaluate this request:

- *Information on how the past and current workload has been processed, which resulted in the large backlog.* The department reports that, since 1986-87, it has used several limited-term positions to reduce a large backlog of state audit appeals and other hearing and

Departmental Support—Continued

legal work. The department has not provided workload and staffing information from previous years, however, to explain the continued accumulation of backlogged cases. Further, the department has not provided a timetable for elimination of the backlogged cases with the requested staff.

- *Estimate of the effect of Chapter 1294.* As noted above, the basis for identifying overpayments will change under the new group home rate-setting procedure enacted by Chapter 1294. The department has not, however, accounted for the effect of Chapter 1294 on its projected audit appeals workload.

We therefore withhold recommendation on the proposed funding for audit appeals support pending receipt of (1) information regarding past workload and staffing patterns that have produced the backlog of cases awaiting appeal and (2) revised workload and staffing estimates based on the provisions of Chapter 1294.

Proposed Funding Source for Pilot Expansion Is Inappropriate

We recommend deletion of funding for the proposed expansion of the DSS' foster care pilot program because the proposed use of federal funds is inconsistent with federal law. (Reduce reimbursements to Item 5180-001-001 by $116,000.)

The budget proposes an increase of $116,000 in reimbursements to this item and $500,000 in reimbursements to the DSS social services item (Item 5180-151-001) to expand implementation of a foster care pilot program. Under the provisions of the proposal, the DSS would receive federal Alcohol, Drug Abuse, and Mental Health Services funds from the Department of Alcohol and Drug Programs to provide support services to foster parents of substance-exposed and HIV-positive infants. We recommend deleting funding for the expansion because the proposal is inconsistent with the federal criteria for use of these funds. We discuss the proposal in further detail in our analysis of the DSS social services item (please see Item 5180-151-001).

COMMUNITY CARE LICENSING DIVISION

The Community Care Licensing (CCL) Division develops and enforces health and safety regulations concerning community day care and 24-hour residential care facilities for the mentally ill, the developmentally disabled, the elderly, and socially dependent children, as well as child day care facilities.

Budget Proposes a Workload-Related Increase

We recommend approval.

The budget proposes an increase of $2,827,000 from the General Fund and a $114,000 reduction in federal funds, for a net increase of $2,713,000 (39.3 personnel-years), to fund workload growth and facilities reorganization. Of the 39.3 additional personnel-years requested by the department, 30.3 permanent positions are proposed to meet increased workload due to an expected 5.3 percent increase in the number of licensed community care facilities for 1990-91. The remaining 9 personnel-years are one-year, limited-term positions necessary to address a prior-year backlog of legal actions against licensed community care facilities. In addition, this proposal includes funds to lease and equip new regional offices in San Diego, Los Angeles, and the San Jose area. The department's proposal appears reasonable. We therefore recommend approval.

Budget Proposes to Restructure Family Day Care Licensing Program

We withhold recommendation on the proposed General Fund reduction of $1,417,000, which reflects a proposal to restructure the Family Day Care Licensing Program. We recommend that the department, prior to budget hearings, provide the fiscal committees with (1) data that indicate the number and relative significance of enforcement actions that would not occur as a result of the proposal, (2) data that substantiate the department's ability to absorb ongoing workload with reduced staff, and (3) the implementing legislation for this proposal.

The Department of Social Services (DSS) and certain counties, under contract with the department, license family day care homes. These homes provide child day care services for up to 12 children in the provider's own home. The budget proposes a General Fund reduction of $1.4 million, and a reduction of 34.6 personnel-years. The 34.6 personnel-years represents a 43 percent reduction in the current DSS family day care licensing staff. As discussed in our analysis of Item 5180-161-001, moreover, the department would no longer reimburse counties for certain activities associated with family day care licensing, thereby achieving an additional $1,408,000 in General Fund savings. The department advises that it will propose legislation to implement the program changes needed to accommodate this reduction. At the time this analysis was prepared, however, the department had not submitted the proposed legislation.

According to the department, the proposed restructuring would eliminate the following licensing activities:

- *Processing of Renewal Applications.* State law requires family day care operators to submit an application for license renewal every three years. The department proposes to eliminate this requirement.
- *Renewal Visits.* The evaluation of a renewal application currently includes a site visit and a plan of correction for any deficiencies discovered during the visit. Under the department's proposal to eliminate the renewal process, these visits would no longer occur.
- *Evaluation Visits.* State law requires evaluators to annually make unannounced site visits to 10 percent of all licensed family day care homes (about 2,260 site visits in 1990-91, based on the department's caseload estimate of 22,597 homes). The department's proposal would eliminate these visits. The result of eliminating the 10 percent annual visits would be that evaluators would only visit homes to investigate complaints.

In addition, the proposed restructuring would require submission of all complaints of unlicensed activities in writing. Current law requires

Departmental Support—Continued

evaluators to investigate reports of unlicensed operation of a family day care home. If a report is substantiated, the state may order such a home to stop operating, assess civil penalties, and/or pursue criminal prosecution. The department indicates that requiring written complaints will reduce the number of unsubstantiated complaints received, and thereby reduce its evaluators' workload.

Data to Support Proposal Not Available

The budget proposal to restructure the Family Day Care Licensing Program is a policy issue for the Legislature. At the time this analysis was prepared, however, the department had not provided sufficient information to enable the Legislature to assess the proposal's potential effects on the health and safety of children in family day care homes.

Specifically, the department could not provide the following data, which we believe would enable the Legislature to evaluate the department's assertion that its proposal would not adversely affect the health and safety of children: (1) the proportion of all administrative actions against family day care homes that currently result from complaints against licensed facilities, license renewal and renewal visits, complaints of unlicensed activity, and evaluation site visits, (2) the number of complaints about unlicensed operators received in 1986-87, 1987-88 and 1988-89 and the number of these complaints that were substantiated upon investigation, (3) the number of unlicensed activity complaints that the department anticipates receiving under the proposed restructuring, (4) an assessment, based on existing workload standards, of the ability to absorb the investigation of these complaints within the proposed reduced staffing levels, and (5) details of the implementing legislation for this proposal. We therefore recommend that the department, prior to budget hearings, provide the fiscal committees with the above information.

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 177

Requested 1990-91	$5,614,489,000
Estimated 1989-90	5,170,218,000
Actual 1988-89	4,650,967,000
Requested increase $444,271,000 (+8.6 percent)	
Recommendation pending	5,614,489,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for children	General	$2,902,009,000
5180-101-890—Payments for children	Federal	2,710,756,000
Control Section 23.50—local assistance	State Legalization Impact Assistance Grant	1,724,000
Total		$5,614,489,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	*Analysis page*
1. Aid to Families with Dependent Children (AFDC) Estimate. Withhold recommendation on $5.6 billion ($2.9 billion General Fund) pending review of revised estimates in May.	692
2. AFDC-Family Group (AFDC-FG) and Unemployed Parent (AFDC-U) Statutory COLA. The budget proposes to suspend the statutory COLA for AFDC-FG and U recipients for a savings of $229 million ($104 million General Fund).	692
3. AFDC-FG Caseload. The department estimates that growth in AFDC-FG caseloads during 1989-90 and 1990-91 will be double the average annual rate experienced during the previous eight-year period.	693
4. Seriously Emotionally Disturbed (SED) Children in Foster Care. The budget proposes to eliminate foster care grants to these children, for a savings to the Foster Care Program of $27.4 million ($26 million General Fund), which would be offset by a $26 million General Fund increase to the State Department of Education to continue providing for the board and care of these children.	698
5. Child Support Enforcement — Performance Enhancement Process. Recommend adoption of supplemental report language requiring the Department of Social Services (DSS) to incorporate into the state plan a specified administrative review procedure for low-performing counties.	707
6. ***Child Support Enforcement — Supplemental State Incentives. Reduce Item 5180-101-001 by $2,653,000.*** Recommend reducing the amount proposed for supplemental state incentive payments by $2.7 million due to overbudgeting the statutory requirement.	713
7. Child Support Enforcement — Job Opportunities and Basic Skills Training (JOBS) Demonstration Project. Recommend that the DSS report to the fiscal committees as to whether the department intends to apply for the federal demonstration project to evaluate the benefits of permitting unemployed noncustodial parents who have child support obligations to participate in the JOBS Program.	714
8. Adoption Assistance Program. Recommend that the Legislature adopt supplemental report language requiring the DSS to report on its proposal for establishing standards linking the amount and duration of grants to the extent of	720

Aid to Families With Dependent Children—Continued

the child's special needs and the resources available to adoptive parents.

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 553,300 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 70,300 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 56,700 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 9,100 children will receive assistance each month through this program.

OVERVIEW OF THE BUDGET REQUEST

The budget anticipates expenditures of $5.8 billion ($2.9 billion from the General Fund, $2.7 billion in federal funds, and $233 million in county funds) for AFDC cash grants in 1990-91, including $1.7 million proposed in Control Section 23.50 for assistance to newly legalized persons under the federal Immigration Reform and Control Act (IRCA). Table 1 shows expenditures for AFDC grants by category of recipient for 1988-89 through 1990-91. As the table shows, the AFDC-FG program accounts for $4.3 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.

MAJOR ISSUES

- The budget proposes to suspend the statutory COLA for AFDC-FG and U recipients in 1990-91, for a General Fund savings of $112 million.
- The department estimates that AFDC-FG caseloads will grow by 4.7 percent in 1989-90 and 1990-91, which is double the average annual rate during the previous eight-year period.
- The budget proposes $26 million from the General Fund for a new transitional child care program.
- The budget proposes to eliminate foster care grants for seriously emotionally disturbed children, for a General Fund savings of $26 million in the foster care program, offset by an equal *increase* in the State Department of Education budget.

Table 1
Expenditures for AFDC Grants by Category of Recipient
1988–89 through 1990–91
(in thousands)

	Actual 1988–89				*Estimated 1989–90*				*Proposed 1990–91*			
	State	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
Recipient Category												
Family group	$1,699,010	$1,897,907	$204,052	$3,800,969	$1,843,921	$2,016,454	$223,459	$4,083,834	$1,963,035	$2,121,442	$237,893	$4,322,370
Unemployed parent	302,181	338,414	35,022	675,617	332,016	414,817	40,484	787,317	356,190	419,752	43,415	819,357
Foster care	407,798	117,830	21,888	547,516	500,094	169,114	26,320	695,528	605,348	210,220	31,856	847,424
Adoptions program	21,085	7,810	—	28,895	30,107	11,704	—	41,811	38,211	14,952	—	53,163
Child support incentive payments to counties	17,494	34,026	−54,538	−3,018	25,775	36,629	−62,404	—	26,736	39,289	−66,025	—
Child support collections	−94,709	−97,879	−11,228	−203,816	−105,459	−109,839	−12,617	−227,915	−113,975	−119,639	−13,740	−247,354
Transitional child care	—	—	—	—	2,443	2,442	—	4,885	26,464	26,464	—	52,928
Subtotals	$2,352,859	$2,298,108 [a]	$195,196	$4,846,163	$2,628,897	$2,541,321 [a]	$215,242	$5,385,460	$2,902,009	$2,712,480 [a]	$233,399	$5,847,888
AFDC cash grants to refugees:												
Time-expired	($215,608)	($199,656)	($24,397)	($439,661)	($251,961)	($273,184)	($30,634)	($555,779)	($303,931)	($330,624)	($36,937)	($671,492)
Time-eligible	—	(74,299)	—	(74,299)	—	(70,299)	—	(70,299)	—	(24,708)	—	(24,708)
Totals	$2,352,859	$2,298,108	$195,196	$4,846,163	$2,628,897	$2,541,321	$215,242	$5,385,460	$2,902,009	$2,712,480	$233,399	$5,847,888

[a] Includes State Legalization Impact Assistance Grant (SLIAG).

Increases in Current-Year AFDC Grant Costs. The department estimates that AFDC expenditures in the current year will *exceed* the amount appropriated in the 1989 Budget Act by $134 million ($76 million General Fund). Table 2 shows the factors resulting in this net increase and shows that the main increases include:

- A $104 million ($33 million General Fund) increase for higher-than-anticipated AFDC-FG caseloads and increased costs per case based on more recent data than was used when the budget was adopted.
- A $25 million General Fund increase due to the reduction in the time limit on federal eligibility for 100 percent federal funding of programs providing welfare assistance to refugees.

Table 2
Department of Social Services
Proposed 1990-91 Budget Changes for the AFDC Program
(dollars in thousands)

	General Fund	*All Funds*
1989 Budget Act (Item 5180-101)	$2,450,834	$5,021,795
1989 Budget Act (Item 5180-181)	101,918	224,302
SLIAG	—	5,205
Totals, 1989 Budget Act	$2,552,752	$5,251,302
Adjustments to appropriations:		
AFDC-FG & U		
Increase in caseload estimate	$32,528	$104,149
Change in Refugee Program	25,169	—
Reestimate of homeless assistance	2,836	6,248
Reestimate of Greater Avenues for Independence (GAIN) savings	−705	−4,180
Other changes	2,519	6,078
SLIAG	—	−2,567
Subtotals, AFDC-FG & U	($62,347)	($109,728)
AFDC-FC		
Reestimate of basic caseload and grant costs	−$1,346	$7,898
Chapter 1294, Statutes of 1989 (foster family home COLA)	9,500	14,700
Other changes	1,737	446
SLIAG	—	−1,034
Subtotals, AFDC-FC	($9,891)	($22,010)
Child support enforcement program		
Increased collections	−$1,112	−$1,982
Increased incentive payments	1,270	—
Subtotals, child support enforcement	($158)	(−$1,982)
Adoption Assistance Program reestimate	$1,306	−$483
Transitional child care	2,443	4,885
Total changes	$76,145	$134,158
1989-90 expenditures (revised)	$2,628,897	$5,385,460
1990-91 adjustments:		
AFDC-FG & U		
Caseload increase	$75,033	$190,424
Change in Refugee Program	31,891	—
Chapter 1285, Statutes of 1989 (beginning date of aid)[a]	21,838	48,030
Reduced GAIN savings	19,762	44,310
Proposed settlement of *WRL v. McMahon*	−6,806	−15,550

Aid to Families With Dependent Children—Continued

Table 2—Continued
Department of Social Services
Proposed 1990-91 Budget Changes for the AFDC Program
(dollars in thousands)

	General Fund	*All Funds*
Other changes	1,570	3,281
SLIAG	—	81
Subtotals, AFDC-FG & U	($143,288)	($270,576)
AFDC-FC		
Increase in basic caseload and grants costs	$82,731	$117,813
Elimination of grant costs for seriously emotionally disturbed children	−26,030	−27,400
Chapter 1294, Statutes of 1989:		
Foster family home COLA	18,065	27,985
New group home rate-setting system	28,741	37,613
Other changes	1,747	−4,154
SLIAG	—	39
Subtotals, AFDC-FC	($105,254)	($151,896)
Child support enforcement program		
Increased collections	−$8,516	−$19,439
Increased incentive payments	961	—
Subtotals, child support enforcement	(−$7,555)	(−$19,439)
Adoptions Assistance Program	$8,104	$11,352
Transitional child care	24,021	48,043
Total adjustments	$273,112	$462,428
1990-91 expenditures (proposed)	$2,902,009	$5,847,888
Change from 1989-90 Budget Act:		
Amount	$349,257	$596,586
Percent	13.7%	11.4%
Change from 1989-90 estimated expenditures:		
Amount	$273,112	$462,428
Percent	10.4%	8.6%

[a] These costs are contingent on court approval of a proposed settlement of the *Welfare Recipients League (WRL) v. McMahon* court case.

Budget Proposes Several Major Increases in AFDC Expenditures in 1990-91. The budget proposes expenditures for AFDC grants in 1990-91 of $5.8 billion. This is $462 million, or 8.6 percent above the total of $5.4 billion estimated for the current year. The total General Fund request of $2.9 billion is $273 million, or 10 percent, above the estimated $2.6 billion for the current year. Table 2 shows the factors resulting in the net increase of $462 million proposed for the AFDC Program in 1990-91. We discuss the AFDC-FG and U caseload increase, the transitional child care proposal, the proposed elimination of grants for SED children, and the increases in the Adoption Assistance Program in detail later in this analysis of the AFDC item. The major changes *not* discussed elsewhere in this analysis are as follows:

- A $118 million ($83 million General Fund) increase in the AFDC-FC Program primarily due to (1) anticipated caseload growth of 11 percent and (2) an estimated 4.5 percent increase in the average foster care grant. While the foster care increase *is* substantial, it is consistent with the program's growth in recent years. We discussed this growth in our 1989-90 *Analysis* (please see page 579).

- A $44 million ($20 million General Fund) increase due to reduced AFDC savings resulting from the Greater Avenues for Independence (GAIN) Program in 1990-91, reflecting the reduction in funding for the GAIN Program (please see our analysis of Item 5180-151-001 for a discussion of the proposed reductions in funding for services provided through the GAIN Program).
- A $38 million ($29 million General Fund) increase in the AFDC-FC Program to implement the group home rate-setting system established by Ch 1294/89 (SB 370, Presley). Under prior law, group home providers received a rate that was based on their actual costs. Under Chapter 1294, beginning July 1, 1990, however, group homes will receive a rate that is based on the service they provide.
- A net $32 million ($15 million General Fund) increase primarily due to an earlier date for granting aid under the AFDC Program, as *potentially* required by Ch 1285/89 (SB 991, Watson). These costs are contingent on the approval of a proposed settlement in the *Welfare Recipients League v. McMahon* court case.
- A $32 million increase in General Fund costs due to a reduction in the time limit on federal eligibility for 100 percent federal funding of AFDC grants to refugees. Specifically, effective January 1, 1990, the federal government reduced from 24 to 4 the number of months for which it will pay 100 percent of the costs of AFDC grants to eligible refugees. The effect of this change is to shift to the state and counties a portion of the grant costs formerly paid by the federal government.
- A $28 million ($18 million General Fund) increase in the AFDC-FC Program to fund the cost-of-living adjustments (COLAs) for foster family homes that are required by Ch 1294/89. Chapter 1294 requires that foster family homes receive a 12 percent COLA, effective January 1, 1990, and a 5 percent COLA, effective July 1, 1990.

The $462 million increase proposed for 1990-91 represents an 8.6 percent increase over the department's revised estimate of expenditures in the current year. The level of expenditures proposed in the budget, however, is $597 million, or 11 percent, above the amount appropriated by the 1989 Budget Act.

Number of Persons Receiving Assistance to Increase in 1990-91. Table 3 shows that in 1990-91, the Department of Social Services (DSS) expects AFDC recipients to increase by 103,500 persons, or 5.5 percent, from the revised estimate in 1989-90. As the table shows, this increase reflects an addition of 81,000 persons, or 5.5 percent, in the AFDC-FG Program, an increase of 14,300 persons, or 4.3 percent in U caseload, and an increase of 6,400 children, or 11 percent, in the AFDC-FC Program.

Aid to Families With Dependent Children—Continued

Table 3
Department of Social Services
Aid to Families with Dependent Children
Average Number of Persons Receiving Assistance Per Month
1988-89 through 1990-91

Program	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change From 1989-90 Amount	Change From 1989-90 Percent
AFDC-family group	1,417,419	1,484,100	1,565,100	81,000	5.5%
AFDC-unemployed parent	329,941	330,500	344,800	14,300	4.3
AFDC-foster care	50,443	58,100	64,500	6,400	11.0
Subtotals, AFDC	(1,797,803)	(1,872,700)	(1,974,400)	(101,700)	(5.4%)
Adoption assistance	7,190	9,100	10,900	1,800	19.8%
Refugees [a]					
—Time-eligible	(37,660)	(30,488)	(14,334)	(−16,154)	(−53.0%)
—Time-expired	(196,697)	(235,390)	(345,025)	(109,635)	(46.6)
Totals	1,804,993	1,881,800	1,985,300	103,500	5.5%

[a] During 1988-89, grants to refugees who had been in the United States 24 months or less (time-eligible) were funded entirely by the federal government. Beginning in January 1990, the federal government has reduced from 24 to 4 the number of months for which it will pay 100 percent of the costs of these grants. After this 4-month period, eligible refugees may qualify and receive AFDC grants supported by the normal funding sharing ratio.

ANALYSIS AND RECOMMENDATIONS

AFDC Estimates are Expected to Change in May

We withhold recommendation on $5.6 billion ($2.9 billion General Fund and $2.7 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 1990-91 are based on actual caseloads and costs through June 1989, updated to reflect the department's caseload and cost projections through 1990-91. In May, the department will present revised estimates of AFDC costs based on actual caseload and grant costs through December 1989. 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 1990-91 expenditures. Therefore, we withhold recommendation on the amount requested for AFDC grant costs pending review of the May estimate.

Budget Proposes to Suspend Statutory COLA

The budget assumes the enactment of legislation suspending the statutory COLA of 4.62 percent for AFDC-FG and U recipients for a savings of $247 million ($112 million General Fund).

Current state law requires that the AFDC-FG and U grant levels be adjusted, effective July 1, 1990, based on the change in the California Necessities Index (CNI) during calendar year 1989. 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. The commission has determined that the actual change in the CNI for calendar year 1989 is 4.62 percent.

The budget assumes enactment of legislation to waive the requirement for a COLA for AFDC-FG and U grants in 1990-91. The cost of providing the COLA would add $247 million ($112 million General Fund, $121 million federal funds, and $14 million county funds) to AFDC-FG and U grant costs in 1990-91 as compared to the amounts proposed in the budget.

Table 4 displays the AFDC-FG and U grants for 1989-90 and for 1990-91 with no COLA (the Budget Bill proposal) and with a COLA of 4.62 percent.

Table 4
Department of Social Services
Maximum AFDC-FG and AFDC-U Grant Levels
1989-90 and 1990-91

		1990-91	
Family Size	*1989-90*	*Budget Proposal (No COLA)*	*Statutory Requirement*[a]
1	$341	$341	$357
2	560	560	586
3	694	694	726
4	824	824	862
5	940	940	983

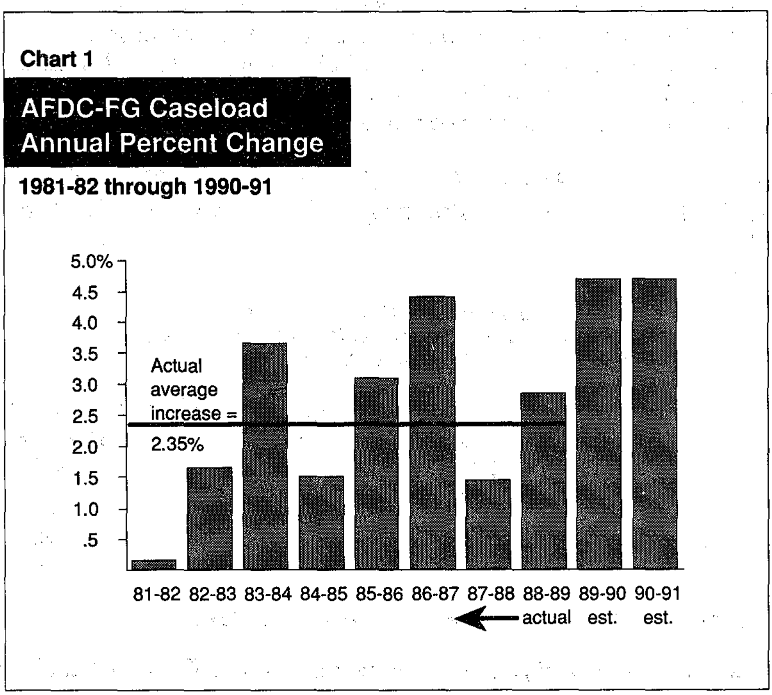
[a] Assumes a 4.62 percent COLA, effective July 1, 1990, based on the change in the CNI.

The Department Is Investigating the Unusually High AFDC-FG Caseload Growth

According to the department's estimates, the AFDC-FG dependency rate in 1990-91 will be at its highest level since 1976-77, while the unemployment rate will be lower than at any time during the period 1972-1990.

Department Estimates Higher-than-Normal Caseload Growth. As shown in Table 2, the budget includes $190 million ($75 million General Fund) for increased costs associated with higher AFDC-FG and U caseloads. Most of this increase is due to the estimated increases in the AFDC-FG caseload. Specifically, the DSS estimates that the AFDC-FG caseload will be 4.7 percent higher in 1989-90 than the actual caseload in 1988-89 and anticipates an additional 4.7 percent increase in 1990-91. This represents an unusually high level of growth as compared to caseload growth during the period 1981-82 through 1988-89. Specifically, as Chart 1 shows, actual caseload growth exceeded 4 percent only once during the period 1981-82 through 1988-89 (in 1986-87). In fact, the 4.7 percent is *double* the average annual rate of 2.35 percent during the period 1981-82 through 1988-89.

Aid to Families With Dependent Children—Continued



The Department's Estimate Seems Reasonable. The department's estimate of 1989-90 and 1990-91 AFDC-FG caseloads consists of two separate estimates — one for Los Angeles County and one for the remaining 57 counties. The final caseload projection — an overall increase in AFDC-FG caseloads of 4.7 percent in 1990-91 — 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 1989, Los Angeles County experienced a caseload *decrease* of 6.9 percent while caseloads for the remaining 57 counties *increased* by 14 percent.

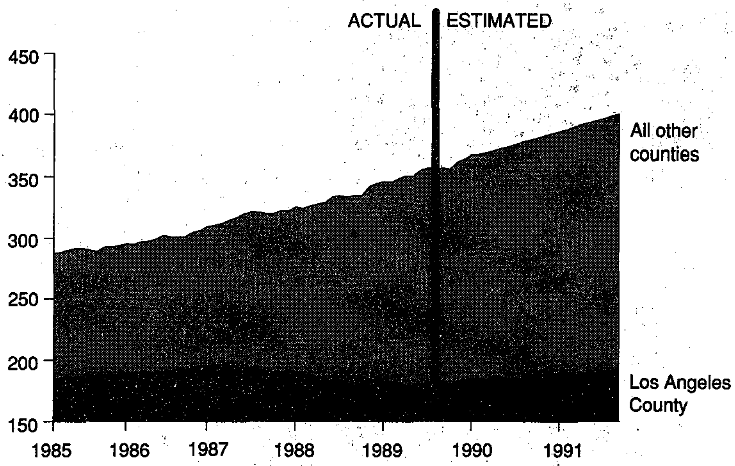
The decline in Los Angeles County's AFDC-FG caseload appears to be related to the enactment of the federal Immigration Reform and Control Act (IRCA) of 1986. Specifically, it appears that a significant number of individuals in Los Angeles who were eligible for amnesty under IRCA voluntarily removed their children from the AFDC Program. Apparently, certain individuals had acted on incorrect information and 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. In fact, leaving their eligible children on aid would not jeopardize these individuals' chances of obtaining permanent residency status.

Chart 2 displays actual AFDC-FG caseloads during the period January 1985 to October 1989 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 decline in Los Angeles County's caseload continued until July 1988, at which time it began to increase but at a much lower rate than that for the rest of the state.

Chart 2

AFDC-FG Caseload
Los Angeles County and All Other Counties

January 1985 through June 1991 (in thousands)



The chart also displays the department's caseload projection for the period November 1989 through June 1991. The projection assumes that Los Angeles County's caseload will continue to grow at a slower rate (roughly half) than the rest of the state's caseload. The combined effect of Los Angeles County's relatively slow growth and the rest of the state's higher growth accounts for the department's projection of a 4.7 percent increase in AFDC-FG caseload in 1989-90 and 1990-91.

Based on our review of the department's caseload estimating methodology, we conclude that the department's estimate of the AFDC-FG caseload is reasonable, even though it indicates that the caseload growth

Aid to Families With Dependent Children—Continued

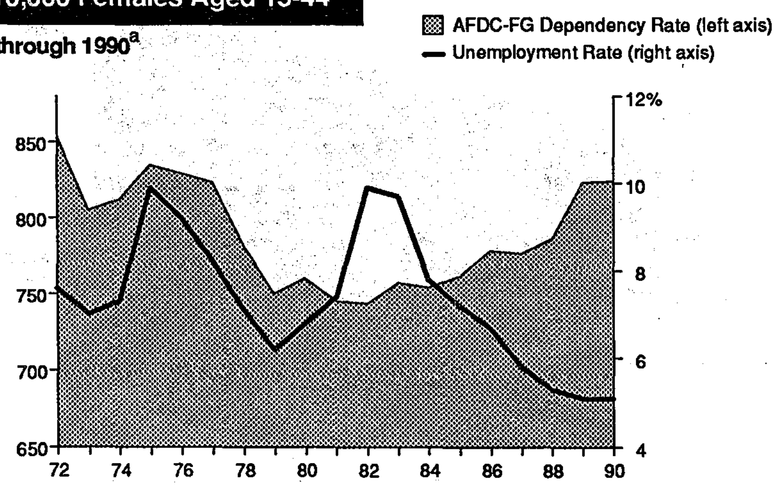
will be higher than it has been in recent years. The department indicates that it is investigating the *causes* of this caseload increase and expects to be better able to explain the increase at the time of the May revision.

Welfare Dependency is Up, While Unemployment is Down. Two factors that are generally regarded as having significant effects on AFDC caseloads are increases in the state's population and fluctuations in unemployment. In order to understand how caseloads may be affected by population increases, we reviewed the AFDC-FG dependency rate — the number of AFDC-FG cases compared to the state's population of women between the ages of 15 and 44. The number of AFDC-FG cases per 10,000 females in this age bracket is a good indicator of the welfare dependency rate because more than 95 percent of AFDC-FG households are headed by women 15 to 44 years of age. Chart 3 displays this rate over a 19-year period (1972 through 1990).

Chart 3

AFDC-FG Dependency Rate
Number of AFDC-FG Cases
per 10,000 Females Aged 15-44

1972 through 1990[a]



[a] Data shown are for fiscal year beginning in year specified. Data for 1989 and 1990 are estimates.

The chart shows that the AFDC-FG dependency rate has increased steadily over the past several years. During this same period, California's unemployment rate has steadily declined. In fact, if the caseload and unemployment rate estimates for 1990-91 are accurate *the dependency* *rate will be at its highest level since 1976-77 at the same time that the unemployment rate is at its lowest during the 19-year period shown.* Obviously, there are many economic and noneconomic factors which could be affecting welfare dependency rates. We also recognize that the unemployment rate is only one measure of the economy and does not necessarily reflect the employment opportunities available to AFDC recipients. Nevertheless, the chart is noteworthy because it shows that since 1981-82, the dependency rate and the unemployment rate have been moving steadily in opposite directions. This divergence in rates could have important implications for AFDC costs in the long-term, as well as for the GAIN Program's efforts to assist AFDC recipients to enter the labor market and reduce welfare dependency.

Transitional Child Care Proposal Requires Urgency Legislation

The Governor's Budget proposes $4.9 million ($2.4 million General Fund) and $53 million ($26 million General Fund) in 1989-90 and 1990-91, respectively, for a new transitional child care program. The funding level assumes enactment of urgency legislation to implement the program by April 1, 1990. This proposal is in response to the requirements of the federal Family Support Act (FSA) of 1988.

The federal FSA requires states, effective April 1, 1990, to provide transitional child care for 12 months following the month a family becomes ineligible for AFDC due to increased earnings, increased hours of employment, or loss of an earned income disregard, if the state determines that child care is necessary for an individual's employment. Families that receive transitional child care must pay a portion of the cost of care according to a fee scale to be established by the state.

Under current state law, families who participate in the GAIN Program are eligible for *3* months of transitional child care after they complete the GAIN Program. Thus, state law must be changed to conform to the FSA requirement that these benefits be provided for 12 months to *all* AFDC families who leave AFDC for the federally specified reasons, not just to GAIN participants.

Federal law requires the department to submit by February 15, 1990 the state's plan to provide transitional child care. The department indicates that it plans to provide transitional child care through a program that is similar to the current program for providing transitional child care to individuals completing the GAIN Program. The current program provides for counties to (1) determine eligibility for transitional child care benefits and (2) reimburse eligible ex-recipients for the cost of child care at their actual cost or at a cost within a specified range of the regional market rate, whichever is lower.

There is no practical alternative to enacting urgency legislation to conform state law to the transitional child care requirements of the FSA by April 1, 1990. Failure to do so would jeopardize the state's federal funding for the entire AFDC Program. Our analysis indicates that the Legislature has several options, however, with respect to *how* it implements the requirements. These options primarily relate to (1) how the state will provide for these benefits — for example by using a voucher

Aid to Families With Dependent Children—Continued

system, providing services directly through contract providers, or providing a reimbursement to the recipient, (2) the fee scale the state will use to determine how much of the cost of child care is to be paid by the former AFDC recipients, and (3) whether counties will pay a share of the child care costs, as they do for other programs required by Title IV-A (AFDC) of the federal Social Security Act. The actual costs of providing transitional child care in California could be substantially higher or lower than the $53 million reflected in the budget, depending on the specifics of the enabling legislation. Moreover, our analysis indicates actual costs may be substantially higher or lower than the department estimates due to the lack of data on the extent to which eligible individuals will make use of this program.

AID TO FAMILIES WITH DEPENDENT CHILDREN-FOSTER CARE

Budget Proposes to Transfer Responsibility for Seriously Emotionally Disturbed Children in Foster Care from the Department of Social Services to the State Department of Education

The budget proposes to eliminate foster care grants to seriously emotionally disturbed (SED) children for a savings to the Foster Care Program of $27.4 million ($26.0 million General fund, $1.4 million county funds). The budget also includes a General Fund augmentation of $26.0 million to the State Department of Education (SDE), which would presumably be used to continue providing for the board and care of these children.

The budget proposes to eliminate foster care grants to approximately 840 SED children who were placed in foster care pursuant to an Individualized Education Program (IEP). This will result in savings to the Foster Care Program of $27.4 million ($26.0 million General Fund, $1.4 million county funds). The budget includes a General Fund augmentation of $26.0 million to the State Department of Education (SDE), which would presumably be used to continue providing for the board and care of these children. The proposal assumes the enactment of legislation to repeal the provisions of current law that require the DSS to pay for the board and care of SED children who are placed in foster care pursuant to an IEP.

The SED Program was established by Ch 1747/84 (AB 3632, Willie Brown), as amended by Ch 1274/85 (AB 882, Willie Brown). The two chapters require the Department of Mental Health (DMH), the DSS, and the SDE, as well as various local agencies, to enter into interagency agreements to ensure coordinated service delivery to SED children. In addition, Chapters 1747 and 1274 require the DSS to pay for 95 percent, and county welfare departments to pay for 5 percent, of the costs of foster care grants for SED children. The DMH is required to fund mental health services and the SDE is required to fund educational services for SED children. These children receive case management services through their county mental health departments.

The budget assumes the repeal of Chapters 1747 and 1274, and proposes to transfer the fiscal and programmatic responsibility for SED children to the SDE. We discuss this proposal further, including the issue of which agencies will take responsibility for the county share of these children's board and care costs, in our analysis of the SDE's budget (please see Item 6110-161-001).

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 (66 percent) and county governments (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 them to maximize collections. The incentive payments are based on each county's child support collections. In federal fiscal year 1990 (FFY 90), the federal government pays counties an amount equal to 6.5 percent of AFDC and 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 5 shows, the child support enforcement program is estimated to result in *net savings* of $83 million to the state's General Fund in 1990-91. The federal government is estimated to spend $62 million more in 1990-91 than it will receive in the form of grant savings. California counties are expected to experience a net savings from the program of $10 million in 1990-91.

Table 5 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.

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Table 5
Department of Social Services
Child Support Enforcement Program
1990-91
(in thousands)

Program costs	*General Fund*	*Federal Funds*	*County Funds*	*Total*
County administration:	—	$133,967	$69,573	$203,540
AFDC	—	(89,758)	(46,614)	(136,372)
Non-AFDC	—	(44,209)	(22,959)	(67,168)
State administration	$4,101	8,201	—	12,302
Incentive payments [a]	26,736	39,289	−66,025	—
Savings				
Welfare collections [b]	−113,975	−119,639	−13,740	−247,354
Net fiscal impact	−$83,138	$61,818	−$10,192	−$31,512

[a] Incentive payments include AFDC and non-AFDC.
[b] Does not include welfare collections for children in other states.

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 6 shows the change in statewide collections of child support from 1982-83 through 1988-89. As the table shows, statewide collections increased at an average annual rate of 10.5 percent during this period.

Table 6
Department of Social Services
Statewide Child Support Collections [a]
1982-83 through 1988-89
(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	187.3	160.0	347.2	9.3
1986-87	198.1	189.3	387.4	11.6
1987-88	213.5	215.8	429.3	10.8
1988-89	235.1	241.5	476.6	11.8
Average annual increase				10.5%

[a] Data provided by Child Support Management Information System, Department of Social Services. Figures for 1988-89 do not tie to Governor's Budget because of differences in the accounting and reporting of the data.

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 7 shows the recoupment rate from 1982-83 through 1988-89. During this period, the state recouped an average of 6.3 percent of state, federal, and county expenditures through the child support enforcement program.

Table 7
Department of Social Services
Child Support Enforcement "Recoupment Rates" [a]
All Counties
1982-83 through 1988-89

1982-83	6.3%
1983-84	6.2
1984-85	5.8
1985-86	6.3
1986-87	6.1
1987-88	6.6
1988-89	6.6
Average rate	6.3%

[a] AFDC collections as percent of grant expenditures.

Potential Fiscal Penalty From the Federal Government

As we noted in last year's *Analysis*, 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 was 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.

Potential Penalties in the AFDC Program. Because the state was found to be out of compliance with federal requirements, the DHHS notified the state that it must develop and implement a corrective action plan or face a 1 percent to 2 percent penalty against the total amount of Title IV-A (AFDC) funds paid to the state, beginning with payments for the November 1988 quarter. The notice further stated that, should the state submit an acceptable corrective action plan, the imposition of the penalty would be deferred pending the outcome after one year of corrective action.

Corrective Action Plan. The DSS submitted a corrective action plan in January 1989 and it was approved by the DHHS. The plan has been implemented, and as of December 1989 all but 12 counties have been found to be in compliance with the federal regulations.

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The state expects the DHHS to begin a follow-up audit in April 1990 to determine whether the corrective action plan was successful. The DHHS will use the results of that audit to determine whether to impose a fiscal penalty. According to the DSS, the "worst case" scenario would find that the state had failed to implement its corrective action plan, which would result in a 1 percent to 2 percent penalty effective for the December 1988 quarter through the September 1989 quarter, a 2 percent to 3 percent penalty for the following year, and a 3 percent to 5 percent penalty for the final year.

The DSS estimates that the penalty could range from about $23 million annually (at the 1 percent level) to $115 million annually (at the 5 percent level). The potential loss of federal funds is not reflected in the budget for either the current 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 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, as well as the state as a whole, is in compliance with federal requirements, especially since failure to comply can result in multi-million dollar losses of federal funds in the AFDC Program.

County Performance and the Incentive Payment Structure

Table 8 shows the performance of all 58 counties in the child support enforcement program, as measured by the AFDC recoupment rate in 1988-89.

Table 8
Department of Social Services
Child Support Enforcement Program
Counties' AFDC Recoupment Rates [a]
1988-89

County	*Recoupment Rate*	*Ranking*
Ventura	19.2%	1
Napa	17.0	2
El Dorado	16.9	3
Plumas	15.6	4
Sonoma	15.6	4
Inyo	15.6	4
Santa Barbara	15.1	7
Nevada	14.0	8
San Mateo	13.9	9
Tuolumne	13.4	10
Madera	13.3	11
Sutter	13.3	11
Shasta	12.8	13
Alpine	12.7	14
Merced	11.9	15
Orange	11.7	16
San Luis Obispo	11.5	17
Placer	11.3	18
Colusa	11.2	19
Humboldt	11.0	20
Contra Costa	10.8	21
Kings	10.8	21
Glenn	10.8	21
Santa Cruz	10.7	24
Yolo	10.7	24
Siskiyou	10.6	26
Marin	10.2	27
Butte	10.0	28
Mendocino	10.0	28
Santa Clara	9.7	30
Fresno	9.6	31
San Francisco	9.2	32
Monterey	9.2	32
Mariposa	8.9	34
Imperial	8.7	35
Lake	8.4	36
Tehama	8.1	37
Del Norte	7.9	38
Lssen	7.9	38
Solano	7.8	40
Yuba	7.6	41
Tulare	7.6	41
Riverside	7.6	41
San Benito	7.5	41
Trinity	7.3	45
Stanislaus	7.0	46
Alameda	7.0	46
Calaveras	6.9	48
Modoc	6.9	48
San Bernardino	6.8	50
Kern	6.8	50
Amador	6.4	52
Mono	6.4	52
San Diego	5.3	54
San Joaquin	5.3	55
Sacramento	3.8	56
Los Angeles	3.6	57
Sierra	2.5	58
Average	6.6%	—

[a] Child support collections for AFDC families as a percentage of AFDC-FG grant expenditures.

The AFDC recoupment rate is total child support collections for AFDC children as a percentage of total AFDC-FG grant payments. We selected this measure because it reflects the state savings that result from child support operations (due to the reduction in AFDC grants), and therefore bears a close relationship to the underlying rationale for state incentive payments to the counties.

Table 9 shows performance and fiscal data for child support enforcement in selected counties in 1988-89, as well as the statewide totals for all 58 counties.

Table 9
Department of Social Services
Child Support Enforcement Program
Performance and Fiscal Data for Selected Counties
1988-89
(dollars in thousands)

County	AFDC Recoupment[a]		Federal and State Funds		County AFDC Savings[c]	Total Revenues and Savings	Total Administrative Expenditures	Net Revenue/ Savings (Net Costs)
	Rate	Ranking	Federal Reimbursements	Incentive Payments[b]				
Alameda	7.0%	46	$5,547	$2,489	$662	$8,698	$8,149	$549
Fresno	9.6	31	3,794	2,087	744	6,625	5,578	1,047
Riverside	7.6	41	3,219	2,186	510	5,915	4,722	1,193
Sacramento	3.8	56	4,907	1,067	393	6,367	7,212	(845)
San Bernardino	6.8	50	4,697	3,218	865	8,780	6,903	1,877
San Mateo	13.9	9	2,017	647	186	2,850	2,960	(110)
Santa Barbara	15.1	7	2,207	644	183	3,034	3,230	(196)
Shasta	12.8	13	1,174	618	180	1,972	1,725	247
Ventura	19.2	1	3,439	1,290	383	5,112	5,055	57
Statewide — 58 counties	6.6%		$107,108	$47,171	$12,694	$166,973	$157,339	$9,634

[a] Recoupment rate is total collections for AFDC (FG) children as a percentage of total AFDC (FG) grant expenditures in the county. Ranking based on all 58 counties.
[b] Federal and state incentives, including state bonus/paternity incentive.
[c] Based on 5.4 percent of AFDC collections.
Source: Data derived from Child Support Mangement Information System, Department of Social Services.

Table 9 relates performance to the relevant fiscal data in child support operations, from the perspective of the county. Specifically, the table shows the county's total administrative expenditures in its child support operations and the total reimbursements, revenues, and savings (from federal administrative allowances, state and federal incentive payments, and local AFDC grant savings, respectively). The table, therefore, reveals whether the county made a "profit" (excess of revenues and savings over costs) or whether the county devoted some of its own resources to finance its child support enforcement operations (excess of costs over revenues and savings).

As discussed below, the data raise the following question related to the manner in which incentive payments are distributed: Is the formula for distributing the state incentive payments effective in inducing counties to improve their performance in collecting child support awards?

Effectiveness of the Incentive Payment Distribution Formula. As noted previously, the state distributes its incentive payments to the counties based on a fixed percentage — 7.5 percent — of each county's collections for AFDC children. (The state provides an additional payment of $90 for each paternity established.) Federal incentive payments are based on a specified percentage of AFDC and non-AFDC collections. Presumably, the intent is to induce counties to make a greater effort in collections, since the incentive payments increase as collections increase.

Table 9 illustrates a problem in the incentive payment formula. Even though incentive payments increase with collections, counties that perform poorly in collections can be more profitable — from the county's fiscal perspective — than counties that perform well in collections. This is evident when comparing, for example, Riverside — a low performance/high profit county — to Santa Barbara, which performed well in collections but did so at a net cost to the county.

This suggests that the incentive structure is inadequate. While the purpose of the incentive payments (exclusive of the paternity incentive) is to induce counties to improve their performance in collections, the current system permits counties — by holding down their costs — to emerge with net revenues/savings apparently without maximizing collections. It is therefore appropriate to determine whether the incentive payment distribution formula could be improved.

In this connection, the DSS is in the process of developing statewide performance standards for child support enforcement in response to the *Supplemental Report of the 1989 Budget Act*, which directs the department to incorporate such standards into the state plan by March 31, 1990. The department intends to propose that the state and federal incentive payment formulas be revised pursuant to the new standards. While the standards have not been finalized, the department indicates that each county would receive (1) a base level of incentive payments if federal audit criteria are met and (2) additional incentive payments based on a variable rate (applied to total collections), which depends on the county's

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performance on three measures: location of absent parents, establishment of paternities, and establishment of support orders.

We are concerned that the department's proposal (specifically the second component dealing with variable rate incentive payments) may not result in higher collections. While, in theory, it *might* be beneficial to induce counties to place more emphasis on the three areas included in the department's model, there is no empirical evidence to support this. In fact — as we discuss below — we could find no statistically significant relationship between performance and the variables included in the department's model.

Currently, counties allocate their resources among a variety of activities that comprise the child support enforcement process. In addition to the three activities in the department's model, this process includes outreach, processing applications, enforcement of support orders, and collection and distribution of the awards. To the extent that counties are induced to make *collections* (particularly AFDC collections) their goal, they will allocate their resources among the various operational activities in a manner that is consistent with the purpose of the state incentive payments.

We are reluctant to suggest changing the existing incentive structure by providing a fiscal incentive for counties — particularly those that are performing well — to reallocate their resources without an analytical basis for predicting that such a reallocation will be effective. In this respect, we found virtually no correlation between performance of counties, as ranked according to the department's model, and recoupment rates, based on a statistical analysis. We also selected one of the variables in the department's model — paternity establishment — for statistical analysis. Again, we found no correlation between paternity establishment (1983-84) and either the increase in total collections from 1983-84 to 1988-89 or the recoupment rate in 1988-89.

Given the lack of evidence that counties should place more emphasis on selected operational activities, we believe that it would be preferable to continue to base incentive payments on performance in collections. In this way, the incentive formula will continue to be related directly to the desired *output*, rather than specific inputs in the process.

With respect to the aforementioned supplemental report language directing the DSS to develop statewide performance standards for incorporation into the state plan, we believe that performance in the program could be improved by adopting a "performance enhancement process," which uses the incentive system so as to facilitate a review of low-performing counties and to induce program changes, where appropriate. Our suggested performance enhancement process would *supplement* the existing incentive payment system. In contrast, the department's proposed performance standards model would *replace* the existing incentive system.

Legislative Analyst's Suggested "Performance Enhancement Process"

We recommend that the Legislature adopt supplemental report language requiring the DSS to incorporate into the state plan for the child support enforcement program an administrative review procedure — or "performance enhancement process" — for counties that rank low in performance, as measured by the AFDC recoupment rate. Under this process, low-performing counties that have relatively low levels of administrative effort would be required to increase their administrative effort, pursuant to a three-year plan, subject to withholding of incentive payments for failure to comply.

Under our suggested performance enhancement process, incentives would be based on a percentage of AFDC collections, as is the case for the existing state incentive payments. The process would consist of an administrative review procedure, as explained below.

- ***Rank the counties on the basis of performance in AFDC collections.*** Each county would be ranked relative to the other counties, as measured by the AFDC recoupment rate. We recognize that it is in the state's interest to increase non-AFDC collections, due to the cost-avoidance benefits of keeping families off of the AFDC rolls. These potential benefits, however, apply to a relatively small portion of non-AFDC collections. We are concerned, moreover, that giving equal emphasis to both AFDC and non-AFDC collections might have the unintended consequence of inducing counties to emphasize the latter due to the relatively high level of awards in this group.

  In using only AFDC collections as the measure of performance, a distinction is drawn between measuring performance for purposes of (1) distributing incentive payments and (2) rating a county's overall level of service. In the latter case, factors such as non-AFDC collections should be included.
- ***Identify, for more intensive review, those counties that are (1) performing poorly and (2) showing a relatively low level of improvement in performance.*** We define this group as counties that (1) rank in the bottom quartile in performance and (2) are below the median in improvement over the prior year. Table 10 shows that of the 14 counties in the bottom quartile in the AFDC recoupment rate in 1988-89, 12 were below average in improvement over 1987-88, indicating little improvement within the low-performing group.

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- ***Among the counties that are not performing well and not showing adequate improvement in performance, calculate the level of resources, or administrative effort, allocated to the program. Require those counties making a low level of effort to increase the resources allocated to the program, and require the DSS to conduct a program review of the other counties in this group.*** Administrative effort would be measured by the county's total administrative expenditures as a percentage of total AFDC grant expenditures. This measure is selected because AFDC grant expenditures reflect potential AFDC child support collections. Thus, the measure of administrative effort — like the measure of performance — is directly related to the purpose of the state incentive payments.

We also note that this index of administrative effort explained 40 percent of the variation in recoupment rates in 1988-89 — generally considered a relatively high correlation in this type of statistical analysis. This high degree of correlation is apparent when comparing the administrative effort of the highest and lowest performing counties, as shown in Table 11. The table indicates that the counties that performed the best in AFDC recoupment devoted about *three times* as much administrative effort to the program as did the counties that performed the worst.

Table 10
Department of Social Services
Child Support Enforcement Program
AFDC Recoupment Rates [a]
Lowest Performing Counties in 1988-89 and
Change in Performance Over 1987-88

	Recoupment Rate		*Change in Rate From 1987-88*	
County	*1987-88*	*1988-89*	*Amount*	*Statewide Ranking [b]*
Trinity	8.2%	7.3%	−0.9	49
Stanislaus	8.0	7.0	−1.0	52
Alameda	7.2	7.0	−0.2	33
Calaveras	6.7	6.9	0.2	23
Modoc	7.6	6.9	−0.7	45
San Bernardino	7.5	6.8	−0.7	45
Kern	6.1	6.8	0.7	18
Amador	9.2	6.4	−2.8	58
Mono	7.6	6.4	−1.2	53
San Diego	6.1	5.5	−0.6	41
San Joaquin	5.4	5.3	−0.1	30
Sacramento	4.0	3.8	−0.2	33
Los Angeles	3.8	3.6	−0.2	33
Sierra	2.9	2.5	−0.4	38

[a] AFDC child support collections as a percentage of AFDC-FG grant expenditures.

[b] This reflects how the counties ranked, among all 58 counties, in the change in recoupment rate over 1987-88.

Table 11
Department of Social Services
Child Support Enforcement Program
Administrative Effort of High- and Low-Performing Counties [a]

High-Performing Counties (Top Quartile)			*Low-Performing Counties (Bottom Quartile)*		
County	*AFDC Recoupment Rate*	*Administrative Effort*	*County*	*AFDC Recoupment Rate*	*Administrative Effort*
Ventura	19.2%	13.7%	Sierra	2.5%	7.4%
Napa	17.0	8.4	Los Angeles	3.6	2.6
El Dorado	16.9	14.8	Sacramento	3.8	3.8
Plumas	15.6	10.7	San Joaquin	5.3	2.8
Sonoma	15.6	8.6	San Diego	5.5	3.4
Inyo	15.6	16.7	Mono	6.4	6.0
Santa Barbara	15.1	14.4	Amador	6.4	9.0
Nevada	14.0	10.8	Kern	6.8	4.0
San Mateo	13.9	11.9	San Bernardino	6.8	2.9
Tuolumne	13.4	6.6	Modoc	6.9	5.7
Madera	13.3	4.0	Calaveras	6.9	4.5
Sutter	13.3	7.4	Alameda	7.0	4.6
Shasta	12.8	6.6	Stanislaus	7.0	4.0
Alpine	12.7	11.8	Trinity	7.3	4.5
Weighted average		10.5%			3.1%
Unweighted average		10.5			4.7

[a] Performance is measured by AFDC recoupment rate (AFDC child support collections as a percentage of AFDC grant expenditures). Administrative effort is measured by total administrative expenditures as a percentage of AFDC grant expenditures.

Source: Data derived from Child Support Management Information System, Department of Social Services.

This component of the performance enhancement process could be put into effect by requiring the "low-performance/low- improvement" counties that are also below average in administrative effort to bring this effort up to the average by increasing their expenditures, subject to a reduction in incentive payments for failure to comply.

Table 11 shows the *administrative effort* of the 14 lowest-performing counties. As we noted from Table 10, only two of these counties—Calaveras and Kern—were above average in performance improvement over the prior year. Of the 12 counties in the "low-performance/low-improvement" category, 6 were below the statewide average in administrative effort, using the mean (4.4 percent — not shown in the table) as the average. (Ten of the 12 counties were below the statewide average as measured by the median.)

In the case of the "low-performance/low-improvement" counties that are making a relatively *high* level of administrative effort, the DSS would conduct a program review in an attempt to (1) discover the causes for the county's low level of collections — such as ineffective management, inefficient allocation of resources, the lack of automation, and demographic factors beyond the control of the county — and (2) make recommendations to address these problems. The intent is not to impose sanctions on these counties but to assist them in improving their performance. Referring to Table 11, Amador would be an example of a county that fits in this category.

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Conclusion. This performance enhancement process differs from the department's model in two principal respects: (1) the manner in which performance is defined and (2) the inclusion, in our suggested process, of a procedure to review and improve the performance of low-performing counties. With regard to the definition of performance, we believe that it would be prudent to use the AFDC recoupment rate because it reflects the basic purpose of incentive payments. There is no empirical evidence that performance would be improved by inducing the counties to reallocate resources in favor of the program components that are emphasized in the department's approach.

In conclusion, we reiterate that the intent of the existing incentive distribution formula is to improve the counties' performance in collections. The large variation in performance suggests that the incentive structure has not had the intended effect in many counties. We believe that this has occurred partly because the incentive system does not give adequate attention to the counties' administrative effort. In fact, it permits low-performing counties — by holding down their costs — to make a profit from their child support enforcement programs. The process presented above addresses this problem by making this option less feasible, and by requiring the department to take appropriate remedial action in the case of counties that are performing poorly.

Based on our review, we believe that this performance enhancement process would result in significant improvement in the performance of counties — particularly those that are performing the worst — in their child support enforcement program. Consequently, we recommend that the Legislature adopt supplemental report language requiring the department to incorporate the basic features of this process into the state plan for the child support enforcement program. Specifically, we recommend adoption of the following language (Item 5180-001-001):

> The Department of Social Services shall, by March 1, 1991, incorporate into the state plan for the child support enforcement program an administrative review procedure for counties that rank low in performance, as measured by AFDC recoupment rates. Under this review, low-performing counties that have relatively low levels of administrative effort would be required to increase their effort, pursuant to a three-year plan, subject to withholding of incentive payments for failure to comply, as authorized by Section 11475.2 of the Welfare and Institutions Code.

Three-Year Plan to Improve Los Angeles County Performance

In last year's analysis of the child support enforcement program, we documented the relatively poor performance of Los Angeles County. In response, the Legislature adopted language in *The Supplemental Report of the 1989 Budget Act* directing the DSS, in conjunction with Los Angeles County, to develop a three-year plan by September 1, 1989 in order to improve the performance of the county. The Legislature directed that the plan contain specified objectives and actions, including the requirement that the county raise its performance — according to several measures — up to the average of all the other counties within a specified period of time.

Plan Does Not Comply With the Legislature's Directive. The DSS submitted its plan to the Legislature prior to the September deadline. The plan complies with some of the requirements of the supplemental report language, but falls short in several respects. Rather than require Los Angeles County to raise its performance to the average of the other counties, the plan would subject Los Angeles to (1) the requirements of the department's proposed program performance standards (as described above) and (2) federal requirements imposed on the county pursuant to an agreement related to federal funding for the county's new automation system.

Table 12 summarizes the principal components of the supplemental report language and the department's plan for Los Angeles County. In order to make meaningful comparisons, we have converted the requirements of the two plans into specific statistics, where possible.

Table 12
Department of Social Services
Child Support Enforcement Program
Performance Plan for Los Angeles County
Comparison of 1989 Supplemental Report Language
and Department of Social Services Plan

	Los Angeles County	*Supplemental Report Language* [a]		*Department of Social Services Plan*	
Component	*1987-88*	*Amount*	*Date*	*Amount*	*Date*
Aid to Families with Dependent Children (AFDC) recoupment rate	3.8%	8.3%	1/1/93	3.9% [b]	1/1/93
AFDC collections per child	$132	$282	1/1/93	$164 [b]	1/1/93
Non-AFDC collections per child	$25	$40	1/1/93	$32 [b]	1/1/93
Annual increase in collections	1.8%	13.4%	1/1/93	15%	1/1/93
Collections/costs	2.6%	3.2%	1/1/93	— [c]	
Location of parents	9%	39%	1/1/91	Rated by county comparison [d]	
Establishment of support orders	11%	20%	1/1/91	Rated by county comparison [d]	
Establishment of paternities	14%	20%	1/1/91	Rated by county comparison [d]	

[a] The *Supplemental Report of the 1989 Budget Act* requires a plan to raise the performance of Los Angeles County to the 1987-88 average of all other counties. Specific amounts are estimated by the Department of Social Services (DSS) and the Legislative Analyst's Office (LAO).

[b] Estimated by the LAO, based on minimum requirements for annual collections, as specified in the DSS plan, and LAO projections for AFDC (FG) grants and AFDC and non-AFDC children in 1992-93.

[c] Cost projections not available.

[d] Performance in these components would be rated in comparison to other counties, pursuant to development and implementation of DSS program performance standards.

In explaining why its plan varies from the supplemental report requirements, the department indicated that it would be inequitable, and possibly illegal, to subject one county to requirements tied to potential

Aid to Families With Dependent Children—Continued

fiscal sanctions that would not apply to the other counties. While this is a reasonable argument, the Legislature believed that the consequences of failing to take immediate action with respect to Los Angeles County — due to its impact on the statewide level of child support collections — justified singling out this specific county.

The issue, however, is whether the requirements imposed by the supplemental report language would be effective. Clearly, they would result in a significantly higher level of collections if the requirements were met, but is it reasonable to expect the county to meet these targets? If not, the resulting sanctions would be counterproductive.

We have no analytical basis for answering the foregoing question. It seems reasonable to expect Los Angeles County to improve its performance to the point where it is doing as well as the average of all the other counties. On closer examination, however, it may not be reasonable to expect the county to reach all of the targets within the timeframes specified in the supplemental report.

In the case of the goals for the AFDC recoupment rate, for example, we estimate that in order to reach the supplemental report target of 8.3 percent by 1992-93, the county would have to increase its AFDC collections by more than 30 percent *annually*. On the other hand, an analysis of the DSS plan's goals for AFDC collections indicates that the county would be expected to make hardly any improvement in its recoupment rate — from 3.8 percent in 1987-88 to 3.9 percent in 1992-93. In other words, the targeted increase in AFDC child support collections is not much greater than our projected increase in total AFDC welfare payments in the county.

Administrative Effort. Ultimately, Los Angeles County's performance will be determined primarily by the effort the county makes to improve in this area. Thus, we suggest moving the focus of this issue from the performance targets to the level of effort that should be expected of the county.

One way of gauging the county's level of effort would be to compare its administrative expenditures to the corresponding expenditures in other counties. In this respect, we note from the preceding analysis of the incentive payment system that Los Angeles County's total administrative expenditures in 1988-89 — reported at $32.3 million — amounted to 2.6 percent of the county's AFDC grant expenditures. This index of administrative effort is 41 percent below the statewide average and 52 percent below the average of all counties besides Los Angeles.

Thus, Los Angeles County's level of administrative effort — according to the foregoing measure — appears to be relatively low. Given (1) the clear intent expressed by the Legislature that Los Angeles improve its performance and (2) the fact that the DSS plan does not comply with the supplemental report language, we believe it is reasonable to expect the county to bring its administrative effort into line with the other counties. This could be accomplished by adoption of the performance enhancement process that was explained above. Under this process, Los Angeles

County would be required to increase its administrative expenditures (within a specified period of time) by 69 percent, or $22 million, over the 1988-89 levels, excluding inflation and workload adjustments.

With respect to the burden that this requirement would place on the county, it is important to recognize that approximately two-thirds of the increase in total expenditures would be funded by the federal government. Part of the remaining amount, moreover, would be funded by federal and state incentive payments, depending on the extent to which total collections increase. The county would be responsible for estimating the amount that would be funded from these sources in order to determine the increase that would be necessary from the county's own general fund to meet the required increase in total expenditures. The county would be held accountable for its budgeting because any shortfall (based on a review of actual expenditures) would, under the foregoing performance enhancement process, result in a corresponding reduction in incentive payments. We note, in this respect, that the county has budgeted for 1989-90 a $10 million increase in expenditures over the 1988-89 level — indicating that the county has recognized the need to increase its effort in this area.

The case of Los Angeles County serves the purpose of illustrating how the performance enhancement process could be implemented. Given the relationship that we found between administrative effort and AFDC recoupment rates, we believe that this would be an effective way to meet the Legislature's intent that the county improve its performance.

Supplemental State Incentive Payments Overbudgeted

We recommend that the budget proposal for supplemental state incentive payments in the child support enforcement program be reduced by $372,000 in the current year and $2,653,000 in the budget year to correct for overbudgeting of the statutory requirement. (Reduce Item 5180-101-001 by $2,653,000.)

As noted previously, the federal government reimburses the counties for a portion of their costs of administering the child support enforcement program. Federal PL 98-378 provides that the scheduled reimbursement for 1989-90 and 1990-91 shall be 66 percent of the counties' costs. Federal law also provides "enhanced" funding — 90 percent of total costs — for automation projects and laboratory costs of establishing paternities. Pursuant to the federal Budget Reconciliation Act of 1989, however, the federal share of administrative costs will be reduced from 66 percent to 64.4 percent and — for the enhanced funding allowances — from 90 percent to 87.9 percent for FFY 90.

Chapter 1451, Statutes of 1986 (SB 738, Royce) provides that if the federal administrative allowances are reduced from the scheduled rate of 66 percent, the reduction shall be offset by additional state incentive payments. The budget proposes $2.6 million from the General Fund in 1989-90 and $3.2 million in 1990-91 to fund this statutory requirement. Our analysis, however, indicates that the budget proposal exceeds the amount

Aid to Families With Dependent Children—Continued

needed by $372,000 in 1989-90 and $2,653,000 in 1990-91. This overbudgeting is the result of three factors, as explained below.

Technical Error. The proposed amount for supplemental incentives in 1989-90 contains a technical error, resulting in overbudgeting of $240,000.

Effective Date of Federal Reductions. The budget assumes that the federal reductions will be in effect for the entire state fiscal year 1990-91. The reductions, however, are effective only until September 30, 1990, at which time the reimbursement rates will be restored to their pre-existing levels. As a result, the budgeted supplemental incentive payments exceed the amount required to offset the federal reductions by $2,462,000 in 1990-91.

Enhanced Funding Allowances. The budget includes $132,000 and $254,000 in 1989-90 and 1990-91, respectively, to supplant the federal reductions in the *enhanced* (90 percent) funding allowances. Because state law authorizing the supplemental incentive payments specifically refers only to reductions in the *regular* allowance of 66 percent, we conclude that the budget proposal to offset the reduction in the enhanced allowances is inconsistent with the underlying budgetary assumption of funding the statutory requirement. The Legislature, of course, might choose to offset this reduction as a policy decision, depending on its priorities.

In summary, we identify overbudgeting in the amount of $372,000 in 1989-90 and $2,653,000 in 1990-91. (The amount for 1990-91 is less than the sum of the components identified above in order to avoid double-counting.) Consequently, we recommend that the budget be reduced accordingly, for a total General Fund savings of $3,025,000.

Demonstration Project for the Job Opportunity and Basic Skills Training (JOBS) Program

We recommend that the DSS report to the fiscal committees during the budget hearings as to whether the department intends to apply for the federal demonstration project to evaluate the benefits of permitting unemployed noncustodial parents who have child support obligations to participate in the JOBS Program.

The federal Family Support Act (FSA) of 1988 revised the child support enforcement program and established the JOBS program to provide education, training, and employment services to AFDC recipients. As will be discussed in more detail later in our analysis, the JOBS Program is similar to the state's Greater Avenues for Independence (GAIN) Program.

The FSA requires the Secretary of Health and Human Services to select up to five states to evaluate the benefits of permitting unemployed noncustodial parents who have child support obligations to participate in the JOBS Program. Federal departmental staff informed us that no additional funding would be provided to expand the JOBS Program under this demonstration project, although partial funding for the evaluation may be forthcoming.

The DSS indicates that a decision on whether to apply for this project will be made after receipt of the applicable federal action transmittal, which is expected in February of this year. In our judgment, an evaluation of this nature could be a worthwhile effort. The benefits of providing JOBS services to noncustodial parents — including the direct fiscal benefits to the state from reducing welfare aid and increasing earnings — could be compared to (1) the benefits of providing these services to currently-eligible participants in order to determine which group is more cost-effective to serve and (2) the costs of providing the services to noncustodial parents in order to determine whether the benefits to the state are sufficient to warrant development of a permanent, state-funded program. This study, moreover, would complement an evaluation currently in progress on the existing JOBS/GAIN Program.

We agree with the department that a decision to apply for the demonstration project should await the federal transmittal so as to review the funding, timelines, and other relevant conditions. In order to ensure that the Legislature can maintain adequate oversight of this issue, however, we recommend that the department be prepared to discuss its intentions during the budget hearings.

ADOPTION ASSISTANCE PROGRAM

Overview. The Adoption Assistance Program (AAP) provides grants to parents who adopt "difficult to place" children. State law defines "difficult to place" children as those who, without assistance, would likely be unadoptable because they are:

- Three years of age or older.
- Members of a racial or ethnic minority.
- Members of a sibling group that should remain intact.
- Physically, mentally, emotionally, or medically handicapped, or from "adverse parental backgrounds" (presumably this refers to the increased risk of developing emotional or mental problems that result from abuse, especially sexual abuse, at an early age).

Adoptive parents receive these grants until their child is 18 years of age, or until age 21 if the child has a chronic condition or disability that requires extended assistance. The adopted children remain eligible for Medi-Cal benefits as long as their adoptive parents are receiving an Adoption Assistance grant on their behalf.

Adoption Assistance grants are limited to the amount of the foster care rate that the child would have received if she or he had remained in foster care. In most cases, this means that the grant cannot exceed the foster family home monthly rate. The family home rate ranges from $329 to $461, depending on the age of the child. If the child was in a foster care group home prior to adoption, however, the adoption worker can set the Adoption Assistance grant as high as the foster care group home rate — an average of $2,589 per month in 1989-90. Also, if the child has specialized care needs (such as 24-hour monitoring) that would have been covered by a special grant if the child had remained in foster care, the worker can set the grant as high as the foster family home rate plus

Aid to Families With Dependent Children—Continued

the specialized care increment — generally this would fall between the family home rate and the group home rate.

For federally eligible children, the federal government pays for 50 percent of any grant that is less than the foster family home rate. For grants above the family home rate, the federal share is limited to 50 percent of the family home rate. The state General Fund pays for all grant costs not covered by the federal government.

Prior to the enactment of the AAP in 1982, the state administered a similar, totally state-funded program — The Aid for Adoption of Children (AAC) Program — which provided cash grant payments to adoptive parents of children with special needs. Aside from the funding, the major differences between the AAC program and the AAP is that AAC grants were limited to five years, except for physically or mentally handicapped children requiring extended assistance. Some parents who adopted before 1982 continue to receive AAC grants.

Budget Proposal. The budget proposes $53.2 million ($38.2 million from the General Fund and $15.0 million from federal funds) for the AAP. The General Fund request represents an increase of $8.1 million, or 27 percent, above estimated 1989-90 expenditures. As we discuss in more detail below, this relatively high rate of growth is characteristic of program growth in recent years.

Adoption Assistance Costs Have Increased 861 Percent in the Past Seven Years

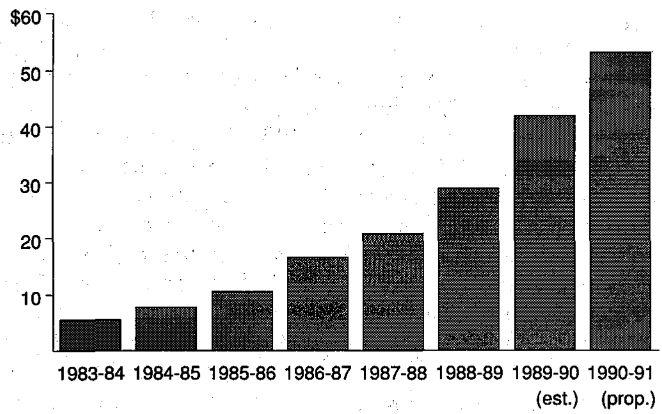
Chart 4 displays expenditures from all funds for Adoption Assistance grants since 1983-84. As the chart indicates, expenditures have grown rapidly over the past seven years. Specifically, the cost of the program has grown from $5.5 million in 1983-84 to a proposed $53.2 million in the budget year. This represents an increase of 861 percent during the seven-year period, which is an average annual increase of nearly 39 percent. This increase is primarily attributable to two factors: caseload growth and increases in the average amounts granted to each adoptive family.

- ***Caseload Growth.*** The average monthly Adoption Assistance caseload (including both AAP grants and grants under the old AAC Program) has grown from 2,300 in 1983-84 to an estimated 10,900 in 1990-91. This constitutes a 374 percent increase over the period, or an average annual increase of 25 percent.
- ***Grant Increases.*** Between 1983-84 and 1990-91, the average Adoption Assistance grant per case grew by 88 percent, from $208 per month to $390 per month. This represents an annual increase of 10 percent, almost two and one-half times the rate of growth in the California Consumer Price Index.

Chart 4

Adoption Assistance Expenditures are Growing Rapidly

(dollars in millions)



Lack of Standards for Adoption Workers Results in Large Variations in Adoption Assistance Grants Across Counties

State and county adoption agencies are responsible for determining eligibility for Adoption Assistance and for setting the amount and the beginning date of any grants awarded. Currently, there are no standards for adoption workers to use when determining the amount or the beginning date of the assistance, except for the limit on the *maximum* amount of the grant. As discussed above, this is equal to the level of the foster care grant that a child would have received had he or she remained in foster care, which, in most cases, is equal to the foster care family home rate. Below this maximum, however, adoption workers have total discretion in setting grant levels. They also have wide discretion in determining when grants will begin. Specifically, they can provide for the grant to commence as early as the date of the adoption or as late as several years after the adoption. While state law requires adoption workers to consider the resources of the family, the needs of the child, and the availability of services in the parents' community, the department has never issued any regulations specifying how the worker should translate these considerations into an actual dollar amount or beginning date.

Aid to Families With Dependent Children—Continued

The lack of standards in the grant-setting process has resulted in significant differences in the levels of the grants awarded by the various counties. In 1988-89, for example, the statewide average Adoption Assistance grant was $358 per month, while the average in the counties with the 10 largest Adoption Assistance caseloads ranged from a low of $240 per case in San Bernardino to $415 per case in San Diego.

Table 13 provides another indication of the extent of variation in county policies regarding grant levels. The table compares the 10 largest AAP counties in terms of the percentage of awards that fall into each of three ranges: (1) $95 to $199 per month, (2) $200 to $424 (foster family rates in California vary with the age of the child, but in 1986-87 all of the family home rates fell within this middle range), and (3) more than $425 per month. The table shows that, in 1986-87 (the most recent year for which data were available), there were large variations between the 10 counties with respect to the percent of cases receiving grants in the low, medium, and high ranges. For example, Contra Costa, Los Angeles, and Orange Counties awarded grants of less than the foster family rate in a significant percentage of their cases, while Sacramento and San Francisco awarded virtually no grants in the lower range. Conversely, three counties (Ventura, San Bernardino, and Orange) awarded grants higher than the foster family rate to over 20 percent of their Adoption Assistance cases, while three counties (San Francisco, Contra Costa, and Riverside) awarded the higher grants to less than 5 percent of their cases.

Table 13
Department of Social Services
Variation in Adoption Assistance Grants
Ten Largest County Adoption Agencies
1986-87

	Percent of Grants Awarded in Each of Three Payment Ranges		
County [a]	*$25 to $199*	*$200 to $424*	*$425 and over*
Alameda	2.6%	81.1%	16.1%
Contra Costa	22.4	77.6	—
Los Angeles	13.1	76.6	10.5
Orange	12.7	64.7	22.6
Riverside	9.6	88.0	2.4
Sacramento	—	93.1	6.8
San Bernardino	4.5	71.7	23.9
San Diego	9.7	74.4	15.9
San Francisco	—	100.0	—
Ventura	10.2	59.3	30.5

[a] Details shown for each county may not sum to 100 percent due to rounding. Note: The foster family home rate depends on the age of the child. In 1986-87, foster family home rates ranged from $294 for infants to $412 for teenagers.

Some of the variation reflected in Table 13 may be due to differences in the characteristics of the children and adoptive parents in the counties' caseloads. Specifically, counties with children having relatively more expensive special needs or with relatively more lower-income parents would be justified in awarding more grants in the higher range.

Conversely, counties with less needy children or fewer low-income parents would probably award more grants in the lower range.

It seems unlikely, however, that differences of the magnitude reflected in the table can be explained *solely* by variations in caseload characteristics. For example, while there are some demographic differences between Ventura and Riverside Counties, they are both fairly large counties with major urban centers and diverse populations. We know of no demographic differences between the two that would explain why Ventura awards approximately 15 times as many grants in the higher range as Riverside. A more likely explanation of the variations reflected in the table is that they result to a large degree from different grant-setting policies in the counties. In fact, adoption staff that we spoke with in one county indicated that it is their policy to minimize the number of grants awarded that are greater than the foster family rate, while staff in another county stated that their county has no such policy. This points to the possibility that children with similar needs and families of comparable resources may be receiving substantially different grants, depending solely on the county in which they happen to reside.

The Adoption Assistance Program Has Not Substantially Increased the Number of Adoptions in the State

The primary goal of the Adoption Assistance Program is to facilitate the placement of special needs children into adoptive homes. One way to gauge the success of the program, therefore, is to determine whether it has increased the number of relinquishment adoptions in the state. Chart 5 compares the cumulative percent increases in Adoption Assistance grant expenditures — 861 percent during the period 1983-84 through 1990-91 — with the growth in relinquishment adoptions — which are expected to increase by 59 percent over the same period. This discrepancy between costs — Adoption Assistance grants — and results — adoptions — is even more pronounced when the increase in adoption staffing that occurred between 1983-84 and 1990-91 is taken into account. Specifically, the number of adoptive placements per adoption worker has increased by only 17 percent. This suggests that the AAP has had only a slight effect in making it easier for adoption agencies to find suitable adoptive placements for special needs children.

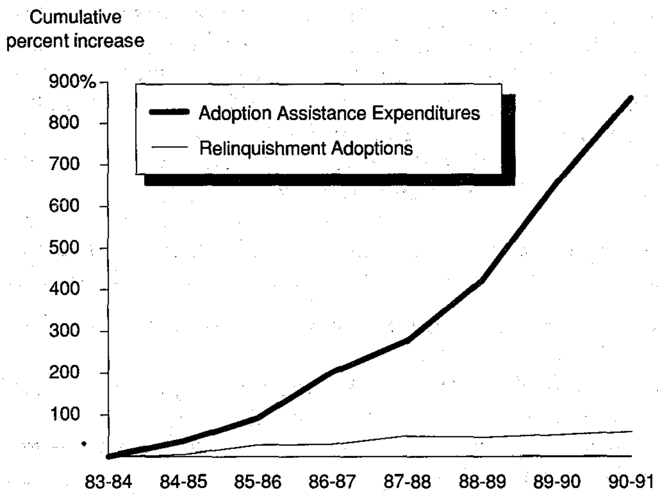
Summary. Over the past seven years, the cost of the Adoption Assistance Program has skyrocketed. Yet this growth in the program does not seem to have made it easier for adoption workers to find suitable adoptive placements. Moreover, the lack of standards for adoption workers to use in setting the amounts and starting dates of the grants has resulted in substantial variations around the state, which suggests that there may be serious inequities in the criteria that counties apply in setting grant levels. These variations are all the more disturbing since counties bear *none* of the costs of this program.

Aid to Families With Dependent Children—Continued

Chart 5

Adoption Assistance Program Expenditures Versus Relinquishment Adoptions

1983-84 through 1990-91



The Adoption Assistance Program Needs Better Controls

We recommend that the Legislature adopt supplemental report language expressing its intent to establish statutory standards for adoption workers to use when setting Adoption Assistance awards. In order to assist the Legislature in designing specific standards, we further recommend that the supplemental report language require the Department of Social Services to report to the Legislature by December 1, 1990 on its proposals for Adoption Assistance standards that link the amount and starting date of grants to the extent of the child's special needs and the resources of the adoptive parents.

The Adoption Assistance Program is unique among the major grant programs operated by the DSS in that it allows individual workers broad discretion in determining both the amount and the beginning date of the grants. In light of the variations that undoubtedly exist in the needs of individual children and the resources available to the adoptive parents to meet these needs, some degree of flexibility for workers to set grants on a case-by-case basis is probably warranted. Yet the analysis presented above suggests that the program needs to have *some* standards, both to control program costs and to ensure equity in the awarding of grants.

In order to assist the Legislature in developing legislation to establish Adoption Assistance standards, we believe the department should develop a proposal for standards and provide an assessment of the fiscal and programmatic effects of its proposal. The standards should be specific enough to allow adoption workers to use them to set grant levels and beginning dates of aid, based on their assessment of the child's special needs and the resources available to the adoptive parents. They should also contain some degree of flexibility in order to account for the unique circumstances of some cases. One possible way to achieve this flexibility would be to allow adoption workers to request exemptions from the standards if they believe use of the standards would yield an inappropriate or inequitable award, and institute a process for review of exemption requests.

The department advises that implementation of standards could not be achieved administratively because current eligibility and grant-setting criteria are established in statute. Therefore, modifying grant-setting criteria would require legislation. We therefore recommend that the Legislature adopt the following supplemental report language requiring the department to report on its proposal for Adoption Assistance standards and to include in its report the fiscal and programmatic information that the Legislature will need to develop legislation to implement standards:

> It is the Legislature's intent to establish statutory standards for adoption workers to follow in determining the amount and duration of Adoption Assistance grants. In order to assist the Legislature in designing these standards, the Department of Social Services shall report to the Legislature by December 1, 1990 on its proposals for establishing specific standards that would link the amount and beginning dates of grants to an assessment of the child's needs and the resources of the adoptive parents. The proposal shall specify (1) the conditions under which adoption workers would be allowed to request awards higher than the standards and (2) a process whereby such requests would be reviewed. The report shall also include the department's estimate of the costs and savings that would result from the implementation of the proposed standards and of any impact that the standards may have on the performance of the AAP.

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 181

Requested 1990-91	$2,230,532,000
Estimated 1989-90	2,182,412,000
Actual 1988-89	1,967,109,000
Requested increase $48,120,000 (+2.2 percent)	
Total recommended reduction	None
Recommendation pending	2,230,532,000

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$2,216,846,000
5180-111-890—Payments to aged, blind, and disabled refugees	Federal	3,691,000
Control Section 23.50—Payment to aged, blind, and disabled	State Legalization Impact Assistance Grant—Federal	9,995,000
Total		$2,230,532,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Withhold recommendation on $2.2 billion from the General Fund pending review of revised estimates in May. 726

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.

MAJOR ISSUES

☑ The budget assumes enactment of legislation to waive the statutory requirement for a state COLA (4.62 percent) for SSI/SSP grants in 1990-91 for a General Fund savings of $141 million.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $2.2 billion from the General Fund for the state's share of the SSI/SSP Program in 1990-91. The budget also includes $3.7 million from the Federal Trust Fund to reimburse the state for the grant costs of refugees and $10 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 $48.1 million, or 2.2 percent, above estimated current-year expenditures.

The budget also assumes that federal expenditures for SSI grant costs will be $1.9 billion. This is an increase of approximately 9 percent over estimated federal expenditures in the current year. The combined state and federal expenditure anticipated by the budget for the SSI/SSP Program is $4.2 billion, which is an increase of 5.2 percent above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures by category of recipient and by funding source, for the years 1988-89 through 1990-91.

State Supplementary Program for the Aged, Blind, and Disabled—Continued

Table 1
Department of Social Services
SSI/SSP Expenditures
1988-89 through 1990-91
(dollars in thousands)

Category of Recipient	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Aged	$1,026,756	$1,225,702	$1,270,391	3.6%
Blind	104,006	118,616	124,808	5.2
Disabled	2,437,949	2,609,559	2,765,085	6.0
Totals	$3,568,711	$3,953,877	$4,160,284	5.2%
Funding Sources				
Included in Budget Bill:				
General Fund	*$1,962,347*	*$2,165,655*	*$2,216,846*	*2.4%*
Federal funds (reimbursements for refugees)	*11,537*	*10,527*	*3,691*	*−64.9*
SLIAG	*2,225*	*6,230*	*9,995*	*60.4*
Subtotals, Budget Bill	*($1,976,109)*	*($2,182,412)*	*($2,230,532)*	*(2.2%)*
Not included in Budget Bill:				
SSI grants	*$1,592,602*	*$1,771,465*	*$1,929,752*	*8.9%*

Table 2 shows the factors resulting in the 1990-91 net increase of $213 million in all funds over estimated current-year expenditures. The table also shows that expenditures from all funds in the current year are estimated to be $46 million ($23 million General Fund) *more* than the amounts appropriated in the 1989 Budget Act.

For the budget year, the largest projected cost increases are attributable to:

- A $144 million ($79 million General Fund) increase to fund an estimated 3.7 percent caseload growth.
- A $138 million General Fund increase to fund the full-year cost in 1990-91 of the 4.6 percent cost-of-living adjustment (COLA) provided for SSI/SSP grants on January 1, 1990.

These increases are partially offset by a decrease of $172 million in General Fund costs resulting from COLAs in the federal SSI Program and social security benefits. These adjustments are counted as increased beneficiary income and thus reduce the state share of grant costs.

ANALYSIS AND RECOMMENDATIONS

Eligibility Requirements

The Social Security Administration (SSA) administers the SSI Program. In addition, the SSA will administer a state's SSP Program if it is requested to do so by the state. When the SSA administers a state's SSP Program, as it does in California, federal eligibility requirements are used to determine an applicant's eligibility for both the SSI and SSP Programs.

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.

Table 2
Department of Social Services
SSI/SSP Budget Changes
1990-91
(dollars in millions)

	General Fund	*All Funds* [a]
1989 Budget Act	$2,142.5	$3,897.0
1989-90 adjustments to appropriations		
Higher-than-anticipated caseload growth	$17.0	$51.6
Baseline change for January 1990 COLA	3.4	−10.0
Federal reimbursement for refugees	−6.2	—
Refugee Program reduction	8.7	—
Newly legalized persons	—	2.7
Newly legalized persons (SLIAG)	—	1.7
Transfer to intermediate care	0.2	0.4
Subtotals, 1989-90 adjustments	($23.1)	($46.4)
1990-91 adjustments		
Increase in caseload	$78.9	$143.9
Full-year costs of January 1990 state COLA	138.0	138.0
Full-year costs of January 1990 federal COLA	−88.8	−44.5
January 1991 federal COLA (4.7 percent)	−83.5	−33.5
Federal reimbursement for refugees	−3.5	—
Refugee Program reduction	10.4	—
Newly legalized persons	—	6.4
Newly legalized persons (SLIAG)	—	3.8
Transfer to intermediate care	−0.4	−0.8
1990-91 expenditures (proposed)	$2,216.8	$4,156.6 [b]
Change from 1989-90 (revised):		
Amount	$51.2	$213.2
Percent	2.4%	5.4%

[a] Includes federal SSI payments not appropriated in the state budget as well as General Fund amounts.
[b] Does not tie to the Governor's Budget display (Table 1) due to an error in the budget display.

General Fund Deficiency of $23 Million in 1989-90

The budget anticipates that General Fund expenditures for SSI/SSP during 1989-90 will exceed the amount appropriated by $23.1 million, or 1.1 percent. As Table 2 shows, the deficiency is primarily attributable to an unanticipated increase in caseload and federal budget reductions in cash assistance programs for refugees.

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 1990 an aged or disabled individual can receive up to $630 per month, while a blind individual can receive up to $704. 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

State Supplementary Program for the Aged, Blind, and Disabled—Continued

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.

Existing state law requires that the total SSI/SSP payment levels be adjusted, effective January 1, 1991, based on the change in the California Necessities Index (CNI) during calendar year 1989. 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 1989 was not available. The commission's preliminary estimate of the change is 4.28 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 1990-91. The budget estimates that this will result in General Fund savings of $141 million in the budget year, based on the estimated increase in the CNI of 4.62 percent.

Table 3 displays the SSI/SSP grants for 1990 and for 1991 with no state COLA (the budget proposal) and with a COLA of 4.62 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, 1991 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 $29 to $33 higher in 1991 than the grants in 1990.

Estimates Will Be Updated In May

We withhold recommendation on $2.2 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 1989. The department will present revised estimates in May, which will be based on program costs through February 1990. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1990-91 expenditures.

Basic Caseload Estimate May Be Too Low. The budget proposal assumes an average monthly SSI/SSP caseload of 832,100, which is an increase of 3.7 percent above estimated current-year caseloads. Table 4 compares the caseload in each recipient category for 1988-89 through 1990-91.

Table 3
Department of Social Services
Maximum Monthly SSI/SSP Grant Levels
Calendar Years
1990 and 1991

		1991	
Category of Recipient [c]	*1990*	*Budget Proposal (no state COLA)* [a]	*Statutory Requirement (with state COLA)* [b]
Aged or disabled			
Individual:			
Total grant	$630	$630	$659
SSI	386	404	404
SSP	244	226	255
Couple:			
Total grant	$1,167	$1,167	$1,221
SSI	579	606	606
SSP	588	561	615
Blind			
Individual:			
Total grant	$704	$704	$737
SSI	386	404	404
SSP	318	300	333
Couple:			
Total grant	$1,372	$1,372	$1,435
SSI	579	606	606
SSP	793	766	829
Aged or disabled individual			
Nonmedical board and care:			
Total grant	$709	$709	$742
SSI	386	404	404
SSP	323	305	338

[a] Assumes no state COLA in SSI/SSP grants and a 4.7 percent increase in SSI grants January 1, 1991.
[b] Assumes a 4.62 percent increase in SSI/SSP grants, based on the estimated CNI, and a 4.7 percent increase in SSI grants, both effective January 1, 1991.
[c] Unless noted, recipients are in independent living arrangements.

Table 4
Department of Social Services
SSI/SSP
Average Monthly Caseload
1988-89 through 1990-91

Category of Recipient	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Aged	291,520	301,900	311,600	3.2%
Blind	20,748	21,000	21,200	1.0
Disabled	458,957	479,500	499,300	4.1
Totals	771,225	802,400	832,100	3.7%

The budget projects a decrease in the *rate* of growth of the SSI/SSP caseload in 1990-91 as compared to the growth rate experienced to date in the current year. The 1990-91 caseload is projected to increase by 3.7 percent. Table 5 shows that between the first five months of 1988-89 and the same period in 1989-90 the number of recipients increased by 4.6 percent. Although this is only a difference of 0.9 percent above the 3.7 percent projected by the Department of Social Services, the higher

State Supplementary Program for the Aged, Blind, and Disabled—Continued

growth rate would result in a General Fund cost above the proposed level of approximately $19 million.

Table 5
Department of Social Services
SSI/SSP
Actual Change in Average SSI/SSP Caseload
July through November 1988-89 and 1989-90

	July-November		*Percent Change*
Eligibility Category	*1988-89*	*1989-90*	*From 1988-89*
Aged	288,588	300,340	4.1%
Blind	20,715	20,962	1.2
Disabled	453,368	476,457	5.1
Totals	762,671	797,759	4.6%

DEPARTMENT OF SOCIAL SERVICES
Special Adult Programs

Item 5180-121 from the General Fund and the Federal Trust Fund — Budget p. HW 182

Requested 1990-91	$4,161,000
Estimated 1989-90	3,772,000
Actual 1988-89	3,357,000
Requested increase $389,000 (+10.3 percent)	
Total recommended reduction	None

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-121-001—Special Adult programs	General	$4,086,000
5180-121-890—Special Adult programs	Federal	75,000
Total		$4,161,000

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 $4.2 million for the Special Adult programs in 1990-91. This is $389,000, or 10 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 183

Requested 1990-91	$51,058,000
Estimated 1989-90	44,490,000
Actual 1988-89	33,421,000
Requested increase $6,568,000 (+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 one year 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.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of $51 million in federal funds in 1990-91 for cash assistance to time-eligible refugees through the Refugee Cash Assistance (RCA) Program. This is an increase of $6.6 million, or 15 percent, above estimated current-year expenditures.

This increase is the result of (1) an $8.6 million increase in the RCA Program primarily due to a 20 percent increase in caseloads anticipated in 1990-91 and (2) a $2 million decrease primarily due to a reduction in the time limit on federal eligibility. The anticipated caseload increase is the result of federal increases in the number of refugees admitted into this country of 29 percent and 7.3 percent in federal fiscal years 1989 and 1990, respectively.

Reduction in the Time Limit on Federal Eligibility. Prior to January 1, 1990, the federal government paid 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 were in this country. These

Refugee Cash Assistance Programs—Continued

individuals are designated as "time-eligible" refugees. Time-eligible refugees who were needy, but who did not meet the eligibility requirements of the AFDC or SSI/SSP programs, received cash assistance under the RCA Program for the first 12 months that they were in this country, after which period, some of these individuals qualified for assistance under county general assistance programs.

In state fiscal years 1989-90 and 1990-91, the federal government will continue to pay 100 percent of the costs for assistance under the RCA Program. Eligible refugees will continue to receive assistance under the RCA Program for the first 12 months that they are in this country.

Beginning in January 1990, the federal government will reduce from 24 to 4 the number of months for which it will pay 100 percent of the costs of all other public assistance for refugees. One effect of this change is to eliminate 100 percent federal funding for refugees who have been in this country for 13 to 24 months. This will shift the responsibility for the general assistance costs of these refugees from the federal government to the counties, beginning in January 1990.

The effect of the reduction of the federal time limit on the AFDC and SSI/SSP programs is to shift to the state and local governments a portion of the costs of aid to time-eligible refugees who receive aid under *these* programs. We discuss these shifts under Items 5180-101-001 (AFDC) and 5180-111-001 (SSI/SSP).

DEPARTMENT OF SOCIAL SERVICES

County Administration of Welfare Programs

Item 5180-141 from the General Fund and the Federal Trust Fund — Budget p. HW 182

Requested 1990-91	$836,481,000 [a]
Estimated 1989-90	728,963,000
Actual 1988-89	586,694,000
Requested increase $107,518,000 (+15 percent)	
Total recommended reduction	None
Recommendation pending	836,481,000

[a] Includes $20,542,000 proposed in Item 5180-181-890 to provide a 4.6 percent cost-of-living adjustment.

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County administration	General	$200,943,000
5180-141-890—County administration	Federal	614,659,000
5180-181-890—Cost-of-living adjustment	Federal	20,542,000
Control Section 23.50—Local assistance	State Legalization Impact Assistance Grant	337,000
Total		$836,481,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. County Administration Budget. Withhold recommendation on $836 million ($201 million General Fund, $636 million federal funds) pending review of revised estimates in May. 734
2. Work Measurement Study. Recommend that: 736
   a. The Departments of Social Services (DSS) and Health Services (DHS) report at budget hearings on the status of the work measurement study.
   b. The Legislature adopt supplemental report language requiring the DSS and DHS to submit a report on the findings of the study and their plans to incorporate these findings into the budgeting process.

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 — including the proposed Transitional Child Care Program, (2) the Food Stamp 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.

MAJOR ISSUES

☑ A significant amount of work remains to be done before the Legislature can use the results of the Work Measurement Study to budget and allocate funds to county welfare departments.

County Administration of Welfare Programs—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $201 million from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1990-91. This is an increase of $18 million, or 9.9 percent, over estimated current-year General Fund expenditures for this purpose. The $201 million includes $6.5 million to fund increased General Fund costs resulting from the state's share of the ongoing costs of the estimated 4.4 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1989-90.* Similarly, counties will pay for any COLAs granted to county employees in 1990-91 using county and federal funds. The state will fund its share of the ongoing costs resulting from COLAs granted in 1990-91 starting in *1991-92.*

The budget proposes total expenditures of $1.1 billion for county administration of welfare programs during 1990-91, as shown in Table 1. This is an increase of $131 million, or 13 percent, over estimated current-year expenditures.

Table 1
County Welfare Department Administration
Budget Summary
1988–89 through 1990–91
(in thousands)

Program	Actual 1988–89 State	Actual 1988–89 Federal	Actual 1988–89 County	Actual 1988–89 Total	Estimated 1989–90 State	Estimated 1989–90 Federal	Estimated 1989–90 County	Estimated 1989–90 Total	Proposed 1990–91 State	Proposed 1990–91 Federal	Proposed 1990–91 County	Proposed 1990–91 Total
1. AFDC administration	$119,380	$185,567	$132,809	$437,756	$133,783	$221,909	$141,491	$497,183	$146,265	$227,976	$143,076	$517,317
2. Nonassistance food stamps	28,033	122,285	39,509	189,827	42,802	170,546	46,108	259,456	46,849	178,081	46,782	271,712
3. San Diego food stamp cash out [a]	—	—	—	—	—	9,758	—	9,758	—	56,726	—	56,726
4. Child support enforcement	—	112,902	54,158	167,060	—	128,278	66,291	194,569	—	133,967	69,573	203,540
5. Special adult programs	2,537	—	103	2,640	2,828	—	—	2,828	3,044	—	—	3,044
6. Refugee cash assistance	539	6,844	30	7,413	—	8,364	562	8,926	—	9,680	1,240	10,920
7. Adoption assistance	431	218	8	657	334	487	12	833	413	594	—	1,007
8. Staff development	3,133	4,825	3,198	11,156	3,081	6,676	3,575	13,332	3,577	7,178	3,578	14,333
9. Transitional child care	—	—	—	—	59	58	—	117	795	794	—	1,589
10. Estimated 4.6 percent COLA for county staff (1990–91)	—	—	—	—	—	—	—	—	— [c]	20,542	17,676	38,218
Totals	$154,053	$432,641 [b]	$229,815	$816,509 [b]	$182,887	$546,076 [b]	$258,039	$987,002 [b]	$200,943	$635,538 [b]	$281,925	$1,118,406 [b]

[a] Amounts shown are to provide cash grants in lieu of food stamp coupons to eligible individuals, and thus are not "administrative" costs as typically defined.
[b] Includes State Legalization Impact Assistance Funds. These funds are budgeted under Control Section 23.50.
[c] The state will not share in the costs of COLAs granted to welfare department employees for 1990–91 until 1991–92.

County Administration of Welfare Programs—Continued

Table 2 shows the budget adjustments that account for the net $131 million increase in county administration expenditures proposed for 1990-91. Significant changes include:

- A $47 million increase in federal funds (no General Fund or county funds) due to an expansion of the San Diego Food Stamp Cash-Out Demonstration Project. Under this demonstration project, San Diego County provides cash rather than food stamps to eligible individuals. Thus, these costs are not "administrative" costs as typically defined.
- A $38 million increase in federal and county funds (no General Fund monies) to provide a 4.6 percent COLA estimated for 1990-91. The General Fund share of the ongoing costs of this COLA will be covered in the state budget beginning in 1991-92.
- A $35 million increase ($8.5 million General Fund) to fund administration costs related to estimated increases in public assistance caseloads (basic costs). Of the total increase, $22 million ($5.7 million General Fund) is due to increased caseloads in the AFDC Program.
- A $7.2 million increase ($2.9 million General fund) to fund increased costs related to development and implementation of a statewide automated welfare system (SAWS). The $7.2 million increase ($4.6 million for AFDC administration and $2.6 million for nonassistance food stamp administration) reflects (1) additional development and procurement costs related to the counties that are preparing to implement their automated systems and (2) the costs for additional counties to prepare advanced planning documents for their automated systems.
- A net increase of $2 million ($6.4 million General Fund cost, $1.1 million federal funds cost, and $5.5 million county funds *savings*) to fund the estimated 4.4 percent retroactive COLA for 1989-90. The net increase is primarily the result of higher caseloads in 1990-91. The General Fund increase — and the county savings — is due to a shift in costs from the counties to the state. The cost shift occurs because in 1990-91, the state will pick up its share of the ongoing costs of the COLA provided by counties to their employees in 1989-90.

The fact that no General Fund monies are used for the two largest cost increases in 1990-91 — the San Diego Food Stamp Demonstration Project ($47 million) and the 1990-91 COLA for county employees ($38 million) accounts for the large difference between expenditure increases for the General Fund ($18 million) and all funds ($131 million).

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on $836 million ($201 million General Fund and $636 million federal funds) requested for county administration of welfare programs pending receipt of revised estimates of county costs to be submitted in May.

The proposed expenditures for county administration of welfare programs in 1990-91 are based on 1989-90 budgeted costs updated to reflect

Table 2
County Administration of Welfare Programs
Proposed 1990-91 Budget Changes
All Funds
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (revised)	$182,887	$987,002
Adjustments to ongoing costs or savings		
AFDC administration:		
Basic caseload costs	$5,683	$22,170
Court cases/legislation	−1,610	−6,537
Reduced GAIN savings	−545	−2,189
Statewide Automated Welfare System (SAWS)	1,853	4,556
Change in Refugee Program	2,144	—
Other	7	1,419
Subtotals, AFDC	($7,532)	($19,419)
Child support administration:		
Basic caseload costs	—	$1,511
Los Angeles County — increased administrative costs	—	5,998
Other	—	514
Subtotals, child support administration	(—)	($8,023)
Nonassistance food stamps administration:		
Basic caseload costs	$1,468	$6,369
SAWS	1,059	2,618
Other	190	2,955
Subtotals, food stamps	($2,717)	($11,942)
Other programs:		
Basic caseload costs	$1,384	$4,768
San Diego food stamp cashout	—	46,968
Immigration Reform and Control Act	—	58
Subtotals, other programs	($1,384)	($51,794)
New costs:		
Retroactive COLA (4.4 percent)	$6,423	$2,008
Estimated COLA for 1990-91	—	38,218
Subtotals, new costs	($6,423)	($40,226)
1990-91 expenditures (proposed)	$200,943	$1,118,406
Change from 1989-90 estimated expenditures:		
Amount	$18,056	$131,404
Percent	9.9%	13.3%

the department's caseload estimates for 1990-91. In May, the department will present revised estimates of county costs based on actual county costs in 1989-90. 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 1990-91 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 Legislature with a more reliable basis for budgeting 1990-91 expenditures. Therefore, we withhold recommendation on the amount requested for county administration of welfare programs pending review of the May estimate.

County Administration of Welfare Programs—Continued

Update on Work Measurement Study — Legislative Oversight

We recommend that the Legislature require the Departments of Social Services (DSS) and Health Services (DHS) to report to the fiscal committees during budget hearings on the status of the work measurement study of the Aid to Families with Dependent Children (AFDC), Nonassistance Food Stamp (NAFS), and Medi-Cal programs.

In addition, we recommend that the Legislature adopt supplemental report language requiring the DSS and the DHS to report by October 1, 1990 on the findings of the completed study and their plans to incorporate these findings into the 1991-92 budget process.

Background. The Legislature took action in the 1975 Budget Act that resulted in a plan for controlling the counties' costs of administering the AFDC, Medi-Cal, and NAFS programs. The Legislature took this action because it was concerned about (1) increases in administrative costs for public assistance programs and (2) large differences in administrative costs per case among counties.

The cost control plan allows the state to budget and control the costs of administering public assistance programs by:

- Establishing productivity standards for county eligibility workers (expressed in terms of the average number of cases a county worker is required to process during a month).
- Determining the number of budgeted eligibility workers per county based on the productivity standards and anticipated county caseloads.
- Determining county overhead and supervisory costs based on the number of budgeted eligibility staff.

Legislative Intent With Respect to Productivity Standards. The productivity standards play a key role in the cost control plan because they are the primary basis for determining the amount of administrative funds a county will receive. During the last five years, the Legislature has required the DSS and the DHS, in conjunction with the County Welfare Director's Association (CWDA), to report on various issues relating to the productivity standards. Among other things, the Legislature required the departments, in conjunction with the CWDA, to evaluate the current procedure used to determine productivity targets for the AFDC, NAFS, and Medi-Cal programs and to identify alternative approaches to setting these targets. (The approach used to conduct this evaluation is referred to as the work measurement study.)

Based on our review, we conclude that the progress of the work measurement study has not met legislative expectations. Specifically, the Legislature had planned to use the results of the study during the 1989-90 budget process. This was not possible because the departments and the counties did not complete the study in time to do so. Moreover, based on the timetable that the department and the counties have agreed to, it does not appear that the Legislature will be able to use the results of the work measurement study for budgeting county administration costs for

1990-91. Thus, the earliest the Legislature can reasonably expect to implement the results of the work measurement study would be in the 1991-92 budget, two years later than originally planned.

Current Status of Work Measurement Study. In January 1990 the Joint State/CWDA Work Measurement Steering Committee briefed legislative staff on the status of the study. The committee reported that certain activities had been completed, including (1) separating the 40 largest counties into three groups based on similarities in caseload characteristics and the level of automation, (2) selecting from each group, three counties — one for each program — to be studied (AFDC, NAFS, and Medi-Cal), which resulted in nine study sites, and (3) developing and testing a methodology for conducting the site studies.

The committee indicates that it expects to complete the AFDC and NAFS reviews and report its findings in March 1990. In addition, the committee postponed until the spring of 1990 the work measurement studies for the Medi-Cal Program, due to recent significant changes in the program. The committee indicated that it expects to complete these studies and report their finding by August 1990.

Significant Amount of Work Still Required. The tasks remaining to be completed with respect to work measurement are significant. They include the completion of work measurement studies for the Medi-Cal program, analysis of the findings of all nine studies, and development of a process to link these findings to the budgeting process for county administrative costs. Given the amount of work that needs to be done before the Legislature can use the results to budget for county administration, we do not believe that the Legislature can reasonably expect to incorporate the findings of even the AFDC and NAFS studies into the budget process for the 1990-91 fiscal year. On this basis, we recommend that the Legislature (1) require the DSS and the DHS to report at the time of the budget hearings on the status of the work measurement study and (2) adopt supplemental report language requiring the DSS and the DHS to report by October 1, 1990 on the findings of the completed work measurement study and its plan for incorporating these findings into the 1991-92 budget process.

Specifically, we recommend the adoption of the following supplemental report language:

> By October 1, 1990 the DSS and the DHS shall submit a joint report to the Legislature regarding the findings of the work measurement study on a county-specific basis. The report shall include:
>
> 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.
> 2. A description of the methodology that would be used to set county productivity targets using the results of the study.
> 3. An estimate of the cost of fully implementing the findings of the study taking into account salary expenditures (direct salary, fringe benefits, and overhead), caseload size, number of supervisors, and appropriate supportive eligibility functions.

County Administration of Welfare Programs—Continued

4. Other options for implementing the study findings and the fiscal impacts related to each option.

DEPARTMENT OF SOCIAL SERVICES

Social Services Programs

Item 5180-151 from the General Fund and the Federal Trust Fund — Budget p. HW 183

Requested 1990-91	$1,396,863,000 [a]
Estimated 1989-90	1,387,119,000
Actual 1988-89	1,154,098,000
Requested increase $9,744,000 (+0.7 percent)	
Total recommended reduction	750,000
Recommendation pending	589,880,000

[a] Includes $2,591,000 proposed in Item 5180-181-890 to provide a 4.6 percent cost-of-living adjustment.

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social services programs—local assistance	General	$802,288,000
5180-151-890—Social services programs—local assistance	Federal	587,749,000
5180-181-890—Social services programs—local assistance COLA	Federal	2,591,000
Reimbursements	—	3,235,000
Welfare and Institutions Code Section 18969—Appropriation	Children's Trust	1,000,000
Total		$1,396,863,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS *Analysis page*

1. Child Welfare Services (CWS) — Program Growth Adjustment. Recommend that the department report to the Legislature, prior to budget hearings, on (a) how it intends to limit the effect of the reduction to the Family Maintenance, Family Reunification, and Permanent Placement components of the CWS Program, (b) how it expects counties to absorb the reduction, and (c) its estimate of the full fiscal effect of the reduction. 745
2. *CWS — Expansion of Pilot Project for Substance-Exposed Infants in Foster Care. Reduce reimbursements to Item 5180-151-001 by $500,000 and reimbursements to Item 5180-001-001 by $116,000.* Recommend deletion of funding for the proposed expansion of the Department of Social Services' 747

(DSS) foster care pilot project, because the proposed funding is inconsistent with federal law.

3. In-Home Supportive Services (IHSS). Withhold recommendation on $590 million for support of the IHSS Program, pending receipt of the May revision. Further recommend that the department's May revision of the IHSS budget estimate reflect the fiscal effects of (a) potential overestimation of average hours of service, (b) recent changes in workers' compensation law, (c) potential budget-year payments related to the *Miller v. Woods* decision, and (d) the statutory adjustment of IHSS maximum service awards. 750
4. IHSS — Program Reduction. Recommend that the department, prior to budget hearings, provide the following information to the fiscal committees: (a) details of the legislation needed to implement the proposal, (b) a summary of the function-by-function scores of individuals with functional index scores of 2.5 or less, (c) the effect on estimated savings of potential additional Supplemental Security Income/State Supplementary Program costs, (d) the effect of potential implementation delays on estimated savings, and (e) a more reliable estimate of the number of individuals with relative providers who will be affected by the proposal. 755
5. IHSS — Potential to Reduce Costs by Reducing Average Hours of Service. Recommend that the department report to the fiscal committees, prior to budget hearings, on (a) the cost of administrative efforts to reduce average hours of service in 12 specified counties, (b) the potential effects of such efforts on IHSS expenditures and recipients, and (c) the likely timing of these effects. 757
6. ***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. 759
7. Greater Avenues for Independence (GAIN). Proposed GAIN allocation would make no progress toward a uniform statewide methodology. 766
8. Child Abuse Prevention. Proposed elimination of the Child Abuse Prevention Training Act Program is a policy decision. Options to elimination include refocusing the preschool component and scaling back the remainder until an evaluation of program effectiveness can be conducted. 768

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 seven major programs providing these services are (1) Child Welfare Services (CWS), (2) County Services Block Grant (CSBG), (3) In-Home Supportive Services (IHSS), (4)

Social Services Programs—Continued

Greater Avenues for Independence (GAIN), (5) Adoptions, (6) Refugee programs, and (7) Child Abuse Prevention.

Federal funding for social services is provided pursuant to Titles IV-A, IV-B, IV-C, IV-E, IV-F, 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.

MAJOR ISSUES

- ✔ The budget proposes to reduce General Fund support for the Child Welfare Services Program by $24 million.
- ✔ The budget proposes to restrict eligibility for the In-Home Supportive Services Program, for a General Fund savings of $71 million.
- ✔ The budget proposes $164 million *less* for the GAIN program than the amount needed to serve total anticipated caseloads in all counties.
- ✔ The budget proposal to eliminate funding for the Child Abuse Prevention Training Act Program represents a policy issue for the Legislature.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $1.4 billion in expenditures from state funds ($802 million General Fund and $1 million State Children's Trust Fund), federal funds ($590 million), and reimbursements ($3.2 million), to support social services programs in 1990-91. In addition, the budget anticipates that counties will spend $112 million from county funds for these programs. Thus, the budget anticipates that spending for social services programs in 1990-91 will total $1.5 billion. Table 1 displays program expenditures and funding sources for these programs in the past, current, and budget years.

Table 1
Department of Social Services
Social Services Program Expenditures
1988-89 through 1990-91 [a]
(dollars in thousands)

Program	*Actual 1988-89*	*Est. 1989-90*	*Prop. 1990-91* [b]	*Change From 1989-90 Amount*	*Change From 1989-90 Percent*
Child welfare services	$379,188	$462,025	$505,516	$43,491	9.4%
County services block grant	82,224	84,775	86,600	1,825	2.2
In-home supportive services	566,187	628,241	609,101	–19,140	–3.0
Maternity home care	2,154	2,154	2,154	—	—
Access assistance for deaf	3,452	3,442	3,442	—	—
Greater Avenues for Independence [c]	132,147	232,600	221,000	–11,600	–5.0
Adoptions	27,439	31,589	29,728	–1,861	–5.9
Refugee assistance	40,250	27,685	39,769	12,084	43.6
Child abuse prevention	23,224	23,645	11,250	–12,395	–52.4
Totals	$1,256,265	$1,496,156	$1,508,560	$12,404	0.8%
Funding Sources [b]					
General Fund	*$689,471*	*$820,890*	*$802,288*	*–$18,602*	*–2.3%*
Federal Trust Fund	*459,971*	*562,494*	*590,340*	*27,846*	*5.0*
County funds	*102,167*	*109,037*	*111,697*	*2,660*	*2.4*
State Children's Trust Fund	*2,025*	*1,000*	*1,000*	—	—
Reimbursements	*2,631*	*2,735*	*3,235*	*500*	*18.3*

[a] Includes actual 1988-89 and anticipated 1989-90 and 1990-91 county expenditures.
[b] Includes funds for 1990-91 COLAs ($2.6 million from the Federal Trust Fund and $20.5 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 1989-90.
[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 8 in our analysis of the GAIN Program in this item displays all the funds appropriated in the Budget Bill for GAIN. Amount shown for 1988-89 includes funds for the now-defunct federal Work Incentive Demonstration Program.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services programs in 1990-91 represents an increase of $12 million, or 0.8 percent, above estimated current-year expenditures. It also shows the major changes proposed for social services programs. The major changes displayed in the table that are *not* discussed elsewhere in this analysis of the social services programs item are as follows:

- A $43 million ($35 million General Fund) increase due to the anticipated growth in CWS caseloads.
- A $1.4 million net reduction for cost-of-living adjustments (COLAs) that counties granted to CWS workers in 1989-90. The primary reason for the reduction is that the department reduced its estimate of the COLA downward, from 5.2 percent to 4.4 percent. The net reduction consists of (1) an increase of $16 million in General Fund costs that results because, consistent with the state's "retroactive" COLA policy, the state did not share in the 1989-90 costs of these COLAs during 1989-90, but will begin providing its share of these costs in 1990-91, (2) a reduction of $18 million in county costs, also due to the

Social Services Programs—Continued

"retroactive" COLA policy, and (3) a reduction of $79,000 in the federal costs associated with the 1989-90 COLA due to the department's reestimate.

- A $23 million increase in federal and county funds for the cost of the COLAs to be granted to county CWS workers in 1990-91. Under the "retroactive" COLA policy, the state share of these costs will be provided beginning with the 1991-92 budget.

Table 2
Department of Social Services
Social Services Programs
Proposed 1990-91 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1989-90 expenditures (revised)	$820,890	$1,496,156
1990-91 adjustments		
Child welfare services (CWS):		
Caseload increase	$35,069	$43,373
Program growth adjustment	−24,127	−24,127
Increased costs of Substance-Exposed Infant Pilot Program	2,185	2,685
Prior-year COLA	16,314	−1,400
Other adjustments	1,368	−98
Subtotals, CWS	($30,809)	($20,433)
County services block grant caseload increase	$1,976	$1,825
In-home supportive services (IHSS):		
Increased caseload and average hours of service	$53,374	$62,217
Settlement of *Miller v. Woods* court case	−12,159	−12,159
Program reduction	−71,100	−71,100
Increased costs for payrolling contracts and workers' compensation	1,902	1,902
Subtotals, IHSS	(−$27,983)	(−$19,140)
Greater Avenues for Independence Program [a]	−$11,100	−$11,600
Adoptions	−902	−1,861
Refugee programs:		
Increased targeted assistance caseload	—	3,047
Increased employment/social services caseload	—	9,037
Subtotals, refugee programs	(—)	($12,084)
Child abuse prevention:		
Elimination of Child Abuse Prevention Training Program	−$10,050	−$10,050
Other	−1,352	−2,345
Subtotals, child abuse prevention	(−$11,402)	(−$12,395)
Estimated 1990-91 COLA for county CWS staff (4.6 percent) [b]	—	$23,058
1990-91 expenditures (proposed)	$802,288	$1,508,518
Change from 1989-90:		
Amount	−$18,602	$12,404
Percent	−2.3%	0.8%

[a] Excludes General Fund expenditures for GAIN from Control Section 22 and other items of the Budget Bill.

[b] The state share of the COLAs that counties grant to their child welfare services workers during 1990-91 will be included in the base funding for the program beginning with the 1991-92 budget.

The proposed increase of $12 million from all funds consists of (1) a General Fund decrease of $19 million, or 2.3 percent, (2) a federal fund increase of $28 million, or 5 percent, (3) an increase in county funds of $2.7 million, or 2.4 percent, and (4) a $500,000, or 18 percent, increase in reimbursements.

ANALYSIS AND RECOMMENDATIONS

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.

Proposed Expenditures

The budget proposes expenditures of $505 million ($339 million General Fund, $88 million federal funds, and $78 million county funds) for the CWS Program in 1990-91. The total General Fund request represents an increase of $31 million, or 10 percent, above estimated 1989-90 expenditures. As Table 2 shows, the significant changes that account for the increase are as follows:

- A $35 million General Fund ($43 million total funds) increase to fund an estimated 9.9 percent increase in the basic CWS caseload.
- A $24 million General Fund reduction due to a proposed "program growth adjustment," which is designed to limit the growth of General Fund support for the CWS Program in the budget year.
- A $16 million General Fund increase ($1.4 million total funds *reduction*) to fund the state's share of the cost-of-living adjustments (COLAs) that counties granted their workers in 1989-90.
- A $2.2 million General Fund increase ($2.7 million total funds) to fund continued implementation and expansion of a pilot program for substance-exposed infants in foster care.

CWS Costs Have Increased Substantially in Recent Years

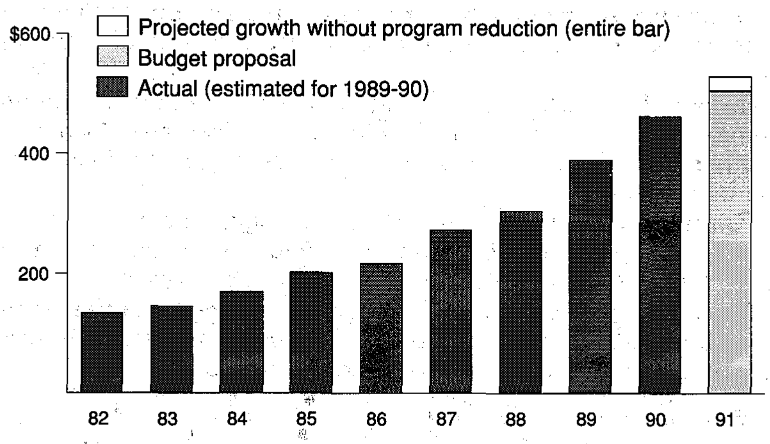
Chart 1 displays CWS Program expenditures, by funding source, for the past 10 years. As the chart shows, expenditures for the program have more than tripled since 1981-82. Specifically, costs have increased from $134 million in 1981-82 to a proposed $505 million in 1990-91. This represents an average *annual* increase of 16 percent.

Social Services Programs—Continued

Chart 1

Child Welfare Services Expenditures

1981-82 through 1990-91 (in millions)



There are three reasons for the rapid growth in CWS costs:

- An increase in the number of county welfare department social workers in the four components of the CWS Program. Between 1981-82 and 1988-89 — the last year for which actual county expenditure data are available — the number of social workers increased from 2,902 to 4,497, an increase of 55 percent. This increase, in turn, is attributable to two factors. First, since 1984-85, the state has budgeted the costs of the CWS Program based on cases-per-worker standards designed to cover the full range of social worker activities mandated by the program. Second, the program has experienced considerable growth in the number of children and families it serves. Although comparable data are not available since 1981-82 for the Emergency Response and Family Maintenance components of the Program, caseload data from the Family Reunification and Permanent Placement components provide an example of the kinds of caseload increases the program has experienced. Between 1981-82 and 1988-89, the number of children in these two programs increased from 28,000 to 65,000, an increase of 132 percent, or 11 percent per year. The department anticipates that increases of this magnitude will continue in the current and budget years.

- An increase in the average cost of CWS social workers. The average cost per worker in the program, including salary, benefits, and administrative overhead costs increased from $42,100 per worker in 1981-82 to an estimated $77,000 in 1989-90, an increase of almost 83 percent.
- Substantial expansion of the purchase of services for CWS clients since the enactment of Ch 978/82 (SB 14, Presley). Beginning in 1982, counties have been required by state law to provide a variety of services that are not usually provided by CWS social workers, such as counseling, transportation, and in-home caretakers, to children and families in the CWS Program. The department estimates that counties will spend $43 million to purchase these types of services for CWS clients in 1990-91.

Proposed Program Growth Adjustment Is a Policy Decision for the Legislature

We recommend that the department report to the Legislature prior to budget hearings on the following issues regarding the proposed $24 million General Fund reduction in the Child Welfare Services Program: (1) how it intends to limit the effect of the reduction to the FM, FR, and PP components of the CWS Program, as the budget assumes; (2) how it expects counties to absorb the reduction; and (3) its estimate of the full fiscal effect of the reduction.

The budget proposes to limit the projected growth in General Fund expenditures for the CWS Program through a "program growth adjustment" of $24 million. As Chart 1 shows, this proposal would bring the total costs of the CWS Program down from $529 million to $505 million, for a savings of 4.5 percent.

This proposal represents the first time since the CWS Program was reformed in 1982 that the administration has proposed to fund the program at less than its full estimated costs. This is a major policy decision which the Legislature will have to evaluate in light of its overall fiscal priorities. However, we have identified three concerns with the proposal, which we discuss below.

1. The proposal does not specify how the department would limit staffing reductions to the FM, FR, and PP components of the CWS Program. The department advises that the proposed reduction corresponds to what it would cost to fund the anticipated amount of caseload growth in the FM, FR, and PP components of the program. Specifically, the proposal eliminates funding for the additional social workers that would be needed to cover the anticipated caseload growth in these three components in 1990-91. However, the budget includes funds that the department advises would be needed for additional social workers to cover the anticipated caseload growth in the ER component. The department indicates that the reduction was limited to the FM, FR, and PP programs because counties cannot control caseloads in the ER

Social Services Programs—Continued

component due to statutory requirements that county ER workers respond to all reports of child abuse and neglect.

However, the department lacks a mechanism to ensure that counties will limit staffing only in the FM, FR, and PP components of the program. Under the department's current allocation and cost control plans for the CWS Program, counties have broad discretion in allocating staff among the four CWS components, consistent with their own programmatic and fiscal priorities. In order to implement the "program growth adjustment" consistent with the administration's proposal (that is, with no reductions in the ER component), the department would have to establish new procedures requiring the counties to staff the ER component at the levels specified by the department. At the time this analysis was prepared, however, the department had not developed a method to ensure that ER staffing levels would be unaffected by the proposed reduction, consistent with the assumption in the budget.

2. The department has not determined whether counties would absorb the reductions by increasing efficiency or by failing to perform some of the tasks required under current law. Since the proposed reduction is relatively small — 4.5 percent — it is *possible* that counties could absorb the reduction through increased efficiency in their administration of the CWS Program. To the extent that counties *cannot* achieve $24 million in efficiencies, however, the reduction would result in social workers being able to perform fewer of the tasks required of them under current state law. If this is the case, it would be better public policy to statutorily eliminate some of the currently required tasks, than to force counties into the position of having to choose which statutory requirements to ignore. We believe that the department needs to consider the method in which counties will achieve the proposed reduction, in order to advise the Legislature about any potential program modifications that would be necessary to implement the reduction.

3. The DSS' Estimate Does Not Address the Full Fiscal Effect of the Proposed "Program Growth Adjustment." At the time the budget was prepared, the department estimated that the program growth adjustment would result in General Fund savings of $24 million. However, the budget does not take into account the following factors:

- The loss of federal funds that would result from reduced General Fund support of the FR and PP programs. Current federal law allows states to claim federal financial participation at the rate of 50 percent for certain FR and PP costs associated with federally eligible children.
- Additional General Fund, federal funds, and county funds savings due to the reduced costs of 1989-90 and 1990-91 COLAs that would result from the lower staffing levels associated with the proposal.

Based on data provided by the department, we estimate that these factors would increase the savings to all funds resulting from the proposed "program growth adjustment" by $11.5 million ($1.1 million General Fund, $9.3 million federal funds, and $1.1 million county funds).

However, the department advises that this estimate would be subject to change based on the department's May revision of the CWS estimate.

Summary. In order to evaluate the merits of the department's proposal, we believe that the Legislature will need more detail from the department addressing these concerns. Therefore, we recommend that the department report to the Legislature, prior to budget hearings, on (1) how it intends to limit the reduction to the FM, FR, and PP components of the CWS Program, as the budget assumes, (2) how it expects counties to absorb the reduction, and (3) its estimate of the full fiscal effect of the reduction.

Proposed Funding Source for Pilot Project Expansion Is Inappropriate

We recommend deletion of funding for the proposed expansion of the DSS' foster care pilot project, because the proposal is inconsistent with federal law. (Reduce reimbursements to Item 5180-151-001 by $500,000 and reimbursements to Item 5180-001-001 by $116,000.)

The budget proposes $4 million ($3.4 million General Fund and $616,000 in reimbursements), including $3.8 million from this item and $206,000 from the DSS' departmental support budget (please see Item 5180-001-001) for the Services for Pregnant and Parenting Women and Their Children pilot projects. These projects are administered jointly by county health, welfare, and alcohol and drug program departments in four counties. The projects are jointly supervised by the Departments of Health Services (DHS) and Alcohol and Drug Programs (DADP), and the DSS. In addition to the expenditures proposed in the DSS portion of the budget, the budget proposes $3.6 million for the DHS and $7.1 million for the DADP to support the pilot in 1990-91.

The pilot projects were authorized by Ch 1385/89 (SB 1173, Royce) and the 1989 Budget Act. They provide (1) medical care, substance abuse treatment, and case management to pregnant and parenting *women* and (2) services to the *foster parents* of substance-exposed infants who have been removed from the custody of their mothers. The DSS' responsibility with respect to the pilots is to supervise the recruitment, training, and support services to foster parents in the four pilot counties.

The $4 million proposed in the DSS' budget consists of the following two components.

- *$3.3 million in General Fund expenditures to provide full-year funding for the existing pilot projects in Los Angeles, Sacramento, Alameda, and San Diego Counties.* This represents an increase of $2.2 million, or 205 percent, above current-year expenditures. This increase is to (1) continue providing services to the foster parents who began participating when the pilot projects were first phased in, starting in November 1989, and (2) begin providing services to new foster parents who are anticipated to join the projects in 1990-91. The department estimates that approximately 82 additional foster parents will begin receiving services through the pilot projects in each month of the budget year.
- *$616,000 in reimbursements from the DADP to expand implementation of the pilot projects to additional counties.* Specifically, the

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proposal is to expand the pilot projects to up to two additional counties and provide planning grants to 10 other counties. At the time this analysis was prepared, the DSS, DADP, and DHS had not fully developed the details of this proposal. We discuss this issue in our analysis of the DADP budget (please see Item 4200-001-001).

The department's proposal to provide full-year funding for the existing pilot project counties is consistent with the Legislature's intent, as expressed in Ch 1385/89 and the 1989 Budget Act, to provide for a three-year pilot project in four counties. We therefore recommend approval of the General Fund portion of the proposal.

However, we are concerned about the department's proposal to use reimbursements from the DADP to expand the DSS' portion of the pilot projects to other counties. The department is proposing to fund the expansion of the foster care portion of the pilots with federal Alcohol, Drug Abuse, and Mental Health Services (ADMS) block grant funds, which are proposed as reimbursements from the DADP to the DSS. According to the DADP, the federal funds proposed for the pilot are the federal women's set-aside portion of the ADMS funds, which, under federal law, must be used for "alcohol and drug programs and services designed for women (especially pregnant women and women with dependent children) and demonstration projects for the provision of residential treatment services to pregnant women." However, the department's proposal would provide training and support services to the *foster parents of children* of drug abusing women, *not* treatment or services to the women themselves. For this reason, we conclude that the department's proposal to use federal drug treatment funds to expand services to foster parents is inconsistent with the federal criteria for the use of these funds. Therefore, we recommend eliminating funding for the proposed expansion of the DSS' portion of the pilot project and reducing $616,000 in reimbursements to the DSS, of which $500,000 is proposed in this item and $116,000 is proposed in the DSS departmental support item (Item 5180-001-001). We make a conforming recommendation in our analysis of the DADP's budget (please see Items 4200-001-890 and 4200-101-890).

It is important to note that the effect of the above recommendation would be to increase the amount of women's set-aside funds budgeted for treatment in the DADP budget, which will in turn increase the number of pregnant and parenting women who can receive drug treatment. We believe that this would help to achieve one of the primary goals of the CWS Program: to maintain abused and neglected children safely in their homes by providing services to end the abuse or neglect. When substance-exposed infants are referred to the CWS Program, their mothers must agree to drug treatment as a condition of keeping or being reunified with their children. According to county social workers, as well as DSS and DADP staff, the current shortage of treatment slots for women in California results in many substance-exposed infants being removed from their mothers and placed into foster care, regardless of their mothers' willingness to enter treatment, because the treatment is not available.

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) Program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance. While this implies that the program *prevents* institutionalization, eligibility for the program is *not* based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he or she lives in his or her own home — or is capable of safely doing so if IHSS is provided — and meets specific criteria related to eligibility for SSI/SSP.

An eligible individual will receive IHSS services if the county determines that (1) these services are not available through alternative resources and (2) the individual is unable to remain safely at home without the services.

The primary services available through the IHSS Program are domestic and related services; 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.

Budget Proposal

The budget proposes expenditures of $609 million for the IHSS Program in 1990-91. This is a decrease of $19 million, or 3 percent, below estimated current-year expenditures. Several significant proposed changes account for this decrease:

- A $62 million increase to fund an estimated 5.7 percent increase in total caseload and a 4.4 percent increase in average hours of service per case.
- A $12 million reduction due to completion of payments to claimants in the *Miller v. Woods* case (the department expects to make all remaining payments in 1989-90).
- A $71 million reduction due to the proposed "program reduction," that would deny IHSS eligibility to individuals who are relatively more capable of living safely at home than others or who, under specified circumstances, have an individual provider who is their own relative.

Table 3 displays IHSS Program expenditures, by funding source, for the past, current, and budget years. The table shows that while expenditures from all funds are expected to decrease by $19 million, or 3 percent, expenditures from the General Fund are projected to decrease by $28

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million, or 9.5 percent. This is because the program reduction will result in savings exclusively to the General Fund. County funds will be unchanged 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
1988-89 through 1990-91
(dollars in thousands)

	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91*	*Change From 1989-90* Amount	*Change From 1989-90* Percent
Funding Sources					
General Fund	$241,098	$293,034	$265,051	−$27,983	−9.5%
Federal funds	305,868	315,986	324,829	8,843	2.8
County funds	19,221	19,221	19,221	—	—
Totals	$566,187	$628,241	$609,101	−$19,140	−3.0%

The department expects to achieve this expenditure reduction by reducing the IHSS caseload. Table 4 displays the average monthly IHSS caseload by service delivery type for the past, current, and budget years. The budget anticipates a net caseload reduction of 33,900, or 24 percent, between 1989-90 and 1990-91 largely due to the proposed program reduction.

Table 4
Department of Social Services
In-Home Supportive Services
Average Monthly Caseload
by Provider Type
1988-89 through 1990-91

	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91* [a]
Service provider types			
Individual providers	118,900	126,400	96,600
Contract agencies	14,300	15,300	11,600
County welfare staff	1,300	1,400	1,000
Totals	134,500	143,100	109,200

[a] Reflects the department's proposed program reduction.

Estimates Will Be Updated in May

We withhold recommendation on $590 million ($265 million General Fund and $325 million federal funds) for support of the IHSS Program, pending receipt of the May revision. We further recommend that the department address the fiscal effects of the following issues in its May revision of the IHSS budget estimate: (1) the potential overestimation of average hours of service, (2) the recent changes in workers' compensation law, (3) the potential budget-year payments related to the Miller v. Woods decision, and (4) the statutory adjustment of IHSS maximum service awards.

The proposed expenditures for IHSS are based on program trends through June 1989. The department will present revised estimates in May, which will be based on program costs through February 1990. In addition to updating its estimate based on additional data, we believe that the department should also revise its estimate to address several technical flaws, which we discuss below. We therefore withhold recommendation on $590 million proposed for support of the IHSS Program, pending receipt of the department's revised estimates in May.

1. Hours of Service May be Overbudgeted. Table 5 displays the average hours of service per case by service delivery type for the past, current, and budget years. As shown in the table, the department estimates that hours of service per case will grow by 4.4 percent between 1989-90 and 1990-91. This estimate is based on data available through June 1989. Actual hours of service data for the period July 1989 through December 1989, however, indicate a much slower rate of growth. If a lower-than-estimated rate of growth continues through the last half of 1989-90 and into 1990-91, IHSS IP hours per case could be as much as 6.6 percent lower than the hours per case estimated in the budget. A decrease of this magnitude in hours per case would result in decreased General Fund costs of $40 million in 1990-91.

Table 5
Department of Social Services
In-Home Supportive Services
Average Monthly Hours of Service Per Recipient by Provider Type
1988-89 through 1990-91

	Actual 1988-89	*Est. 1989-90*	*Prop. 1990-91*	*Percent Change From 1989-90*
Service provider types				
Individual providers	75.53	79.17	82.70	4.5%
Contract agencies	26.84	26.84	26.84	—
County welfare staff	9.92	10.84	10.84	—
Annual average	69.71	72.89	76.08	4.4%

2. Miller v. Woods Payments May Be Underbudgeted. As a result of the *Miller v. Woods* court case, the department is required to retroactively pay all spouses and housemates who provided protective supervision to IHSS recipients during specified periods. The department assumes that it will make *all* remaining *Miller v. Woods* payments in the current year. The department, however, has not yet reached an agreement with the plaintiffs' attorneys concerning the mailing and processing of notices to 113,000 additional potential claimants. Consequently, a substantial portion of the estimated $8.6 million in claims resulting from this mailing could be paid in the budget year, instead of the current year.

3. Workers' Compensation Costs May Be Understated. The budget proposes $8.4 million from the General Fund to pay workers' compensation in 1990-91 to individuals who have become disabled while working as IHSS providers. The department advises that this estimate does not take

Social Services Programs—Continued

into account recent changes in workers' compensation law enacted by Ch 893/89 (SB 47, Lockyer). The statute could increase the department's costs of processing and paying claims, because it increases the minimum weekly payment to beneficiaries and decreases the amount of time permitted for processing and deciding a claim.

4. Increase in Statutory Maximum Grant Not Funded. Existing law limits the *number of hours* of service that counties may award to recipients. Effective July 1, 1990, however, the law will limit IHSS service awards to a maximum *dollar amount* of services, instead. This amount will be adjusted annually for the percentage increase in the California Necessities Index, with the first adjustment scheduled to take place on July 1, 1990 (simultaneous with the change in the basis of the limit). The effect of this change from an hours of service-based limit to a dollar amount-based limit is that clients at or near the maximum will receive more hours of service beginning on July 1, 1990. The department estimates that this will result in increased General Fund costs of $2.8 million in 1990-91. The budget, however, does *not* propose the funds to cover this cost.

Perspectives on IHSS Costs

Chart 2 displays expenditures for the IHSS Program for a 10-year period, from 1981-82 through 1990-91. As the chart shows, expenditures grew at a relatively slow rate (2.9 percent) between 1981-82 and 1983-84. This was the result of the implementation of Ch 69/81 (SB 633, Garamendi). This statute reduced services available under the program, permitted counties to make program cuts to stay within their IHSS allocations, and required counties to provide a matching share of any increases in program costs.

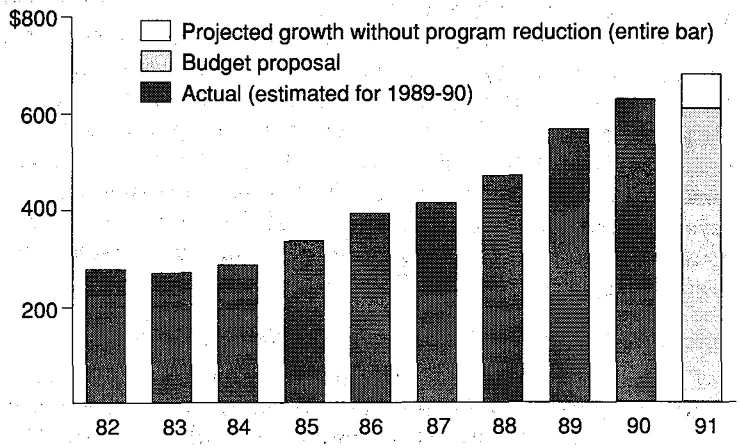
After 1983-84, however, IHSS expenditures began to grow more rapidly, as the chart indicates. The increased growth — an average *annual* increase of 14 percent — is comparable to the increases that occurred for several years prior to the enactment of Chapter 69. The resumption in growth occurred during the same period (1983-84 through 1988-89) in which the provisions of Chapter 69 were largely eliminated through a series of court challenges and legislative changes, including the enactment of Ch 1438/87 (SB 412, Bill Greene), which froze the county share of costs at the 1987-88 level.

As discussed above, the department estimates that expenditures will *decrease* by 3 percent between 1989-90 and 1990-91 under the proposed program reduction. Without the reduction, the department estimates that IHSS expenditures would increase by 8.3 percent between 1989-90 and 1990-91.

Chart 2

In-Home Supportive Services Expenditures All Funds

1981-82 through 1990-91 (in millions)



Our analysis indicates that there are three factors that account for the growth in IHSS expenditures: (1) the number of service recipients (caseload), (2) the number of hours of service provided to each recipient (average hours per case), and (3) the hourly cost of service providers. While policymakers can influence all three elements, caseloads and average hours of service are more susceptible to cost containment policies than are the costs of service providers. This is because the cost of service providers is determined primarily by such factors as the minimum wage, collective bargaining agreements, and market conditions.

Caseload Continues to Grow. The IHSS average monthly caseload increased from 93,583 in 1981-82 to 134,500 in 1988-89, which is an average annual rate of 5.3 percent, with very little variation from year to year in the rate of growth. The department estimates that, without the proposed program reduction, caseload would increase to 151,200 in 1990-91, an increase of 5.8 percent over the estimated 1989-90 level. A number of factors are responsible for this steady increase in caseload, including (1) increases in the eligible population, (2) increased frailty of the eligible population, (3) advances in medical technology that allow more seriously disabled people to live at home, and (4) increases in referrals from other programs.

Social Services Programs—Continued

Average Hours of Service Continue to Grow. Average monthly hours of service grew from 60.1 hours in 1981-82 to 69.7 hours in 1988-89, which is an average annual rate of 2 percent. The department estimates that hours per case will increase to 76.1 hours per case in 1990-91, which is 4.4 percent higher than the estimated 1989-90 level. There are three factors that account for this trend: (1) the increased frailty of the IHSS-eligible population, (2) advances in medical technology that allow more severely impaired individuals to live at home, and (3) administrative factors that affect the willingness of county social workers to grant more hours of service to their clients. On the latter point, it is noteworthy that the Legislature has enacted several program changes designed to control increases in the average hours of service. These changes include a uniform means of assessing recipient needs, a statewide management information system that tracks the number of IHSS hours awarded by individual social workers, and the implementation of time-for-task standards for certain tasks performed by IHSS providers.

Proposed Program Reduction Is a Policy Issue for the Legislature

Background. According to the department, the proposed program reduction would eliminate the IHSS eligibility of 42,000 otherwise eligible recipients in 1990-91. Specifically, the proposal would eliminate IHSS eligibility for otherwise eligible individuals who fall into either of the following two categories:

- Individuals who have a "functional index score" of greater than two. According to the department, this portion of the reduction would disqualify 39,000 otherwise eligible individuals in 1990-91 for a General Fund savings of $60 million.
- Individuals whose provider is a relative *and* whose functional index score is 2.5 or less. According to the department, this portion of the reduction would disqualify an additional 3,300 otherwise eligible recipients for a General Fund savings of $11 million.

Functional Index Score. The functional index score, which the department proposes to use as the criterion for determining IHSS eligibility, is derived from the Uniformity Assessment Tool, used by all county social workers since 1988 to determine the number of IHSS hours needed by a client. The department developed this assessment tool to increase consistency between counties in the number of hours of service awarded to recipients. The tool measures an individual's relative ability to care for him or herself at home, using a scale of 1 through 6. The actual score that each client receives is a weighted average of 11 separate scores, each of which indicates the client's ability to perform a specific basic household maintenance or personal care function. Table 6 displays these functions and shows the range of scores that a social worker may assign to each.

Table 6
Department of Social Services
In-Home Supportive Services
Functional Index Score
Functional Areas and Possible Scores

Functional Areas	*Possible Scores*[a]
Housework	1 = No help needed
Laundry	2 = Needs verbal assistance only (reminding, guidance)
Shopping and errands	3 = Needs some direct physical assistance
Meal preparation and cleanup	4 = Needs substantial physical assistance
Mobility inside	5 = Cannot perform at all without human help
Bathing and grooming	6 = Needs paramedical services
Dressing	
Bowel and bladder care	
Transfer (moving in and out of bed and chairs)	
Eating	
Respiration	

[a] Full range of scores not applicable to every function (for example, shopping and errands gets 1, 3, or 5; respiration gets 1, 5, or 6).

The department's proposed program reduction is a policy and fiscal proposal that the Legislature will have to consider in light of its overall fiscal priorities. Our review of the proposal, however, suggests that the department has not provided the Legislature with sufficient information to enable it to fully assess the policy and fiscal effects of the proposed reduction. We discuss our concerns in detail below.

Analyst's Concerns About the Proposed Program Reduction

We recommend that the department, prior to budget hearings, provide the following information to the fiscal committees: (1) proposed legislation to implement the IHSS proposal, (2) a summary of the function-by-function scores of individuals with functional index scores of 2.5 or less, (3) the effect on estimated savings of potential additional Supplemental Security Income/State Supplementary Program (SSI/SSP) costs, (4) the effect of potential implementation delays on estimated savings, and (5) a more reliable estimate of the number of individuals with relative providers who will be affected by the proposal.

Department's Proposal Does Not Ensure Client Safety. The goal of the IHSS Program is to provide the services necessary for individuals to remain safely at home. The department's proposal is intended to control the growing costs of the IHSS Program by eliminating eligibility for those who, on average, need services the least. We are concerned, however, that the specific mechanism proposed for identifying clients with less need for services is flawed and that the proposed reduction may therefore result in a substantial safety risk in some cases.

Specifically, the proposal to base eligibility on the functional index score may result in the elimination of services to some individuals who cannot safely remain at home without service. This is because the

Social Services Programs—Continued

functional index score is an *average* score and as such may mask significant variations in an individual's ability to perform specific functions. For example, in the department's training video for county social workers, a specific IHSS recipient received a rating of 1.67 on the functional score index. Under the proposed program reduction, this individual would be disqualified from the program. In this case, however, the individual's overall score of 1.67 consists of ratings of "4" (needs substantial help) in housework, laundry, and bathing and grooming, "5" (entirely dependent on human assistance) in shopping and errands, and "1" (needs no help) in all other functions.

Moreover, the functional index score does *not* take into account an individual's mental capacity for self-care at home. A physically able person may exhibit poor memory, judgement, or orientation to the point of putting himself or herself at risk. This might be the case, for example, when a recipient has ratings of two (needs reminding and/or encouragement) or less for each individual physical function. Despite having fairly strong *physical* self-care capabilities, such a recipient could be in danger if left without any supervision.

The department keeps data that indicates the function-by-function scores (for physical *and* mental functions measured by the Uniformity Assessment Tool) of individuals with functional index scores in the range affected by the proposed program reduction. For the reasons described above, we believe that a review of these data is essential if the Legislature is to meaningfully assess the effect of the department's proposal on client safety. The department advises that it could make these data available prior to budget hearings.

Department's Savings Estimate is Flawed

We have identified the following problems with the department's estimate of the savings that would result from the proposed program reduction:

1. IHSS Administration Overbudgeted by $16 Million. Although the budget proposes to *reduce* the IHSS caseload by 42,000 in 1990-91, it does *not* identify any county administrative savings resulting from this caseload reduction. The amount proposed by the budget for county administration of IHSS is $16 million more than what would be justified given (1) the caseload reduction proposed in the budget and (2) the budgetary practice followed by the Legislature in this area in prior years.

2. Cost of Alternatives to IHSS May Reduce Savings. It is unknown how the individuals affected by the department's proposal would adjust to the loss of service. Some may have friends or relatives who would provide help. Others may simply choose to do without the services. Some unknown number, however, would place themselves, or be placed in a residential care facility for the elderly or an adult residential facility. The state would pay a cost of $79 per resident per month for these placements, because the SSI/SSP monthly allowance for a board and care resident is higher than the allowance for a person living at home (nearly all IHSS clients are also SSI/SSP recipients). These additional SSI/SSP costs are *not* taken into account in the department's savings estimates.

3. Implementation Delays Could Reduce Savings. The department's estimate of savings is based on an instantaneous caseload reduction, effective July 1, 1990. Given the magnitude of the proposed policy change and the number of people affected, however, the potential for delays in implementation appears great. Court challenges and fair hearings for individuals who currently receive IHSS awards, but would be denied eligibility under the department's proposal, could delay the caseload reduction proposed by the department. The department also advises that counties providing IHSS services through contracts with home service agencies could suspend and renegotiate their contracts based on the lower caseloads that would result from the proposal. This could also delay full implementation of the caseload reduction. Each month's delay in implementation would reduce the projected General Fund savings by up to $5.9 million.

4. Uncertainty About Caseload Reduction Makes Savings Uncertain. There is considerable uncertainty in the department's estimate of the number of individuals that would be affected by the second component of its proposal (elimination of eligibility for recipients whose providers are their relatives and whose functional index score is 2.5 or less). First, the department assumes that there are 6,500 recipients in this category. The department advises, however, that it does not know the family relationship of recipient to provider in an additional 15,800 cases with functional index scores of 2.1 to 2.5. Second, the department assumes that half of the 6,500 would find a nonrelative provider and therefore remain eligible for services. At the time this analysis was prepared, the department could not provide any data to justify its assumption regarding the number of recipients in this category who might find a nonrelative provider.

Summary. In our view, the department has not provided the Legislature with sufficient information to make a meaningful assessment of the proposed IHSS program reduction. Accordingly, we recommend that the department, prior to budget hearings, provide the following information to the fiscal committees: (1) the details of its proposed legislation to implement the proposal, (2) a summary of the function-by-function scores of individuals with functional index scores of 2.5 or less, (3) the effect on estimated savings of potential additional SSI/SSP costs, (4) the effect of potential implementation delays on estimated savings, and (5) a more reliable estimate of the number of individuals with relative providers who will be affected by the proposal.

Department Could Reduce Growth in Average Hours of Service

We recommend that the department report to the fiscal committees, prior to budget hearings, on (1) the cost of administration efforts to reduce average hours of service in 12 specified counties, (2) the potential effects of such efforts on IHSS expenditures and recipients, and (3) the likely timing of these effects.

As we discuss in our analysis of IHSS expenditure trends over the past 10 years, the most directly controllable IHSS cost factors are caseload and

Social Services Programs—Continued

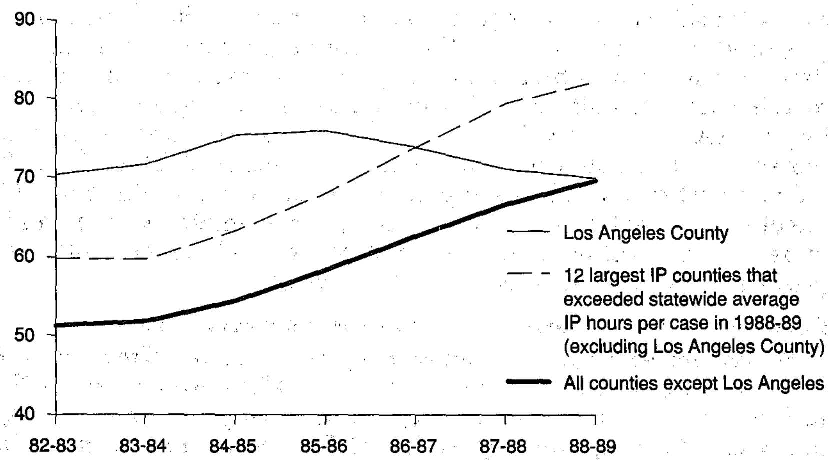
hours of service per case. The department's proposed program reduction attempts to control IHSS expenditures by reducing caseload. As an alternative, we believe that the department could, in the long run, reduce the growth of IHSS expenditures through greater efforts to control increases in the number of hours of service that counties award to recipients. The department, in cooperation with Los Angeles County, has already demonstrated the cost containment potential of such efforts.

Average Hours of Service Decreased in Los Angeles County, While Increasing in Other Counties. Chart 3 shows that Los Angeles County achieved an average annual *decrease* of 2 percent in hours of service per case between 1985-86 and 1988-89. Over the same period, Chart 3 shows that the average hours of service for the rest of the state *increased* at an average annual rate of 6 percent. The decrease in hours of service for Los Angeles County is a major reason for the relatively modest rate of growth in the statewide average hours of service during the 1980s. Los Angeles County achieved this reduction in hours of service by using the department's management information system and the Uniformity Assessment Tool improve the consistency of IHSS awards made by social workers in different district offices. In particular, these efforts reduced the number of cases in which social workers awarded excessive hours of service to IHSS recipients.

Chart 3

Trends in IHSS Hours per Case

1982-83 through 1988-89



Reductions in Hours of Service May Be Possible in Other Counties. We believe that similar administrative efforts in other counties could achieve similar results. To demonstrate the potential effects of such efforts, we identified the 12 counties, excluding Los Angeles County, with the largest individual provider caseloads in which average hours hours of service exceeded the statewide average in 1988-89. These counties were Alameda, Contra Costa, Humboldt, Imperial, Marin, Monterey, Orange, Sacramento, San Bernardino, San Diego, and San Mateo. Chart 3 shows that the average hours of service for these counties grew at an annual rate of 6.5 percent between 1985-86 and 1988-89, while hours of service for Los Angeles County were decreasing. On average, the IHSS recipients in these 12 counties have slightly lower functional index scores than those in Los Angeles County, possibly indicating that these counties have slightly less seriously disabled caseloads than Los Angeles County. We estimate that a 2 percent reduction in average hours of service in these counties during the budget year — the same reduction Los Angeles County achieved — would result in a General Fund savings of about $14 million.

We recognize that such efforts could take longer than a year to bear fruit, and that they would result in significantly lower budget-year savings than the department's proposal. Nevertheless, because of the success of Los Angeles County efforts to control hours of service awards, we recommend that the department report to the fiscal committees, prior to budget hearings, on (1) the cost of similar efforts in the 12 counties identified above, (2) the potential effects of such efforts on IHSS expenditures and recipients, and (3) the likely timing of these effects.

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 post-natal care (limited to two weeks after delivery) to women in the program. The department reimburses the homes at a monthly rate that ranges from $1,179 to $1,368 per client. The department estimates that the homes will provide services to 540 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 1990-91 (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 1990-91. Table 7 shows the amount of funds budgeted and spent by maternity homes in the past four years. As the table indicates, 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 $255,055 to the General Fund in the current year.

Social Services Programs—Continued

Table 7
Department of Social Services
Appropriations and Expenditures in the
Licensed Maternity Home Care Program
1986-87 through 1989-90
(in thousands)

	1986-87	*1987-88*	*1988-89*	*Est. 1989-90*
Appropriation	$2,254	$2,254	$2,154	$2,154
Expenditures	2,048	1,962	1,899	1,899
Reversion to the General Fund	$206	$292	$255	$255

The department advises that the reason maternity homes do not spend all of the funds appropriated for the program is because an increasing number of the women they serve are eligible for 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 $2,589 per month in the current year — than they receive through the LMHC Program. In order to receive the 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 programs, we believe that it is unlikely that the reimbursement preferences of maternity home providers will change substantially from the current year 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 $221 million ($91 million General Fund, $128 million federal funds, and $2.7 million reimbursements) for the GAIN Program in 1990-91. These amounts do not include funds proposed for support of the GAIN Program in Items 6110-156-001, basic education, and 6110-166-001, vocational education, and Section 22 of the 1990 Budget Bill.

Overview of the GAIN Budget Request

Table 8 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 8
Department of Social Services
GAIN Program
Proposed Expenditures and Funding Sources [a]
1989-90 and 1990-91
(dollars in thousands)

	Est. 1989-90	Prop. 1990-91	Change From 1989-90 Amount	Change From 1989-90 Percent
EXPENDITURES BY COMPONENT				
Registration, orientation, and appraisal	$43,877	$19,823	−$24,053	−54.8%
Education	107,466	120,792	13,326	12.4
Job search	32,772	23,172	−9,600	−29.3
Assessment	8,006	7,455	−551	−6.9
Training	157,016	157,884	868	0.6
Long-term preemployment preparation (PREP)	20,733	34,073	13,341	64.3
90-day child care	1,709	—	−1,709	−100.0
Child care licensing	44	41	−3	−6.8
Evaluation	643	153	−490	−76.1
County administration and Employment Development Department support	933	957	24	2.6
Totals	$373,198 [b]	$364,350	−$8,848	−2.4%
FUNDING SOURCES				
Funds appropriated for GAIN				
General Fund				
Department of Social Services [c]	$101,449	$90,665	−$10,784	−10.6%
State Department of Education	10,200	7,200	−3,000	−29.4
Adult Education	(3,000)	(—)	(−3,000)	(−100.0)
Match for Job Training Partnership Act (JTPA) education funds	(7,200)	(7,200)	(—)	(—)
Department of Finance	28,300	22,000	−6,300	−22.3
Subtotals, General Fund	($139,949)	($119,865)	(−$20,084)	(−14.4%)
Federal Funds	$128,248	$127,760	−$488	−0.4%
Reimbursements	2,735	2,735	—	—
Totals, funds appropriated for GAIN	$270,932	$250,360	(−$20,572)	(−7.6%)
Funds redirected for GAIN				
General Fund				
Average daily attendance-based funds	$33,300	$34,400	$1,100	3.3%
Adult education	(13,000)	(13,000)	(—)	(—)
Regional occupation centers and programs	(7,000)	(7,000)	(—)	(—)
Community colleges	(13,300)	(14,400)	(1,100)	(8.3)
Cooperative agencies resources for education	700	700	—	—
Job agent/service center	1,000	1,000	—	—
Subtotals, General Fund	($35,000)	($36,100)	($1,100)	(3.1%)

Social Services Programs—Continued

Table 8—Continued
Department of Social Services
GAIN Program
Proposed Expenditures and Funding Sources [a]
1989-90 and 1990-91
(dollars in thousands)

	Est. 1989-90	Prop. 1990-91	Change From 1989-90 Amount	Change From 1989-90 Percent
Employment Training Fund	$600	$600	—	—
Federal funds				
JTPA	$40,700	$40,700	—	—
Training	(30,500)	(30,500)	(—)	(—)
Education	(10,200)	(10,200)	(—)	(—)
Job service	3,700	3,400	–$300	–8.1%
Community services block grant	1,600	1,600	—	—
Vocational education block grant	7,300	7,100	–200	–2.7
Refugee social services	5,000	16,000	11,000	220.0
PELL grants	8,500	8,500	—	—
Subtotals, federal funds	($66,800)	($77,300)	($10,500)	(15.7%)
Total funds redirected for GAIN	$102,400	$114,000	$11,600	11.3%
Grand totals, all funding sources [d]	$373,332	$364,360	–$8,972	–2.4%

[a] Source: Department of Social Services.
[b] Department's estimate has been reduced by $307,330 to eliminate a technical error.
[c] Includes funds appropriated for GAIN in Items 5180-141 and 5180-161.
[d] Figures do not add to expenditure totals due to rounding.

Expenditures. Table 8 shows that the budget proposes $364 million in expenditures for the GAIN Program in 1990-91, which represents a decrease of $8.8 million, or 2.4 percent, below estimated current-year expenditures for the program. The department indicates that this program level is $164 million *below* the amount needed to fully fund the GAIN Program in 1990-91. We discuss the implications of this funding "shortfall" below. As Table 8 shows, the largest decrease is for the registration, orientation, and appraisal component (-$24 million). This component is the starting point for an individual's participation in the GAIN Program. Thus, the reductions in this component reflect the budget's proposal to reduce the number of persons participating in GAIN in 1990-91, by limiting the number of persons who enter the program.

Funds Appropriated for GAIN. Table 8 shows that $250 million, or 69 percent, of the $364 million proposed for the program represents funds that would be specifically appropriated for the GAIN Program. The proposed $120 million General Fund appropriation accounts for almost half (48 percent) of this total. The proposed General Fund appropriation is $20 million, or 14 percent less than estimated current-year expenditures.

Redirected Funds. As shown in the table, the budget assumes that $114 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 $34 million, at no charge to the GAIN Program, through average daily attendance-based funds appropriated for adult education, community colleges, and regional occupational centers and programs. The budget also assumes that $41 million in federal Job Training Partnership Act (JTPA) funds will be spent on GAIN participants. The $114 million that is expected to be redirected for GAIN participants is $12 million, or 11 percent, more than the amount the department estimates will be spent from these sources in the current year. Most of this increase is due to an $11 million shift in federal refugee social service funds from the Refugee Demonstration Program (RDP) to the GAIN Program. This shift occurs because the RDP, which provides GAIN-like services to refugees receiving AFDC grants, will sunset on September 30, 1990. The elimination of the RDP means that refugees who currently receive employment services through the RDP will be served through the GAIN Program.

While Table 8 breaks out GAIN expenditures by program component, Table 9 shows how the $364 million proposed for GAIN would be distributed among expenditure categories. Table 9 shows that over one-half of the funds (58 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 $75 million, or 21 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, $78 million, or 21 percent of total costs, is for *administrative costs*, which consist primarily of county costs to administer the GAIN Program.

Table 9
Department of Social Services
GAIN Expenditures by Category
1990-91
(dollars in millions)

	Proposed 1990-91	*Percent of Total*
Program costs		
Orientation, testing, and appraisal	$18.9	5.2%
Education	76.0	20.9
Job club/search	11.2	3.1
Assessment	4.5	1.2
Training and vocational education	100.8	27.7
Long-term PREP	—[a]	—[a]
Subtotals, program costs	($211.5)	(58.0%)
Supportive services		
Child care	$34.3	9.4%
Transportation	37.2	10.2
Ancillary expenses[b]	3.4	0.9
Subtotals, supportive services	($74.9)	(20.5%)
Administration	$78.0	21.4%
Totals	$364.4	100.0%

[a] Supportive services and administrative costs for long-term PREP total $34 million. There are no "program" costs for this component, although participants continue to receive AFDC grant payments while in their PREP assignments.

[b] Includes workers' compensation costs for participants in certain training components.

Social Services Programs—Continued

GAIN Funding Level Is a Policy Decision for the Legislature

The department estimates that the $364 million proposed for the GAIN Program in 1990-91 is $164 million, or 31 percent, *less* than the amount that would be needed ($529 million) to pay for services for the entire anticipated caseloads in all counties. Table 10 compares the budget proposal with estimated GAIN expenditures, funding sources, and yearly participants at full funding. As the table shows, the level of funding proposed would reduce the number of yearly participants by almost 50 percent relative to the full funding estimate.

The amount that will actually be provided for GAIN in 1990-91 is a policy decision for the Legislature. This is because the GAIN statute provides a mechanism for counties to contain costs within the amount appropriated in the annual Budget Act. In deciding how much to budget for the GAIN Program, the Legislature will have to consider its overall policy and fiscal priorities. In budgeting for the GAIN Program, however, the Legislature should also consider the effect of any shortfall below the full funding level on (1) the funding requirements placed on the various funding sources involved, (2) AFDC grant and administrative savings, and (3) the individuals that will be served by the program.

Table 10
Department of Social Services
GAIN Program in 1990-91
Proposed Expenditures and Funding Sources
Full Funding Versus Budget Proposal
(dollars in millions)

	1990-91 Full Funding	*1990-91 Proposed*	*Shortfall*	
			Amount	*Percent*
Expenditures By Components				
Registration, orientation, and appraisal	$54	$20	−$34	−63.1%
Education	180	121	−59	−32.9
Job search	42	23	−19	−45.4
Assessment	10	7	−3	−29.0
Training	206	158	−48	−23.3
Long-term PREP	35	34	−1	−2.5
All Other	1	1	—	0.8
Totals	$529	$364	−$164	−31.1%
Funding Sources				
Funds appropriated for GAIN:				
General Fund	$242	$120	−$122	−50.4%
Federal funds	170	128	−43	−25.0
Reimbursements	3	3	—	—
Totals, funds appropriated for GAIN	$415	$250	−$164	−39.6%
Funds redirected for GAIN:				
General Fund	$36	$36	—	—
Employment Training Fund	1	1	—	—
Federal funds	77	77	—	—
Total funds redirected for GAIN	$114	$114	—	—
Grand totals, all funding sources	$529	$364	−$164	−31.1%
Yearly Participants	614,867	313,838	−301,029	−49.0%

Source: Department of Social Services.

Effect of Shortfall by Funding Sources. Table 10 displays the effect of the budget proposal for the GAIN Program in 1990-91 by funding source. The table shows that:

- The proposed General Fund amount is $122 million less than the amount needed to fully fund anticipated caseloads.
- The proposed federal funds amount is $43 million less than is needed to fully fund anticipated caseloads.
- The total amount of redirected funds remains the same at full funding.

In moving from full funding to the amount proposed in the budget, the reduction in the General Fund is larger than the reduction in federal funds due to the cap on the amount of Title IV-F (Job Opportunities and Basic Skills [JOBS] Training) funds that the federal government provides to states. Specifically, at the full-funding level, roughly $80 million of the total expenditures for GAIN would be unmatched by federal funds. Thus, in reducing the GAIN budget below full funding, the General Fund reductions are greater than the federal fund reductions.

With respect to redirected funds, the budget assumes that significantly fewer participants — 314,000 annual participants in 1990-91 versus 498,000 in the current year — will use $114 million, or $12 million *more* in services from redirected resources than the $102 million estimated for the current year. On its face, this does not appear to be a realistic assumption. However, the *Supplemental Report of the 1989 Budget Act* requires the department to report to the Legislature by March 1, 1990 on the actual use of these redirected resources by GAIN participants. After we have reviewed the report, we will be better able to evaluate the department's estimate in this regard.

Effect of Shortfall on AFDC Savings. The department estimates that the $364 million in proposed GAIN expenditures will result in AFDC grant and administrative savings of $114 million ($48 million General Fund, $57 million federal funds, and $9 million county funds). Thus, the *net* General Fund cost to the state for the GAIN budget proposal is $72 million — the $120 million proposed General Fund appropriation for the GAIN Program less the $48 million in estimated General Fund savings to the AFDC Program. At full funding, the department estimates that AFDC savings would total $172 million ($73 million General Fund, $86 million federal funds, and $13 million county funds). At this level, the net General Fund cost to the state for the GAIN Program would be $169 million — $242 million in General Fund appropriations offset by General Fund savings of $73 million.

Effect of Shortfall on Individuals to be Served by GAIN Depends on Allocation Methodology. 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 brings costs within the

Social Services Programs—Continued

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 the serve the entire anticipated statewide GAIN caseload in 1990-91 *except* AFDC-U and AFDC-FG applicants.

The actual GAIN caseload that will be served in 1990-91, however, 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 AFDC applicants, while other counties may serve more or less of their *potential* caseload.

Allocation Plan Makes No Progress Toward a Uniform Statewide Allocation

The department's allocation plan for GAIN funds in 1990-91 makes no progress toward a uniform statewide methodology, as the Legislature intends.

The department advises that it plans to allocate GAIN funds in 1990-91 under a plan that would provide most counties with 8.25 percent *less* than they received in the current year. Very small counties would not be subject to this reduction. Our analysis indicates that the department's proposed allocation methodology is *not* consistent with legislative intent in this area, as stated in the *Supplemental Report of the 1989 Budget Act.* Specifically, the supplemental report states the Legislature's "intent to move toward a uniform, statewide method of allocating funds to the counties for operation of the GAIN Program."

The Legislature expressed its intent to move toward a uniform allocation plan because of its concerns that the allocation plans used in 1988-89 and in 1989-90 would (1) result in different requirements for program participation in different counties and (2) set a funding precedent that would be difficult to reverse in future years.

Although the allocation plan used in 1989-90 made some movement toward uniformity, it continued to some extent the different treatment of counties based on when they implemented GAIN, because the amount each county received in 1988-89 was a primary consideration in determining its 1989-90 allocation. Thus, the department's proposal to allocate 1990-91 funds by simply reducing 1989-90 allocations by 8.25 percent in most counties makes *no progress* toward a uniform allocation methodology. For this reason, we believe that the department's proposal is not consistent with legislative intent.

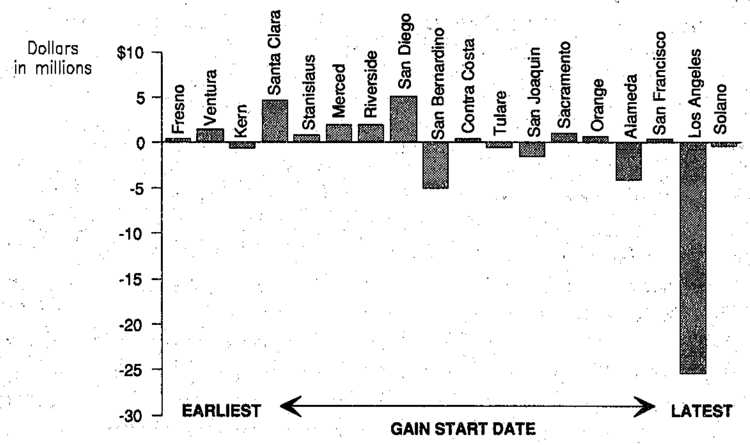
The Effect of Nonuniformity. To see the combined effects of prior-year's allocations and the proposed allocation plan for 1990-91, it is necessary to compare county allocations against those allocations that would result under a plan that is not dependent on when a county started its GAIN Program. One approach the Legislature could use to uniformly allocate GAIN funds to counties would be based on each county's share of

AFDC caseload. County-specific AFDC caseloads are a good *starting* point for developing a statewide uniform allocation method because all GAIN participants are also either AFDC applicants or recipients. Chart 4 displays the effects of the department's allocation plan as compared to an approximation of a uniform allocation methodology — one that is simply based on AFDC caseloads. The chart shows the 18 largest counties in order of their GAIN starting dates, and identifies the differences in funding levels between the department's proposed allocation methodology and an allocation based *strictly* on each county's share of the statewide AFDC caseload.

Chart 4

GAIN Program -- 18 Largest Counties
Difference between proposed allocation and
allocation based on share of statewide AFDC caseload

Based on actual AFDC caseloads in 1988-89



As the chart indicates, the earliest starting GAIN counties generally receive a higher proportion of the available resources relative to the amount they would receive if allocations were made entirely based on AFDC caseloads. For example, San Diego and Santa Clara Counties would receive significantly more under the department's proposed plan — $5.1 million and $4.6 million, respectively. The later starting counties generally would receive a lower proportion of the available resources. For example, Los Angeles and Alameda would receive significantly less under the proposed plan — $25.4 million and $4.1 million, respectively.

Social Services Programs—Continued

The chart also points out an important consideration for the Legislature when considering a uniform allocation plan. That is, given a fixed amount of funds for GAIN, a uniform allocation will unavoidably require increases in some counties' allocations *at the expense* of other counties' allocations.

What Should the Legislature Expect from a Uniform Allocation Plan? Obviously, a uniform allocation plan will have to take into account several variables other than each county's share of the statewide AFDC caseload. Additional considerations would be unit cost differences between counties, differences in caseload makeup, differences in existing community resources, and anticipated phase-in schedules. For example, higher unit costs in a given county would result in that county receiving a larger share of GAIN resources relative to a county with the same share of statewide caseload, but with lower unit costs. Similarly, a county that had fully phased in its caseload would need a larger allocation than a county with the same size caseload, but that was early in its phase-in schedule. The allocation plan also should prevent, to the extent possible, radical reductions in the early starting counties because of the potential for dislocation of GAIN clients and county staff. However, some degree of dislocation may be unavoidable in order to make progress toward the Legislature's goal of a uniform allocation.

In our view, the uniform allocation that the Legislature ultimately adopts will allocate GAIN funds *so that each county is able to serve the same share of its total potential caseload (that is, the cases it would serve if fully funded)*. At the funding level proposed in the 1990-91 budget, this would mean that every county would be provided sufficient funds to serve its total anticipated caseload, *except* AFDC-FG and U applicants.

Legislature Will Receive Department's Statewide Uniform Allocation Plan in March. The *Supplemental Report of the 1989 Budget Act* requires the DSS to report to the Legislature by March 1, 1990 on (1) its plans and timetable for implementing a uniform statewide allocation methodology and (2) the adequacy of funds provided to each county for the GAIN Program in 1989-90 under the current allocation methodology. We believe the department's report will assist the Legislature in fashioning Budget Bill language specifying how the department should allocate funds for the GAIN Program in 1990-91.

OFFICE OF CHILD ABUSE PREVENTION

The Office of Child Abuse Prevention (OCAP) administers various child abuse prevention and intervention programs throughout the state. Most of these programs were established and funded initially by specific legislation. In subsequent years, funding has been provided by the various Budget Acts.

Proposal to Eliminate the Child Abuse Prevention and Training Act Program Represents a Policy Issue for the Legislature

The budget proposal to eliminate the Child Abuse Prevention and Training Act (CAPTA) Program is a policy issue for the Legislature.

While some children participating in the program have demonstrated information gains, experts disagree over how to interpret this finding. If the Legislature wishes to continue the program, we conclude that the need for preschool training is questionable and alternative approaches warrant consideration.

Background. Chapter 1638, Statutes of 1984 (AB 2443, Maxine Waters), established the CAPTA Program. The program funds the training and education of public school children (preschool through 12th grade) in the area of child abuse prevention, especially child sexual abuse. It also educates parents and teachers in child abuse prevention. The goal of the program is primary prevention; that is, it is intended to enable children to avoid becoming victims of child abuse.

The enabling legislation specified that children must receive training once in preschool, once in kindergarten, and three more times before graduation from high school (typically once in elementary school, once in junior high, and once in high school). The Department of Social Services (DSS) contracts with primary prevention providers, usually private, nonprofit agencies, in each of the counties to conduct the education programs. In some cases, though, the school districts conduct their own programs. Though each provider conducts its own prevention programs, many of the same concepts are taught, to some extent, by each primary prevention provider. These concepts vary by the age of the student. For example, preschool children are taught to "trust their feelings" in distinguishing between appropriate and inappropriate touches, while high school students are educated about the possibility of "acquaintance rape." Participation on the part of the school districts, parents, and children is voluntary. The enabling legislation also provided for two regional training centers, which act as clearinghouses for information and provide technical assistance to the primary prevention providers.

Budget Proposal. The Governor's 1990-91 Budget proposes to eliminate the funding for the CAPTA Program. In the current year, spending on the program is estimated to be $10 million from the General Fund ($9.5 million for provider contracts and $0.5 million to fund the training centers).

Elimination of the Program May Require Legislation. The budget does *not* propose legislation to eliminate the CAPTA Program. Because it is not clear whether action on the budget alone can serve to eliminate a state program, we have requested an opinion from the Legislative Counsel on this issue. The counsel's opinion should be available by the time of budget hearings. Regardless of whether separate legislation would be required to eliminate the program, the budget proposal represents a policy decision for the Legislature to make based on its overall fiscal priorities.

Evaluation of CAPTA Effectiveness

An important criterion for the Legislature to use in evaluating the proposal to eliminate the CAPTA Program is the effectiveness of the program; that is, does the program actually help to prevent child abuse?

Social Services Programs—Continued

In order to evaluate the effectiveness of the CAPTA Program, we reviewed the literature on primary prevention programs throughout the country and in California, and spoke with researchers and child development specialists with expertise in child abuse prevention. We focused on two key questions: (1) do children learn the concepts presented and (2) can they apply the concepts in their daily life, thereby reducing their chances of becoming victims of abuse?

Studies Show that Some Children Do Learn the Concepts Presented by These Programs. There have been numerous studies of child abuse prevention training programs throughout the country that have measured the information gains of children who receive the training. Most of these studies focused on preschool training and, to a lesser extent, elementary school training. The studies generally measured students' knowledge of certain prevention concepts before and after receiving some sort of education or training.

Though the findings of the studies are sometimes contradictory, the consensus of the literature is that children receiving prevention education achieve some gains in information about the concepts presented. For example, a study of CAPTA preschool programs conducted by a research team from the University of California at Berkeley's Family Welfare Research Group found information gains in the range of 10 to 30 percentage points between pre- and post-test, depending on the concept taught. The findings of the Berkeley study regarding information gains are typical of the other studies we reviewed. The other notable finding of most of the studies is that older students learn more than younger ones.

Researchers disagree on the interpretation of these findings, however. Specifically, some believe that the gains are too small to consider the program successful, especially in light of research that suggests that the information gains erode significantly over time. Some researchers have also suggested that many students, especially the youngest ones, may be able to parrot back the "correct" answers to questions without really understanding the concepts behind the questions. On the other hand, some researchers have suggested that the gravity of the problem of abuse is such that even small gains justify continuation of these kinds of programs.

Since the ultimate goal of the program is the prevention of abuse, the key to resolving this issue is whether or not the observed information gains actually produce behavior changes that enable children to avoid abuse.

No Reliable Data Exist Regarding the Effect of Prevention Training on Children's Ability to Prevent Abuse. Unfortunately, there have been no reliable studies assessing these programs' effect on children's ability to actually prevent abuse. While it would be possible to design a study that could accurately assess the effectiveness of prevention training programs — for example, a longitudinal study comparing children who receive the training to those who do not — no such study has been conducted. Until such a study is conducted, the basic assumption on which the CAPTA

Program is based — that prevention training enables children to protect themselves from abuse — will remain unproven.

In the absence of reliable studies of children's ability to prevent abuse, several researchers and child development specialists have analyzed the curriculum of preschool programs to see if it is *likely* that children would be able to apply the concepts that are being taught to avoid abuse.

The Need for Preschool Training is Questionable. Researchers and child development experts who have reviewed primary prevention programs have argued that many of the concepts taught in the preschool programs are too sophisticated for the cognitive level of most three- and four-year olds. Based on this concern, the OCAP appointed the Preschool Curricula Task Force to review the preschool component of the CAPTA Program. After reviewing the literature and consulting with child development experts, the task force concluded that most of the concepts currently being taught are too sophisticated for the cognitive abilities of most preschoolers. For example, the task force concluded that "an intuitive capacity to 'trust their feelings' is beyond the developmental level of preschool children."

The task force made numerous recommendations to simplify the curriculum to bring it in line with the capacity of most preschoolers. Review of these recommendations indicates that the recommended curriculum would duplicate components of existing preschool education. For example, instead of telling a child to "trust his or her feelings," the task force recommended a curriculum that would "focus on helping preschoolers to identify, label, and tell about their feelings." Though the task force did not review kindergarten programs, some child development specialists and researchers have questioned the ability of kindergarten students to comprehend these concepts as well.

Options for the Legislature

Our review of CAPTA indicates that it is, in general, unclear whether the knowledge imparted by the program helps children to change their behavior and thereby prevent abuse. Moreover, researchers and experts disagree over how to interpret the information gains that the program has demonstrated. Finally, a large body of evidence, summarized in the department's own task force report, indicates that much of the preschool curricula is beyond the cognitive ability of preschoolers.

On the other hand, it is still possible that the knowledge gains achieved by the program may have some effect in helping children in older age groups to avoid becoming victims of abuse. Therefore, the Legislature may want to consider the following alternatives to the budget's proposal to terminate the program.

Preschool Options. An alternative to eliminating the preschool component would be to refocus the program from direct instruction of students to training of parents and teachers. Most researchers and practitioners agree that the primary responsibility for protecting children from child abuse lies with their parents and, to a lesser extent, their teachers. Though much of the curriculum recommended by the task force is already part of preschool instruction, there are some concepts,

Social Services Programs—Continued

such as the identification of "private parts," about which preschool teachers can be trained to educate students. Similarly, parents might benefit from instruction on how to detect abuse and how to respond to it.

While the current program provides for one session (usually about one hour) for parents and teachers, researchers and the task force have found that these sessions are usually sparsely attended by parents and often not thorough enough to have a meaningful impact. Therefore, any refocus of the preschool component should include better outreach and recruitment of parents.

K-12 Options. Given the dearth of information about K-12 program effectiveness, an option to outright elimination would be to significantly scale back the program and require the DSS to conduct an evaluation of the entire CAPTA Program to assess whether it actually helps children protect themselves from abuse. One type of evaluation that several researchers have recommended is a longitudinal study of groups of children who received and did not receive CAPTA training. Such a study could assess if those who receive the training are better able to prevent abuse than those without training. A less ambitious approach would be to assign a task force to review the age appropriateness of the curricula, as the department's Preschool Task Force did.

Since the budget contains no funds for this program, both of the alternatives above would require a General Fund augmentation to the budget. The amount of the augmentation would depend on (1) how much of the program the Legislature wishes to restore and (2) the scope of any evaluation.

DEPARTMENT OF SOCIAL SERVICES

Community Care Licensing

Item 5180-161 from the General Fund and the Federal Trust Fund — Budget p. HW 187

Requested 1990-91	$14,225,000
Estimated 1989-90	15,004,000
Actual 1988-89	14,804,000
Requested decrease $779,000 (−5.2 percent)	

1990–91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Local assistance	General	$8,577,000
5180-161-890—Local assistance	Federal	5,648,000
Total		$14,225,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Community Care Licensing — Family Day Care Licensing. Withhold recommendation on a proposed General Fund reduction of $1.4 million, which reflects a proposed restructuring of the Family Day Care Licensing Program. Recommend that the department, prior to budget hearings, provide the fiscal committees with specified information on the health and safety effects of the proposed reduction. 773

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

The budget proposes two appropriations totaling $14,225,000 ($8,577,000 General Fund and $5,648,000 federal funds) to reimburse counties for licensing activities in 1990-91. This is a decrease of $779,000, or 5.2 percent, as compared with estimated current-year expenditures. The decrease is due to (1) a projected 5.7 percent increase in the foster family home caseload ($342,000), (2) a projected 5.9 percent increase in family day care caseload ($287,000), and (3) a proposed restructuring of the Family Day Care Licensing Program (a $1,408,000 reduction).

Budget Proposes to Restructure Family Day Care Licensing Program

We withhold recommendation on the proposed General Fund reduction of $1,408,000, which reflects a proposal to restructure the Family Day Care Licensing Program. We recommend that the department, prior to budget hearings, provide the fiscal committees with (1) data that indicate the number and relative significance of enforcement actions that would not occur as a result of the proposal, (2) data that substantiate the department's ability to absorb ongoing workload with reduced staff, and (3) the implementing legislation for this proposal.

The budget proposes to limit the projected growth in family day care licensing expenditures by eliminating three of nine major licensing activities currently required of family day care evaluators and requiring

Community Care Licensing—Continued

certain complaints to be made in writing (which would, according to the department, reduce the number of unsubstantiated complaints) for a General Fund savings of $2,835,000 in 1990-91 ($1,408,000 in this item and $1,417,000 in the department support item). We discuss this proposal in detail in our analysis of the department support item (please see Item 5180-001-001).

DEPARTMENT OF SOCIAL SERVICES
Cost-of-Living Adjustments

Item 5180-181 from the Federal Trust Fund — Budget p. HW 189

Requested 1990-91	$23,133,000
Recommended Reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item appropriates $23 million to cover the federal share 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 1990-91. This amount includes $2.6 million for the COLA for county employees in the Child Welfare Services (CWS) Program and $21 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 1990-91 COLA for county administration and child welfare services until 1991-92. The County Administration budget (Item 5180-141-001) includes $6.5 million and the CWS budget (Item 5180-151-001) includes $16 million for the General Fund share of the costs in 1990-91 of the COLA that counties provided their welfare department staff during 1989-90. 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 $253 million ($112 million in AFDC-FG and U grant savings and $141 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).