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 1991-92	$5,052,000
Estimated 1990-91	5,602,000
Actual 1989-90	4,954,000
Requested decrease $550,000 (−9.8 percent)	
Total recommended reduction	None

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal	$5,052,000
4110-001-001—Area Boards on Developmental Disabilities	Reimbursements	(2,805,000)
Total		$5,052,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Budget Revision. Recommend that the state council submit, prior to budget hearings, a revised budget reflecting the continuance of the current-year increase in the federal grant. 478

GENERAL PROGRAM STATEMENT

The State Council on Developmental Disabilities operates pursuant to the Lanterman Developmental Disabilities Act (as amended by Ch 1365/76, AB 3801, Egeland) 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 (AB 3803, Hart). Area boards are regional agencies responsible for protecting and advocating for the rights of persons with developmental disabilities, promoting the development of needed services, assisting the state council in planning activities, and conducting public information programs.

The state council and the area boards have 53.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $5.1 million from federal funds for the support of the state council and area boards in 1991-92. This is a decrease of $550,000, or 9.8 percent, below estimated current-year expenditures.

This reduction is somewhat misleading. During the current year, the state council (1) carried forward for one-time expenditure unspent grant

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

funds from prior years and (2) received a federal grant increase. The proposed budget for 1991-92 (1) reflects the expenditure of the one-time carry-over funds during 1990-91 and (2) does not recognize the continuance of the council's higher federal grant.

The budget proposes a total of 53.6 personnel-years for these programs in 1991-92. 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
1989-90 through 1991-92
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Percent Change From 1990-91*
State council	12.6	12.9	12.7	$902	$1,106	$1,065	−3.7%
Program development	—	—	—	1,700	1,917	1,182	−38.3
Area boards	39.1	40.9	40.9	2,352	2,579	2,805	8.8
Totals	51.7	53.8	53.6	$4,954	$5,602	$5,052	−9.8%

ANALYSIS AND RECOMMENDATIONS

Budget Fails to Reflect Federal Grant Increase

We recommend that the state council submit, prior to budget hearings, an updated budget reflecting the continuance of a current-year federal grant increase.

State Council. The budget proposes an appropriation of $1.1 million for the council in 1991-92, a decrease of $41,000, or 3.7 percent, from estimated current-year expenditures. This decrease reflects the net effect of (1) the elimination of one-time contracts authorized in the current year, (2) two proposed augmentations to replace obsolete photocopy and computer equipment, and (3) other technical adjustments.

Area Boards. The budget proposes an appropriation of $2.8 million for the area boards, an increase of $226,000, or 8.8 percent, over estimated current- year expenditures. The increase is due primarily to (1) increased staff salary and benefit costs of $145,000 and (2) proposed augmentations of (a) $75,000 to replace existing word processors with a fully automated information system and (b) $5,000 to relocate Area Board VI from Modesto to Manteca.

Program Development. The remaining funds available from the federal grant are scheduled for program development activities. Because the budget-year proposal does not include the (1) one-time carry-over of prior-year funds and (2) continuance of the current-year federal grant increase, the total amount available for program development is budgeted to decrease by $735,000, or 38 percent.

However, the council estimates that it will most likely receive the same federal grant amount that it has received in the current year; thus, it will

have approximately $300,000 in additional funds available for expenditure on program development during 1991-92. The budget fails to reflect this increased expenditure level. Accordingly, we recommend that the state council submit, prior to budget hearings, an updated budget reflecting the continuance of the current-year federal grant increase.

EMERGENCY MEDICAL SERVICES AUTHORITY

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

Requested 1991-92	$6,553,000
Estimated 1990-91	6,596,000
Actual 1989-90	6,429,000
Requested decrease $43,000 (−0.7 percent)	
Total recommended reduction	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4120-001-001—Department support	General	$1,302,000
4120-001-312—Department support	Emergency Medical Services Personnel	235,000
4120-001-890—Department support	Federal	275,000
4120-101-001—Local assistance	General	2,935,000
4120-101-890—Local assistance	Federal	1,471,000
Reimbursements	—	335,000
Total		$6,553,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Proposed $149,000 Reduction. Recommend that the authority report at budget hearings on the fiscal and programmatic impact of a proposed General Fund budget reduction of $149,000, including the potential loss of up to an additional $122,000 in local matching funds for poison control centers and emergency medical services agency grants. 480

GENERAL PROGRAM STATEMENT

The Emergency Medical Services Authority is responsible for reviewing local emergency medical services (EMS) programs and for establishing statewide standards for training, certification, and supervision of paramedics and other emergency personnel.

The authority is also responsible for (1) planning and managing medical responses 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

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

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 27.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $6.6 million for support of the authority's programs in 1991-92. This is a decrease of $43,000, or 0.7 percent, below estimated current-year expenditures. The decrease is due primarily to the net effect of:

- A proposal for $67,000 related to an increase in a federal Office of Traffic Safety grant to establish a statewide EMS data network. (The total amount of the grant in 1991-92 is $335,000.)
- A proposal for $60,000 related to the maintenance of the paramedic testing and registry program funded by the Emergency Medical Services Personnel Fund.
- A reduction of $149,000 for the budget year, which is discussed below.
- A reduction of $74,000 in reimbursements from two federal Office of Traffic Safety grants to implement statewide testing for paramedics.
- A net increase of $53,000 for various personnel and other costs.

The budget proposes to staff the authority at 28.7 personnel-years in 1991-92.

Proposed $149,000 Reduction May Result in Total Program Cuts of up to $271,000

We recommend that the authority report at budget hearings on the fiscal and programmatic impact of a proposed General Fund budget reduction of $149,000, including the potential loss of up to an additional $122,000 in local matching funds for poison control centers and EMS agency grants.

The Governor's Budget includes a trigger-related reduction of $149,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The budget proposes to allocate $122,000 of the $149,000 reduction as follows:

- $68,000 of the proposed reduction is in local assistance grants for the regional poison control centers. These grants require a dollar-for-dollar match by local assistance grantees. Thus, implementation of this proposed reduction may result in a total (state *and* local) reduction of up to $136,000.
- $54,000 of the proposed reduction is in local assistance grants for local EMS agencies. Rural multicounty areas with populations of over 300,000 are eligible for these grants and are required to provide a dollar-for-dollar match. Regions with populations of 300,000 or less are also eligible for the grants and must provide a minimum specified

cash match based on population size. Thus, implementation of this proposed reduction may result in a total (state *and* local) reduction of up to $108,000.

Given the Legislature's oversight responsibilities, we recommend that the authority report at budget hearings on the fiscal and programmatic impact of the proposed $149,000 General Fund reduction. This report should include a discussion of the potential loss of up to an additional $122,000 in local matching funds — for a total reduction of up to $271,000 — should the proposed $149,000 General Fund reduction be implemented.

HEALTH AND WELFARE AGENCY DATA CENTER

Item 4130 from the General Fund — Budget p. HW 7

Requested 1991-92	$68,300,000
Estimated 1990-91	70,336,000
Actual 1989-90	52,208,000
Requested decrease $2,036,000 (−2.9 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 239.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $68,300,000 from the Health and Welfare Agency Data Center Revolving Fund to support the data center's operations in 1991-92. This is a decrease of $2,036,000, or 2.9 percent, below estimated current-year expenditures. The decrease is primarily due to completions of projects undertaken in prior years. Most significant are (1) Employment Development Department automation of the California Unemployment Insurance Appeals Board, (2) the Department of Rehabilitation office automation, and (3) expenses associated with activating a second site for data center operations. In addition, there are increases in the budget to support the increased workload of the data center's user departments.

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

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 1991-92	$43,242,000
Estimated 1990-91	42,959,000
Actual 1989-90	29,615,000
Requested increase $283,000 (+0.7 percent)	
Total recommended reduction	169,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4140-001-001—Support	General	$1,687,000
4140-001-121—Support	Hospital Building Account, Architecture Public Building	24,492,000
4140-001-143—Support	California Health Data and Planning	9,105,000
4140-001-181—Support	Registered Nurse Education	663,000
4140-001-232—Support	Hospital Services Account, Cigarette and Tobacco Products Surtax	474,000
4140-101-001—Local assistance	General	2,765,000
Health and Safety Code Section 436.26	Health Facility Construction Loan Insurance	2,273,000
Education Code Section 69800	Minority Health Professions Education	1,570,000
Reimbursements	—	213,000
Total		$43,242,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS — *Analysis page*

1. ***State Fire Marshal Contract. Reduce Item 4140-001-121 by $169,000.*** Recommend a reduction of $169,000 from the Architecture Public Building Fund for workload in the Office of the State Fire Marshal (OSFM) related to plan reviews of new construction projects, because neither the Office of Statewide Health Planning and Development nor the OSFM has substantiated increased workload projections. — 485

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 338 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Expenditures for support of the office from all funds are proposed at $43.2 million in 1991-92. This is an increase of $283,000, or 0.7 percent, above estimated current-year expenditures. The budget proposes expenditures of $4.5 million from the General Fund to support the OSHPD in 1991-92. This is a decrease of $986,000, or 18 percent, below estimated current-year General Fund expenditures.

The increase in expenditures from all sources is due primarily to (1) a $1.3 million increase in health facilities data activities, (2) a $739,000 increase for rent costs and various facilities development proposals, (3) a $1.1 million increase for pro rata and employee compensation costs, and (4) a $2.7 million decrease to reflect the elimination of various one-time expenditures. The budget also includes an unallocated trigger-related reduction of $144,000 in funding for the office. This reduction is included in the proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

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
1989-90 through 1991-92
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Percent Change From 1990-91
Health projects and analysis	8.6	9.9	9.9	$821	$1,174	$1,214	3.4%
Demonstration projects	13.6	15.7	9.5	1,007	1,192	959	−19.5
Health professions development	12.3	15.7	15.7	3,587	7,685	6,491	−15.5
Facilities development and financing	155.6	173.0	176.8	18,459	26,220	26,648	1.6
Health facilities data	47.9	50.2	51.7	5,595	6,516	7,861	20.6
Administration — undistributed	68.5	73.5	76.8	146	172	213	23.8
Unallocated reduction	—	—	—	—	—	−144	—[a]
Totals	306.5	338.0	340.4	$29,615	$42,959	$43,242	0.7%
Funding Sources							
General Fund				*$4,008*	*$5,438*	*$4,452*	*−18.1%*
Hospital Building Account, Architecture Public Building Fund				*16,828*	*24,310*	*24,492*	*0.7*
California Health Data and Planning Fund				*6,632*	*7,823*	*9,105*	*16.4*
Health Facilities Construction Loan Insurance Fund				*1,631*	*2,026*	*2,273*	*12.2*
Minority Health Professions Education Fund				*122*	*1,544*	*1,570*	*1.7*
Registered Nurse Education Fund				*23*	*1,194*	*663*	*−44.5*
Hospital Services Account, Cigarette and Tobacco Products Surtax Fund				*225*	*452*	*474*	*4.9*
Reimbursements				*146*	*172*	*213*	*23.8*

[a] Not a meaningful figure.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

The budget proposes a total of 340.4 personnel-years for 1991-92, an increase of 2.4 personnel-years from the current-year level.

Table 2 identifies the major budget changes proposed for 1991-92.

Table 2
Office of Statewide Health Planning and Development
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (Budget Act)	$4,797	$41,018
Adjustments, 1990-91:		
Retirement reduction	−15	−102
Employee compensation increases	26	540
Carry-over appropriation for Family Physician Training Program (FPTP)	716	716
Control Section 3.8 General Fund reduction	−58	−58
Savings for Mobile Cardiac Catheterization Project (MCCP)	−28	−28
Carry-over appropriation — Minority Health Professions Education Foundation (MHPEF) (Ch 1307/87)	—	14
Cal-Mortgage adjustment, program operations staff	—	105
Bone Marrow Demonstration Project (BMDP) (Ch 889/90)	—	145
Registered nurse reappropriation	—	579
Reimbursement for Major Risk Medical Insurance Board (MRMIB) administration	—	30
1991-92 expenditures (revised)	$5,438	$42,959
Baseline adjustments, 1991-92:		
Pro rata adjustment	—	628
Employee compensation increases	22	423
One-time cost reductions:		
Facilities development MIS project	—	−964
Accounting and reporting project	—	−300
One-time administration funds	—	−10
FPTP	−716	−716
Nurse reappropriation	—	−579
MHPEF	—	−14
MCCP	−72	−72
Increase 1990-91 Control Section 3.8 General Fund reduction and shift to special funds	−76	—
BMDP	—	−120
Program change proposals:		
Office of State Fire Marshal contract	—	169
Administration and medical consulting	—	276
Nonstate building rent increase	—	294
Management analysis	—	124
Health facilities data, data processing program changes	—	1,251
Reimbursement for MRMIB administration	—	37
Unallocated reduction	−144	−144
1991-92 expenditures (proposed)	$4,452	$43,242
Change from 1990-91 (revised):		
Amount	−$986	$283
Percent	−18.1%	0.7%

ANALYSIS AND RECOMMENDATIONS

Inadequate Workload Justification for Proposed Increase in the State Fire Marshal Contract

We recommend a reduction of $169,000 from the Architecture Public Building Fund (APBF) for workload in the Office of the State Fire Marshal (OSFM) related to plan reviews of new construction projects, because neither the OSHPD nor the OSFM has substantiated increased workload projections. (Reduce Item 4140-001-121 by $169,000.)

The budget proposes an increase of $169,000 from the APBF to reimburse the OSFM for workload related to plan review and inspection of OSHPD construction projects. The OSFM provides plan review and inspection services for the OSHPD to ensure that OSHPD construction projects meet minimum earthquake and fire and life safety standards.

The proposal is based upon an estimate that the OSFM will review additional plans and provide other assistance for at least $1.5 billion in OSHPD-related construction projects.

At the time of this analysis, neither the OSHPD nor OSFM was able to (1) substantiate the $1.5 billion estimate and (2) make available data that compare this estimate to current project levels. We therefore can find no basis to conclude that an increase in funding for plan review personnel is warranted. Accordingly, we recommend a reduction of $169,000 from the APBF for the OSHPD contract with the OSFM. (We make a related recommendation earlier in the OSFM analysis (Item 1710) for $175,000 — the difference between the dollar amount in Item 1710 and this item reflects a technical error of $6,000 that is contained in the Governor's Budget.)

CALIFORNIA DEPARTMENT OF AGING

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

Requested 1991-92	$135,790,000
Estimated 1990-91	136,867,000
Actual 1989-90	136,237,000
Requested decrease $1,077,000 (−0.8 percent)	
Total recommended reduction	None
Recommendation pending	180,000

CALIFORNIA DEPARTMENT OF AGING—Continued

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4170-001-001—Support	General	$4,767,000
4170-001-890—Support	Federal	3,215,000
4170-101-001—Local assistance	General	29,441,000
4170-101-890—Local assistance	Federal	83,406,000
4170-111-939—Local assistance	Nutrition Reserve	400,000
Reimbursements	—	14,561,000
Total		$135,790,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS *Analysis page*

1. Senior Center Bond (SCB) Program. Withhold recommendation on transfer of $180,000 General Fund and 2.8 personnel-years from the SCB Program to the Alzheimer's Day Care Resource Center Program, the Legal Counsel's Office, and the Community Services Branch, pending receipt, prior to budget hearings, of the department's plan for distributing a $1.3 million unallocated reduction. 489
2. Transfer from the Nutrition Reserve Fund (NRF) to the General Fund. Recommend approval of transfer to the General Fund of $400,000 in unused NRF monies, with modified Budget Bill language. 490

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 providers in order to build 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 153.7 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $136 million for the CDA in 1991-92. This includes $34 million from the General Fund, $87 million in federal funds, $400,000 from the Nutrition Reserve Fund, and $15 million in reimbursements. Total expenditures proposed for 1991-92 are $1.1 million, or 0.8 percent, less than estimated current-year expenditures.

The budget proposes $34 million from the General Fund for support of the CDA's activities in 1991-92. This is a decrease of $1.6 million, or 4.5 percent, from estimated current-year expenditures. The proposed General Fund amount includes $4.8 million for support of the department and $29 million for local assistance. Table 1 presents a summary of the department's funding and expenditures for the prior, current, and budget years.

Table 1
California Department of Aging
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
State administration	$9,302	$9,914	$10,069	$155	1.6%
Older Americans Act (OAA) programs					
Local assistance:					
Congregate meals	$39,885	$40,306	$40,392	$86	0.2%
Home-delivered meals	21,203	21,600	21,790	190	0.9
Employment services	5,236	5,636	5,616	−20	−0.4
Social services	26,928	27,340	27,273	−67	−0.2
Ombudsman	2,777	3,099	3,198	99	3.2
Special projects	3,741	3,802	3,802	—	—
Subtotals, OAA	($99,770)	($101,783)	($102,071)	($288)	(0.3%)
Long-term care programs					
Local assistance:					
Multipurpose Senior Services Program	$20,714	$20,749	$20,749	—	—
Linkages/alzheimers/respite	6,126	4,221	4,221	—	—
Adult day health care	325	200	—	−$200	−100.0%
Subtotals, long-term care programs	($27,165)	($25,170)	($24,970)	(−$200)	(−0.8%)
Unallocated General Fund reduction	—	—	−$1,320	−$1,320	—[a]
Totals, all expenditures	$136,237	$136,867	$135,790	−$1,077	−0.8%
Unexpended balance (estimated savings)	−290	—	—	—	—
Funding Sources					
General Fund	*$37,737*	*$35,838*	*$34,208*	*−$1,630*	*−4.5%*
Federal funds	*84,092*	*86,165*	*86,621*	*456*	*0.5*
Nutrition Reserve Fund	—	—	*400*	*400*	—[a]
Reimbursements	*14,408*	*14,864*	*14,561*	*−303*	*−2.0*

[a] Not a meaningful figure.

Table 2 identifies, by funding source, the significant changes in expenditure levels proposed for 1991-92. The table shows that the budget includes a trigger-related reduction of $1.3 million in funding for the department. This reduction is included in the proposed budget for the

CALIFORNIA DEPARTMENT OF AGING—Continued

department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The other major changes shown in Table 2 are (1) an increase of $85,000 from the Insurance Fund for the Health Insurance Counseling and Advocacy Program (HICAP), to add a program auditor and fund a rent increase, (2) a $400,000 one-time shift in nutrition program costs from the General Fund to the Nutrition Reserve Fund, (3) an increase of $829,000 in federal funds for nutrition and social services programs, and (4) a reduction of $849,000 to adjust for current-year expenditure of various one-time funds.

Table 2
California Department of Aging
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (revised)	$35,838	$136,867
Cost adjustments:		
Employee compensation increases	$90	$178
Price increase and merit salary adjustment	106	106
General Fund reduction applied to price increase and merit salary adjustment	−106	−106
Subtotals, cost adjustments	($90)	($178)
Funding adjustments:		
Expenditure of one-time transfers from the California Seniors Fund	—	−$190
Expenditure of one-time grants and federal funds	—	−459
Expenditure of one-time ADHC funds	—	−200
Federal augmentation for nutrition and social services programs	—	829
Use of Nutrition Reserve Fund to fund nutrition programs	−$400	—
Subtotals, funding adjustments	(−$400)	(−$20)
Program change proposal:		
HICAP auditor and cost increase	—	$85
Unallocated reduction	−$1,320	−1,320
1991-92 expenditures (proposed)	$34,208	$135,790
Change from 1990-91:		
Amount	−$1,630	−$1,077
Percent	−4.5%	−0.8%

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

- Reallocation of $180,000 General Fund and 2.8 personnel-years from the Senior Center Bond (SCB) Program to the Alzheimer's Day Care Resource Center (ADCRC) Program, the Legal Counsel's Office, and the Community Services Branch.
- Reallocation of $40,000 in Respite Care Registry Program funds from support of respite registries to purchase of respite services.

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 the expiration of limited-term positions and the proposed staff increase in the Legal Division. The change in long-term care programs is the net

effect of the shift of personnel from the Senior Center Bond Program to the ADCRC, the proposed addition of one position in HICAP, and minor personnel adjustments in other programs.

Table 3
California Department of Aging
Personnel-Years
1989-90 through 1991-92

Program	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Percent Change From 1990-91*
Administration	82.5	91.2	90.8	−0.4%
Older Americans Act	17.0	17.2	17.2	—
Long-term care	47.3	45.3	44.9	−0.9
Totals	146.8	153.7	152.9	−0.5%

ANALYSIS AND RECOMMENDATIONS

Redirection of Senior Center Bond (SCB) Program Funds

We withhold recommendation on the proposed redirection of $180,000 General Fund and 2.8 personnel-years from the SCB Program to the ADCRC Program, the Legal Counsel's Office, and the Community Services Branch, pending receipt, prior to budget hearings, of the department's plan for distributing a $1.3 million unallocated General Fund reduction among its programs.

The budget proposes the redirection of $180,000 General Fund and 2.8 personnel-years from the SCB Program to the ADCRC Program, the Legal Counsel's Office, and the Community Services Branch. The SCB Program was established by Ch 575/84 (SB 1359, Garamendi) to perform grant management activities related to a $50 million general obligation bond issue for acquiring, renovating, and constructing community centers for older adults. The department advises that all but 8 of the 345 projects funded by this bond issue are now complete. Consequently, the budget requests redirection of SCB Program funds to other programs. Specifically, the budget redirects $180,000 from the SCB to the following program and administrative units:

- ADCRC Program — $109,000 and 1.9 personnel-years to provide supervision and clerical support to two analysts responsible for oversight of 36 ADCRC sites.
- Legal Counsel's Office — $59,000 and 0.9 personnel-year to undertake responsibilities related to promulgation of regulations.
- Community Services Branch — $12,000 to monitor community centers for older adults and maintain a statewide directory of such centers.

We agree with the department that the SCB Program no longer requires funding. The budget proposals for redirection of SCB Program funds, taken by themselves, appear reasonable. Taken together with a proposed unallocated General Fund reduction of $1.3 million, however, these proposals raise a policy issue for the Legislature. Specifically, we

CALIFORNIA DEPARTMENT OF AGING—Continued

believe that the Legislature should evaluate the priority of these funding proposals as compared to other program needs that will result from the unallocated reduction. The Legislature could (1) fund the units and program proposed by the budget, (2) offset the unallocated reduction by $180,000 and let the department decide how to distribute the remaining $1.1 million reduction, or (3) fund up to $180,000 of specific program reductions that the department proposes as part of the unallocated reduction. At this time, information available to the Legislature is not sufficient for an evaluation of these options, because the department has not yet identified which programs it will reduce as a result of the proposed unallocated reduction. Consequently we withhold recommendation on the proposed redirection of funds, and further recommend that the department, prior to budget hearings, provide the Legislature with a plan for distributing the $1.3 million unallocated reduction among its programs.

Shift of Nutrition Program Costs from General Fund to Nutrition Reserve Fund

We recommend approval, with modified Budget Bill language.

The budget proposes to reduce General Fund support for the Nutrition Program by $400,000, and instead appropriate $400,000 from the Nutrition Reserve Fund (NRF) for this program. We note that this proposal is similar to a proposal adopted by the Legislature in the 1990-91 Budget Bill, but vetoed by the Governor. While the 1990-91 proposal would have used a NRF appropriation to backfill anticipated reductions in federal funding for nutrition programs, the budget proposal would substitute NRF monies for General Fund nutrition monies.

Existing law requires that the CDA use the remaining balance of the NRF ($1,088,000) to fund short-term loans to local senior nutrition providers with temporary cash-flow problems. No more than $618,000 in loans have been made from the NRF in any prior year, however. The proposed NRF appropriation, therefore, appears reasonable in that (1) the $400,000 has not been needed for the statutory purposes of the NRF and (2) it would free up $400,000 General Fund to use for the Legislature's priorities.

We note, however, that the Budget Bill language associated with this proposal (Item 4170-111-939, Provision 1) would permit the Department of Finance to appropriate *more* than $400,000 from the Nutrition Reserve Fund. We do not believe that the department should have this flexibility, because appropriation of more than $400,000 might not leave sufficient monies in the NRF to cover loans in amounts that have been required in prior years. Moreover, we note that the proposed Budget Bill language does not properly specify that the proposed appropriation is made notwithstanding existing law [Ch 1020/80 (AB 2329, Thurman)] that sets aside NRF funds for a loan program. Consequently, we recommend approval of the proposed appropriation and substitution of the following Budget Bill language for the language proposed in the budget for Item 4170-111-939:

Notwithstanding any other provision of law, the $400,000 appropriated in this item shall be for the Nutrition Program.

COMMISSION ON AGING

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

Requested 1991-92	$846,000
Estimated 1990-91	995,000
Actual 1989-90	834,000
Requested decrease $149,000 (−15.0 percent)	
Total recommended reduction	None

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4180-001-001—Support	General	$253,000
4180-001-890—Support	Federal	242,000
4180-001-983—Support	California Seniors	351,000
Total		$846,000

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 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 $846,000 ($253,000 General Fund, $242,000 federal funds, and $351,000 from the California Seniors Fund (CSF)) to support the CCA in 1990-91. This is a decrease of $149,000, or 15.0 percent, from estimated current-year expenditures. Table 1 displays CCA funding for the prior, current, and budget years.

COMMISSION ON AGING—Continued

Table 1
Commission on Aging
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Commission	$458	$488	$495	$7	1.4%
Service contracts through CDA	76	124	—	−124	−100.0
Senior Legislature, operations	300	317	351	34	10.7
Senior Legislature, elections	—	66	—	−66	−100.0
Totals	$834	$995	$846	−$149	−15.0%
Funding Sources					
General Fund	*$232*	*$249*	*$253*	*$4*	*1.6%*
Federal funds	*226*	*239*	*242*	*3*	*1.3*
California Seniors Fund	*376*	*507*	*351*	*−156*	*−30.8*

The table shows that the proposed expenditures are $149,000, or 15.0 percent less than estimated current-year expenditures. This decrease is the result of (1) a reduction of $124,000 to reflect a one-time, current-year expenditure from the CSF for direct services to older Californians (through the CDA), (2) a reduction of $66,000 to reflect one-time, current-year expenditures for Senior Legislature elections (elections are held every other year), and (3) a net increase of $41,000 for various minor technical adjustments and a one-time, budget-year expenditure of CSF balances carried over from past years.

California Seniors Fund — Direct 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. After estimating the level of excess revenue, usually by December of each year, the commission transfers these funds to the CDA. In the current year, the commission has released $124,000 to the CDA for allocation to Area Agencies on Aging (AAAs) for various senior services.

The budget proposes no expenditure from the CSF for direct services in 1991-92. An unknown amount may be available for direct service contracts in 1991-92, however, depending on the level of 1991-92 CSF revenues.

California Seniors Special Fund. The budget also proposes no expenditure from the California Seniors Special Fund (CSSF), which was created on January 1, 1991 by Ch 1451/90 (SB 2085, Roberti). The source of revenue for this fund is discretionary contributions of state income tax credits received by older Californians. Chapter 1451 requires the commission to use the first $80,000 of annual revenue to this fund to support the Area Agency Advisory Council of California. The statute specifies that the balance of annual revenues must go to AAAs through the CDA to support various programs to benefit older Californians. The amount of revenue to the CSSF in 1991-92 cannot be estimated at this time because

there is no basis for predicting how many taxpayers will make a contribution to the fund.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

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

Requested 1991-92	$297,753,000
Estimated 1990-91	286,537,000
Actual 1989-90	211,465,000
Requested increase $11,216,000 (+3.9 percent)	
Total recommended reduction	None

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4200-001-001—Support	General	$5,524,000
4200-001-139—Support	Drinking Driver Program Licensing Trust	1,164,000
4200-001-243—Support	Methadone Program Licensing Trust	581,000
4200-001-816—Support	Audit Repayment Trust	100,000
4200-001-890—Support	Federal Trust	18,678,000
4200-101-001—Local assistance	General	71,458,000
4200-101-276—Local assistance	Alcohol Surtax	17,000,000
4200-101-890—Local assistance	Federal Trust	161,577,000
4200-101-977—Local assistance	Resident-Run Housing Revolving	144,000
—Less loan repayments		−105,000
Reimbursements	—	21,632,000
Total		$297,753,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Alcohol, Drug Abuse, and Mental Health Services Block Grant. California received an increase of $10.8 million in the federal Alcohol, Drug Abuse, and Mental Health Services block grant, its smallest increase in the last three years. — 498
2. Lack of Funds to Continue Waiting List Reduction Grant Programs. Recommend the department (a) allocate the $2.5 million for Waiting List Reduction Grant Programs proportionally between counties giving priority for funds to nonmethadone programs, (b) require the counties to similarly prioritize the $5.4 million in county subvention funds for nonmethadone programs, and (c) report to the Legislature, prior to budget hearings, on the availability of federal funds to continue the Waiting List Reduction Grant treatment slots. — 499
3. Expansion of Treatment Services for Pregnant and Parenting Substance Abusing Women. Recommend the depart- — 502

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

ment report to the Legislature, prior to budget hearings, on (a) the allocation process which will be used to distribute the funds to the counties, (b) the specifics of the prevalence study, and (c) the feasibility and costs of transferring the certification of Medi-Cal drug treatment centers to the DADP from the Department of Health Services. In addition, we recommend the adoption of Budget Bill language redirecting any funds not spent for expanding treatment services for pregnant and parenting women to the Waiting List Reduction Grant Programs.

4. Legislative Oversight — Community Drug-Free School Zones Program. The DADP received a poor response from the schools eligible to participate in the program. As a result, less than half of the eligible schools received funding. 505
5. Legislative Oversight — Prison/Parolee Drug Treatment Program. The program is being implemented consistent with legislative direction. 506
6. Legislative Oversight — Program Accountability System. The DADP has established a Program Accountability Task Force to advise the department on performance standards for treatment programs. The department is deciding on the direction and mandates for the task force. 506

MAJOR ISSUES

☑ California received an increase of $10.8 million in the federal Alcohol, Drug Abuse, and Mental Health Services block grant, its smallest increase in the last three years.

☑ There is a lack of funds to continue the Waiting List Reduction Grant Programs; however, there are other funding options open to the Legislature.

☑ Governor proposes $25 million to expand substance abuse treatment services for pregnant and parenting women. The administration needs to address a number of concerns about the proposal.

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 260.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $297.8 million from all funds for alcohol and drug programs in 1991-92. This includes $77 million from the General Fund, $180.3 million from federal funds, $21.6 million in reimbursements, $17 million from the Alcohol Surtax Fund, and $1.9 million from the Drinking Driver, Audit Repayment Trust, Methadone Program Licensing Trust, and Resident-Run Housing Revolving Funds. Total expenditures proposed for 1991-92 are $11.2 million, or 3.9 percent, above estimated total expenditures in the current year, as shown in Table 1.

Table 1
Department of Alcohol and Drug Programs
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Percent Change From 1990-91*
Alcohol	$85,207	$98,246	$98,234	—[a]
State operations	(8,624)	(11,363)	(11,361)	—[a]
Local assistance	(76,583)	(86,883)	(86,873)	—[a]
Drugs	126,258	161,724	149,553	−7.5%
State operations	(12,959)	(15,952)	(15,485)	−2.9
Local assistance	(113,299)	(145,771)	(134,068)	−8.0
Pilot project combined services	—	26,567	49,943	88.0
Distributed administration	(5,163)	(7,635)	(10,869)	42.4
Undistributed administration	—	—	3,000	—[a]
Unallocated reduction (local assistance)	—	—	−2,977	—[a]
Totals	$211,465	$286,537	$297,753	3.9%
State operations	(21,583)	(27,316)	(29,846)	9.3
Local assistance	(189,882)	(259,221)	(267,907)	3.4
Funding Sources				
General Fund	*$79,958*	*$79,894*	*$76,982*	*−3.6%*
Federal funds	*123,272*	*194,102*	*180,255*	*−7.1*
Alcohol Surtax Fund	—	—	*17,000*	—[a]
Drinking Driver Program Licensing Trust Fund	*458*	*1,138*	*1,164*	*2.3*
Methadone Program Licensing Trust Fund	*528*	*568*	*581*	*2.3*
Audit Repayment Trust Fund	*46*	*100*	*100*	—
Resident-Run Housing Revolving Fund	—	—	*39*	—[a]
Reimbursements	*7,203*	*10,735*	*21,632*	*101.5*
Personnel-Years By Program				
Administration	97.5	114.6	119.8	4.5%
Alcohol	60.2	74.8	76.2	1.9
Drugs	53.2	70.9	73.3	3.4
Totals	210.9	260.3	269.3	3.5%

[a] Not a meaningful figure.
Note: Details may not add to totals due to rounding.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Table 2

Department of Alcohol and Drug Programs
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Other Funds*	*Total*
1990-91 Expenditures (revised)	$79,894	$194,102	$12,541	$286,537
Proposed changes				
Cost adjustments:				
Employee compensation	$65	$157	$53	$275
SWCAP charges	—	341	—	341
Unallocated reduction	−2,977	—	—	−2,977
Workload adjustments:				
Various divisions	—	−15	126	111
Program changes:				
Expansion of treatment services for pregnant and parenting women	—	—	25,000	25,000
Reduction For Federal Waiting List Reduction Grants	—	−10,073	—	−10,073
Elimination of 1989-90 carry over	—	−7,319	—	−7,319
Increase for the High Intensity Drug Trafficking Areas Grant	—	—	3,000[a]	3,000
Increase for the Office of Treatment Improvement Grants	—	2,733	—	2,733
Expansion of Community Drug-Free School Zones Programs	—	1,600	—	1,600
Reduction for federal Comprehensive Community Development and Support Project for High Risk Youth	—	−708	—	−708
Reduction for federal Disaster Relief Assistance Grant	—	−495	—	−495
Reduction for special projects	—	−479	—	−479
Reduction for federal Community Youth Activity Demonstration Grant Program	—	−335	—	−335
Increase for the San Francisco Homeless Project	—	232	—	232
Treatment services for Asian and Pacific Islanders — Ch 1142/90	—	225	—	225
Employee Assistance Consortium Demonstration Program — Ch 1299/90	—	182	—	182
Increase for the Methadone Multiple Registration Project	—	134	—	134
Increase for federal Data Collection Grant	—	131	—	131
Reduction for the Resident-Run Revolving Loan Fund Program	—	−131	39	−92
Expiring positions	—	−9	−123	−132
Reduction for Federal Community Youth Activity Program	—	−90	—	−90
Family Drug-Free Housing Pilot Project — Ch 1000/90	—	72	—	72
Other changes	—	—	−120	−120
1991-92 Expenditures (proposed)	$76,982	$180,255	$40,516	$297,753
Change from 1990-91:				
Amount	−$2,912	−$13,847	$27,975	$11,216
Percent	−3.6%	−7.1%	223.1%	3.9%

[a] These are federal funds that the DADP receives as a reimbursement from the state of Arizona.

The budget proposes an appropriation of $77 million from the General Fund for the DADP in 1991-92. This is a decrease of $2.9 million, or 3.6 percent, below estimated current-year expenditures. This decrease reflects an unallocated trigger-related reduction of $3 million in funding for the DADP. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The trigger-related reduction will be taken from local assistance. The proposed General Fund appropriation includes $5.5 million for support of the department and $71.5 million for local assistance.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1991-92. The major increases proposed in the budget are (1) $25 million to expand substance abuse treatment for pregnant and parenting women, (2) $3 million in federal Southwest Border Region High Intensity Drug Trafficking Areas grant funds for drug law enforcement, (3) $2.7 million in the federal Office of Treatment Improvement's (OTI) Targeted Cities, Critical Populations, and Non-Incarcerated Criminal Justice Population Grants, (4) $1.6 million in federal funds to expand the Community Drug-Free School Zones Programs, and (5) $341,000 in federal funds for the Statewide Cost Allocation Plan charges.

These increases are partially offset by major reductions of (1) $10.1 million in federal funds from the federal Waiting List Reduction Grants, from which California was awarded funds in 1989-90 and 1990-91, (2) $7.3 million in federal funds carried over from 1989-90 to 1990-91 that will not be available in the budget year, (3) $708,000 in federal Comprehensive Community Development and Support Project for High Risk Youth funds, (4) $495,000 in federal Disaster Relief Assistance Grants, which California received in 1990-91 for drug treatment centers related to the Loma Prieta earthquake, and (5) $479,000 in the discontinuation of special projects administered by the department.

ANALYSIS AND RECOMMENDATIONS

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

- ***High-Intensity Drug Trafficking Areas*** — $3 million from the federal Southwest Border Region High Intensity Drug Trafficking Areas Grant for drug law enforcement. The Budget Bill includes language specifying that the department may not spend these funds until an expenditure plan has been approved by the Department of Finance and submitted to the Chairperson of the Joint Legislative Budget Committee.
- ***Family Drug-Free Housing and Employee Assistance Consortium Projects*** — $254,000 in federal funds to implement the Family Drug-Free Housing Program as required by Ch 1000/90 (AB 3012, Speier) and the Employee Assistance Consortium Demonstration Program as required by Ch 1299/90 (SB 2220, Seymour).

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

- *Prevention Resource Center* — $320,000 in federal funds for the state to take over the administration of the Prevention Resource Center from its current contractor. This proposal will actually result in a net federal funds *savings* of $127,000, which will be available for other program support.
- *Substance Abuse Services For Asians and Pacific Islanders* —$225,000 in federal funds to establish three pilot projects serving Asians and Pacific Islanders as required by Ch 1142/90 (SB 2382, Deddeh).
- *Increased Workload* — $686,000 in federal funds for 13 additional positions to address increased workload in various areas.

Small Increase in Federal Alcohol, Drug Abuse, and Mental Health Services Block Grant

California received an increase of $10.8 million in the federal Alcohol, Drug Abuse, and Mental Health Services block grant for federal fiscal year 1991, its smallest increase in the last three years.

The department advises that the total substance-abuse portion of the federal fiscal year 1991 (FFY 91 — October 1, 1990 to September 30, 1991) Alcohol, Drug Abuse, and Mental Health Services (ADMS) block grant for California is $132.5 million. This is an increase of $10.8 million from FFY 90 and is the smallest increase the state has received in the last three years. In FFY 89 the state received a $36.2 million increase in the grant from the preceding year, and in FFY 90 the state received an additional $52.9 million over the FFY 89 amount.

Department Has Not Subvened the Increase to the County Offices of Alcohol and Drug Programs During the Current Year. The 1990 Budget Act appropriated $11.1 million above the FFY 90 ADMS block grant award in anticipation of a large increase in the FFY 91 ADMS block grant. The department requested the increased appropriation so that it would be able to quickly subvene funds to the county offices of alcohol and drug programs when the funds were made available by the federal government.

The department requested the increased appropriation of $11.1 million because it estimated that it would receive an increase of *at least* that amount in FFY 91. The Legislature agreed with the department's request. In addition, the Legislature included language in the 1990 Budget Act specifying that of the $11.1 million, $2.5 million would be used to provide treatment on demand by reducing waiting lists for drug treatment programs and $1.1 million would be used for alcohol and drug prevention services targeted to high-risk youth.

The department advises that when it received the notice that California would only receive an increase of $10.8 million, or $272,000 less than the amount budgeted, it decided only to subvene the funds for high-risk youth in the current year. The department will carry over any remaining funds (as yet an unspecified sum) and allocate the same amount for high-risk youth in the budget year, as shown in Table 3. The department

is releasing a request for applications to the county offices of alcohol and drug programs for projects targeted at high-risk youth, and anticipates subvening the funds by April 1, 1991.

Table 3
Department of Alcohol and Drug Programs
Proposed Allocation of Increased ADMS Block Grant Funds
1991-92
(in thousands)

Perinatal pilot	$4,946
Waiting List Reduction Grant Programs	2,521
County alcohol program subvention	2,234
High-risk youth prevention programs	1,108
Total	$10,809

Not Enough Funds Available To Continue Waiting List Drug Treatment Slots

We recommend the department (1) allocate the $2.5 million for Waiting List Reduction Grant (WLRG) Programs proportionally between counties giving priority for funds to nonmethadone programs, (2) require the counties to similarly prioritize the $5.4 million in county subvention funds for nonmethadone programs, and (3) report to the Legislature, prior to budget hearings, on the availability of federal funds to continue the WLRG treatment slots.

In 1989, the federal Office of Treatment Improvement (OTI) provided $100 million nationwide to reduce waiting lists for drug treatment. The funds were provided through two competitive WLRGs in which public and nonprofit private entities applied for funds based on documented waiting lists. The funds were provided for only one year of operation and the OTI specified that states applying could receive preference for funding if states provided assurances that the awarded drug treatment slots would receive continued funding or priority for continued funding after the OTI grant had elapsed. The department assured the federal government that the funded waiting list slots would receive *priority* in obtaining continued funding, however, some counties chose not to apply for these funds, because the grants were one-time in nature. In large part due to the coordinating efforts of the DADP, California received $20.8 million, or more than 20 percent of the available funds, for 96 programs in 16 counties. These monies enabled California to open an additional 3,450 drug treatment slots during 1989-90.

Since the grants were awarded on a federal fiscal year schedule, the funding for the waiting list slots ended during the current year. The programs needed an additional $9.1 million during 1990-91 in order to continue the newly opened slots. The department ensured the continuation of the slots in 1990-91 by (1) requiring counties which had programs that received waiting list monies to use up to one-half of the increase they received in their county subvention to cover the costs of continuing the slots ($5.4 million), and (2) providing $3.7 million in additional money from one-time carry over funds for those counties that needed additional monies on top of the funds provided from their county subvention.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

$11.9 Million Shortfall to Continuing Waiting List Programs. Table 4 shows the funds proposed for continuation of the WLRG Program in 1991-92. As the table shows, the department estimates that the programs need $19.8 million in 1991-92 in order to continue the waiting list slots. Specifically, the Budget Bill includes language (Item 4200-101-890) requiring counties to continue expending in 1991-92 the amounts expended in 1990-91 ($5.4 million) for the waiting list programs, with the exception that counties can request permission to fund alternative waiting list programs for specified reasons. In addition, the department proposes spending $2.5 million from the increase in the ADMS block grant to continue these programs. These two proposals provide only $7.9 million, however, and as Table 4 shows, an additional $11.9 million is needed to fully fund the programs.

Table 4
Department of Alcohol and Drug Programs
Funding For Continuation of Waiting List Reduction Grant Programs
1991-92
(in thousands)

Total amount needed to continue WLRG programs	$19,816
Funds provided:	
County Drug Program Subvention Funds	5,379
Increased ADMS Block Grant Funds	2,521
Total, funds provided	($7,900)
Amount unfunded	$11,916

The Legislature's Options. On October 31, 1990, the department conducted a survey of drug treatment providers in the state and found that on that day, providers had 5,718 people on their waiting lists. Eighty-seven percent of these people waiting for treatment were in the 16 counties that currently have the waiting list reduction grants. We think that these data emphasize the demand for additional treatment slots. However, due to the current fiscal condition of the state we cannot recommend augmenting the department's budget. We have, however, identified the following three options for the Legislature to deal with this problem. In addition, we address this issue in our discussion on the department's proposal to expand drug treatment services for pregnant and parenting women, which follows this analysis.

Prioritize the Available $7.9 Million. As Table 5 shows, the waiting list slots are distributed across five types of treatment. Although methadone maintenance and methadone detox programs account for the largest number of slots, residential drug-free programs have a higher cost because they are more expensive than methadone programs. At the time this analysis was prepared, the department was still reviewing how it would allocate the $2.5 million it has set aside for the waiting list slots. The department advises that since residential programs are more difficult to get started and since methadone clinics can more easily expand and contract services, it is looking into targeting the $2.5 million set aside for the WRLG Programs to nonmethadone programs. If all of the $7.9 million of identified funds were targeted to nonmethadone programs, it would

cover more than half of the estimated amount needed to continue the nonmethadone treatment slots.

Table 5
Department of Alcohol and Drug Programs
Waiting List Reduction Grant Programs
1991-92
(dollars in thousands)

Types of Treatment	*Number of Slots*	*Funds Needed in 1991-92*
Methadone Maintenance	1,404	$3,640
Outpatient Drug-Free	1,012	3,153
Residential Drug-Free	699	11,403
Methadone Detox	215	865
Outpatient Detox	120	755
Total	3,450	$19,816

Potential Carryover From 1990-91 To 1991-92. Due to the large increases in federal funds the department has received over the last few years, counties have rolled unspent funds over from one fiscal year to the next. The department received $7.3 million from the counties in 1990-91 that was unspent in 1989-90. The department estimates that the carryover from 1990-91 will probably be much smaller, although it will not know the final amount until early 1991-92. The Legislature could specify with Budget Bill language that these funds be distributed to the unfunded waiting list treatment slots. Since only 16 of the counties currently have these waiting list reduction grant programs, however, targeting the carry over funds in this manner would affect counties differently.

Unbudgeted Federal Funds. The department advises that it has additional federal funds which have been carried over from previous years and are currently unbudgeted. The department advises that it is saving these funds to cover the costs of department programs and legislation signed into law in 1990 which requires the department to spend funds in 1991-92 as well as 1992-93 and 1993-94. These funds could be used to cover the waiting list slot costs in 1991-92, although it would leave the department or future legislative priorities vulnerable in future years if the department does not receive an increase in its federal ADMS block grant.

Analyst's Recommendation. Given the difficulty in establishing residential drug-free treatment programs and the greater flexibility in expanding and contracting methadone programs, we recommend that the department allocate the $2.5 million proportionally between counties giving first priority for funds to nonmethadone programs. In addition, we recommend the counties similarly prioritize the $5.4 million in county subvention funds to the nonmethadone programs in their county. Lastly, because the unbudgeted federal monies could fund the continuation of the waiting list drug treatment slots, we recommend the department report to the Legislature, prior to budget hearings, on the amount of federal funds available to continue the WLRG treatment slots.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Expansion of Treatment Services for Pregnant and Parenting Substance Abusing Women

We recommend that the department report to the Legislature, prior to budget hearings, on (1) the allocation process that will be used to distribute alcohol surtax funds to the counties, (2) the specifics of the prevalence study, and (3) in conjunction with the Department of Health Services (DHS), the feasibility and costs of transferring the certification of Medi-Cal drug treatment centers to the DADP from the DHS. In addition, we recommend the adoption of Budget Bill language redirecting any funds not spent for expanding treatment services for pregnant and parenting women to the Waiting List Reduction Grant Programs.

The budget proposes $25 million to expand treatment services for pregnant and parenting substance abusing women. The amount consists of $17 million from a proposed increase in the excise taxes on alcoholic beverages and $8 million from federal Medi-Cal matching funds. The administration estimates that its proposal to raise alcohol excise taxes, which will require the enactment of legislation, will generate $190 million in 1991-92. The DADP will receive $17 million of these new funds with the rest of the monies being proposed for local health and mental health programs. We discuss the revenue implications of the administration's proposal in Part II, *The 1991-92 Budget: Perspectives and Issues.* We discuss the administration's proposed expenditure of the additional alcoholic beverage tax monies on local health and mental health programs in our analyses of the DHS (Item 4260) and Department of Mental Health (Item 4440).

The department's proposal to expand treatment services for pregnant and parenting women includes the following:

- $23 million in local assistance funds to provide substance abuse treatment for approximately 4,190 Medi-Cal-eligible women annually.
- $1.8 million to fund a statewide prevalence study to determine the extent of alcohol and drug abuse among pregnant women. The study would entail randomly testing pregnant women at delivery to determine whether they have alcohol or drugs in their systems.
- $200,000 to fund four positions within the department to oversee this expansion.

The department advises that it initially proposed using a request for proposals (RFP) process to distribute the funds to the county offices of alcohol and drug programs. Due to objections and concerns raised by county alcohol and drug program administrators, however, the department is now exploring with the administrators the options for distributing the money. The department advises that all 58 counties will be eligible for the funds and the department will fund the four major types of treatment — residential treatment, intensive day treatment, outpatient drug-free treatment, and methadone maintenance. Three of the four types of

treatment, residential is the exception, are eligible for Medi-Cal reimbursement. The department advises that the budget currently schedules all the funds as local assistance. We have been informed by the Department of Finance that it intends to submit a budget amendment letter to the Legislature which will reschedule approximately $2 million of the alcohol surtax funds to cover the costs of the prevalence study and the positions. The department advises that it will provide the workload justification for the positions it will need to administer the expansion, as well as the study at the time the budget amendment letter is submitted. This proposal is in addition to the current Services for Pregnant and Parenting Women and Their Children Pilot Project.

Proposal Has Substantial Merit. In the *1989-90 Budget: Perspectives and Issues*, we examined the issue of substance-exposed infants and found that the costs associated with these infants is substantial. In addition, we recommended that the DHS conduct a one-time prevalence study to determine the extent of maternal substance abuse.

The administration's proposal to expand substance abuse treatment for pregnant and parenting women is consistent with our findings and recommendations. We believe that the administration deserves credit for the proposal because by providing additional funds for treatment programs for these women, the administration may be preventing the state from incurring additional costs. The department estimates that the unmet need for these services is well above the amounts of service which will be provided in this proposal.

We have three concerns about the proposal, however, that the department needs to address in order for the Legislature to thoroughly evaluate the proposal. We discuss these concerns below.

Proposal Needs More Detail. The department advises that because of the short amount of time it had to develop the proposal, it has not been able to provide the Legislature with the details of how the funds will be distributed to the counties and the design of the prevalence study. Therefore, we recommend that the department report to the Legislature, prior to budget hearings, on (1) the allocation process which will be used to distribute the funds to the counties, and (2) the specifics of the prevalence study.

Program Implementation May Be Delayed Due to the Medi-Cal Certification Process. Although the department advises that the funds will be provided statewide, only 25 of the 58 counties and 76 of the 410 drug treatment programs currently are part of the Medi-Cal system. In order for counties to receive Medi-Cal funds for their programs, counties must work with the DHS and develop accounting systems for these funds. In addition, providers of Medi-Cal services must also set up accounting systems and be certified by the DHS. The biggest obstacle in getting a drug treatment Medi-Cal program started is the certification process. Some counties report a six- to nine-month wait in receiving certification site visits from the DHS.

We are concerned that the certification by the DHS may result in long delays in getting drug treatment centers and slots opened. In some

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

instances, the federal government has waived its requirement that the DHS be the agency that certifies Medi-Cal programs. For example, the Department of Aging certifies its Medi-Cal adult day health care centers. For these reasons, we recommend that the DADP, in conjunction with DHS, report to the Legislature, prior to budget hearings, on the feasibility and costs of transferring the certification of Medi-Cal drug treatment centers to the DADP from the DHS. This issue will have policy and workload implications for the DHS; thus, we make the same recommendation in our DHS analysis (Item 4260).

Unspent Alcohol Surtax Funds Could Be Redirected to Waiting List Reduction Grant Programs. Although the department has emphasized the urgency of getting the funds out to the counties in order to get programs started, the department is unlikely to spend the entire $17 million in alcohol surtax funds in 1991-92. New programs will be delayed, for reasons cited above as well the difficulties counties have in convincing neighborhoods and local governments to approve new treatment sites. On the other hand, currently existing women's programs which have sufficient room to expand facilities will be able to use these new funds very quickly and begin serving women without much delay. At this time, it is impossible to estimate how much of the $17 million will go unspent during 1991-92 due to program delays. However, any unspent funds could be redirected to other treatment programs, such as to cover some of the Waiting List Reduction Grant (WLRG) Programs whose funding will end in 1990-91 (we discuss the WLRG Programs earlier in this analysis).

Therefore, we recommend the adoption of Budget Bill language to redirect any funds not spent for expanding treatment services for pregnant and parenting women to the WLRG Programs. Specifically, we recommend the following language in Item 4200-101-276:

> The Department of Alcohol and Drug Programs and the Department of Finance shall notify the Joint Legislative Budget Committee and the Legislature's fiscal committees by January 1, 1992, of its estimate of the amount of funds appropriated in this item that will not be spent for treatment services for pregnant and parenting women in 1991-92. These funds shall be used to fund the Waiting List Reduction Grant Programs funded in Item 4200-101-890 not sooner than 30 days following the date of notification.

Summary of Analyst's Recommendations. In summary, we recommend that the department report to the Legislature, prior to budget hearings, on (1) the allocation process which will be used to distribute the funds to the counties, (2) the specifics of the prevalence study, and (3) in conjunction with DHS, the feasibility and costs of transferring the certification of Medi-Cal drug treatment centers to the DADP from the DHS. In addition, we recommend the adoption of Budget Bill language to redirect any funds not spent for expanding treatment services to pregnant and parenting women to the WLRG Programs.

Legislative Oversight — Community Drug-Free School Zones Program

The department received a poor response from the schools eligible to participate in the program. As a result, less than half of the eligible schools received funding.

In 1990-91, the department allocated $1.6 million for a new prevention program titled Community Drug-Free School Zones (CDFSZ). The CDFSZ Program was designed by the department to be a prevention program centered at school sites but which works with the community.

The department released an RFP that specified seven program areas that each proposal had to address, including parent and community involvement, intervention programs for high-risk youth, employment activities, and alternative activities to socializing with drugs. The RFP specifically prohibited using the funds for purchase of drug education curricula since schools receive other funds which they can use to purchase curricula.

Because of the lack of drug-specific data, the department used state Department of Education data to select the 10 most at-risk high schools in Los Angeles County and the 10 most at-risk high schools in other parts of the state. These 20 schools were then eligible to apply for the 8 CDFSZ grants, of which 4 would be awarded to schools in Los Angeles County and 4 to schools in other parts of the state.

Schools Score Poorly on the Request for Proposals. The department held a bidders' conference and paid for each high school to send two representatives to the conference. Of the 20 schools eligible to apply for grants, which ranged from $300,000 to $500,000, only 13 applied. Of the 13 which applied, only 8 scored above the department's minimum scoring requirement of 70 percent. Ultimately, the department awarded six grants — two in Los Angeles County and four in other parts of the state.

Schools Are Reluctant to Work With the Community. The department advises that several schools did not apply because they did not want to work with the community and parents, and because they only wanted to use the funds for purchase and implementation of drug education curricula.In the *1990-91 Budget: Perspectives and Issues*, we reviewed the research on drug prevention programs and found that curriculum-based prevention programs have not been shown to be effective. Instead, we found community-based programs and programs focused on high-risk youth to be much more promising. For this reason, we believe that the department's CDFSZ Program design is sound.

The Department Proposes to Expand the CDFSZ Program in Budget Year. The budget proposes $5.7 million to expand the CDFSZ Program from its current 6 school sites to 12 in 1991-92. The department proposes to award four of the additional grants to high schools within Los Angeles County and two to schools in other parts of the state. The department advises that it will provide more technical assistance to the schools applying during this second round to generate a higher response rate and better designed proposals.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Legislative Oversight — Department's Prison/Parolee Drug Treatment Program to Begin March 1, 1991

The treatment program for inmates and parolees established in the 1990 Budget Act is being implemented consistent with legislative direction.

The 1990 Budget Act included language requiring the department to use $1 million for two, two-year pilot projects targeted to provide treatment services to prison inmates and parolees. The Legislature specified that it wanted the department to work with the Department of Corrections (CDC) in designing a program similar to the programs at the Richard J. Donovan Correctional Facility (San Diego) and San Quentin State Prison.

The department entered into an interagency agreement with the CDC in January 1991 to serve 360 inmates at the California Institution for Women (CIW) at Frontera. At the time this analysis was prepared, the CDC was reviewing proposals to select a contractor for the prison-based drug treatment program. The CDC estimates that the program will begin on March 1, 1991. In addition, the DADP is contracting with four surrounding counties to provide community-based drug treatment services to some of the inmates as they complete the prison treatment program and are paroled into the community. The DADP advises that the community-based services will be operating by July 1, 1991.

We will continue to monitor the department's progress and report to the Legislature as appropriate.

Legislative Oversight — Program Accountability System

Consistent with legislative direction, the DADP has established a Program Accountability Task Force to advise the department on performance standards for treatment programs. The department is deciding on the direction and mandates for the task force.

In the *Analysis of the 1990-91 Budget Bill*, we recommended that the department develop a system to identify exemplary alcohol recovery and drug treatment programs. We were concerned that the department, as the state's oversight agency for treatment programs, was not fulfilling its role in furthering treatment program development at the state level in much the same way the federal government has done. In response to our concerns, the department submitted a budget amendment letter proposing to establish a program accountability system. The proposal was designed to also meet the federal government's growing concern over program accountability. The Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* directing the department to report to the Legislature by January 1, 1991 on the baseline information it had collected, its plans for development of a statewide program effectiveness evaluation and accountability system, and the status of federal requirements and guidelines. The report was submitted on time.

Department Needs To Provide More Direction to Task Force. The department reported that it plans to (1) work with the county offices of

alcohol and drug programs to identify exemplary programs and determine if they are replicable, and (2) establish a Program Accountability Task Force to advise the department on the development and adoption of model performance standards and data collection systems.

The Program Accountability Task Force will be comprised of service providers, county drug and alcohol agency representatives, research organizations, and others. The department lists a wide range of 20 issues which the task force will address. This list appears to be a list of the most crucial issues involved in establishing a statewide program effectiveness evaluation and accountability system. At the time this analysis was prepared, the department advised that it is in the process of deciding what direction and mandates it will give the task force.

An Overview of the Public Drug Treatment System

For the past several years, drug use and abuse have been of significant concern to the Legislature. In order to assist the Legislature in understanding drug *treatment*, we have prepared the following overview of the public drug treatment system. In this analysis, we (1) describe the public drug treatment system in California, (2) describe the types of treatment funded and the characteristics of clients served, (3) examine the recent growth in drug treatment services, and (4) review the research literature on the effectiveness of drug treatment.

California's Public Drug Treatment System

The public drug treatment system provides publicly funded drug treatment to indigent drug addicts. In addition to public programs, there are private drug treatment centers which are available to the general public for a fee. The only interaction the DADP has with the private system is in licensing some of the programs.

The Current System Emphasizes Local Control. The DADP oversees California's public drug treatment system, but the counties administer the programs and make the crucial decisions about what types of programs are provided. Most counties do not provide services directly, but instead contract out to providers. The department subvenes state and federal block grant funds to the county offices of drug programs and in return requires the county offices to submit county plans which outline the counties' plans for spending the funds. State law specifies the planning process counties must go through in developing their plans. State law is clear in emphasizing that the decisions regarding drug treatment programs are to be *local decisions*. The DADP only provides the counties with suggested *priorities* for treatment. For example, the department has in recent years "encouraged counties to consider programs" targeted to women.

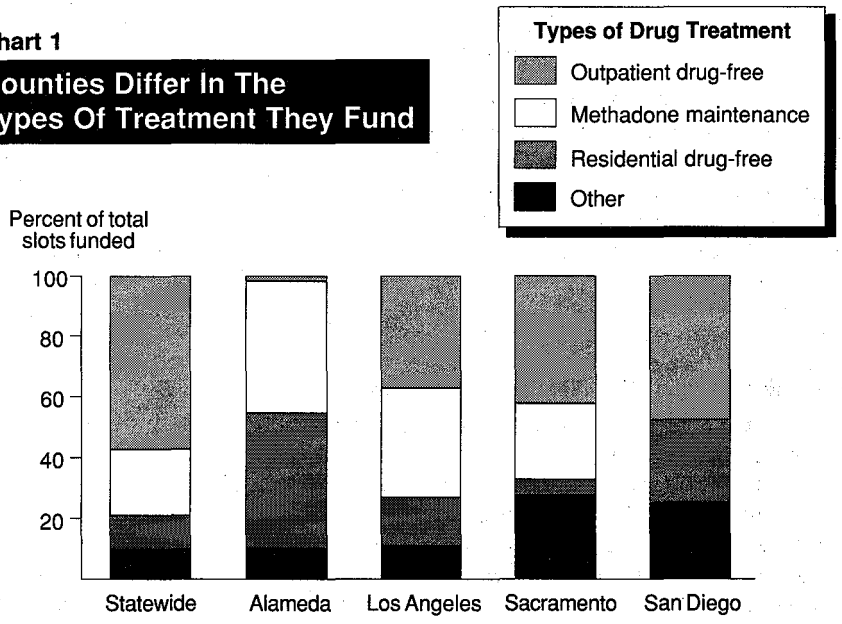
Counties Differ In the Types of Treatment They Fund. The result of local control is that counties differ in the types of treatment they fund. Chart 1 shows the types of treatment funded in four counties and statewide on October 31, 1990. As the chart shows, there are substantial differences in services between counties. For example, although 57 percent of the public slots funded statewide are outpatient drug-free

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

treatment slots, in Alameda County only 2 percent of the public slots are outpatient drug-free. From our visits to counties we learned that there are several reasons behind these county differences. Some of the difference is due to the particulars of the county, for instance several counties have had great difficulty in recent years getting residential sites approved by local governments and communities, while other differences are due to the different philosophies of the county or the drug administrator.

Chart 1

Counties Differ In The Types Of Treatment They Fund



Source: Drug Abuse Treatment Access Report, January 22, 1991, Department of Alcohol and Drug Programs. Public treatment slots funded on October 31, 1990.

The department advises that counties generally try to provide a continuum of services—a variety of different types of drug treatment programs, because clients may prefer or need different types of treatment.

Public Drug Treatment Programs are Open to All, But Accessible to Few. Publicly funded drug treatment programs are open to the public and use a sliding fee scale to charge fees. The department estimates that in 1990-91, programs will collect $7.7 million in client fees. In addition, programs receive other public funds, such as AFDC payments from women with children who are eligible to receive treatment.

Although programs are open to the public, the existence of long waiting lists makes the programs extremely difficult to enter. Waiting lists have existed for many years; the department first documented their existence in 1987. The DADP reports that there were 5,718 people on

waiting lists on October 31, 1990—a figure that is consistent with other figures reported earlier in the year.

The Modalities of Drug Treatment

As noted above, county offices of drug programs fund several different types, or modalities, of treatment. Table 6 shows these different types of treatment, annual cost per slot, the average length of stay in treatment by type, and the percent of total admissions.

Table 6
Department of Alcohol and Drug Programs
Types of Publicly Funded Treatment In California

Types of Treatment	*Annual Cost Per Slot 1991-92* [a]	*Average Days in Treatment, 1989-90* [b]	*Percent of Total Admissions, 1989-90* [b]
Methadone Detox	$4,023	14	51.3%
Methadone Maintenance	2,593	309	11.1
Outpatient Drug-Free	3,116	117	25.0
Residential Drug-Free	16,313	94	9.3
Other	—[c]	49	3.2

[a] Waiting List Reduction Grant program estimates for 1991-92, DADP.
[b] Most recent data available from California Drug Abuse Data System, DADP.
[c] Includes day treatment, residential detox, and outpatient nonmethadone detox. Costs for these programs vary from $6,292 to $16,313.

Methadone Detox and Methadone Maintenance. Methadone programs use oral doses of methadone, a synthetic narcotic drug, to withdraw and maintain opiate users—primarily heroin addicts. *Methadone detox* programs provide methadone in smaller and smaller doses as addicts detox from their heroin habit over a 21-day period. *Methadone maintenance* programs take clients who have been detoxed and provide daily methadone doses as well as counseling and other supportive services. Methadone programs, as in all types of drug treatment, use random drug testing to determine a client's progress in the program. The state licenses and regulates all methadone programs, and unlike other types of treatment, requires the participation of a physician to oversee the clients' conditions and prescribe the doses of methadone.

Maintenance programs make it their primary goal to reduce criminal behavior and return the client to a productive life. Their main goal is not to eliminate all drug use, since methadone is a drug. Instead, maintenance programs treat chronic heroin use as a health disorder, similar to the way lithium chloride is provided on a long-term maintenance basis to individuals suffering from chronic mood disorders. State regulations require addicts have at least two years of an addiction history and at least two failures in other drug treatment programs before they are allowed to participate in a methadone maintenance program. Since 1986, the state has allowed methadone programs to apply for waivers to admit clients with only one year of addiction history and one treatment failure. This is because heroin addicts are predominately intravenous drug users (IVDUs). In 1989-90, 96 percent of the heroin admissions were IVDUs, and IVDUs are at high risk of contracting HIV — the virus that causes AIDS, through the use of contaminated needles.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Residential Drug-Free. Residential drug-free programs are designed to completely change clients' lifestyles. Clients live in program facilities and are engaged in a highly structured program in which their days are completely planned. These programs rely on the use of program graduates as peer counselors, and create an atmosphere where the clients are counseling one another. Clients' progress in the programs are closely followed and they progress through stages that are clearly demarcated.

Outpatient Drug-Free. These programs emphasize counseling and do not include medication as part of the treatment program. For these reasons, they serve a variety of drug users whose addiction is not serious enough to need a 24-hour program. These programs vary in the amounts of individual and group counseling they provide. Some of these programs are no more than drop-in centers, while most are structured programs where clients are required to meet on a regular basis.

Other Types of Drug Treatment Programs. Other types of treatment include outpatient detox, residential detox, and day treatment. All are nonmethadone programs and are variations on the models described above.

Characteristics of Drug Treatment Clients

The DADP collects data on clients admitted to and discharged from drug treatment programs. The data indicate for example, that drug treatment clients are not casual users and tend be older because most do not seek treatment until their drug use has negatively affected them several times. For example, the DADP reports that of clients admitted to treatment in 1989-90, 71 percent were using drugs more than once daily before treatment, 59 percent were 31 years of age or older, only 27 percent were employed, and 18 percent were referrals from the criminal justice system. Characteristics of drug treatment clients also vary between counties. For example, San Diego had only 6.3 percent of its admissions as criminal justice referrals while Santa Clara had 34 percent criminal justice referrals. However, in Santa Clara only 53 percent of its admissions were IVDUs, whereas San Diego had 82 percent.

The DADP also reports that 38 percent of the admissions in 1989-90 had from one to three prior admissions to drug treatment programs, and 34 percent had more than three prior admissions. These numbers illustrate the relapsing nature of drug abuse and the nature of methadone maintenance programs. For example, of the clients who had been previously admitted to drug treatment programs more than three times, 92 percent were in methadone programs.

Funding and Admissions To Drug Treatment Programs Increase Dramatically In Recent Years

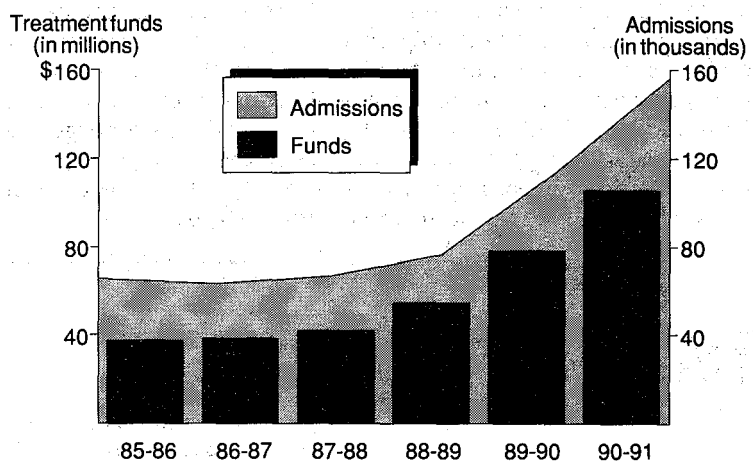
As Chart 2 shows, the funding and admissions to drug treatment programs have increased dramatically in the last few years. Before 1988-89 the funding for drug treatment was relatively stable. Funding increases since 1988-89 are due to an increase in federal funds. General Fund expenditures have been relatively stable and will probably de-

crease in 1991-92 due to the trigger-related reduction discussed earlier. The chart shows that as funding has increased, admissions have increased accordingly. We estimate that the public treatment system will admit approximately 156,387 clients in 1990-91. Due to the department's proposal to use alcohol surtax funds to expand treatment services to pregnant and parenting women, we estimate that state funding for drug treatment will increase from $105 million in 1990-91 to approximately $114 million in 1991-92.

Chart 2

Funding And Admissions For Drug Treatment Increase Dramatically In Recent Years

1985-86 through 1990-91



Source: Department of Alcohol and Drug Programs and LAO estimates.

New Funds Have Expanded NonMethadone Programs. From 1987-88 through 1990-91, the department reports that the number of outpatient drug-free providers increased from 156 to 196, or 26 percent, while the number of residential drug-free providers increased from 63 to 101, or 60 percent. On the other hand, the number of methadone providers increased only 2 percent. This data, however, does not reflect program expansions by existing providers which may have received new money during these years. This may account for the seemingly flat growth in methadone programs.

The Unmet Need For Drug Treatment Is Difficult To Estimate. It is difficult to estimate the level of unmet need for treatment because data are not available indicating (1) the number of addicts in the state who need treatment, and (2) the number of addicts who would seek treatment if it were available. The existence of the waiting lists in almost every county is evidence of the additional need for treatment, but the

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

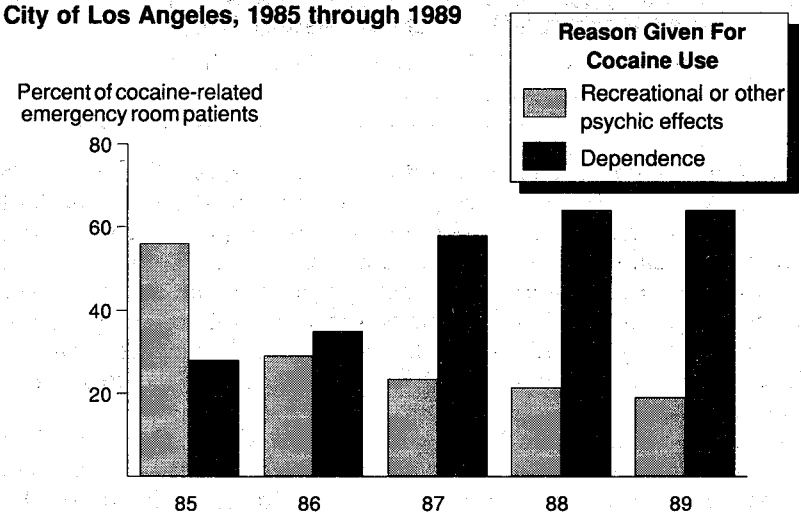
waiting list numbers cannot be used to estimate unmet need because they only capture those addicts who sought treatment and agreed to be placed on the list.

The Need For Treatment Appears To Be Growing. The department advises that the waiting lists are increasing. The department theorizes as more programs open, the word gets out on the street that treatment is now available, and those addicts who previously did not seek treatment because of waiting lists have started to seek it now. Another indication of the growing need for treatment is seen in the Drug Abuse Warning Network (DAWN) data. The DAWN collects data from hospitals and medical examiners on the number of times drugs are reported or mentioned in emergency rooms in certain metropolitan areas throughout the United States. Chart 3 shows preliminary data by the RAND Corporation for cocaine-related emergency room patients in the City of Los Angeles. As the chart shows, in 1985 most of the cocaine-related emergency room patients said they used cocaine for recreational or other psychic effects, but by 1986 and increasing through 1989, the majority of patients replied that they used cocaine because they were dependent upon it. In addition, from 1985 to 1989, cocaine-related emergency room episodes increased 178 percent. Thus, over the four-year period, the number of emergency room episodes increased and the percent of those individuals who were dependent on cocaine also increased.

Chart 3

More Cocaine Users Have Become Dependent

City of Los Angeles, 1985 through 1989



Source: The RAND Corporation, preliminary results of the exploratory analysis of the Drug Abuse Warning Network data, January 1991.

In comparison, the DAWN data show that heroin use habits have been fairly stable. In Los Angeles in 1985, 11 percent of the heroin-related emergency room patients replied that they used heroin for recreational and other psychic effects and 78 percent used it because they were dependent upon it. In 1989, 9 percent used heroin for recreational and other physic effects, whereas 84 percent used it because they were dependent upon it. These data appear to show that in contrast to the dependency change in users of crack cocaine, heroin has been a dependent drug throughout the survey period.

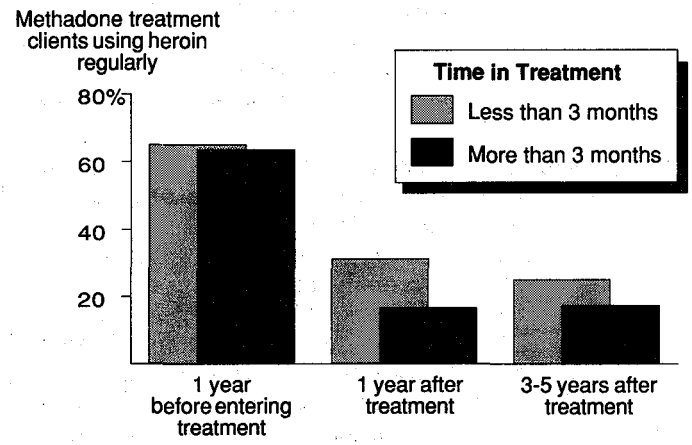
Does Treatment Work?

Research on the effectiveness of drug treatment is not expansive, however, many small studies have been conducted over the years as well as two large-scale, multi-site federally sponsored studies. The Drug Abuse Reporting Program followed clients who entered drug treatment programs in 1969 through 1974 for 12 years. The Treatment Outcome Prospective Study (TOPS) followed clients who entered drug treatment programs in 1979 through 1981 for up to five years.

Treatment Substantially Reduces Use Among Heroin Addicts. As Chart 4 shows, regular (daily or weekly) heroin use declined substantially among methadone treatment clients one year after treatment and held for three to five years after treatment. For example, about 64 percent of the methadone maintenance clients who stayed in treatment at least

Chart 4

Time In Treatment Has Significant Effect On Regular Heroin Use[a]



[a] Clients entering treatment 1979-81. Regular heroin users are defined as daily or weekly heroin users.

Source: *Drug Abuse Treatment A National Study of Effectiveness,* Research Triangle Institue 1989.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

three months reported that they were regular heroin users one year before entering treatment. Only about 17 percent were regular users at the one year and three- to five-year follow-ups. In addition to the data shown in Chart 4, the TOPS also found similar declines in heroin use among clients in residential and outpatient drug-free treatment programs. Although heroin addicts were the main type of user followed in the TOPS, the study found that drug use also declined for other drug users.

Time Spent In Treatment Strongest Predictor of Success. Research has repeatedly shown that the strongest predictor of success is time spent in treatment. Chart 4 shows the different outcomes of those who stayed in treatment less than three months, and those who stayed more than three months. Clients who stayed longer than three months in treatment had significantly lower drug use levels at follow-up. For example, for those clients who stayed less than three months in methadone treatment, the percentage of regular heroin users dropped from 65 percent to 31 percent at the one year follow-up. In contrast, for the clients who stayed longer than three months in treatment, the percentage of regular users dropped from 64 percent to 17 percent. Demographic and background factors appear to have relatively little effect as predictors of success, although pretreatment drug use patterns appear to have some predictive effect. Chart 4 makes a distinction at three months because several studies have identified that as the turning point — clients who stay at least three months in treatment do considerably better than those who drop out before three months.

Treatment Also Reduces The Severity of Drug Use Patterns. The TOPS also reported that for those who stayed in treatment at least three months, the severity of their drug use patterns were reduced. For example, among clients who had more extensive drug use patterns the year before entering treatment (such as heroin or other opiates), three-fourths shifted to a less complex pattern of abuse (such as using amphetamines or minimal use of any drug).

Research Strongly Supports Methadone Maintenance. Of all the types of treatment, methadone maintenance has been the most closely studied and been repeatedly shown to reduce drug use and criminal behavior. Controlled experiments have shown that there was a statistically significant reduction in drug use and criminal behavior among persons who received methadone. In an experiment of California's methadone programs, researchers showed that before the introduction of methadone programs into California in 1971, addicts who were released from the Department of Corrections' Civil Addict Program exhibited two types of responses. A proportion of them no longer used drugs and a proportion started using again immediately upon release. With the introduction of methadone programs in 1971, the researchers observed that many of the users entered methadone programs and had significantly lower drug use and criminal activity than those who did not enter a methadone program.

Drug Treatment Reduces Criminal Activity. As Table 7 shows, the TOPS findings proved consistent with previous research which found that drug treatment reduces criminal activity while clients are in treatment and following treatment. The data show that the proportion of clients involved in predatory crimes dropped substantially while the clients were in treatment, rose immediately following treatment, and fell again in the succeeding years.

Table 7
Department of Alcohol and Drug Programs
Treatment Outcome Prospective Study
Treatment Clients Involved In Predatory Crimes
Clients Entering Treatment 1979-1981

Types of Treatment	*1 Year Before Treatment*	*During Treatment*	*3 Months After Treatment*	*3-5 Years After Treatment*
Methadone	31.8%	9.8%	18.8%	16.2%
Residential	60.9	3.1	25.2	19.8
Outpatient Drug-Free	33.0	9.4	11.0	7.6

Criminal Justice Clients Do As Well, If Not Better In Treatment. The TOPS also looked specifically at clients who were involved in the criminal justice system, for example those clients on parole or probation. The study found that the criminal justice clients tended to be younger and had less serious drug abuse patterns than other clients. Perhaps because of these characteristics, the study found that the criminal justice clients did as well, if not better than other clients in reducing their substance abuse. In addition, criminal activity for these clients also decreased substantially while they were in treatment.

Conclusions

The state has dramatically increased its spending on drug treatment programs in recent years, due to increases in federal funds. However, long waiting lists for treatment still exist in most counties. There is substantial research showing that drug treatment reduces drug use and criminal activity among drug treatment clients. The data show that the greatest indicator of success is the time spent in treatment. In addition, the research shows that those treatment clients involved in the criminal justice system do just as well, if not better than other clients in reducing their substance abuse.

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE

Item 4220 from the General Fund — Budget p. HW 40

Requested 1991-92	$259,000
Estimated 1990-91	257,000
Actual 1989-90	244,000
Requested increase $2,000 (+0.8 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 1991-92. This amount is $2,000, or 0.8 percent, more than estimated current-year expenditures, and is sufficient to maintain current-year service levels.

DEPARTMENT OF HEALTH SERVICES

Item 4260 from the General Fund and various funds — Budget p. HW 42

Requested 1991-92	$13,256,066,000
Estimated 1990-91	11,125,713,000
Actual 1989-90	9,760,982,000
Requested increase $2,130,353,000 (+19.1 percent)	
Total recommended reduction	11,292,000
Recommendation pending	11,307,395,000
Recommended reversion	6,900,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4260-001-001—Department support	General	$170,113,000
4260-001-014—Department support	Hazardous Waste Control Account	8,958,000
4260-001-044—Department support	Motor Vehicle Account	352,000
4260-001-129—Department support	Water Device Certification Special Account	118,000
4260-001-135—Department support	AIDS Vaccine Research and Development Grant	206,000
4260-001-137—Department support	Vital Records Improvement Project	1,719,000
4260-001-164—Department support	Outer Continental Shelf Land Act Revenue	210,000
4260-001-177—Department support	Food Safety	3,522,000
4260-001-179—Department support	Environmental Laboratory Improvement	1,940,000
4260-001-203—Department support	Genetic Disease Testing	38,904,000
4260-001-227—Department support	Low-Level Radioactive Waste Disposal	1,342,000
4260-001-231—Department support	Health Education Account, Cigarette and Tobacco Products Surtax (C&T)	1,464,000
4260-001-232—Department support	Hospital Services Account, C&T	1,268,000
4260-001-233—Department support	Physician Services Account, C&T	428,000
4260-001-234—Department support	Research Account, C&T	1,733,000
4260-001-236—Department support	Unallocated Account, C&T	899,000
4260-001-302—Department support	Large Water Systems Account	4,002,000
4260-001-335—Department support	Registered Environmental Health Specialist	269,000
4260-001-455—Department support	Hazardous Substance Account	5,902,000
4260-001-478—Department support	Mosquitoborne Disease Surveillance Account	36,000
4260-001-693—Department support	Disproportionate Share and Emergency Services	109,000
4260-001-823—Department support	California Alzheimer's and Related Disorders Research	588,000
4260-001-890—Department support	Federal	116,633,000
4260-001-900—Department support	Local Health Capital Expenditure Account	17,000
4260-002-942—Department support	Health Facilities Citation Penalties Account	500,000
4260-005-890—Department support	Federal—special projects	108,877,000
4260-005-900—Transfer to the General Fund	Local Health Capital Expenditure Account	(2,474,000)
4260-007-890—Department support	Federal—flow through to other departments	18,989,000
4260-011-014—Department support—toxics	Hazardous Waste Control Account	40,055,000
4260-011-455—Department support—toxics	Hazardous Substance Account	29,680,000
4260-011-890—Department support—toxics	Federal	20,070,000
4260-012-455—Loan to the Hazardous Waste Control Account	Hazardous Substance Account	(3,600,000)
4260-012-826—Transfer to the Hazardous Substance Cleanup Fund	Superfund Bond Trust	(7,238,000)
4260-015-455—Department support—toxics	Hazardous Substance Account	5,375,000
4260-101-001—Medi-Cal local assistance	General	5,308,929,000

DEPARTMENT OF HEALTH SERVICES—Continued

4260-101-693—Medi-Cal local assistance	Disproportionate Share and Emergency Services	14,944,000
4260-101-890—Medi-Cal local assistance	Federal	5,741,209,000
4260-103-890—Medi-Cal refugees	Federal	19,865,000
4260-111-001—Public health local assistance	General	516,265,000
4260-111-137—Public health local assistance	Vital Records Improvement Project	300,000
4260-111-890—Public health local assistance	Federal	245,564,000
4260-492—Reappropriation	Items 4260-011-710 and 4260-012-710, 1988 Budget Act	—
Control Section 23.50—Support	State Legalization Impact Assistance Grant (SLIAG)	3,259,000
Control Section 23.50—Local assistance	SLIAG	350,096,000
Pending legislation— public health local assistance	Health Education Account, C&T	72,825,000
Pending legislation— public health local assistance	Hospital Services Account, C&T	149,565,000
Pending legislation— public health local assistance	Physician Services Account, C&T	28,416,000
Pending legislation— public health local assistance	Unallocated Account, C&T	80,160,000
Welfare and Institutions Code Section 16709	County Medical Services Program Account	1,999,000
Ch 376/84	Superfund Bond Trust	5,194,000
Reimbursements	—	131,895,000
Family repayments	—	1,303,000
Total		$13,256,066,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

Department Support

1. Unallocated Reductions. In 1990-91 and 1991–92, the department's proposal to allocate a $4.5 million reduction will result in a loss of $1.8 million in federal Medi-Cal funds and unknown General Fund costs. Recommend that the department report prior to budget hearings on its criteria for allocating the $4.5 million reduction and its proposal for allocating an additional $25.3 million unallocated trigger-related reduction in 1991-92. — 528
2. Budget Structure Changes Due to CALSTARS. To increase the Legislature's oversight ability over the Department of Health Services (DHS), recommend that the Legislature adopt supplemental report language (a) stating legislative intent that, by 1993-94, the department increase the number of program categories in the Budget Bill and (b) requiring the department to submit to the Legislature, by March 1, 1992, its proposal to do this. — 533
3. Fee Collections. Recommend the adoption of supplemental report language requiring the department to report, by December 15, 1992, on the actual costs and revenues collected for each fee-supported program for 1991-92, to ensure that fee revenues for 56 programs fully support costs. — 536

DEPARTMENT OF HEALTH SERVICES—Continued

DEPARTMENT OF HEALTH SERVICES—Continued

Medi-Cal

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 a total of 5,241.6 personnel-years in the current year.

DEPARTMENT OF HEALTH SERVICES—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $13.3 billion from all funds for support of Department of Health Services programs in 1991-92, which is an increase of $2.1 billion, or 19 percent, above estimated current-year expenditures. The largest proposed budget changes are a one-time increase of $1.9 billion ($876 million General Fund) for the change from cash to accrual accounting in the Medi-Cal Program and an increase of $287 million ($142 million General Fund) for Medi-Cal caseload and cost adjustments. The budget also reflects a decrease of $471.5 million (General Fund) to eliminate state funding of AB 8 county health services and transfer them to the counties and a decrease of $157.9 million in the Cigarette and Tobacco Products Surtax Fund monies for various health-related programs.

Table 1 shows the proposed budget, by program category, for 1991-92 and the two previous years.

Table 1
Department of Health Services
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

Expenditures	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change Amount	Change Percent
State operations					
Support — excluding toxics	$608,330	$708,407	$733,228	$24,821	3.5%
Support — toxics	97,538	134,750	102,317	−32,433	−24.1
Distributed departmental services—toxics	−3,819	−3,476	−3,477	−1	—
Special projects — excluding toxics	2,019,145	1,755,246	1,225,055	−530,191	−30.2
Public health local assistance	7,039,791	8,530,786	11,224,225	2,693,439	31.6
Medi-Cal local assistance	—	—	−25,282	−25,282	—
Totals	$9,760,985	$11,125,713	$13,256,066	$2,130,353	19.1%
Funding Sources					
General Fund	*$4,779,622*	*$5,123,580*	*$5,995,307*	*$871,727*	*17.0%*
Federal funds	*3,949,568*	*4,820,407*	*6,271,207*	*1,450,800*	*30.1*
Hazardous Substance Cleanup (Bond) Fund	*8,490*	*21,858*	—	*−21,858*	*−100.0*
Hazardous Substance Account	*33,243*	*39,253*	*40,582*	*1,329*	*3.4*
Hazardous Substance Account, direct site cleanup	—	*5,375*	*5,375*	—	—
Hazardous Substance Account, responsible parties	*1,515*	—	—	—	—
Hazardous Waste Control Account	*44,333*	*48,358*	*49,013*	*655*	*1.4*
Hazardous Waste Management Planning Subaccount	*1,015*	*26*	—	*−26*	*−100.0*
Hazardous Substance Site Operations and Maintenance Account	*241*	*2,502*	—	*−2,502*	*−100.0*
Genetic Disease Testing Fund	*28,700*	*32,189*	*38,904*	*6,715*	*20.9*
County Health Services Fund	*1,199*	*2,922*	—	*−2,922*	*−100.0*
County Medical Services Program Account	*328*	*3,939*	*1,999*	*−1,940*	*−49.3*
Vital Records Improvement Project Fund	*3,290*	*5,507*	*2,019*	*−3,488*	*−63.3*
Local Health Capital Expenditure Account	*12*	*20*	*17*	*−3*	*−15.0*

State Legalization Impact Assistance Grant	270,422	390,329	353,355	−36,974	−9.5
Health Education Account, Cigarette and Tobacco Products Surtax (C&T) Fund	65,322	134,423	74,289	−60,134	−44.7
Hospital Services Account, C&T Fund	298,028	200,092	150,833	−49,259	−24.6
Physician Services Account, C&T Fund	81,213	59,452	28,844	−30,608	−51.5
Unallocated Account, C&T Fund	168,869	123,842	81,059	−42,783	−34.5
Research Account, C&T Fund	1,658	1,658	1,733	75	4.5
Large Water Systems Account Fund	—	—	4,002	4,002	—
Special Account for Capital Outlay	1,500	500	—	−500	−100.0
Motor Vehicle Account	333	344	352	8	2.3
Water Device Certification Special Account	48	118	118	—	—
AIDS Vaccine Research and Development Grant Fund	−125	2,005	206	−1,799	−89.7
Outer Continental Shelf Land Act Revenue Fund	—	—	210	210	—
Food Safety Fund	812	3,223	3,522	299	9.3
Environmental Laboratory Improvement Fund	1,206	1,850	1,940	90	4.9
Electromagnetic Field Study Fund	1,928	7	—	−7	−100.0
Low-Level Radioactive Waste Disposal Fund	—	1,140	1,342	202	17.7
Registered Environmental Health Specialist Fund	134	139	269	130	93.5
Mosquitoborne Disease Surveillance Account	27	26	36	10	38.5
Emergency Clean Water Grant Fund	330	1,944	—	−1,944	−100.0
Health Facilities Citation Penalties Account	—	—	500	500	—
Disproportionate Share and Emergency Services Fund	—	65,940	15,053	−50,887	−77.2
California Alzheimer's Disease and Related Disorders Research Fund	698	664	588	−76	−11.4
Superfund Bond Trust Fund	512	−3,033	194	3,227	−106.4
Reimbursements	15,586	33,811	131,895	98,084	290.1
Other funds	928	1,303	1,303	—	—

MAJOR ISSUES

☑ The department's proposal to allocate a $4.5 million reduction among its programs will result in (1) a loss of $1.8 million in federal Medi-Cal funds and (2) unknown General Fund costs from reduced activities designed to reduce Medi-Cal costs. In addition, the department has not yet developed a plan for allocating among its programs a $25.3 million unallocated reduction in 1991-92.

DEPARTMENT OF HEALTH SERVICES—Continued

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes expenditures for department support — excluding toxics — of $733 million (all funds) in 1991-92. These expenditures account for 5.5 percent of the department's budget. The Toxic Substances Control Division has its own budget items, and support for that division is discussed separately in the analysis of this item. (Please see Section 4.)

The department proposes 4,296.2 personnel-years in the budget year (excluding those assigned to toxics and special projects), a decrease of 29.9 personnel-years, or 0.7 percent, below 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
1989-90 through 1991-92
(dollars in thousands)

Program	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Change from 1990-91 Amount*	*Change from 1990-91 Percent*
Expenditures					
Public health	$418,763	$517,042	$535,993	$18,951	3.7%
Medical assistance	130,111	139,719	144,084	4,365	3.1
Licensing and certification	36,954	44,461	46,287	1,826	4.1
Administration and Director's office:					
Direct administration	22,502	7,185	6,864	−321	−4.5
Distributed administration	(23,423)	(50,658)	(52,210)	—	—
Subtotals, administration and Director's office	(49,925)	(57,843)	(59,074)	—	—
Special projects	(251,879)	(317,276)	(112,252)	—	—
Totals	$608,330	$708,407	$733,228	$24,821	3.5%
Personnel-years					
Public health	1,540.4	1,752.2	1,772.1	19.9	1.1%
Medical assistance	1,477.1	1,442.9	1,410.9	−32.0	−2.2
Licensing and certification	380.8	420.8	431.1	10.3	2.4
Administration and Director's office	773.4	710.2	682.1	−28.1	−4.0
Totals	4,171.7	4,326.1	4,296.2	−29.9	−0.7%

Table 3 identifies the main components of the changes proposed in the department's support budget for 1991-92, excluding toxics and special projects. The request for 1991-92 is $197.6 million, or 28 percent, below estimated 1990-91 expenditures.

Table 3
Department of Health Services Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (Budget Act)	$175,127	$681,996
Adjustments, 1990-91:		
Chaptered legislation	5,485	8,166
Lyme disease reappropriation	301	301
AIDS vaccine reappropriation, Ch 1436/86	2,000	2,000
Retirement reduction	−1,244	−2,192
Control Section 23.5 — State Legalization Impact Assistance Grant (SLIAG) carry-over funds	—	−306
Employee compensation increase	3,940	6,985
Board of Control adjustments	−53	−53
Medi-Cal funds to other departments	—	17,959
Alzheimer's revenue reduction adjustment	—	−174
Cytology labs reversion	−78	−78
Control Section 3.80 adjustment	−4,323	−6,197
1990-91 expenditures (revised)	$181,155	$708,407
Adjustments, 1991-92:		
Eliminate chaptered legislation	−5,485	−8,164
Eliminate Lyme disease reappropriation	−301	−301
Eliminate AIDS vaccine reappropriation, Chapter 1436	−2,000	−2,000
Eliminate one-time equipment	−2,644	−2,980
Augment for back Board of Control adjustment	53	53
Augment for back cytology labs reversion	78	78
Augment for SLIAG Control Section 23.50 adjustment	—	306
Special projects adjustment (federal and state)	—	−205,024
Medi-Cal funds pass-through adjustment	—	1,030
Expiration of limited-term positions	−494	−1,515
Expiration of limited-term positions, SLIAG	—	−5,513
Expiration of limited-term positions, Cigarette and Tobacco Products Surtax (C&T) Fund	—	−8,184
Full-year effect of 1990-91 costs	255	462
Pro rata adjustment	—	2,272
Reallocation of overhead and data processing costs	411	—
Full-year effect of 1990-91 employee compensation increases	2,850	4,840
Citation penalties account	—	500
Alzheimer's revenue reduction adjustment	—	−118
Automated case management adjustment	−10	−20
Supplemental Food Program for Women, Infants, and Children adjustment	—	13,130
Control Section 3.60 adjustment	—	54
Control Section 3.80 adjustment	—	86
Unallocated reduction	*−3,858*	*−3,858*
Budget change proposals:		
Public health	−3,858	11,190
Medical assistance	3,961	2,874
Licensing and certification	—	1,825
Administration and Director's office	—	1,356
1991-92 expenditures (proposed)	$170,113	$510,786
Change from 1990-91 expenditures (revised):		
Amount	−$11,042	−$197,621
Percent	−6.1%	−27.9%

DEPARTMENT OF HEALTH SERVICES—Continued

Legislature Needs Information on Unallocated Reductions

We find that in 1990-91 and 1991-92 the department's decision to distribute an unallocated reduction of $4.5 million among various programs will result in (1) a loss of $1.8 million in federal Medi-Cal funds and (2) unknown General Fund costs from reduced activities designed to reduce Medi-Cal costs. In addition, the department has not developed a plan for allocating among its programs a proposed $25.3 million unallocated reduction in 1991-92. Accordingly, we recommend that the department submit to the fiscal committees, prior to budget hearings, (1) the criteria used for allocating the $4.5 million reduction and (2) a proposal for allocating among its programs the $25.3 million unallocated reduction.

The budget proposes expenditures of $6 billion from the General Fund for implementation of DHS programs in 1991-92. This amount reflects a reduction of $29.8 million as a result of (1) the continuation in the budget year of an unallocated reduction made pursuant to Section 3.80 of the 1990 Budget Act and (2) an unallocated trigger-related reduction made in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Control Section 3.80 Reduction. Control Section 3.80 of the 1990 Budget Act authorizes the Director of Finance to reduce by up to 3 percent each General Fund support appropriation in the 1990 Budget Act, except as specified. In the current year, the Director of Finance implemented Section 3.80 and reduced the DHS General Fund support appropriation by $4.5 million, or approximately 2.6 percent. The budget proposes to continue in 1991-92 the $4.5 million reduction in the DHS General Fund support budget.

Table 4 shows the department's proposed allocation of the $4.5 million General Fund reduction in 1990-91 and 1991-92, and the programmatic effects of the proposed reduction. In addition to the programmatic concerns identified in the table, we have two major fiscal concerns regarding the department's proposed allocation of the General Fund reduction.

First, as shown in Table 4, the department's plan for allocating the $4.5 million reduction will result in a reduction in services totaling $6.3 million, or 40 percent more than the General Fund reduction. This is because the department proposes to reduce Medi-Cal-related programs that are partially funded from federal funds. Accordingly, the department's proposal to reduce Medi-Cal-related programs by $1.3 million (General Fund) will result in an *additional* loss of $1.8 million in federal funds.

Second, the department's proposal to reduce Medi-Cal-related programs may result in unknown General Fund costs because the department is proposing to reduce programs that (1) protect against Medi-Cal fraud, (2) negotiate with pharmaceutical companies for discounts for drugs prescribed by Medi-Cal providers, and (3) recover Medi-Cal payments for services that should be paid from workers' compensation funds. These programs are designed to reduce the costs of the Medi-Cal Program. To the extent that the department reduces these programs, the costs of the Medi-Cal Program may increase.

Based on the detail of the department's proposal, it seems clear that the department did not consider the loss of federal funds or increased General Fund costs in allocating the General Fund reduction among its programs. *However, it is not clear what criteria the department did use in allocating the reduction.* In order to provide the Legislature with the information necessary to evaluate the merits of the department's proposed program reductions, we recommend that the department submit to the Legislature, prior to budget hearings, (1) a description of the criteria it used in its proposal for allocating the $4.5 million General Fund reduction in 1990-91 and 1991-92 and (2) an explanation of how the criteria were applied to proposed program reductions.

The Unallocated Trigger-Related Reduction. The budget proposes an unallocated trigger-related reduction of $25.3 million in funding for the department in 1991-92. This reduction is included in the proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). At the time of this analysis, the department could not identify (1) the criteria it will use in allocating among its programs the $25.3 million reduction and (2) the specific programs and amounts that it proposes to reduce. Without this information, the Legislature has no basis to evaluate the programmatic or fiscal effects of the proposed reduction.

Accordingly, we recommend that the department submit to the Legislature, prior to budget hearings, a plan for allocating the $25.3 million unallocated reduction among its programs including (1) the specific programs it proposes to reduce, (2) the amounts it proposes to reduce from each program, (3) the programmatic and fiscal effects of the proposed reduction, and (4) the criteria used in allocating the proposed reductions.

Table 4
Department of Health Services
Proposed Allocation of "Section 3.80" Reduction in 1990-91 and 1991-92
(dollars in thousands)

Proposed Program Reduction	*General Fund*	*Federal Fund*	*Total*	*Comments*
Preventive Health Services Program				
1. Reduce or delay collecting and analyzing information on birth defects in the Counties of Los Angeles, Riverside, and Ventura.	$328	—	$328	Department could not identify effect of delay.
2. Delay various epidemiological studies and risk assessments, including analysis of epidemiological data on the McFarland childhood cancer cluster.	245	—	245	Delay probably will be minor.
3. Eliminate funding for infant botulism study.	170	—	170	Study is to identify additional causes of infant botulism. Infant botulism has been identified as a cause of Sudden Infant Death Syndrome.
4. Reduce analysis of cancer registry data.	311	—	311	Legislature has expressed concern in the past regarding the low level of analysis of Cancer Registry data.
5. Eliminate technical assistance and contract management for the dental health program.	169	—	169	The Dental Health Program provides $1.6 million in local assistance funds primarily to schools to promote dental hygiene. Proposed reduction will eliminate personnel to administer and oversee contracts, and provide technical assistance.
6. Consolidate travel to more efficiently oversee AIDS contractors.	190	—	190	
Totals, public health services	$1,413	—	$1,413	
Medi-Cal Program				
1. Reduce financial audits and reviews of Medi-Cal providers.	$342	$342	$684	General Fund savings of $342,000 will result in a $684,000 reduction in program activities due to the loss of federal Medi-Cal funds. In addition, the reduction in auditing and investigation staff may result in a loss of cost recoveries and cost avoidance.

2. Delay implementation of the Medi-Cal drug discount program.	60	60	120	General Fund savings of $60,000 will result in a $120,000 reduction in program activities due to the loss of federal Medi-Cal funds. In addition, the reduction in this program may reduce potential General Fund savings resulting from discounts for drugs on the Medi-Cal formulary.
3. Reduce recovery of Medi-Cal payments for services that should be paid from workers' compensation funds and delay reviewing requests for prior authorization of Medi-Cal services.	495	771	1,266	General Fund savings of $495,000 will result in a $1.3 million reduction in program activities due to the loss of federal Medi-Cal funds. In addition, the reduction in this program may result in a loss of unknown General Fund revenue due a reduction of Medi-Cal recoveries.
4. Delay training of Medi-Cal eligibility workers and delay completing rate studies.	280	325	605	General Fund savings of $280,000 will result in a $605,000 reduction in program activities due to the loss of federal Medi-Cal funds.
5. Delay changes to Medi-Cal claims processing system that are required to implement court settlements, state laws, or federal laws. Also may reduce (a) investigations of duplicate Medi-Cal payments and (b) the number of Medi-Cal provider appeals met within required timeframes.	97	290	387	General Fund savings of $97,000 will result in a $387,000 reduction in program activities due to the loss of federal Medi-Cal funds.
Totals, Medi-Cal Program	$1,274	$1,788	$3,062	
Family Health Program				
Reduce site visits to oversee counties and other service providers. Also eliminate income verification of California Children's Services participants.	$184	—	$184	Reduced CCS site visits may increase the number of counties failing to meet fiscal and program requirements. The elimination of income verification could result in increased program costs because services may be provided to noneligible clients.
Totals, Family Health Program	$184	—	$184	
Rural and Community Health Program				
1. Further delay processing of marriage certificates.	$179	—	$179	Extent of additional delay is unknown.
2. Reduce mailings and technical assistance given to counties and providers.	119	—	119	The department proposes to partially address reduction by combining mailings and technical assistance efforts.
3. Reduce community and campus outreach efforts for nursing certification program.	53	—	53	
4. Unallocated reduction.	53	—	53	The department has not yet decided how to allocate this reduction.
Totals, Rural and Community Health Program	$404	—	$404	

Table 4—Continued
Department of Health Services
Proposed Allocation of "Section 3.80" Reduction in 1990-91 and 1991-92
(dollars in thousands)

Proposed Program Reduction	*General Fund*	*Federal Fund*	*Total*	*Comments*
Environmental Controls Program				
1. Delay evaluating and responding to information on microbial and chemical contamination of processed foods. Also will reduce technical assistance and training to local governments on mosquito control.	$346	—	$346	Reduced technical assistance on mosquito abatement could result in an increase in mosquitoborne diseases.
2. Reduce number of reports prepared for water systems.	82	—	82	
Totals, Environmental Controls Program	$428	—	$428	
Laboratories				
1. Reduce laboratory support activities such as testing of cosmetics, household supplies, and drugs, in support of the Food and Drug Branch's enforcement actions.	$627	—	$627	
2. Reduce special repairs for the laboratory facilities in Berkeley.	167	—	167	
Totals, laboratories	$794	—	$794	
Administration				
Reduce legal activities related to the implementation of Proposition 65.	$26	—	$26	
Totals, administration	$26	—	$26	
Totals, Department of Health Services	$4,523	$1,788	$6,311	

Budget Structure Changes Due to CALSTARS

We find that while implementation of the CALSTARS accounting system has increased legislative control over DHS administration expenditures somewhat, the Legislature still has less oversight ability over the DHS than over other departments of equal or smaller size. Accordingly, we recommend that the Legislature adopt supplemental report language (1) stating the Legislature's intent that, by 1993-94, the department increase from three to a minimum of six the number of program categories in the Budget Bill and (2) requiring the department to submit to the Legislature, by March 1, 1992, the department's proposal for the program categories to be established in the 1993-94 Budget Bill.

The budget proposes total expenditures of $13.2 billion for DHS programs (excluding the toxics program) in 1991-92. This amount consists of $515 million for program support and $12.7 billion for local assistance.

The DHS indicates that in 1991-92 it will begin accounting for expenditures using the CALSTARS accounting system in place of the department's existing accounting system. The CALSTARS system should improve substantially the accuracy and timeliness of the department's accounting information because it will allow the department to (1) account for expenditures by activity level, rather than the larger organizational categories currently in use, and (2) provide the information more quickly than their current system. As a result of the new accounting system, however, the department has changed significantly the organization of, and the information in, the display of DHS expenditures reflected in both the Governor's Budget and the 1991 Budget Bill.

Governor's Budget Display Has Changed. The Governor's Budget restructures the display of DHS expenditures for the past, current, and budget years to reflect a programmatic, rather than an organizational, budget structure. The Governor's Budget does this in three ways.

First, the budget document reorganizes the 13 departmental programs reflected in prior budgets into the following three major programs:

- *Public and Environmental Health Program*, which includes programs previously reflected under the categories of Preventive Medical Services, Environmental Health, Office of Drinking Water, AIDS, and most of Laboratory Services and Special Projects.
- *Health Care Services Program*, which includes programs previously reflected under the categories of Medi-Cal; Audits and Investigations; Rural and Community Health; Family Health; Licensing and Certification; and Women, Infants, and Children (which was displayed under special projects).
- *Administration Program*, which primarily reflects administrative services provided to all organizations within the DHS.

Second, the Governor's Budget displays the expenditures for "direct administration" (the term for the administrative functions that serve a single program, rather than the whole department) in the particular program that is served. In previous years, these expenditures were reflected under the general administration program and were distributed

DEPARTMENT OF HEALTH SERVICES—Continued

across all programs. The effect of this change is reduce the amount shown for departmental administration and increase the amount shown for program activities, compared to the display in the Governor's Budgets in previous years.

Third, the Governor's Budget eliminates separate budget displays for the Audits and Investigations Branch and the Laboratory Services Division and, instead, distributes the expenditures for these programs to the programs that they serve. For instance, the budget previously reflected expenditures for the Food and Drug Laboratory under the Laboratory Division. However, the 1991-92 Governor's Budget reflects the expenditures for the Food and Drug Laboratory under the Food and Drug element of the Public and Environmental Health Program. This is because although organizationally the Food and Drug Laboratory is part of the Laboratory Division, it *provides services to* the Food and Drug Program.

Similarly, the Governor's Budget reflects expenditures for audits and investigations under the Medi-Cal element of the Health Care Services Program. This is because, although the Audits and Investigations Division is a separate organizational unit, it primarily provides services to the Medi-Cal Division. The effect of this change is to *reduce* the Legislature's ability to track expenditures and program changes in the audits and investigations area and the laboratories areas because these activities are distributed to other programs.

Budget Bill Display Changes Increase Legislative Control Somewhat. The 1991 Budget Bill reflects an increase from two to three in the number of programs scheduled for departmental support as compared to prior Budget Acts. (The Budget Bill also makes minor changes in local assistance items.) Specifically, past Budget Acts separated departmental support expenditures into (1) personal services and (2) operating expense and equipment. However, the 1991 Budget Bill separates departmental support expenditures into (1) public and environmental health, (2) health care services, and (3) administration.

The increased number of program categories increases the Legislature's oversight ability over departmental support expenditures, because the department cannot legally transfer funds between categories without prior legislative notification. Accordingly, the changes made to the Budget Bill as a result of the department's implementation of CALSTARS provides the Legislature with greater control over departmental support expenditures. Nevertheless, the broad program categories proposed by the DHS continue the department's ability to move funds between many of its programs without notifying the Legislature. For instance, the Health Care Services Program category includes the Medi-Cal, Rural and Community Health, Family Health, and Licensing and Certification Programs. Legally, the department can move support funds from a particular funding source (such as the General Fund) between these programs without prior legislative notification.

Compared to Other Departments, the Legislature Still Has Less Oversight Ability Over DHS Expenditure Transfers. Although the increase in the number of program categories from two to three in the Budget Bill increases legislative oversight ability over DHS expenditures compared to prior years, the Legislature's control over DHS expenditures is still considerable less than over many other departments of equal or smaller size.

Our review of the budgets for other departments indicates that, although the number of Budget Bill categories varies widely from department to department according to the size and complexity of their programs, most departments that have implemented CALSTARS have at least five to six program categories. For instance, the Department of Food and Agriculture has 9 categories, the Department of Industrial Relations has 10 categories, the Department of Commerce has 7 categories, and the Departments of Social Services and Education each have 5 categories.

In light of the large size and complexity of the DHS budget, we think it is reasonable that the department establish at least six program categories in the Budget Bill. For instance, the department could establish the following budget categories that would provide the Legislature with greater oversight ability over programs it has defined as high priorities in the past:

- Public and Environmental Health
- Family Health
- Rural and Community Health
- Medi-Cal
- AIDS
- Administration

This would mean, for example, that the department would be able to transfer General Fund monies for administration of the Family Health Program to the Medi-Cal Program only after legislative notification. Under the current structure, such notification is not required.

Establishing these six categories would significantly increase the information provided by the budget as well as legislative control over departmental expenditure transfers between programs.

Language Needed to Increase Legislative Oversight. According to the department, it intends to increase the number of Budget Bill categories in the future as it transitions from using its existing accounting system to using CALSTARS. In order to provide the department with direction as to the number of program categories that it should include in future Budget Bills, and to ensure that the department develops categories that address legislative priorities, we recommend that the Legislature adopt supplemental report language (1) stating the Legislature's intent that, by 1993-94, the department increase from three to six the number of program categories in the budget and (2) requiring the department to submit to the Legislature, by March 1, 1992, its proposed list of program categories for inclusion in the 1993-94 budget. Specifically, we recom-

DEPARTMENT OF HEALTH SERVICES—Continued

mend that the Legislature adopt the following supplemental report language:

It is the intent of the Legislature that, by 1993-94, the Department of Health Services increase from three to at least six the number of program categories scheduled in Item 4260-001-001. The Department of Health Services shall submit to the legislative fiscal and policy committees, the Joint Legislative Budget Committee, and the Department of Finance, by March 1, 1992, a list of proposed program categories for inclusion in the 1993-94 budget, and the reasons for the selection of each program category.

Fee Collections May Not Support Program Costs

Our analysis indicates that the department cannot currently identify whether the costs of 56 fee-supported programs actually have been fully supported by fees, but will be able to do so in the future using a new accounting system. We therefore recommend that the Legislature adopt supplemental report language requiring the department to submit, by December 15, 1992, a report on the actual costs of fee-supported programs in 1991-92, and the actual amount of revenue collected for each program for 1991-92.

Current law authorizes the DHS to establish and collect fees to pay for the costs of various programs administered by the department. As one example, current law allows the DHS to (1) establish a program for registering and inspecting X-ray machines and (2) establish and collect a fee to pay for the costs of the program. For many of the programs, the fee is deposited into the General Fund and the program is supported from the General Fund. The budget estimates that the DHS will collect and deposit into the General Fund a total of $31.8 million from fees from 56 different programs in 1991-92.

The 1991 Budget Bill requires the department to promulgate emergency regulations to set each public health fee (that is allowed to be set by regulation) at a level that is sufficient to pay at least 95 percent of the costs of the program that it supports. This language is the same language that has appeared in Budget Acts for at least the past five years.

In order to evaluate the department's success in setting and collecting fees at a level sufficient to pay for 95 percent of the programs paid from fees, we requested the department to submit information on (1) the amount of fees (by fee type) collected for the past three years and (2) the actual costs for the past three years of each activity supported by fees. The department, however, *could not provide information on the actual costs of each program supported by fees.* The department indicates that its accounting system does not allow it to track expenditures *by activity.*

Accordingly, the department cannot determine the amount it actually spends on each program, and therefore it cannot determine whether the fees that it collects are sufficient to pay for the costs of the programs. To the extent that the cost of programs exceeds the level of fees collected, the costs of the program are paid from the General Fund.

The department has recently begun using the CALSTARS accounting system. This system will enable it to identify costs by activity beginning in the budget year.

In order to provide the Legislature with the information necessary to evaluate whether the department is collecting fees sufficient to pay the costs of fee-supported programs, we recommend that the Legislature adopt supplemental report language requiring the department to submit, by December 15, 1992, a report on (1) the revenue collected in 1991-92 from each type of fee and (2) the actual costs in 1991-92 of fee-supported activities. Specifically, we recommend the adoption of the following language:

> The Department of Health Services shall submit to the Joint Legislative Budget Committee and the legislative fiscal committees a report comparing (1) the actual amount of fee revenue collected in 1991-92, broken out by fee, for fee revenue that is deposited into the General Fund, and (2) the actual costs of each activity that is fee-supported, broken out by activity. The department shall submit the report by December 15, 1992.

No Expenditure Plan for Proposition 99 Support Funds

We withhold recommendation on $4.1 million from various accounts of the Cigarette and Tobacco Products Surtax (C&T) Fund proposed for support activities related to the implementation of Proposition 99, because an expenditure plan for these funds will not be available until later this spring.

The budget proposes $4.1 million from various accounts of the C&T Fund for department support costs associated with implementing programs funded by Proposition 99. (This amount does not include an additional $1.7 million from the Research Account in the C&T Fund, which is proposed to support Cancer Registry research on tobacco use.) This is $3.9 million, or 49 percent, below current-year support funding. The $4.1 million proposed for support has been allocated to the county health services program budget. The number of positions to be funded in the budget year has not been specified.

Proposition 99, the Tobacco Tax and Health Protection Act of 1988, established a surtax of 25 cents per package on cigarettes and other tobacco products, and provided a major new funding source — over $530 million in the budget year — for health services, health education, and resources programs. Chapter 1331, Statutes of 1989 (AB 75, Isenberg), allocated the vast majority of C&T funds in 1989-90 and the current year. Chapter 1331 sunsets on July 1, 1991, and the allocation of C&T funds in the budget year will be a major topic of discussion for the Legislature in the spring of 1991.

The administration is proposing to allocate C&T funds for a variety of health-related programs in the budget year. According to the Department of Finance (DOF), in recognition of the anticipated discussion between the Legislature and the administration over specific C&T funding allocation decisions, the administration decided to earmark a specified dollar amount for support costs, and work out the details once the overall C&T funding allocation decisions have been made. As a result, no positions were specified in the budget, and the funds were lumped in a single allocation to the county health services program. The DOF anticipates that not all support funds will actually be allocated to the

DEPARTMENT OF HEALTH SERVICES—Continued

county health services program and that position requests and other adjustments will be made through the Department of Finance budget letter process later this spring.

The administration's approach has some merit because it recognizes that continuing C&T funding allocation discussions will occur this spring. However, the administration has proposed specific programs and expenditures for C&T funds. These programs currently lack any specific allocations for support activities. We are unable to determine (1) whether the $4.1 million proposed for C&T Fund-related support costs in the budget year is adequate, (2) how many positions the Governor's proposed C&T-funded programs require, and (3) how the $4.1 million would be distributed by program. Therefore, we withhold recommendation until the department submits this information to the Legislature.

Contract Information Provided Too Late for Review

We withhold recommendation on $62 million in proposed contracts for activities related to departmental support.

The department proposes $62 million (all funds) in proposed contracts for activities related to departmental support. At the time this analysis was prepared, the department had not submitted the necessary contract schedules. Therefore, we withhold recommendation on the requested funds and will report our findings to the Legislature, as appropriate, during budget hearings.

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 care 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 $46.3 million ($23.2 million General Fund) for support of the Licensing and Certification Program (including administrative overhead and excluding laboratory facilities) in 1991-92. This is an increase of $1.8 million, or 4.1 percent, above estimated current-year expenditures.

The division has 401.2 personnel-years in the current year. The budget proposes an increase of 10.9 personnel-years, or 2.7 percent, in the budget year.

Survey Workload

We recommend that the department provide detailed information to the Legislature prior to budget hearings on the status and costs of conducting new federal nursing facility surveys.

The Omnibus Budget Reconciliation Act of 1987 (OBRA 87) made major changes in federal Medicare and Medicaid laws relating to nursing facilities. Among other changes, OBRA 87 imposed additional requirements on Medicare- and Medi-Cal certified nursing facilities. Because the DHS has to assure compliance with these requirements, OBRA 87 has an impact on the department's workload.

Federal Health Care Financing Administration (HCFA) Withholds Federal Funding of State Nursing Facility Certification Surveys. When OBRA 87 was enacted, the state felt that it was in compliance with the nursing home provisions of OBRA, and thus the department continued to use the existing federal survey forms to certify nursing facilities for Medi-Cal reimbursement. In September 1990, the HCFA found the state out of compliance with OBRA 87. At roughly the same time, the department submitted a $32 million request to the HCFA for federal funding of the certification activities it performs. In October 1990, the HCFA approved roughly $7 million of the request for non-nursing facility certification activities but withheld approximately $25 million in federal funds for the DHS, pending the implementation of the new federal survey requirements. Furthermore, in a letter to the department, the HCFA made it clear that the department would have to use HCFA's interpretive guidelines, which are more stringent than the OBRA compliance requirements, to perform the new surveys.

Department Will Use New Survey Forms. The department has since agreed to use the new federal survey forms but has not agreed to use the HCFA's interpretive guidelines. The department is currently developing its own set of interpretive guidelines to be used in conjunction with OBRA 87 regulations. (The HCFA noted that while its interpretive guidelines must be used to conduct certification surveys, they do not impose requirements on the nursing facilities and that adherence to these guidelines is not necessary to be in compliance with OBRA 87 regulations.)

If the HCFA continues to withhold federal funds for certification activities, the General Fund may be liable for the department's full costs of using the new survey forms. Furthermore, if the HCFA refuses to accept the certification of nursing facilities without the interpretive guidelines, this may also jeopardize these facilities' eligibility to receive Medi-Cal funding in the future. (We discuss this issue later in our analysis of Medi-Cal health services.)

Department Seeks Additional Funding. At the time of this analysis, a Department of Finance budget letter was being prepared, proposing numerous surveyor and associated positions to conduct the new federal surveys. The department is basing its request on a workload study that

DEPARTMENT OF HEALTH SERVICES—Continued

was conducted to validate the HCFA's estimate that conducting the nursing facilities survey would require 106 hours of staff time. The department found that under OBRA 87, the survey took 195 hours of staff time. The 195 hour estimate is 225 percent longer than the current standard of 60 hours and is 83 percent longer than the HCFA estimate of 106 hours. The proposed budget letter will also seek funding for costs associated with the nurse aide certification requirements under OBRA 87. At the time of this analysis, the department was unable to provide more detail on the proposed budget letter request.

More Information Needed. The Legislature, in its oversight capacity, needs additional information from the department regarding the status and potential costs of conducting the new federal surveys. Thus, we recommend that the department provide such detailed program status and cost information to the Legislature prior to budget hearings.

Transfer Medi-Cal Certification of Drug Treatment Centers to the Department of Alcohol and Drug Programs (DADP)

We recommend that the department work in conjunction with the DADP to report to the Legislature prior to budget hearings on the feasibility and costs of transferring the certification of Medi-Cal drug treatment centers from the DHS to the DADP.

The DADP proposes to expand treatment services to pregnant and parenting substance-abusing women eligible for Medi-Cal. However, the DADP has found that this Medi-Cal certification of drug treatment centers has been an obstacle, given that some counties report a six- to nine-month wait to receive certification site visits from the DHS.

We recommend in our analysis of the DADP budget (Item 4200) that the DADP, in conjunction with the DHS, report to the Legislature prior to budget hearings on the feasibility and costs of transferring the certification of Medi-Cal drug treatment centers from the DHS to the DADP. (Please see our analysis of Item 4200 for a more detailed discussion of this issue.) Accordingly, we recommend that the DHS work in conjunction with the DADP to prepare this report.

3. PUBLIC HEALTH

MAJOR ISSUES

☑ The administration's proposal to "realign" the AB 8 county health services program poses major policy questions for the Legislature. We find that (1) the amount of funding at stake is up to $1 billion annually, which is significantly more than the AB 8 funding alone and (2) the programmatic impact depends on whether counties continue funding these services voluntarily.

☑ The administration's proposal to "realign" the local health services program may significantly affect 12 small rural counties' ability to provide public and environmental health services.

☑ The department has chosen not to implement Ch 720/90 (AB 2764, Roos), requiring it to request federal approval for establishing targeted case management as a Medi-Cal benefit within specified Adolescent Family Life Program (AFLP) sites. We recommend a funding switch that will enable the Legislature to implement the statute at no net General Fund cost.

☑ The department's proposal to establish enrollment fees in the CCS and Genetically Handicapped Persons Programs has merit but (1) may leave a shortfall of $3.1 million in the program budgets and (2) is inconsistent with existing law.

DEPARTMENT OF HEALTH SERVICES—Continued

MAJOR ISSUES—Continued

☑ The department's proposal to finance three genetic disease programs — Prenatal Diagnosis, Sickle Cell Counseling, and Tay Sachs Prevention — with reserves in the Genetic Disease Testing Fund raises policy issues regarding the appropriateness of supporting these programs with fees in future years.

☑ The budget proposes to reduce funding for the Tobacco Use Prevention Program by $69.5 million, and redirect the majority of these funds to a new perinatal insurance program. As a result, the total level of support for tobacco tax-funded health education programs will fall below the minimum amounts required by Proposition 99.

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

1. The *Rural and Community Health Division* distributes funds to local health agencies, county hospitals, clinics, and indigent care programs.
2. The *Office of AIDS* is responsible for providing, contracting for, and coordinating services related to the AIDS epidemic and human immunodeficiency virus (HIV).
3. The *Family Health Services Division* addresses the special needs of women and children.
4. The *Preventive Medical Services Division* is responsible for infectious and chronic disease programs.
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.
8. The *Office of Environmental Health Hazard Assessment* conducts risk assessments and epidemiological studies.

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.

The department has recently established a new programmatic budget structure for DHS programs that reorganizes the presentation of several of the Public Health Program components in the budget. This reorganization was done primarily to implement the CALSTARS accounting system, which we discussed earlier in our analysis of DHS support issues.

While the Governor's Budget reflects the new programmatic budget structure, our analysis and tables generally reflect the historical program structure and actual program organization. We made this decision so that the Legislature can continue to (1) compare proposed Public Health Program funding in 1991-92 to the funding that is estimated to have been provided in 1989-90 and 1990-91 and (2) consider public health activities as separate and distinct from the Medi-Cal Program.

Budget Proposal

Department Support. The budget proposes $536 million for department support attributable to public health programs in 1991-92. (This amount includes $112 million in funding for special projects.) The request is $19 million, or 3.6 percent, more than estimated current-year expenditures for department support. Table 5 displays staffing and operating support for each public health program in the past, current, and budget years.

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

- Carry out various special projects ($18 million in federal funds). Special projects are short-term projects for which the department is seeking federal funding grants, but for which generally there is no assurance that funding will be provided.
- Increase the number of clients served by the Special Supplemental Food Program for Women, Infants, and Children (WIC Program) and pay for increased program costs ($9.1 million in federal funds).
- Increase testing for neural tube defects to meet increased demand for services ($2.9 million from the Genetic Disease Testing Fund).

These increases are offset by reductions resulting primarily from the elimination of limited-term positions ($12 million from various funds) and the expenditure of one-time funds available in the current year due to legislation and reappropriations ($7.8 million from various funds).

DEPARTMENT OF HEALTH SERVICES—Continued

Table 5
Public Health Support
Budget Summary — All Funds
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Percent Change From 1990-91
Environmental controls							
Food and drug	113.5	197.6	197.4	$10,651	$16,487	$15,857	−3.8%
Radiologic health	76.6	72.2	88.4	6,956	6,813	8,421	23.6
Drinking water	80.5	93.1	94.6	9,569	14,016	12,819	−8.5
Other	126.5	158.8	169.5	9,022	13,268	16,470	24.1
Subtotals, environmental controls	(397.1)	(521.7)	(549.9)	($36,198)	($50,584)	($53,567)	(5.9%)
Public health services							
AIDS	86.6	95.3	94.3	12,626	39,839	36,567	−8.2
Chronic diseases	61.8	62.8	30.5	17,960	29,919	35,947	20.1
Infectious diseases	178.2	173.8	166.5	25,447	49,652	54,516	9.8
Other	167.8	273.9	273.8	32,177	40,897	40,204	−1.7
Subtotals, public health services	(494.4)	(605.8)	(565.1)	($88,210)	($160,307)	($167,234)	(4.3%)
Rural and community health							
Primary health care	95.1	99.5	32.7	6,418	7,077	2,630	−62.8
County health services	60.8	113.2	57.6	6,240	7,715	9,034	17.1
Subtotals, rural and community health	(155.9)	(212.7)	(90.3)	($12,658)	($14,792)	($11,664)	(−21.1%)
Family health services							
California children's services	58.9	55.4	55.8	3,741	3,509	3,808	8.5
Maternal and child health	58.6	75.3	65.5	3,981	6,446	5,548	−13.9
Genetic disease testing	90.4	102.8	108.1	29,051	36,001	42,428	17.9
Women, infants, and children	102.7	112.0	122.8	228,411	223,000	232,101 [a,b]	4.1
Other	43.4	59.4	53.0	3,079	4,449	3,914	−12.0
Subtotals, family health services	(236.5)	(274.2)	(283.9)	($268,263)	($273,405)	($287,799)	(5.3%)
Other	157.5	163.5	171.8	13,434	17,954	15,606	−13.1
Laboratories	(423.2)	(472.9)	(468.1)	($43,556)	($51,169)	($52,905)	(3.4)
Special projects	(161.6)	(435.4)	(502.3)	($23,468)	($94,276)	($112,252)	(19.1)
Totals	1,558.9	1,908.6	1,782.3	$418,763	$517,042	$535,870 [a,b]	3.6%

[a] Includes $218,584,000 in local assistance. Prior to 1991-92, WIC local assistance funds were scheduled in support. We have reflected the 1991-92 WIC local assistance funds in support to provide comparable numbers for past, current, and budget years.

[b] Does not include $103,832,000 in reimbursements. Prior to 1991-92, these funds were received, but not scheduled as reimbursments. We have not included the reimbursements for 1991-92 in order to provide comparable numbers for past, current, and budget years.

Table 6 details the budget changes proposed for each public health program in 1991-92.

Table 6
Department of Health Services
Public Health Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	Positions	*General Fund*	*All Funds*
1990-91 expenditures (Budget Act)	2,014.8	$104,583	$189,092
Adjustments, 1990-91:			
Rural and community health			
State Legalization Impact Assistance Grant (SLIAG) adjustments	—	—	−306
Family health services			
Augment personnel for fee collection activities, and purchase special filter paper	—	—	360
Transfer maternal and child health funds from local assistance for epidemiological and surveillance activities	—	—	400
Public health services			
Alzheimer's disease research reduction	—	—	−174
Environmental controls			
Establish medical waste management program	—	305	305
Employee compensation increase	—	2,208	3,184
Retirement reduction	—	−721	−1,020
Chaptered legislation	—	3,257	7,006
Administrative adjustments	13.1	2,040	3,948
Unallocated reduction	−19.0	−3,029	−3,029
Special projects	16.5	—	317,276
1990-91 expenditures (revised)	2,025.4	$108,643	$517,042
Adjustments, 1991-92:			
Rural and community health			
SLIAG adjustments	19.0	—	1,977
Continued funding for Proposition 99 support	—	—	3,967
Eliminate local health services program	−43.0	−2,731	−2,731
Family health services			
Newborn screening program workload adjustment	1.0	—	921
Neural tube defects program workload adjustment	3.5	—	2,892
Genetic disease laboratory equipment replacement	—	—	1,149
Maternal and child health epidemiological and surveillance activities	9.0	—	642
Establish enrollment fees for California Children's Services and Genetically Handicapped Persons Programs	1.5	93	93
Genetic disease related activities shift from General Fund and local assistance	—	−258	1,679
Shift funding from contracts to personnel for fee collection activities	4.0	—	—
Women, infants, and children program adjustment	129.3	—	9,101
Public health services			
Eliminate preventive medicine residency program	—	−116	−116
Establish repayment program for AIDS drug subsidy program	2.0	—	—
Establish data collection program for occupational AIDS exposure in law enforcement	1.0	60	60
Chemical contaminants in fish — risk assessments	3.0	—	210
Toxic hot spots in bays and estuaries — risk assessments	4.0	—	275
Lead and cadmium in tableware — risk assessments	1.0	80	80
Alzheimer's research program reduction	—	—	−292

DEPARTMENT OF HEALTH SERVICES—Continued

Table 6—Continued

Department of Health Services
Public Health Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	Positions	*General Fund*	*All Funds*
Environmental controls			
Develop new exams for environmental health specialist registration program	1.5	—	128
Low-level radioactive waste	5.0	—	257
Expand radiologic health program	19.0	1,310	1,310
Establish medical waste management program	8.0	509	509
Processed organic foods inspection program	3.0	158	158
Lead and cadmium in tableware testing program	2.0	117	117
Export document fee program	1.0	38	38
Water treatment operator certification	1.0	33	33
Drinking water regulation expansion and fund shift	6.0	−3,593	409
Other			
Clinical laboratory licensing and certification	6.0	334	334
Reduction in data collection program for Vital Records Improvement Project	6.0	—	−3,309
Commemorative heirloom marriage certificate	—	108	108
Full-year costs of 1990-91 employee compensation increases	—	1,577	2,061
Eliminate current-year chaptered legislation	—	−3,857	−7,821
Eliminate limited-term positions[a]	−172.8	−245	−11,989
Eliminate one-time current-year costs	—	−2,616	−2,867
Special projects adjustment	—	—	17,976
Administrative adjustments	−1.5	478	1,469
1991-92 expenditures (proposed)	2,044.9	$100,122	$535,870
Change from 1990-91 (revised):			
Amount	19.5	−$8,521	$18,828
Percent	1.0%	−7.8%	3.6%

[a] Includes elimination of 115.5 limited-term positions and $7.7 million for Proposition 99 implementation, and 35.3 positions and $3.2 million for SLIAG adjustment.

Local Assistance. The budget proposes $1.1 billion (all funds) in local assistance for public health services in 1991-92. This represents a decrease of $655.3 million, or 37 percent, below estimated current-year expenditures.

The Governor's Budget includes an unallocated trigger-related reduction of $21.4 million in funding for the Public Health Program. This reduction is included in the proposed budget for the program in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). We discuss this issue earlier in our analysis of DHS support issues.

Table 7 presents local assistance expenditures, by program, for 1989-90 through 1991-92.

Table 8 reflects proposed budget changes affecting local assistance expenditures in 1991-92.

Table 7
Department of Health Services
Public Health Local Assistance
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	*Est. 1990-91*	*Prop. 1991-92*	*Change from 1990-91 Amount*	*Percent*
Rural and community health					
Primary health care services	$43,173	$41,620	$21,679	−$19,941	−47.9%
County health services	1,310,650	1,003,109	532,140	−470,969	−47.0
Vital Records Improvement Project	172	540	300	−240	−44.4
California Healthcare for Indigents Program	336,492	315,854	226,304	−89,550	−28.4
Subtotals	$1,690,487	$1,361,123	$780,423	−$580,700	−42.7%
Office of AIDS	$52,067	$46,175	$46,115	−$60	−0.1%
Family health					
Family planning	$31,955	$35,644	$44,655	$9,011	25.3%
Maternal and child health	34,210	32,398	$22,667	−9,731	−30.0
Genetically handicapped persons	10,362	13,524	14,506	982	7.3
California children's services	93,342	87,984	95,186	7,202	8.2
Child health and disability prevention	32,549	59,555	76,065	16,510	27.7
Genetic disease prevention	2,741	1,679	—	−1,679	−100.0
Subtotals [a]	$205,159	$230,784	$253,079	$22,295	9.7%
Preventive medical services					
Infectious diseases	$11,417	$11,151	$5,181	−$5,970	−53.5%
Chronic diseases	6,796	6,548	6,548	—	—
Smoking prevention program	53,219	99,465	30,000	−69,465	−69.8
Subtotals	$71,432	$117,164	$41,729	−$75,435	−64.4%
Unallocated reduction	—	—	*−$21,424*	*−$21,424*	— [b]
Totals	$2,019,145	$1,755,246	$1,099,922	−$655,324	−37.3%
Funding Sources					
General Fund	*$1,158,089*	*$985,252*	*$516,265*	*−$468,987*	*−47.6%*
Federal funds (excluding SLIAG)	*32,688*	*34,464*	*26,980*	*−7,484*	*−21.7*
State Legalization Impact Assistance Grant (SLIAG)	*229,996*	*240,519*	*221,862*	*−18,657*	*−7.8*
Cigarette and Tobacco Products Surtax Fund	*595,745*	*485,655*	*327,776*	*−157,879*	*−32.5*
Miscellaneous reimbursements and family repayments	*929*	*1,955*	*4,740*	*2,785*	*142.5*
Special needs and priorities recoupments	*1,199*	*2,450*	—	*−2,450*	*−100.0*
County Health Services Fund	—	*472*	—	*−472*	*−100.0*
County Medical Services Program Account	*328*	*3,939*	*1,999*	*−1,940*	*−49.3*
Vital Records Improvement Project Fund	*172*	*540*	*300*	*−240*	*−44.4*

[a] Figure for 1991-92 does not include the Supplemental Food Program for Women, Infants, and Children (WIC) since comparable figures are not available for 1989-90 and 1990-91. For WIC local assistance expenditures in the budget year, see Table 5 earlier in this analysis.
[b] Not a meaningful figure.

The changes proposed for local assistance are primarily due to:

- A decrease of $471.5 million (General Fund) resulting from a proposal to eliminate state funding for the AB 8 county health services program and transfer responsibility for providing these services to counties.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 8
Department of Health Services
Public Health Local Assistance
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (Budget Act)	$979,341	$1,289,898
Baseline adjustments, 1990-91:		
Cigarette and Tobacco Products Surtax (C&T) Fund[a]	—	478,850
Reduce State Legalization Impact Assistance Grant (SLIAG)	—	−22,721
Transfer federal maternal and child health (MCH) funds to support	—	−400
Subtotals	(—)	($455,729)
Caseload adjustments:[b]		
California Children's Services (CCS) Program	976	976
Genetically Handicapped Persons Program (GHPP)	−72	−72
Child Health and Disability Prevention (CHDP) Program	4,663	5,725
County Medical Services Program (CMSP)	344	2,990
Subtotals	($5,911)	($9,619)
1990-91 expenditures (revised)	$985,252	$1,755,246
Baseline adjustments, 1991-92:		
Add back MCH funds transferred to support	—	$400
Caseload adjustments:[b]		
CCS Program	$4,552	$4,552
GHPP	847	847
CHDP Program	2,865	3,623
CMSP	7,428	5,488
Subtotals	($15,692)	($14,510)
Program change proposals:		
Reduce county health services (AB 8)	−$471,516	−$471,988
Reduce C&T appropriation	—	−157,879
Reduce SLIAG	—	−18,657
Increase family planning	10,000	10,000
Reduce MCH — federal funding changes	—	−8,642
Establish enrollment fees in the CCS Program and GHPP	—	2,785
Reduce special needs and priorities	—	−2,450
Transfer genetic disease related programs to Genetic Disease Testing Fund	−1,679	−1,679
Reduce Vital Records Improvement Project	—	−240
Transfer funds to Department of Social Services for licensing of residential AIDS shelters	−60	−60
Subtotals	(−$463,255)	(−$648,810)
Unallocated reduction	*−$21,424*	*−$21,424*
1991-92 expenditures (proposed)[c]	$516,265	$1,099,922
Change from 1990-91 (revised):		
Amount	−$468,987	−$655,324
Percent	−47.6%	−37.3%

[a] Total C&T funding in 1990-91 is $485,655,000. Of this amount, $6,805,000 was appropriated in the 1990 Budget Act and is included in the total $1,289,898,000.

[b] SLIAG and C&T funding adjustments to these programs are included in baseline adjustments.

[c] Figure does not include the Supplemental Food Program for Women, Infants, and Children (WIC) since comparable figures are not available for 1990-91. For WIC local assistance expenditures in the budget year, see Table 5.

- A decrease of $157.9 million in Cigarette and Tobacco Products Surtax (C&T) Fund monies for various health-related programs. The reduction is primarily due to (1) projected declines in C&T resources available in the budget year and (2) a transfer of C&T funds to a proposed new perinatal insurance program.
- A decrease of $21.4 million (General Fund) resulting from an unallocated reduction in the Public Health Program.
- A decrease of $18.7 million in State Legalization Impact Assistance Grant (SLIAG) funds for various health services to newly legalized persons.
- A proposal to increase funding for family planning by $10 million (General Fund).
- A decrease of $8.6 million in federal funds for maternal and child health programs.

A. RURAL AND COMMUNITY HEALTH

Funding for County Health Services Programs

The budget proposes $758.4 million (all funds) for county health services in 1991-92. This is a decrease of $560.8 million, or 43 percent, below estimated expenditures in the current year. Table 9 presents county health services expenditures for 1989-90 through 1991-92.

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

- A decrease of $471.5 million (General Fund) resulting from a proposal to eliminate state funding for the AB county health services program and transfer responsibility for providing these services to counties.
- A decrease of $89.6 million in Cigarette and Tobacco Products Surtax (C&T) Fund monies for the California Healthcare for Indigents Program (CHIP). This reduction is primarily due to (1) projected declines in C&T resources available in the budget year and (2) a transfer of C&T funds to a proposed new perinatal insurance program.
- A net increase of $3.5 million in State Legalization Impact Assistance Grant (SLIAG) funds for services to newly legalized persons — consisting of a $16.3 million increase for health services provided through the Medically Indigent Services Program (MISP) and a $12.8 million decrease for public health services.
- An increase of $7.4 million (General Fund) for County Medical Services Program (CMSP) caseload growth.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 9

Department of Health Services
County Health Services
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in millions)

	Fund	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change From 1990-91 Amount	Change From 1990-91 Percent
Medically Indigent Services Program (MISP)	General	$394.9	$232.3	$232.3	—	—
	SLIAG	188.5	201.7	218.0	$16.3	8.1%
County Medical Services Program (CMSP)	General	60.4	52.1	59.5	7.4	14.2
	C&T	16.9	16.5	14.1	−2.4	−14.5
	SLIAG	2.4	5.3	3.5	−1.8	−34.0
	CMSP	0.3	3.9	2.0	−1.9	−48.7
County health services (AB 8)	General	470.1	471.5	—	−471.5	−100.0
	CHS	—	0.5	—	−0.5	−100.0
Public health subvention	General	0.7	0.7	0.7	—	—
	SLIAG	17.5	12.8	—	−12.8	−100.0
	Federal	0.5	0.6	0.6	—	—
Special needs and priorities (SNAP)	SNAP	1.2	2.5	—	−2.5	−100.0
California Healthcare for Indigents Program (CHIP)	C&T	336.5	315.9	226.3	−89.6	−28.4
Children's hospitals	C&T	2.0	1.9	1.4	−0.5	−26.3
One-time Proposition 99-related expenditures[a]	C&T	155.2	1.0	—	—	—
Totals		$1,647.1	$1,319.2	$758.4	−$560.8	−42.5%
Funding Sources						
General Fund		*$926.1*	*$756.6*	*$292.5*	*−$464.1*	*−61.3%*
Cigarette and Tobacco Products Surtax (C&T) Fund		*510.6*	*335.3*	*241.8*	*−93.5*	*−27.9*
State Legalization Impact Assistance Grant (SLIAG) Fund		*208.4*	*219.8*	*221.5*	*1.7*	*0.8*
Federal funds		*0.5*	*0.6*	*0.6*	—	—
Other		*1.5*	*6.9*	*2.0*	*−4.9*	*−71.0*

[a] Major expenditures include uncompensated care assistance ($61.9 million), county capital outlay ($82.3 million), and county data systems ($10 million).

AB 8 County Health Services Program

Proposal to "Realign" State and Local Responsibility for County Health Services

We find that the administration's proposal to "realign" the AB 8 county health services program poses major policy questions for the Legislature. We further find that (1) the amount of funding at stake is up to $1 billion annually, which is significantly more than the AB 8 funding alone and (2) the programmatic impact depends on whether counties continue funding these services voluntarily. We recommend that the department report at budget hearings on (1) the specific details of its proposal and (2) how the proposal addresses the major policy questions facing the Legislature.

The budget proposes major changes for county health care services that are currently funded through the AB 8 county health services program (AB 8 program). The proposal does not affect funding provided to counties through the Medically Indigent Services Program (MISP).

Background. The AB 8 program was established by Ch 282/79 (Leroy Greene) in response to the reduction in local property tax revenues following the passage of Proposition 13 in 1978. This state program provides block grants to counties for funding inpatient care, outpatient care, and public health programs. Prior to the passage of Proposition 13, funding for these services was provided by counties under various public health statutes and the Welfare and Institutions Code Section 17000 obligation, which delineates counties as "providers of last resort" for indigent health services.

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. Under AB 8, in order for a county to receive its full share of state AB 8 program funds, it must budget expenditures equal to a standard based on its expenditures for health care in 1977-78, increased each year by inflation and population growth. This is referred to as the AB 8 maintenance-of-effort requirement.

There are also funding requirements related to Proposition 99. Currently, in order to receive a share of Proposition 99-related tobacco tax revenues, counties must maintain not only their required AB 8 county match but also the level of "overmatch" — county funds dedicated to (1) public health services and (2) inpatient and outpatient care *above* the required match level — that they had in 1988-89.

Counties fund a broad range of services with their AB 8 program funds. In 1988-89, the most recent year for which data are available, roughly 68 percent of AB 8 program funding was spent for inpatient and outpatient care, and 32 percent was spent for public health services. These percentages vary widely by county. For example, expenditures on public health services range from lows of less than 20 percent in three counties (Los Angeles, Modoc, and Trinity) to highs of 100 percent in eight counties (Calaveras, Del Norte, Inyo, Lake, Madera, Mariposa, Napa, and Sierra).

This variation occurs because counties have complete discretion as to how to allocate their AB 8 funds between (1) inpatient and outpatient care and (2) public health services. Typically, larger counties with their own indigent care systems and counties with public hospitals spend proportionally *less* on public health services, while smaller counties that contract with the state for indigent care and counties without public hospitals typically spend proportionally *more* on public health services.

Budget Proposal. The budget proposes to "realign" the AB 8 program by (1) eliminating $471.5 million in General Fund support for the program (the level of current-year funding) and (2) providing counties additional revenue sources, which could be used to support AB 8-type

DEPARTMENT OF HEALTH SERVICES—Continued

services, such as inpatient care, outpatient care, and public health services. The budget also proposes a similar "realignment" of local mental health programs (see Item 4440) and local public health services (see discussion later in this item).

To provide counties the needed additional revenues, the budget proposes to increase motor vehicle license fees and the state alcohol tax, resulting in revenues of roughly $942 million that would be allocated to counties. Of this total, roughly $173 million would result from the proposed increase in the alcohol tax and roughly $770 million would be from the proposed increase in vehicle license fees.

The proposed revenues would be sufficient to fund inpatient care, outpatient care, and public health services at the projected budget-year level, including adjustments for inflation and population growth (corresponding with the statutory increases provided under the current AB 8 program), as well as fund mental health programs and local public health services at current-year levels. At the time of our analysis, however, the administration had not decided (1) how the proposed revenues would be allocated among the counties and (2) whether these proposed revenues would be earmarked for specific purposes.

The AB 8 program "realignment" is a major component of the administration's overall strategy for addressing the state's structural budget problem, representing $471.5 million of the net $5.4 billion in General Fund expenditure reductions we identify for 1991-92. As such, the proposal has major implications for (1) the state and county fiscal situation in 1991-92 and beyond and (2) county health care services in California. We discuss the budget proposal's impact on state and county finances, and provide a framework for addressing issues of program realignment generally, in *The 1991-92 Budget: Perspectives and Issues.*

Policy Questions. At the time of our analysis, the administration had provided only sketchy information on the AB 8 "realignment" proposal. As noted above, major decisions on how the funds would be allocated and whether they would be earmarked for specific purposes had not been made. These decisions have significant fiscal and programmatic implications. Below we discuss several key policy questions the Legislature will face as it evaluates the administration's realignment proposal.

1. To what extent does the Legislature want to provide counties increased flexibility over allocating funds between health programs and other county services? Under the existing AB 8 program, counties must spend AB 8 funds for health programs. Depending on how the administration's proposal is structured, the AB 8 program "realignment" could result in the elimination of this requirement. Counties could then be free to allocate funds formerly dedicated to public health services, inpatient care, and outpatient care to other non-health-related programs.

- *The amount of funding at stake could be significantly more than the AB 8 funding alone because of county spending to comply with (1) the matching requirements in the AB 8 program and (2) additional requirements related to Proposition 99.* We estimate the total amount

involved to be roughly $1 billion, including: $471.5 million in AB 8 funds, $330 million in required county matches, and $200 million in county "overmatches" related to Proposition 99 funding requirements.

- *The programmatic impact of allowing counties discretion over the funding level depends on whether counties continue funding these services voluntarily.* Even in the absence of a requirement that funds be earmarked for AB 8-type services, it is conceivable that counties would maintain or increase their current level of support for inpatient care, outpatient care, and public health services. In recent years, the level of county overmatch has consistently increased. For example, in 1984-85, 47 counties overmatched their AB 8 requirement by a total of $69 million, or 10 percent; in 1988-89, 53 counties overmatched a total of $258 million, or 34 percent.

  However, it is also possible that some counties would reduce their level of expenditures on inpatient care, outpatient care, and public health services. Preliminary data from a County Supervisors Association of California (CSAC) survey suggest that while most MISP counties have chosen to backfill current-year reductions in MISP funding (using new discretionary revenues available to counties), five counties have chosen *not* to backfill lost MISP funds at any level. Overall, CSAC data indicate that counties are backfilling $123.1 million (75 percent) of lost MISP funds — representing a $39.5 million (10 percent) reduction in funding for this program. Thus, recent experience suggests that the programmatic impact of the AB 8 proposal is difficult to predict and may vary widely by county and by year. However, four programmatic impacts appear likely:

  1. Uncertainty over the level of funding for public health services, inpatient care, and outpatient care is likely to occur, making program planning and multiyear activities by counties difficult to undertake.
  2. Variations between counties may exacerbate intercounty migration, putting more strain on counties that provide greater allocations for public health services and inpatient/outpatient care.
  3. Counties may be better able to fill programmatic gaps in non-health areas because they would have greater flexibility in shifting funds to other program areas of high priority within the county.
  4. Funding for public health services is most likely to decline, in both large and small counties, because these services are often much less visible than inpatient and outpatient care, making them more vulnerable to reductions in funding.

Public health services comprise a broad range of activities generally related to preventing disease and promoting health. Specific public health activities include monitoring the spread of contagious diseases, sanitation and restaurant inspection, immunizations, and health education. These services affect not only the health of individuals but have broader impacts on the health of communities.

DEPARTMENT OF HEALTH SERVICES—Continued

Unless the Legislature includes a specific requirement that funds be earmarked for inpatient care, outpatient care, and public health services, there is no guarantee that these services will be provided. The Legislature could choose to require that funds be earmarked for AB 8-type services without creating a mandate under the State Constitution as long as it does not impose service level requirements.

2. How can the Legislature allocate funds between counties so as to provide additional funds to some counties that receive a proportionately lower amount of funds while at the same time not disrupting existing services? The existing AB 8 program allocations are based on historical spending by counties for inpatient and outpatient care and public health services in 1977-78, adjusted by inflation and population growth. As a result, AB 8 program allocations have not been sensitive to changes in need for services (measured by county population or poverty increases, for example) within and between counties.

Under the current AB 8 allocation formula, some counties (generally those which have grown the fastest since 1977-78 or which spent relatively little on health care in 1977-78) receive a lower proportion of funds than they would receive if the allocation formula was linked to measures of need. For example, San Diego County now comprises 8.4 percent of the state's population, yet receives only 3.5 percent of AB 8 funds. Other counties (those which have grown slowly since 1977-78 or which spent relatively large amounts on health care in 1977-78) receive proportionally more than their share. For example, San Francisco comprises about 2.4 percent of the state's population, yet receives 8.7 percent of AB 8 funds.

The proposed AB 8 program "realignment" presents the Legislature with an opportunity to revise the allocation of funding to counties so that the funding is more closely linked to the need for services. For example, the Legislature could define need to include such factors as poverty, population, and fiscal capacity. On the other hand, revising the allocation formula will inevitably lead to "winners and losers," as noted above. This leaves the Legislature with a policy trade-off: address existing inequities in the funding allocation formula, or maintain the existing allocations and provide some funding stability for counties.

3. To what extent does the Legislature want to retain existing requirements for county data collection and reporting? Currently, under AB 8 program requirements, counties must submit plans and budgets outlining their anticipated expenditures by program area (communicable disease control or acute inpatient services, for example). Counties must also submit actual cost data to the department. The department uses this information to compile annual reports on indigent care. These reports contain statistics on program expenditures, revenues, and net county costs.

As funding for indigent care has become more complex (with the addition of tobacco tax revenues, for example), counties have been required to submit additional information as amendments to their (1) AB

8 program plans and budgets and (2) cost reports. In this way, the department's primary method of monitoring county program allocations related to indigent care is linked to the AB 8 program requirements.

Chapter 1331, Statutes of 1989 (AB 75, Isenberg), requires counties to develop and implement county indigent care reporting systems. These systems should provide additional indigent care data (such as utilization) that can be compared across counties, something that has not been possible to date.

If the AB 8 program is "realigned" and program responsibility is returned to the counties, the Legislature is faced with a choice as to how much data to require counties to collect and submit. On the one hand, if counties are made completely responsible for making allocation decisions and providing adequate funding, it could be argued that the state should not require data collection and reporting.

However, regardless of the decision the Legislature makes with respect to county flexibility, there are good reasons why requiring some form of county reporting may be appropriate. Utilization and expenditure data provide the state the opportunity to oversee and monitor county allocation decisions. This in turn could provide the Legislature with such valuable information as (1) indications of changing county priorities and potential service gaps and (2) ongoing comprehensive statewide public health data (on county allocations for infectious disease control, for example).

In evaluating the administration's proposal for "realigning" the AB 8 program, the Legislature may wish to consider revising and consolidating county data collection and reporting requirements in order to (1) minimize the burden on counties and (2) maintain the necessary data for state oversight of public health and indigent care programs.

Conclusion. Overall, we find that the administration's proposal to "realign" the AB 8 county health services program poses major policy questions for the Legislature. We further find that (1) the amount of funding at stake is up to $1 billion annually, which is significantly more than the AB 8 funding alone and (2) the programmatic impact depends on whether counties continue funding these services voluntarily. We recommend that the department report at budget hearings on (1) the specific details of its proposal and (2) how the proposal addresses the major policy questions facing the Legislature.

The Local Health Services Program is Proposed to Be Eliminated in 12 Small Rural Counties

We find that the administration's proposal to "realign" the local health services (LHS) program may significantly affect 12 small rural counties' ability to provide public and environmental health services. We recommend that the department report at budget hearings on (1) the specific details of its proposal and (2) the feasibility of continuing the LHS program within the framework of the administration's "realignment" proposal.

The budget proposes to "realign" the LHS program by (1) eliminating 43 positions located in 12 rural counties and $2.7 million in General Fund

DEPARTMENT OF HEALTH SERVICES—Continued

support for the program and (2) providing counties with additional revenue sources, which could be used to support LHS program-type activities. The budget also proposes a similar "realignment" of the AB 8 county health services program (see preceding discussion in this item) and local mental health programs (see Item 4440).

Background. The LHS program provides public health nursing and environmental health services to 12 counties with populations of less than 40,000 each. These counties are located primarily in northern California. The department contracts with these counties for basic preventive health and disease control services provided by state public health nurses and sanitarians. The LHS program also implements the Public Health Nursing Liaison and Certification Program, which (1) provides general public health nursing consultation to local health departments and (2) receives and processes applications for public health nurse certification in the state.

The LHS program was statutorily established in recognition of the difficulty that small rural counties have in (1) attracting and retaining health personnel, (2) providing the variety of public and environmental health services required to ensure community health and safety, and (3) complying with the statewide interest in ensuring adequate protection for visitors and residents.

The LHS program provides coordinated delivery of public health and environmental health services that may not otherwise be provided. These services include sanitation and restaurant inspection, vector and rabies control, child health and family planning activities, communicable disease control, and immunizations. Counties participating in the LHS program contribute a per capita ($0.55) county match to the state.

Budget Proposal. The Governor's Budget proposes to eliminate the LHS program and return responsibility for providing these services to the counties. At the time of our analysis, no specific information about the proposal was available except that it would (1) eliminate 43 positions and $2.7 million in state support for the program and (2) provide counties with additional revenue sources through increases in motor vehicle license fees and the state alcohol tax. (For a more complete discussion of the budget proposal's impact on state and county finances, see *The 1991-92 Budget: Perspectives and Issues.*) The administration had not decided (1) how the additional revenues would be allocated among the counties and (2) whether these additional revenues would be earmarked for specific purposes.

In our preceding analysis on the AB 8 county health services program "realignment" proposal, we address several policy questions facing the Legislature in evaluating the administration's proposal:

- To what extent does the Legislature want to provide counties with increased flexibility over allocating funds between health programs and other county services?
- How can the Legislature allocate funds between counties so as to provide additional funds to some counties that receive a proportion-

ately lower amount of funds while at the same time not disrupting existing services?

- To what extent does the Legislature want to retain existing requirements for county data collection and reporting?

These questions also apply to the proposed LHS program "realignment." In addition to posing these questions for the Legislature, however, we believe the administration's proposal to eliminate the LHS program has an additional impact: *it may significantly affect small rural counties' ability to provide public and environmental health services.* This is because the size and scale of these counties' programs often cannot justify full-time positions and the commitment of necessary resources to ensure that minimum services are provided. Additionally, small rural counties are not able to compete for personnel as effectively as larger counties and the state. In *The 1990-91 Budget: Perspectives and Issues* analysis of health care in rural California, we specifically cite rural counties' difficulty in attracting personnel due to geographic isolation and limited resources as a factor contributing to hospital distress — and thereby to limited access to health care in those counties. We also criticize the state for not providing coordinated programs, with centralized activities carried out by the state, to rural counties that cannot afford to provide these services individually.

Coordination Through the LHS Program Makes Sense. The LHS program *does* provide coordinated services, with centralized activities carried out by the state, to small rural counties. As such, it is an example of the type of program we believe makes sense programmatically to provide in rural areas. For example, recruitment and personnel functions are carried on more efficiently and effectively at the state level than in the 12 individual small counties. Coordination of public and environmental health activities helps avoid duplication of effort and gaps in services.

The Legislature May Have Options for Continuing the LHS Program. Without additional information on the administration's "realignment" proposal, it is difficult to make specific recommendations. However, we believe the department should explore the option of continuing the LHS program as it currently exists, perhaps with funding for the program coming from the increased revenues to be made available to counties. It might be possible, for example, for counties to contribute a proportional share of the $2.7 million in funding required to continue the program at existing levels. The counties' ability to do this, however, depends on the allocation formula developed for the "realignment" proposal.

We find that the administration's proposal to "realign" the LHS program may significantly affect small rural counties' ability to provide public and environmental health services. We recommend that the department report at budget hearings on (1) the specific details of its proposal and (2) the feasibility of continuing the LHS program within the framework of the administration's "realignment" proposal.

DEPARTMENT OF HEALTH SERVICES—Continued

Proposed Elimination of Clinic Funding for Services to Newly Legalized Persons Poses Problems

We find that the proposed elimination of State Legalization Impact Assistance Grant (SLIAG) funds to reimburse clinics for services provided to newly legalized persons may pose significant problems for clinics and reduce access to services for the newly legalized population. To the extent that the Legislature adopts this proposal, however, we recommend that it make a technical conforming reduction of $200,000 in SLIAG funds for state operations because full staffing will not be needed to conduct program close-out activities.

The budget proposes to eliminate $15 million in SLIAG funds to reimburse clinics for services provided to newly legalized persons. The budget also proposes $400,000 in SLIAG funds for state operations to continue seven positions in the department related to the SLIAG-funded clinics program.

The proposed elimination of SLIAG funds for the clinics program is part of the administration's proposal to deal with the overall reductions in SLIAG funds anticipated in the budget year. In making its proposed allocations, the administration gave priority to programs for which a federal or state mandate exists. These programs must continue to provide services to eligible newly legalized persons, using state and/or local funds when SLIAG funds are no longer available. The SLIAG-funded clinics program does not fall into this category. (We discuss the overall issues the Legislature will have to consider in determining priorities for allocating SLIAG funds during the budget year in our discussion of Control Section 23.50 later in this analysis.)

Impact on Clinic Services and Access May Be Significant. The administration acknowledges the role clinics have played in providing low-cost health care to economically disadvantaged and minority populations. The administration further acknowledges that the loss of SLIAG funds will probably result in reductions in clinic services and operating hours, and states in its *Consolidated Transition Plan for State Legalization Impact Assistance Grant Funds*:

> This will adversely impact client accessibility to health services as well as the quality of care provided to them. The clients will defer preventive health care and care for minor problems. Elimination of early treatment of many medical conditions leads to chronic health conditions that are extremely costly to treat. Furthermore, a significant reduction in accessibility to clinic services will increase use of private and public emergency care facilities.

We agree with the administration's assessment and find that eliminating the SLIAG-funded clinics programs may pose significant problems for clinics and reduce access to services for the newly legalized population.

Questionable Proposal to Continue Department Support. Despite the proposed elimination of SLIAG funds for reimbursing clinics, the department also proposes $400,000 in state operations to continue seven

positions related to the SLIAG-funded clinics program for the budget year. This is 1.5 positions less than are funded in the current year.

According to the department, these positions are necessary to close out the SLIAG-funded clinics program. However, at the time of our analysis, the department had failed to provide any documentation substantiating the need for continuing these seven positions *for a full year* after the program has been eliminated.

We believe it is reasonable to expect some continued support activity in the budget year to close out the SLIAG-funded clinics program. However, we do *not* believe it is reasonable for these activities to require almost the same level of staff support as exists during the current year. Instead, we believe these activities can reasonably be accomplished either by (1) funding the seven positions for half the year or (2) funding half the positions for the full year. Therefore, to the extent that the Legislature adopts the proposal to eliminate SLIAG funding for clinics, we recommend that the Legislature also make a technical conforming reduction of $200,000 in SLIAG funds for state operations.

B. OFFICE OF AIDS

As of January 1, 1991, almost 32,000 Californians have been diagnosed with AIDS, and almost 21,000 have died. This is 5,000, or 19 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. While the exact number of Californians infected with human immunodeficiency virus (HIV) — the virus that causes AIDS — is unknown, estimates from the Department of Health Services (DHS) indicate that between 100,000 and 150,000 additional individuals may be infected.

The Office of AIDS is responsible for funding education and prevention programs, conducting pilot projects, administering a testing and counseling 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 $52.4 million, excluding federal special projects, in 1991-92 for the Office of AIDS. This is a decrease of $4 million, or 7.1 percent, below estimated spending levels in the current year. Table 10 displays expenditures from all funds in the past, current, and budget years.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 10

Department of Health Services
Office of AIDS
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Department support					
Office of AIDS program support activities [a]	$5,568	$6,451	$6,317	−$134	−2.1%
AIDS vaccine research and development funds	(1,798)	1,798	—	−1,798	−100.0
Reappropriation of vaccine clinical trial funds	(2,000)	2,000	—	−2,000	−100.0
Reimbursements [b]	67	—	—	—	—
Subtotals, department support	($5,635)	($10,249)	($6,317)	(−$3,932)	(−38.4%)
Local assistance					
Education and prevention [c]	16,284	15,825	15,825	—	—
Block grants to counties	5,464	5,488	5,488	—	—
Epidemiological study	1,031	1,199	1,199	—	—
Confidential testing and education	2,245	2,200	2,200	—	—
Anonymous testing — alternative test sites	4,563	5,412	5,412	—	—
California children's services	900	1,100	1,100	—	—
Pilot care:					
Home- and community-based care [d]	7,399	6,116	6,116	—	—
Chris Brownlie Hospice (at Barlow hospital)	225	225	225	—	—
Targeted case management	327	435	435	—	—
Adult day health care	200	200	200	—	—
Early intervention projects	1,383	2,700	2,700	—	—
AIDS drug subsidy program [e]	6,608	4,100	4,100	—	—
AIDS research facility (at San Francisco General Hospital)	4,595	—	—	—	—
Residential AIDS shelters	702	721	661	−60	−8.3
AIDS Medi-Cal waiver [f]	141	454	454	—	—
Subtotals	($52,067)	($46,175)	($46,115)	(−$60)	(−0.1%)
Totals, excluding special projects	$57,702	$56,424	$52,432	−$3,992	−7.1%
Federally funded special projects [g]					
Surveillance and seroprevalence	2,239	5,000	5,000	—	—
Information and education	964	6,340	7,000	660	10.4
Confidential testing and counseling	4,006	8,000	8,000	—	—
Alternative treatment (including AIDS drugs)	6,037	9,000	9,000	—	—
Virology and epidemiology	—	800	800	—	—
Viral antigens vaccines studies	—	450	450	—	—
Subtotals, special projects	($13,246)	($29,590)	($30,250)	($660)	(2.2%)
Totals, all funds	$70,948	$86,014	$82,682	−$3,332	−3.9%
Funding Sources					
General Fund	*$57,306*	*$54,257*	*$52,063*	*−$2,194*	*−4.0%*
Federal funds	*13,575*	*29,959*	*30,619*	*660*	*2.2*
AIDS Vaccine Research and Development Fund	—	*1,798*	—	*−1,798*	*−100.0*
Reimbursements	*67*	—	—	—	—

[a] Includes Federal Trust Fund monies totaling $329,000 in 1989-90 and $369,000 in 1990-91 and 1991-92 for the AIDS Medi-Cal waiver program.

[b] In 1989-90 includes a one-time reimbursement from the City of Sacramento for state personnel temporarily loaned to the city.
[c] In 1989-90 includes $607,000 reappropriated from unspent 1988-89 local assistance funds.
[d] In 1989-90 includes $2,475,000 reappropriated from unspent 1988-89 local assistance and support funds.
[e] Includes state funding only. Additional federal funding is included under federally funded special projects.
[f] Includes state funding only. Federal matching funds are included under Medi-Cal.
[g] Figures for 1989-90 do not match the Governor's Budget (which shows a total of $7 million in federally Governor's Budget understate the amount of federal funds actually spent in 1989-90. Figures for 1990-91 and 1991-92 are preliminary department estimates, subject to change. The increase between 1989-90 and 1990-91 (and 1991-92) funding reflects anticipated new funds from the federal Comprehensive AIDS Resource Emergency Act of 1990. funded special projects for 1989-90). Due to accrual accounting procedures, the figures in the

The $4 million decrease is due to the net effect of a variety of changes. The major changes are:

- A reduction of $2 million in funds reappropriated from 1989-90 available in the current year for vaccine clinical trials.
- A reduction of $1.8 million in funds reappropriated from 1989-90 available in the current year for vaccine research and development.

In addition, the budget proposes $30.3 million in federal special project funds. This is an increase of $660,000, or 2.2 percent, above 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, 1991.

Legislative Oversight: Comprehensive AIDS Resources Emergency (CARE) Act of 1990 Provides New Funds for AIDS Services in California

We recommend that, prior to budget hearings, the department submit updated information to the fiscal committees on (1) the amount of federal funding the state will receive in 1990-91 and 1991-92, including funds resulting from the CARE Act of 1990, and (2) its proposed allocation plan for these funds.

The budget proposes a total of $30.3 million in federal special projects funds in 1991-92. This is an increase of $660,000, or 10 percent, from the current year. The department advises that proposed expenditures in each of the current and budget years include anticipated new federal funding in the range of $13 million resulting from the CARE Act of 1990.

At the time of our analysis, the department did not know the exact amount the state would receive from the CARE Act for 1990-91 and 1991-92. Applications for these funds are due to the federal government by March 1, 1991, and award notifications will be sent out on April 1, 1991. The department also advises that it has organized a working group comprised of AIDS experts and community providers to develop an expenditure plan for CARE Act funds.

In order to weigh the policy options available to it, the Legislature will need updated information (once it is available) on the amount of federal funding available to the state for AIDS-related activities. Therefore, we

DEPARTMENT OF HEALTH SERVICES—Continued

recommend that, prior to budget hearings, the department submit updated information to the fiscal committees on (1) the amount of federal funding the state will receive in 1990-91 and 1991-92, including funds resulting from the CARE Act of 1990, and (2) its proposed allocation plan for these funds.

Continuing Issues Related to AIDS Drug Subsidy Program

We recommend that the department report, prior to budget hearings, on (1) its policy with respect to new AIDS drugs, (2) how it will fund projected increases in program enrollment, (3) the findings of the federal Office of Inspector General's audit report and the department's plans to address any outstanding issues, and (4) its analysis of cheaper ways to purchase AIDS drugs.

The budget proposes a total of $4.1 million in General Fund support for the AIDS drug subsidy program in 1991-92. This is the same level of General Fund support that is budgeted in the current year. The proposed budget also includes $9 million in federally funded special project funds for alternative treatment projects, including AIDS drugs. As noted earlier, however, the amount of federal funding that will actually be available for AIDS drugs in the budget year is uncertain.

Background. In October 1987, the Office of AIDS received $7.6 million in federal funds to establish a program to provide the drug azidothymidine (AZT) to low-income persons infected with human immunodeficiency virus (HIV) who are not eligible for Medi-Cal. Since that time, the program has expanded, most recently as a result of Ch 1246/89 (AB 2251, Friedman) and Ch 141/90 (AB 1724, Friedman), to include aerosolized pentamidine and to allow persons with incomes of up to $50,000 (some with a share-of-cost requirement) to receive drugs. The original federal funding has since been augmented by additional state and federal funds.

Policy and Fiscal Concerns. We have several concerns related to the continuing implementation of the AIDS drug subsidy program:

1. *What is the department's policy with respect to new drugs that become available for persons with HIV or AIDS?* Currently, the AIDS drug subsidy program reimburses counties for the costs of AZT and aerosolized pentamidine only. However, there are other drugs that may receive approval from the federal Food and Drug Administration (FDA) prior to or within the budget year, including drugs that counteract the side effects of AZT. Some of these drugs may be very costly, increasing significantly the costs for which counties may seek reimbursement. The department has not yet developed a policy addressing the potential for funding new drugs. Therefore, we recommend that the department report, prior to budget hearings, on (a) its plans for addressing new drugs approved by the FDA and (b) what criteria it will use in determining whether or not to reimburse counties for new drugs through the AIDS drug subsidy program.

2. *How will the department fund increases in enrollment?* In its request for authorization to fund two new positions and provide $528,000 to

counties for administering the share-of-cost and repayment provisions required by Chapters 1246 and 141, the department projects enrollment increases of up to 50 percent in the budget year. These projected increases result from increased access to the program, primarily due to recent changes in department policy allowing persons who are HIV positive but are still asymptomatic to participate in the program.

Although the department maintains that it will have adequate funding in the current year to fully fund the program, it acknowledges that funding in the budget year is uncertain. In 1989-90, funding fell short of expenditures by $3.4 million. The department was able to address the funding gap primarily by redirecting one-time unspent funds from other AIDS programs to the drug subsidy program. However, funding for the program has not increased in the current or budget years despite the department's projected increase in enrollment of up to 50 percent. Therefore, we recommend that the department report, prior to budget hearings, on (a) its projections for enrollment in the AIDS drug subsidy program, (b) its assumptions in making these projections, and (c) how it plans to address potential funding shortfalls.

3. *Have counties been overpaid by the AIDS drug subsidy program?* The department discovered in early 1990 that certain counties which directly purchase AZT from the manufacturer were paying less for the drug than they were receiving from the state in reimbursements. Thus, the department requested that counties return any excess reimbursements. The department has also informed us that it recently received an audit report prepared by the federal Office of Inspector General. The report reviews the state's AIDS drug subsidy program payments to the counties. At the time of our analysis, this audit report was still confidential. Therefore, we recommend that the department report, prior to budget hearings, on the findings of the Office of Inspector General's audit report and the department's plans to address any outstanding issues.

4. *Has the department fully analyzed cheaper ways of purchasing AIDS drugs?* In supplemental report language adopted last year, the Legislature required the department to investigate ways of purchasing AZT and other AIDS drugs more cheaply, including volume, bulk, or direct wholesale purchase.

The department has concluded it is not cost-effective to make bulk purchases of AZT. This conclusion is based on (a) the responses it received to its invitation for bids and (b) its review of four of the largest counties in the program, which purchase the drug directly from the manufacturer at costs equal to or below what the state would pay if it accepted either of the bids it received. (As discussed above, the department is addressing the reimbursement issue related to these counties.)

While these four counties account for 65 percent of total program costs, savings in the counties that account for the remaining 35 percent of program costs could be significant. For example, if the department reduced the cost per tablet by 14 percent for these remaining counties (based on the lower of the two bids it received), its 1989-90 expenditures

DEPARTMENT OF HEALTH SERVICES—Continued

could have been reduced by $518,000 — almost enough to fund the entire administrative cost increases proposed for 1991-92.

Based on our analysis, we believe the options for bulk purchase of AZT and other AIDS drugs deserve more review. Therefore, we recommend that the department provide a full report, prior to budget hearings, on its rationale for not pursuing cheaper ways to purchase AZT and other AIDS drugs.

Revised Request for Proposal (RFP) for AIDS Education and Prevention Projects

We commend the Office of AIDS for its efforts to (1) link epidemiological study results with its funding priorities for 1991-92 education and prevention project contract awards and (2) improve ongoing evaluation of the effectiveness of various intervention projects.

The budget proposes a total of $15.8 million in General Fund support for AIDS education and prevention projects in 1991-92. This is the same level of General Fund support as is provided in the current year. Of this amount, $11.6 million is proposed to fund continuing multiyear contracts for projects approved in prior years. The remaining $4.2 million will be available for competitive bidding in the budget year, as specified in the 1991-92 RFP.

In developing the RFP, the Office of AIDS has specifically linked results of recent epidemiological studies with its priorities for funding proposals. According to the RFP:

> Inclusion of the younger age groups (13-30 years)...is justified by the increasing number of AIDS cases reported among persons between the ages of 19 and 29 years. Findings by the [Office of AIDS] prenatal survey and knowledge, attitude, belief, and behavior (KABB) surveys also justify emphasizing interventions with young women and men.

Given the limited amount of funding available in the budget year for funding AIDS education and prevention projects, we agree with the Office of AIDS' decision to explicitly target funding towards specific behaviors and groups at high risk of infection, and to require inclusion of an evaluation component in the projects. Therefore, we commend the Office of AIDS for its efforts to (1) link epidemiological study results with its funding priorities for 1991-92 education and prevention project contract awards and (2) improve ongoing evaluation of the effectiveness of various intervention projects.

C. FAMILY HEALTH

Maternal and Child Health (MCH)

Approximately $4.5 million in Federal Funds Available for Expenditure in 1991-92

We find that the department (1) has $3.1 million in federal MCH funds available but unbudgeted for 1991-92, (2) is likely to be able to spend an additional $1.4 million in increased federal MCH grant funds

during 1991-92, and (3) is likely to carry over other unspent funds for expenditure during 1991-92.

Accordingly, we recommend that the department provide the legislative fiscal committees, by April 1, an updated estimate of available carry-over funds and its expenditure plan for federal MCH funds. We further recommend that the Legislature (1) increase the department's expenditure authority to reflect funds available and (2) adopt Budget Bill language specifying how the department should spend the funds.

The department proposes to spend $29.5 million in federal MCH funds during 1991-92. This is a decrease of $7.9 million, or 21 percent, below estimated current-year expenditures. This decrease in expenditures reflects the department's assumption that it (1) will spend the full $8 million in one-time carry-over funds appropriated for expenditure during the current year and (2) will not receive a grant increase from the federal government during 1991-92.

Table 11 displays funds available and expenditures in 1990-91 and 1991-92.

Table 11
Department of Health Services
Maternal and Child Health (MCH)
Available Federal Grant and Expenditures
1990-91 and 1991-92
(dollars in thousands)

	Est. 1990-91	*Prop. 1991-92*	*Change from 1990-91*	
			Amount	*Percent*
Funds available				
Carry-over from prior fiscal year	$8,000	$1,238	−$6,762	−84.5%
Federal grant	30,745	31,401	656	2.1
Total available	$38,745	$32,639	−$6,106	−15.8%
Expenditures				
Support	$3,628	$3,124	−$504	−13.9%
Local assistance	(33,879)	(26,395)	(−7,484)	(−22.1)
MCH programs	28,113	19,871	−8,242	−29.3
California children's services	4,704	4,704	—	—
Child health and disability prevention — HIB vaccine	1,062	1,820	758	71.4
Total expenditures	$37,507	$29,519	−$7,988	−21.3%
Carry-over to next fiscal year	$1,238	$3,120	$1,882	152.0%

Additional Federal Funds may be Available for Expenditure in 1991-92. Our analysis indicates that there are three reasons why the department is likely to have additional federal MCH funds available for expenditure during 1991-92.

1. The budget does not reflect the expenditure of $3.1 million in federal MCH funds available during 1991-92. As Table 11 reflects, the department's proposed current-year expenditures of $37.5 million leave $1.2 million unbudgeted and unspent during 1990-91, and hence available for carry-over and expenditure during 1991-92. Similarly, according to the department's current expenditure plan, a total of $1.9 million in additional funds will be available for expenditure during 1991-92. Thus, with the 1990-91 carry-over funds, the department will have $3.1 million available that is currently unbudgeted.

DEPARTMENT OF HEALTH SERVICES—Continued

The department reports that it is working with the Department of Finance to develop a plan for spending additional funds in both the current and budget years. This plan should be available during the spring.

2. The budget assumes no increase in the federal MCH grant. Our analysis indicates that the department is likely to receive a federal grant increase during 1991-92. Specifically, based on actual experience over the last five years, we believe the department will have an additional $1.4 million in new federal funds available for expenditure during 1991-92.

3. The budget assumes no carry-over of unspent prior- or current-year funds. The department has a history of carrying over unspent funds into subsequent fiscal years. The department has assumed it will expend the full $8 million in one-time carry-over funds. On the basis of past experience, we believe some portion of this amount will not be spent and, thus, will be available for one-time expenditure during 1991-92.

Legislative Direction Needed. Our analysis indicates that the department is likely to have approximately $4.5 million in federal MCH funds available for ongoing expenditure and an unknown amount for one-time expenditure in 1991-92.

As part of its budget deliberations, the Legislature will need additional information to (1) assess the reasonableness of the department's spending priorities and (2) ensure that available federal MCH funds are budgeted and spent.

We therefore recommend that the department provide the legislative fiscal committees, by April 1, (1) its plan for spending the roughly $4.5 million in available MCH funds that we identify and (2) an updated estimate of funds carried over for one-time expenditure during 1991-92. We further recommend that the Legislature increase the department's expenditure authority to reflect the department's estimate of funds available during the budget year and adopt Budget Bill language specifying how the department should spend the funds.

Three Million Dollar Reduction in MCH Programs

We recommend that the department provide the fiscal committees, by April 1, (1) its plan for reducing 1991-92 expenditures for MCH local assistance by $3 million, (2) an assessment of the impact of these reductions, and (3) the criteria and alternative reductions it considered when it chose to implement the $3 million reduction in MCH programs.

The department proposes to spend $22.7 million (all funds) on local assistance for MCH programs during 1991-92. This is $9.7 million, or 30 percent, less than estimated expenditures on MCH local assistance during 1990-91. This proposed reduction in expenditures is due primarily to the expenditure of $8 million in unspent prior-year funds carried over and proposed to be expended on a one-time basis during the current year.

The $3 Million Base Reduction Replaced With One-Time Carry-Over Funds. The Governor vetoed $3 million (General Fund) from the department's overall public health local assistance budget for 1990-91.

The department chose to apply the full reduction to MCH programs. However, in order to delay the *ongoing* impact of the $3 million reduction in its MCH local assistance budget, the department chose to use $3 million of the $8 million in available *one-time* carry-over funds to replace the General Fund reduction it made to MCH programs during 1990-91. Specifically, as indicated in Table 12, the department is using $3 million in one-time carry-over funds to support ongoing expenditures of $7.9 million in the Adolescent Family Life Program (AFLP). (We discuss the impact of reducing General Fund support for the AFLP later in our analysis of the department's MCH budget).

Table 12
Department of Health Services
Maternal and Child Health Program
Local Assistance
1990-91 through 1991-92
(dollars in thousands)

Program	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Adolescent Family Life Program	$7,850 [a]	$7,850	—	—
County allocations	3,589	3,589	—	—
High-Risk Infant Follow-up Program	3,578	3,578	—	—
Perinatal substance abuse pilot projects	2,152	2,152	—	—
SLIAG programs	1,489	—	−$1,489	−100.0%
Perinatal Regionalization Program	1,815	1,815	—	—
Epidemiological studies	—	800	800	— [b]
Special projects	1,400	1,244	−156	−11.1
Black infant health	4,278 [a]	1,278	−3,000	−70.1
Toll-free telephone line	984	984	—	—
Diabetes in pregnancy project	960	960	—	—
Sudden infant death syndrome	683	683	—	—
Data management projects	1,496	610	−886	−59.2
Preterm labor	404	404	—	—
Childhood injury	190	190	—	—
Funding for positions established in 1989 Budget Act	−470	−470	—	—
Community-Based Perinatal Services Program	—	—	—	—
Prenatal outreach	2,000 [c]	—	−2,000	−100.0
Unallocated reduction	—	−3,000	−3,000	—
Totals	$32,398	$22,667	−$9,731	−30.0%
Funding Sources				
General Fund	*$2,144*	*$2,144*	—	—
Federal MCH funds	*28,113*	*19,871*	*−$8,242*	*−29.3*
State Legalization Impact Assistance Grant	*1,489*	—	*−1,489*	*−100.0*
Reimbursements	*652*	*652*	—	—

[a] Includes one-time expenditure of $3 million in federal carry-over funds.
[b] Not a meaningful figure.
[c] Reflects one-time expenditure of federal carry-over funds.

The budget does not propose to continue the use of the carry-over funds or restore the $3 million General Fund reduction in 1991-92.

Recommendation. The Legislature will require additional information from the department in order for it to assess the impact of the department's proposed $3 million reduction in base MCH expenditures for 1991-92. Specifically, the Legislature will want to assess the reason-

DEPARTMENT OF HEALTH SERVICES—Continued

ableness of the department's expenditure priorities within the MCH and the overall public health local assistance budget.

Accordingly, we recommend that the department provide the fiscal committees, by April 1, (1) its plan for reducing 1991-92 expenditures for MCH local assistance by $3 million, (2) an assessment of the impact of these reductions, and (3) the criteria and alternative reductions it considered when it chose to implement the $3 million reduction in MCH programs.

Department Delaying Expansion of the Adolescent Family Life Program (AFLP)

We find that the department has chosen not to implement the provisions of Ch 720/90 (AB 2764, Roos). We recommend that the department provide the legislative fiscal committees, by April 1, information on the amount of General Fund resources required during 1991-92 to implement Chapter 720. We further recommend that the Legislature shift the appropriate amount of General Fund monies from the California Children's Services Program to the AFLP, and replace the General Fund amount with federal MCH funds.

The department proposes to spend $7.9 million (all funds) on local assistance for the AFLP during 1991-92. This $7.9 million reflects (1) $4.8 million in ongoing funding from federal MCH funds, (2) $3 million in one-time federal MCH funds carried over from prior years, and (3) $102,000 from the General Fund.

Background on Targeted Case Management. In the *Analysis of the 1990-91 Budget Bill* (page 529), we recommended that the DHS develop a work plan for obtaining federal reimbursement for AFLP case management services through the Medi-Cal Program. Our analysis indicated that the DHS could obtain approximately $2 million in federal Medi-Cal reimbursements for services provided currently through the AFLP, thereby allowing the Legislature either to (1) reduce the current General Fund support for the program by this same amount or (2) use the $2 million to expand services in the program. Chapter 720 required the department to request federal approval for implementing targeted case management in six AFLP project sites by April 1, 1991. After working with federal officials, local AFLP providers, and other states, the department believes it is feasible to implement targeted case management within the AFLP, as required by statute.

Department Delays Implementation of Statute. In a fall 1990 letter to the Joint Legislative Budget Committee, the department reported that despite the promise of its work to date, it ceased work on obtaining federal reimbursement for AFLP case management services through the Medi-Cal Program due to the unavailability of the General Fund resources required for matching the federal share of Medi-Cal. Specifically, the DHS reported that it would not pursue development of this program due to the Governor's veto of $3 million from the General Fund from the department's public health budget. The DHS letter explained

that the department chose to reduce the maternal and child health (MCH) budget by this full amount, which leaves an insufficient amount of General Fund monies necessary to match the federal portion of Medi-Cal funds. Accordingly, the DHS reported that it would cease pursuing Medi-Cal targeted case management within the AFLP until such time that it obtains an additional $3 million from the General Fund.

Department Rationale Misleading. Our analysis indicates that the department's rationale for discontinuing implementation of targeted case management within the AFLP is misleading. The Governor's veto of $3 million General Fund did not, by itself, preclude the department from implementing Chapter 720. Our analysis indicates that the department itself made two distinct decisions that preclude it from moving ahead. Accordingly, at any time it can reverse these decisions and continue implementation.

First, the Governor vetoed $3 million from the General Fund from the department's *overall* public health budget. The department chose to apply the full reduction to MCH, as opposed to other programs. Presumably, the department assessed its overall priorities and believed it could best sustain a $3 million reduction in MCH programs by backfilling the reduction with federal MCH funds that were available for one-time expenditure. The federal funds cannot be used as a match for receipt of Medi-Cal funds. Therefore, the department's spending plan precludes implementation of Chapter 720. This does not change the fact that the department could have, and still can, alter its priorities and fund the implementation of Chapter 720 by shifting the General Fund cuts to other programs.

Second, the department has the option of switching General Fund and federal MCH funds in other programs in order to free up the General Fund resources needed to match the federal share of the additional Medi-Cal costs. The DHS agrees that this funding switch is possible but indicates that the switch might set a precedent that the department does not support.

Separate from the department's decision not to *implement* the program until such time that it obtained additional funds, we find that it has *ceased work on developing targeted case management within the AFLP.* Thus, should the Legislature (1) appropriate additional funds or (2) require a funding switch among MCH funds, the department will not be in a position to spend the funds immediately. Rather, it will, at that point, resume the necessary work on program design and development and implementation of Chapter 720 will be further delayed.

Recommend a Funding Switch. The department indicates that it would require a relatively small amount (probably less than $350,000) of additional General Fund monies in 1991-92 to plan and prepare for implementation of Medi-Cal targeted case management for the AFLP. Our analysis indicates that the department could transfer the amount of General Fund monies required for implementation of Chapter 720 from the California Children's Services (CCS) Program to the AFLP and

DEPARTMENT OF HEALTH SERVICES—Continued

replace it with a like amount of federal MCH funds. Such a funding switch offers several advantages:

- Switching General Fund and federal MCH funds between the CCS Program and the AFLP allows for implementation of Chapter 720 at no net cost to the General Fund.
- Supporting the CCS Program with a greater proportion of federal MCH funds brings the state into closer compliance with federal MCH funding requirements. This is because the federal government requires the state to spend at least 30 percent of its federal MCH grant on programs serving "children with special health care needs." The CCS Program is the major program serving children with special health care needs in California. The CCS budget is supported by $4.7 million, or 15 percent, of California's federal MCH grant funds.

To provide the Legislature with the information it needs to ensure that the department complies with the legislative requirements of Chapter 720, we recommend that the department provide the legislative fiscal committees, by April 1, information on the amount of General Fund resources required during 1991-92 to implement Medi-Cal targeted case management within the AFLP. Once the Legislature has this information, we recommend that it shift the appropriate amount of General Fund monies (probably less than $350,000) from the CCS Program to the AFLP, and replace the General Fund amount with federal MCH funds.

California Children's Services (CCS)

Up to $6.9 Million in Prior-year Funds Will Go Unspent

We find that approximately $6.9 million from the General Fund appropriated to the CCS Program in 1989-90 will be unspent at the end of the current year. We therefore recommend that the Legislature adopt a new item to revert these unused funds to the General Fund, thereby making them available for supporting other legislative priorities. (Add Item 4260-495).

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

Budget Proposal. The department proposes $86.3 million (General Fund) for local assistance in the CCS Program during 1991-92. This is $4.6 million, or 5.6 percent, more than estimated General Fund expenditures for CCS local assistance in the current year. This increase primarily reflects the net effect of:

- An increase of $3.6 million due to increased costs for treatment and therapy services.
- An increase of $3 million due to caseload increases.
- An increase of $120,000 to reflect the budget-year impact of adding infant heart transplants as a CCS benefit during the current year.
- A net decrease of $2.6 million resulting from instituting and administering a program enrollment fee. This decrease of $2.6 million

General Fund is the net effect of (1) a decrease of $2.7 million to reflect enrollment fee collections of a commensurate amount, (2) a decrease of $325,000 to reflect increased county collections of treatment repayments, and (3) an increase of $407,000 for county enrollment fee collection costs.

Unspent Funds from 1989-90. Our analysis indicates that approximately $6.9 million, or 8.3 percent, of the $83 million appropriated from the General Fund to the department to fund the CCS Program's 1989-90 costs remain unspent. While counties have until June 30, 1992 to submit their 1989-90 claims, the department indicates that it historically has received no county claims a year after the close of the fiscal year. Thus, the department anticipates processing final claims for 1989-90 by March 1991.

Accordingly, we find that approximately $6.9 million of funds appropriated for the CCS Program in 1989-90 will not be needed for that year's claims. We therefore recommend that the Legislature adopt a new item (Item 4260-495) to revert to the General Fund in 1990-91 the unused funds appropriated by Ch 191/90 (AB 2563, Vasconcellos). These funds will then be available to support other legislative priorities.

Program Enrollment Fees

We find that the department's proposal to establish enrollment fees in the CCS Program and the Genetically Handicapped Persons Program (GHPP) has merit but (1) may leave a shortfall of up to $3.1 million in the program budgets and (2) is inconsistent with current law.

Accordingly, we recommend that the department provide the legislative fiscal committees, by April 1, a contingency plan for supporting the CCS Program and the GHPP absent receipt of up to $3.1 million in new reimbursements.

We further recommend that (1) the Legislature delete the county's administrative costs from the budget and put the appropriation in the bill (delete $407,000 from Item 4260-111-001) and (2) the department's proposal include a restructuring of the overall CCS administrative cost-sharing ratio.

The department proposes enactment of legislation to require (1) families with children seeking services (other than therapy) through the CCS Program and (2) adults receiving treatment and/or medication services through the GHPP to pay an enrollment fee based on their ability to pay. The department reports that families would pay an enrollment fee in addition to meeting their obligations to repay the program for a certain proportion of treatment expenditures incurred by the programs, as authorized under current law. Consistent with this legislative proposal, the budget reflects several changes throughout the CCS and GHPP budgets.

Background. Following is a description of the CCS Program and the GHPP.

California Children's Services. The CCS Program provides treatment, therapy, and case management services to children with severe physi-

DEPARTMENT OF HEALTH SERVICES—Continued

cally handicapping conditions. Under current law, program eligibility is limited to families with (1) annual adjusted gross incomes (AGIs) of less than $40,000 or (2) high medical costs (which is defined to mean that their cost of health care exceeds 20 percent of their AGI).

Families with incomes exceeding (1) 200 percent of the AFDC basic need level ($16,660 for a family of three) plus (2) an annual disability allowance of approximately $3,400 are required to repay the program for its expenditures, up to an amount that does not exceed twice the families' annual state tax liability. The counties retain 25 percent of the family repayments they collect, and 75 percent of repayments accrue to the state. The department reports that the counties collected 56 percent of family repayments owed during 1989-90.

Genetically Handicapped Persons Program. The GHPP provides necessary medical treatment and case management to adults with specific medical conditions: hemophilia, cystic fibrosis, sickle cell disease, neurological disorders, and metabolic diseases. The GHPP authorizes care for those persons with these conditions who are eligible for Medi-Cal. In addition, GHPP pays for authorized services that are not reimbursed by other third-party payors.

Financial eligibility requirements for the GHPP are similar to those applying to the CCS Program. In addition, however, persons whose AGIs exceed $40,000 are eligible for GHPP services when the cost of their care does not exceed 20 percent of their AGI, as long as they repay the program for the total cost of services provided. The department reports that it collected 70 percent of repayments billed during 1989-90.

Department's Proposal. Following are the components of the department's proposal.

1. Fee Schedule. The department proposes to require families with incomes exceeding the federal poverty level to pay a fee — according to a sliding scale — before enrolling in the GHPP and CCS Program. Generally, families would pay between $10 and $200 per year, depending upon family size.

2. County Costs. The department proposes to provide counties with $407,000 from the General Fund to support the additional administrative costs resulting from explaining, collecting, and recording client fees.

3. State Administration. The department requests $93,000 from the General Fund for 1.5 positions to (a) develop and administer policy on CCS/GHPP enrollment fees and (b) collect fees in the GHPP.

4. Collections. The department estimates that its proposed fee schedule could generate fee revenue totaling $3.5 million.

In addition, the department's budget proposal assumes:

- Authorizing legislation will be enacted by July 1, 1991.
- County and department staff will be ready to implement collections at that time.
- The state will receive 100 percent of fees collected by the counties.

Furthermore, the budget reduces $3 million in General Fund support for the CCS Program to reflect the department's assumptions that:

- Actual CCS fee collections will total $2.7 million, or 75 percent of fees billed.
- Family repayments will increase by $325,000, or 37 percent, as a "spill-over" benefit from increases in county staff provided for collecting enrollment fees.

In the GHPP, the budget reflects fee collections of $135,000, or 100 percent of fees billed, and offsets General Fund support by a commensurate amount.

5. Utilization. The department assumes that implementation of an enrollment fee will have no impact on families' utilization of CCS services.

Department's Proposal Merits Consideration. We believe that the serious condition of the General Fund underscores the need for the administration and the Legislature to take a hard look at (1) restructuring existing programs in ways that make sense both programmatically and fiscally and (2) shifting a share of program costs to service recipients, to the extent feasible. Our review indicates that the department's proposal attempts to do just this and, therefore, warrants the Legislature's consideration.

We also find, however, that the department's proposal raises numerous policy and technical issues, which we discuss below.

1. Instituting Enrollment Fees. We find that the concept of requiring an enrollment fee within the CCS Program is a reasonable one for two reasons. First, the income eligibility standards are higher for CCS than for those in most other health programs. Second, other family health programs, such as family planning and MCH, require — or allow providers to require — participants to pay copayments or fees of some amount.

However, unlike these other family health programs, the CCS Program also requires families to repay part of the cost of their treatment. *As a result, the department's proposal results in certain families paying both to access and to use services.* We find that this approach is not unlike that used by certain health insurers; families pay monthly or annual premiums as well as a copayments or deductibles.

2. The Fee Schedule's Definition of Low-Income Families. We have no analytical basis for determining the most appropriate definition of low income to use in determining familial responsibility for paying CCS and GHPP enrollment fees. Our review indicates that by defining low-income families as those below 100 percent of the federal poverty level, the department's proposal is consistent both with federal law and the definitions of low-income families used by certain other family health programs.

We find, however, that the definition of low income the department proposes to use for its CCS enrollment fee varies from the definition of low income used (a) in the CCS Program for determining family repayment obligations (200 percent of the AFDC basic need level) and (b) in other health programs, such as Medi-Cal pregnancy-related services and Child Health and Disability Prevention (which use 185 and

DEPARTMENT OF HEALTH SERVICES—Continued

200 percent of the federal poverty level, respectively). We also find that to the extent the Legislature raises the definition of low income, it will also decrease the revenue associated with the department's proposal.

3. Effect on Utilization. We have no analytical basis for determining the extent to which families will choose not to seek case management and/or treatment as a result of requiring them to pay an enrollment fee.

4. Estimated Collections. Our analysis indicates that the department's estimate of fee revenue is wholly unrealistic for three reasons.

First, we do not believe that the department and the counties will be prepared to implement fee collections by July 1 — the department's estimate of when the bill will be enacted. Even if the bill is enacted July 1, we believe a change of this magnitude will require the department to (a) develop numerous policies, forms, and procedures and (b) spend significant time working with and training county CCS staff. We believe it is more realistic to expect the department and the counties to phase in implementation, with fee collections beginning no earlier than October 1, 1991.

Second, we find that the department's estimated collection rates — 75 percent in the CCS Program and 100 percent in the GHPP — appear overly optimistic given the program's existing *treatment repayment* collection rates of 56 percent and 70 percent, respectively. Moreover, we believe that counties' fee collection rates actually may be lower than their repayment collection rates, because the department does not propose to provide counties a 25 percent share of the fees they collect.

Third, we do not believe that CCS treatment repayment collection rates will increase by 37 percent as a result of providing counties additional staff for fee collections. At least initially, we expect county staff to be preoccupied with collecting fees rather than increasing collections of repayments, and thus foresee little of the "spill-over" benefit envisioned by the department. Moreover, once families are faced with having to pay *both* an enrollment fee and a repayment obligation, collection rates for one or both may suffer.

We find that the (a) date of program implementation and (b) actual fee and repayment collection rates — and therefore revenue — are both uncertain and unrealistic and may leave a shortfall of up to $3.1 million in the program budgets. Accordingly, we recommend that the department provide the Legislature a contingency plan for supporting the programs absent receipt of up to $3.1 million in new reimbursements.

5. County Administrative Costs. We identify two problems with the department's proposal to provide counties $407,000 for collecting fees. First, the administrative costs attributed to counties reflect the assumption that families will not appeal their fees to county staff. To the extent families do appeal their fees, county costs associated with collecting fees will increase. County CCS staff report that families often appeal their repayment obligations. Given this, we do not believe the department's assumption that no families will appeal their enrollment fees is realistic.

Second, the department's proposal to provide the counties with 100 percent of estimated county administrative costs associated with collecting fees *represents a major departure from the existing administrative cost-sharing ratio contained in statute.* Specifically, under current law, the state provides counties with administrative funds that equal 4.1 percent of their treatment budget. Counties bear 100 percent of their administrative costs above this level. In contrast, counties bear 25 percent of costs for diagnosis, treatment, and therapy expenditures.

However, as we pointed out in the *Analysis of the 1990-91 Budget Bill* (please see page 533), we believe that current system of funding county administrative costs provides counties little incentive to adequately staff their programs or seek third-party reimbursements. Accordingly, we recommended that the Legislature consider matching county administrative expenses by at least the same 75 percent share that is utilized for diagnosis, treatment, and therapy expenditures.

We question the precedent in funding 100 percent of the counties' fee collection costs. However, we nevertheless agree with the thrust behind the department's proposal — recognizing the fiscal benefit to paying a greater state share of county administrative costs that result in increased General Fund revenue. Accordingly, we find that the department's proposal is inconsistent with current law and recommend that the department include in its legislative proposal a restructuring of the overall county administrative cost-sharing ratio.

Recommendations. We find that the department's proposal to establish enrollment fees in the CCS Program and the GHPP has merit and warrants the Legislature's consideration. We find, however, that the department's proposal raises significant policy and technical issues: (1) whether to establish a program enrollment fee in the CCS Program and the GHPP, (2) how to define low income for determining familial responsibility for paying enrollment fees, (3) whether or how to counter the fees' potential impact on utilization, (4) the level and budgeting of fee reimbursements and repayments, and (5) the level and financing of the counties' administrative costs.

Furthermore, we find that the department's proposal to support the GHPP and CCS Program with $3.1 million in new reimbursements is wholly unrealistic and may leave a shortfall of up to $3.1 million in the program budgets. Accordingly, we recommend that the department provide the legislative fiscal committees, by April 1, a contingency plan for supporting the programs absent receipt of up to $3.1 million.

Finally, because we find that the department's proposal to provide counties with 100 percent of their billing and collection costs is inconsistent with existing law, we recommend that the (1) Legislature delete these costs from the budget and put the appropriation in the bill (delete $407,000 from Item 4260-111-001) and (2) department include, as part of its legislative proposal, a restructuring of the overall administrative cost-sharing ratio in the CCS Program.

DEPARTMENT OF HEALTH SERVICES—Continued

Family Planning

Legislative Direction Needed on $10 Million Augmentation for Family Planning

We recommend that the department provide the legislative fiscal committees, by April 1, its expenditure plan for the $10 million augmentation for family planning services. We further recommend that the Legislature adopt Budget Bill language specifying how it wants the department to spend the $10 million.

The budget proposes $46.4 million from the General Fund for family planning services in 1991-92. This amount consists of $1.7 million in support of the Office of Family Planning (OFP) and $44.7 million for contracts with local agencies. Under these contracts, agencies provide clinical services primarily related to contraceptives and/or information and education.

Budget Reflects Augmentation of $10 Million. The budget request of $44.7 million for local agency contracts reflects an increase of $10 million, or 29 percent, over estimated General Fund expenditures on local agency contracts during 1990-91. The department reports that it will spend this additional $10 million in targeting clinical services to two groups it considers to be at high risk for unwanted pregnancies: unmarried teenagers and substance abusers. As a result of these targeted activities, the department expects to avoid General Fund expenditures totaling $5.1 million during 1991-92 in state Medi-Cal funds ($4 million) and in AFDC costs ($1.1 million). The budget therefore reflects a net General Fund increase of $4.9 million for providing a $10 million increase to the OFP. (We discuss the proposed Medi-Cal and AFDC savings in our analyses of those programs.)

The department has not decided how it will allocate and target the $10 million augmentation. Specifically, the department has not determined (1) whether all or a limited group of OFP providers will receive contract increases and (2) how OFP providers will be required to spend the increased funds in order to reach the targeted populations.

The department reports that it is working with providers of (1) family planning, (2) perinatal substance abuse pilot projects, and (3) drug treatment services in order to determine how best to spend the $10 million augmentation. The department expects to complete its expenditure plan by the end of March.

Legislature Has at Least Two Choices on How to Spend the $10 Million. Our analysis indicates that family planning services appear to be cost-beneficial. In a study conducted in 1989, the University of California, San Francisco (UCSF) found that for every dollar spent on family planning services in California, $12.20 was saved in AFDC, Medi-Cal, food stamps, and other service costs. Accordingly, we find that the department's proposal to invest in expanding family planning services has merit, and we recommend approval.

Assuming the $10 million is used to support service expansions, our analysis indicates that the Legislature has at least two ways in which it

could direct the department to spend the additional funds: (1) general or (2) targeted service expansions. We discuss these options below.

1. General Service Expansion. The Legislature can use additional funds to serve more persons in need of subsidized services. The department estimates that the $10 million will allow OFP-funded agencies to provide an additional 229,000 subsidized clinical/contraceptive visits to low-income persons. The UCSF study we mentioned previously found that the state would save $12.20 for every additional dollar spent on family planning services. However, our analysis indicates that the level of savings associated with providing more subsidized visits to the *overall* population of potential family planning clients will vary to the extent the persons served might otherwise obtain family planning services on their own.

2. Targeted Service Expansions. The Legislature could also use all or a portion of the additional funds to target new or high-risk (a) populations and/or (b) services through the family planning program.

For example, the department proposes to use the $10 million to target services to two high-risk populations — unmarried teens and substance abusers. The department also indicates that it may prove difficult to limit the populations served by family planning providers. It may be possible, however, to serve new populations by (a) contracting in geographically underserved areas or (b) allocating funds according to the proportion of the underserved population within a contractor's catchment area.

Another option is to use the funds to target new or high-risk services within the family planning program. As one example, spending additional funds on chlamydia testing may be (a) a cost-beneficial and (b) an effective way to target services to the high-risk populations — teens and substance abusers — highlighted in the department's proposal.

According to a report published by the department in 1988, chlamydia is the most prevalent sexually transmitted disease (STD) among the population in general, and between 6 percent and 23 percent of family planning clients have this infection. Currently, the OFP does not reimburse family planning providers for testing clients for chlamydia infection due to funding limitations.

Recommendation. We find that the department's proposal to invest an additional $10 million in expanding family planning services has merit, and we recommend approval. As discussed above, the Legislature has at least two options for targeting the funds: general or targeted service expansion.

In order to assist the Legislature with its deliberations, we recommend that the department provide the legislative fiscal committees, by April 1, its expenditure plan for the $10 million augmentation. We also recommend that the Legislature adopt Budget Bill language specifying how it wants the department to spend the $10 million.

DEPARTMENT OF HEALTH SERVICES—Continued

Genetic Disease

Department Proposes Funding Switch

We withhold recommendation on the proposal to fund genetic disease-related programs from reserves in the Genetic Disease Testing Fund (GDTF) pending receipt of additional information from the department.

The budget proposes to shift $1.9 million for support of three genetic disease programs — Prenatal Diagnosis, Tay Sachs Prevention, and Sickle Cell Counseling — from the General Fund to the GDTF, which is supported by fees.

Genetic Disease Programs Supported by the GDTF. The GDTF currently supports two main programs: Neural Tube Defects and Newborn Screening.

Neural Tube Defects (NTD) Program. Neural tube defects are severe birth defects that are frequently responsible for fetal death, infant death, and serious disabilities. The NTD Program was established in 1986 to detect these and other severe defects, such as Down's syndrome, early in a woman's pregnancy. The program also provides counseling to affected pregnant women and their families. Approximately 50 percent of all pregnant women choose to be screened. These women pay a $49 fee, which is deposited into the GDTF. Medi-Cal pays for testing eligible women.

Newborn Screening (NBS) Program. The NBS Program tests all newborns — at a cost of $24 — for a series of preventable hereditary disorders. Like the NTD Program, fees collected in the NBS Program are deposited into the GDTF. As part of the NBS Program, all newborns are screened for the sickle cell disease and trait, which affect less than 2 percent of infants born in California. The department contracts with centers throughout the state to provide follow-up treatment, testing, and/or counseling to families (1) with affected newborns or (2) who carry the trait.

Genetic Disease Programs Supported by the General Fund. The General Fund supports three genetic disease programs:

Sickle Cell Counseling. Sickle cell is a hereditary chronic form of anemia that is treatable. Currently, the department receives a total of $722,000 annually from the General Fund for the Sickle Cell Counseling Program, of which $539,000 is used for contracts with agencies throughout the state to provide education, outreach, and counseling services to individuals and groups at risk of the disease. Some of the at-risk persons referred to sickle cell counseling centers are identified through the NBS Program as carrying the sickle cell trait.

Tay Sachs Prevention. Tay Sachs is an inherited metabolic defect that becomes evident in early infancy. Affected children (1) suffer progressive deterioration, loss of function, and profound mental retardation before dying at three to five years of age and (2) often require care in state developmental centers.

Currently, the department receives $486,000 annually from the General Fund in order to (1) identify, through community blood testing projects, carriers among couples at high risk of giving birth to an infant with Tay Sachs and (2) provide monitoring of high-risk pregnancies in order to identify fetuses affected with the disease. The department reports that it screens approximately 11,500 persons annually for the Tay Sachs trait. The department does not know the actual cost of conducting a Tay Sachs test.

Prenatal Diagnosis. This program, established by Ch 1272/78 (AB 3720, Rosenthal), requires the department to (1) develop standards and (2) provide subsidies for the amniocentesis procedure, in which a sample of a pregnant woman's amniotic fluid is removed around the sixteenth week of pregnancy and used to detect a variety of fetal abnormalities. Eligibility for the program includes women who are (1) 35 years of age or older or (2) have a genetic history placing them at risk for giving birth to an infant with a genetic disorder. According to the department, the program was established in recognition of the major state costs for caring for persons with developmental and physical disabilities.

The department receives a total of $730,000 annually from the General Fund for this program, of which $654,000 is for contracts with 15 prenatal diagnosis centers (PDCs) throughout the state. The department reports that each of the 15 centers spend their program funds differently — on counseling, subsidies, or laboratory services — that essentially "underwrite" the provision of amniocentesis. The department reports that (1) virtually all women receiving an amniocentesis in California obtain them through PDCs and (2) approximately 22 percent of the women served in PDCs are referred from the NTD Program. The department reports that PDCs are required to accept Medi-Cal as a contract condition.

Budget Proposal. The budget proposes to shift the (1) $1.6 million in local contract funds and (2) $260,000 in department support for the Tay Sachs, Prenatal Diagnosis, and Sickle Cell Counseling Programs from the General Fund to the GDTF in 1991-92. The department proposes to finance the 1991-92 program costs from the GDTF reserve, rather than implementing new fees immediately. The department states it will raise (1) NTD fees to cover costs of the Prenatal Diagnosis and Tay Sachs Prevention Programs and (2) NBS fees to cover costs of the Sickle Cell Counseling Program in 1992-93.

Proposed Funding Shift Raises Major Policy Issues. While the department does not propose to raise fees to finance the funding switch in the budget year, but instead proposes to use GDTF reserve funds, we find that supporting these costs from GDTF reserves raises policy issues regarding the appropriateness of supporting these programs with fees in future years. Specifically, our analysis indicates that the funding switch proposed by the department raises two major questions:

- *Are the programs' benefits mostly public or mostly private?* As a general rule, fees are most appropriately used to finance programs when the benefits of the program are mostly private. Programs that benefit the general population are most appropriately funded by the

DEPARTMENT OF HEALTH SERVICES—Continued

General Fund or other nonfee sources of financing if available. This is because individuals will generally consider only their individual — and not society's — costs and benefits when deciding whether to pay for receiving a specific service.

- *What "user" class should most appropriately finance the programs?* Generally, if distinct beneficiaries or "users" of a program can be identified, fee-based financing may be appropriate.

Accordingly, applying these questions to the three programs in the department's proposal raises some issues the department needs to address. For example, to the extent the Tay Sachs Testing Program (1) benefits the general population through avoiding high costs for state developmental center care and/or (2) seeks to subsidize a particular activity — the test — the program may be most appropriately funded by the General Fund or a nonfee source of financing.

Recommendation. While the department does not propose to raise fees to finance the funding switch of $1.9 million in the budget year — but instead proposes to use GDTF reserve funds — we find that supporting these costs from reserves raises policy issues regarding the appropriateness of supporting these programs with fees in future years. Accordingly, we find that financing these programs from reserves (1) sets a policy precedent and (2) will require a future General Fund augmentation should the Legislature decide that future fee-financing is inappropriate.

The Legislature will require additional information from the department before it can assess the reasonableness of the department's proposal. Accordingly, we recommend that the department provide the legislative fiscal committees, by April 1, (1) the actual amount of fee increase required for the NBS and NTD Programs to finance the department's proposal beginning in 1992-93 and (2) information on alternative user classes and associated fees for each of the three programs contained in the department's proposal. We withhold recommendation pending receipt of the above information.

Child Health and Disability Prevention (CHDP)

Legislative Oversight: Funding and Demand for CHDP Screens Increasing Substantially

The budget proposes to spend $68.8 million (all funds) providing health assessments, or screens, to low-income children through the CHDP Program during 1991-92. This amount is $15.9 million, or 30 percent, more than estimated expenditures on health assessments during 1990-91. Of the $15.9 million in additional funds requested by the department, $12.8 million, or 81 percent, is for health assessments supported by the Cigarette and Tobacco Products Surtax (C&T) Fund.

Background on C&T Fund. The C&T Fund was established by Proposition 99 (the Tobacco Tax and Health Protection Act of 1988). This measure established a surtax of 25 cents per package on cigarettes and an equivalent amount on all other tobacco products. This surtax generated almost $1.7 billion in new revenues available for expenditure in 1989-90

and 1990-91. Chapter 1331, Statutes of 1989 (AB 75, Isenberg), allocated the vast majority of these funds.

Specifically, Chapter 1331 allocated a total of $38.1 million to the CHDP Program to provide health screens to children between 6 years and 18 years of age whose family incomes are at or below 200 percent of the federal poverty level. Prior to enactment of this measure, the CHDP Program provided health screens to children under six years of age whose family income was at or below 200 percent of the AFDC basic need level.

Business is Booming in the Current Year. The department estimates that the CHDP Program will provide a total of 970,870 screens during 1990-91 at a total cost of $52.9 million. This is an increase of 143,000, or 17 percent, above the number of screens budgeted in the 1990 Budget Act. The department estimates that a deficiency appropriation will be sought to fund the increased number of screens. As part of this revised current-year estimate, the department assumes:

- General Fund supported screens will increase by 60,200, or 12 percent, necessitating a General Fund increase of $4.7 million, or 22 percent, above the amount appropriated in the 1990 Budget Act.
- C&T Fund supported screens will increase by 82,660, or 24 percent, necessitating an increase in C&T funds of $3.5 million, or 16 percent, above the amount appropriated in the 1990 Budget Act.

The department attributes the increase in General Fund supported screens to outreach and education programs administered by the prenatal care guidance and C&T Fund supported programs. It reports that General Fund expenditures are increasing at a greater rate than the number of screens due to an increase in the cost per screen resulting, in large part, from increased numbers of immunizations provided children during their health screen. Furthermore, the department attributes increases in C&T Fund supported screens to the fact that it had no actual data to draw upon in building its prior estimates.

Growth in Screens Assumed to Level Off During 1991-92. The budget for 1991-92 proposes an increase in all funds of $15.9 million, or 30 percent, above estimated expenditures during 1990-91. Included within this increase are (1) an increase of $2.2 million from the General Fund, (2) an increase of $12.8 million in C&T funds, and (3) an increase of $700,000 in federal MCH funds.

In building its estimate, the department assumed that growth in the monthly number of C&T funded screens will continue through the end of the current year, and then level off. The department reports that this type of leveling off has occurred in the CHDP Program in the past when it has expanded eligibility to new populations. To the extent growth in C&T funded screens differs from past experience, funding needs will increase or decrease accordingly.

CHDP Program Supported With Federal Maternal and Child Health Funds

The department has received a total of $4.6 million in new federal MCH funds available for expenditure over the current and budget years. Approximately $2 million of this amount is available for expenditure

DEPARTMENT OF HEALTH SERVICES—Continued

during 1990-91 and $2.6 million is available for expenditure during 1991-92.

The department proposes to spend $1.1 million in 1990-91 and $1.8 million in 1991-92 of the increased federal MCH funds to immunize children in the CHDP Program against Hemophilus Influenza Type B (HIB) with a new vaccine that offers better protection than the vaccine used currently. Thus, the department proposes to spend 63 percent of its total federal MCH grant increase providing HIB vaccine through the CHDP Program in the current and budget years.

Legislature Has Not Previously Supported the CHDP Program With Federal MCH Funds. We find that the Legislature has never previously used federal MCH funds to support CHDP Program costs. Accordingly, the department's budget proposal represents a departure from the Legislature's fiscal policy to date.

Our review also indicates that the department's proposal to use federal MCH funds for immunizing children through the CHDP Program may be appropriate. In fact, recent federal requirements imposed on the federal MCH block grant require states to ensure that they will meet the Surgeon General's health objectives, which include childhood immunization rates. Thus, the question facing the Legislature is whether or not it wants to use federal MCH funds to support these CHDP Program costs.

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

Immunization Program is Underfunded

We recommend a reduction of $8,460,000 in federal funds to reflect the department's most recent estimates of federal funding for the childhood immunization program. In addition, we find that (1) funding for the immunization program will not be sufficient to meet demand for vaccines in 1991-92 and (2) the funding shortfall is likely to grow in 1992-93. (Reduce $8,460,000 in Item 4260-005-890.)

The budget proposes a total of $27.2 million to purchase vaccines against various childhood diseases. This amount consists of $2.2 million from the General Fund and $25 million in federal funds. 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 provides more than two million doses of vaccines annually to immunize children against diseases such as polio, measles, mumps, rubella, diphtheria, tetanus, and pertussis.

Budget Overestimates Federal Funds. The department indicates that the $25 million in federal funds proposed in the budget represents the amount it *requested* from the CDC, rather than the amount actually *granted* by the CDC. In fact, in supporting information submitted by the department, it estimates that the state is likely to receive no more than $16,540,000 from the CDC, or $8,460,000 less than the amount budgeted. Accordingly, we recommend a reduction of $8,460,000 in federal funds to

reflect the department's most recent estimate of federal funds for childhood immunizations.

Immunizations Underfunded in 1991-92. Our analysis indicates that the amount projected to be available in 1991-92 for immunizations is insufficient to meet the department's estimated demand for vaccines. Table 13 shows the amount likely to be available for purchasing vaccines compared with the amount the department estimates is needed to meet the demand for vaccines in both 1991-92 and 1992-93. As shown in Table 13, the amount needed to meet estimated demand for vaccines in 1991-92 exceeds available funding by $2.7 million, or 13 percent of proposed expenditures.

In addition, our review indicates that the shortfall in funding may exceed $2.7 million. The CDC has notified the department that the prices negotiated by the CDC for the vaccines are likely to increase by 5 percent to 10 percent in 1991-92 compared with the 1990-91 prices. Table 13 assumes that the cost of the vaccines will increase by 5 percent in 1991-92. However, if the costs of the vaccines increase by 10 percent, rather than 5 percent, the shortfall in funding will increase from $2.7 million to $3.8 million.

Table 13
Department of Health Services
Childhood Immunization Program
Funding for Vaccines Against Childhood Disease
1991-92 and 1992-93
(dollars in thousands)

	1991-92	*1992-93*
Federal funds	$16,542	$13,720
General Fund	2,170	2,170
Total funds	$18,712	$15,890
Estimated vaccine costs	$21,454 [a]	$21,454
Difference	−$2,742	−$5,564

[a] Assumes a 5 percent increase in vaccine costs compared with the 1990-91 costs of vaccines.

Shortfall Will Increase in 1992-93. In addition to comparing proposed revenues and expenditures for the immunization program in 1991-92, we projected estimated revenues and expenditures for the vaccine program beyond the budget year into 1992-93. As shown in Table 13, we estimate that the shortfall in funding for vaccines in 1992-93 will be at least $5.6 million, or $2.9 million more than in 1991-92. (Furthermore, to the extent that the costs of vaccines increase by more than 5 percent in 1991-92, or increase by *any* amount in 1992-93, the shortfall in funding will exceed $5.6 million.)

The gap between available funding and expenditures will increase in 1992-93 because the department proposes to spend in 1991-92 its entire 1992 federal appropriation, and will thus have no available carry-over funds at the end of the budget year.

Specifically, the department receives federal funds for the immunization program on a calendar-year basis and, therefore, must split the funds between state fiscal years. Historically, the department has carried over

DEPARTMENT OF HEALTH SERVICES—Continued

from one state fiscal year to the next an average of approximately 25 percent of the federal grant. In 1991-92, however, the department proposes to spend (1) $2.8 million in funds carried over from the federal 1991 grant and (2) the *entire* $13.7 million from the calendar-year 1992 federal grant. Accordingly, while the department's spending proposal minimizes the shortfall in 1991-92, the proposal substantially increases the shortfall in 1992-93.

Tobacco Use Prevention Program Significantly Reduced

We find that the budget proposes to reduce funding for the Tobacco Use Prevention Program administered by the DHS by $69.5 million and redirect the majority of these funds primarily to a new perinatal insurance program. We also find that the total level of support for tobacco tax-funded health education programs will fall below the minimum amounts required by Proposition 99.

Chapter 1331, Statutes of 1989 (AB 75, Isenberg), established the Tobacco Use Prevention Program in the DHS. The program, as authorized by Chapter 1331, consists of (1) a public information campaign to prevent and reduce tobacco use, (2) a competitive grants program for nonprofit organizations to provide health education and promotion activities, and (3) grants to local agencies for tobacco use prevention and reduction programs.

The Tobacco Use Prevention Program is funded from the Health Education Account (HEA) in the Cigarette and Tobacco Products Surtax Fund. Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) established a surtax of 25 cents per package of cigarettes and an equivalent amount on all other tobacco products sold in California. Proposition 99 requires that 20 percent of the total revenue from the surtax be deposited in the HEA for tobacco use prevention and reduction programs.

The budget proposes a total of $30 million from the HEA for the DHS Tobacco Use Prevention Program in 1991-92. This amount is $69.5 million, or approximately 70 percent, less than estimated current-year expenditures. Table 14 shows proposed expenditures for each of the tobacco use prevention programs compared with estimated current-year expenditures. As shown in Table 14, the administration proposes to (1) eliminate the competitive grants program for nonprofit organizations to provide health education and promotion activities and (2) reduce from $35.4 million to $15 million the grants to local agencies for tobacco use prevention and reduction programs.

The administration proposes to redirect the majority of the HEA funds to a new perinatal insurance program, which would cover the pregnancy and neonatal medical care costs for women with incomes between 185 and 250 percent of the federal poverty level.

Table 14
Department of Health Services
Tobacco Use Prevention Program Expenditures
1990-91 and 1991-92
(dollars in thousands)

	Expenditures		Change from 1990-91	
Program	*Est. 1990-91*	*Prop. 1991-92*	*Amount*	*Percent*
Media campaign	$14,288	$15,000	$712	5.0%
Competitive grants	49,748	—	−49,748	−100.0
Local lead agency grants	35,429	15,000	−20,429	−57.7
Totals	$99,465	$30,000	−$69,465	−69.8%

Our analysis indicates that the proposal to transfer the funding from the Tobacco Use Prevention Program to the new perinatal insurance program will reduce the total level of support proposed for tobacco tax-funded health education programs below the minimum level required by Proposition 99. Accordingly, the administration's proposal will require a change in current law (requiring a four-fifths vote) in order to reallocate the tobacco tax funds.

Laboratory Inspection Personnel Overbudgeted

We recommend a reduction of $334,000 and six personnel-years from the General Fund because the department has provided no information to support its request for increased personnel to inspect clinical laboratory facilities. (Reduce Item 4260-001-001 by $334,000.)

The budget requests a total of $4,213,000 from the General Fund ($3,142,000) and federal funds ($1,071,000) to inspect and certify clinical laboratories throughout the state. This amount is $388,000, or 10 percent, more than estimated current-year expenditures. The General Fund costs of the laboratory certification and inspection program generally are offset by fee revenue that is deposited into the General Fund.

Chapter 970, Statutes of 1990 (AB 4352, Tanner), requires the department to conduct inspections of licensed clinical laboratories at least once every two years. The department indicates that there are a total of 2,030 licensed clinical laboratories in the state. Of this amount, the department currently inspects *annually*, under a contract with the federal government, 891 laboratories that perform services for Medi-Cal and Medicare patients. The department indicates, however, that it does not have sufficient resources to inspect every two years the remaining 1,139 laboratories that provide services to non-Medicare patients (called non-Medicare laboratories). According to the department, it currently inspects the non-Medicare laboratories at frequencies ranging from once every three to once every eight years. The budget proposes an increase of $334,000 and six personnel-years from the General Fund to increase inspection of non-Medicare laboratories to once every two years.

Our analysis indicates, however, that the department's *assertion* that it currently does not have sufficient resources to inspect non-Medicare laboratories once every two years is not supported by the information submitted by the department on the actual number of non-Medicare laboratories inspected in 1987-88 and 1988-89 (the most recent years for

DEPARTMENT OF HEALTH SERVICES—Continued

which inspection data are available.) Specifically, the department indicates that between 1987-88 and 1988-89, it inspected a total of 1,846 non-Medicare laboratories, *or over 700 laboratories more than the amount necessary to meet the requirements of Chapter 970.* Based on the actual number of laboratories inspected in 1987-88 and 1988-89, the department currently inspects non-Medicare laboratories an average of once every 15 months.

The department has not provided any other information to justify the need for the $334,000 and six personnel-years increase, nor has it explained why it is requesting additional resources for inspecting laboratories when its current resources are sufficient to meet the requirements of Chapter 970. As a result, we have no basis to recommend approval of the department's request. Accordingly, we recommend deletion of $334,000 and six personnel-years from the General Fund requested to increase inspections of clinical laboratories.

Fee Adjustment Language Needs Adjusting

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

Under current law, the Budget Act sets the annual clinical laboratory license fee adjustment based on formulas specified in statute. The 1991 Budget Bill includes language requiring increases of 7.9 percent in laboratory license fees.

Our analysis indicates that the clinical laboratory license fee adjustment proposed in the Budget Bill is incorrect, because it does not reflect the increased costs due to proposed program changes. Our calculations show that fees should be increased by 10.1 percent rather than by 7.9 percent. This will increase revenue to the General Fund by approximately $85,000 in 1991-92. Accordingly, we recommend that the Legislature amend the Budget Bill (Item 4260-001-001) to reflect a 10.1 percent increase in laboratory license fees. We will advise the Legislature as appropriate if any additional changes are needed as a result of legislative actions on the budget.

4. TOXIC SUBSTANCES CONTROL

MAJOR ISSUES

☑ Funding for the toxics program may be insufficient to fund proposed site mitigation and hazardous waste management activities in 1991-92.

☑ The state is required by a recent judicial ruling to share with other responsible parties the costs of cleaning up the Stringfellow hazardous waste site. The costs of cleaning up this site will exceed $280 million (in current-year dollars).

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

Table 15
Department of Health Services
Toxic Substances Control Division
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

Programs	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Hazardous waste management and planning					
Hazardous Waste Control Account	$35,831	$39,644	$40,055	$411	1.0%
Hazardous Waste Management Planning Subaccount	1,015	26	—	−26	−100.0
Federal funds	5,746	6,022	7,625	1,603	26.6
Subtotals	($42,592)	($45,692)	($47,680)	($1,988)	(4.4%)
Site mitigation					
General Fund	10,307	6,545	—	−6,545	−100.0
Hazardous Substance Account	29,163	38,951	40,055	1,104	2.8
Hazardous Substance Cleanup Fund (bond funds)	8,490	21,858 [a]	—	−21,858	−100.0
Hazardous Site Operations and Maintenance Account	241	2,502	—	−2,502	−100.0
Superfund Bond Trust Fund	512	−3,033	194	3,227	−106.4
Special Account for Capital Outlay	1,500	500	—	−500	−100.0
Federal funds	4,730	20,435	12,445	−7,990	−39.1
Reimbursements	3	1,300	1,943	643	49.5
Subtotals	($54,946)	($89,058)	($54,637)	(−$34,421)	(−38.7%)
Totals	$97,538	$134,750	$102,317	−$32,433	-24.1%

[a] Of this amount, $18,475,000 is for site cleanup and a net amount of $3,383,000 is for transfer to the Superfund Bond Trust Fund, pursuant to the requirements of Ch 531/90 (AB 2635, Tanner).

DEPARTMENT OF HEALTH SERVICES—Continued

The budget proposes expenditures of $102.3 million (all funds) for the toxics division in 1991-92. This is a decrease of $32.4 million, or 24 percent, below estimated current-year expenditures. The net reduction in expenditures results primarily from the following:

- A decrease of $18.5 million from the Hazardous Substance Cleanup Fund (HSCF) for site cleanup contracts. The HSCF has been supported by $100 million in bond funds approved by the voters in 1984 for cleaning up hazardous waste sites. The budget estimates that all funds in the HSCF will be spent by the end of the current year. The reduction in HSCF monies will decrease the *total* funds available for direct site cleanup contracts by 66 percent. (We discuss this issue later in this analysis.)
- A reduction of $7.8 million from various funds ($6.5 million General Fund) to reflect the expenditure in the current year of one-time funds appropriated in legislation.
- A reduction of $6.6 million in federal funds resulting from a reduction in federal special projects.
- Various administrative adjustments resulting in a net increase of $500,000 from various funds.

The budget proposes a total of 1,011.4 positions for the division in 1991-92, which is an increase of 10 positions above the 1990-91 authorized staffing level. This increase reflects the budget's request for 12 new positions, offset by a reduction of 2 limited-term positions.

Table 16 displays the changes proposed in the toxics division budget for 1991-92.

Table 16
Department of Health Services
Toxic Substances Control Division
Proposed 1991-92 Budget Changes
(dollars in thousands)

	Positions	*Amount*	*Fund*
1990-91 expenditures (Budget Act)	988.7	$99,328	Various
Baseline adjustments, 1990-91:			
Statutory appropriations	—	26,300	Various
Debt service for bond funds	—	5,350	SBTF
Federal funds for operations and maintenance of Stringfellow	—	2,502	HSOMA
Partial-year adjustment	11.7	—	—
Employee compensation increase	—	1,487	Various
Miscellaneous adjustments	1.0	−217	Various
1990-91 expenditures (revised)	1,001.4	$134,750	
Baseline adjustments, 1991-92:			
Full-year effect of 1990-91 employee compensation increases	—	1,208	Various
Pro rata, Statewide Cost Allocation Plan, and operating expense adjustment	—	1,367	Various
Decrease in debt service for bond funds	—	−156	SBTF
Increase in responsible-party advance payments	—	600	Reimbursements
Decrease in federal special projects	—	−6,603	Federal

Eliminate hazardous waste management planning project	—	−26	HWMPS
Eliminate limited-term positions	−2.0	−64	Various
Eliminate federal funds for site operation and maintenance of Stringfellow	—	−2,502	HSOMA
Reduction in bond funds available for site mitigation	—	−18,475	HSCF
Elimination of statutory appropriations:			
Cleanup of Stringfellow and San Gabriel sites, Ch 1428/85	—	−6,545	General
Cleanup of the McColl site, Ch 1302/82	—	−721	HSA
Hazardous waste fees, Ch 1376/88	—	−59	HWCA
Cleanup of ASARCO site, Ch 1624/88	—	−500	SAFCO
Subtotals, baseline adjustments	(−2.0)	(−$32,476)	
Program change proposals:			
Shift operating expense funds to personal services to establish various positions	11.0	—	—
Oil spills planning and response	1.0	43	Reimbursements
Subtotals, program changes	(12.0)	($43)	
1991-92 expenditures (proposed)	1,011.4	$102,317	
Change from 1990-91 (revised):			
Amount	10.0	−$32,433	
Percent	1.0%	−24.1%	

HSA — Hazardous Substance Account
HSCF — Hazardous Substance Cleanup Fund (bond funds)
HWCA — Hazardous Waste Control Account
HSOMA — Hazardous Site Operations and Maintenance Account
HWMPS — Hazardous Waste Management Planning Subaccount
SAFCO — Special Account for Capital Outlay
SBTF — Superfund Bond Trust Fund

Future Funding of Toxics Program Uncertain

Our analysis indicates that the revenue for the toxics program may not be sufficient to fund proposed site mitigation and hazardous waste management activities in 1991-92.

The budget proposes total expenditures of $102.3 million (all funds) for support of the Toxics Substances Control Program in 1991-92. The program is supported from two major funding sources:

The *Hazardous Waste Control Account (HWCA)* funds the state's hazardous waste control program. The account is supported by fees assessed against (1) hazardous waste storage, treatment, and disposal operators; (2) facilities that generate hazardous waste; and (3) corporations that use, store, generate, or conduct activities related to hazardous materials.

The *Hazardous Substance Account (HSA)* funds the state's site mitigation program. The account is supported by taxes and fees assessed primarily against (1) persons who dispose of hazardous wastes based upon the amount and toxicity of the waste and (2) persons responsible for toxic substance releases to help pay the department's costs of overseeing site cleanup.

Recently Enacted Legislation Will Increase Revenues to the HWCA and HSA. In our *Analysis of the 1990-91 Budget Bill* (page 544), we projected revenues and expenditures for the HSA and HWCA into

DEPARTMENT OF HEALTH SERVICES—Continued

1991-92. We further revised our projections in March 1990. Based on our revised projection, we estimated that revenues to the HSA and HWCA in 1991-92 would not be sufficient to maintain the 1990-91 levels of site mitigation and hazardous waste control activities. Specifically, we projected that the costs of maintaining 1990-91 levels of program activities in 1991-92 would exceed available revenues in (1) the HSA by $12.8 million and (2) the HWCA of $2.1 million.

Since the time of our analysis, however, the Legislature enacted Ch 1267/90 (AB 2794, Wright) and Ch 1268/90 (SB 1857, Torres), which made substantial changes to HSA and HWCA fees, and removed various exemptions to the fees. We estimate that these acts will increase revenue to (1) the HSA by approximately $6.8 million in the current year and by $6 million in 1991-92 and (2) the HWCA by approximately $1 million in both 1990-91 and 1991-92. As a result of the additional revenue that will be generated by Chapters 1267 and 1268, the budget estimates that revenues to the HWCA and HSA will be sufficient to maintain in 1991-92 the current program levels funded from the HSA and HWCA, and provide reasonable reserves for contingencies and emergencies.

Revenue Assumptions in Budget May Be Overly Optimistic. Our analysis indicates that the department's estimates of *total* revenues for 1991-92 may be overly optimistic for the following reasons:

- The department's projections of the tonnage of hazardous wastes that will be disposed in 1991-92, and therefore the amount of revenue that will be generated from disposal fees, appear optimistic. We find that the department's projections for fee revenues appear to be high when compared to trends in hazardous waste disposal over the past four years.
- The department has provided no basis for its estimate that fees from the new "permit-by-rule" program will result in revenue of $6.4 million. Under the permit-by-rule program, the department will issue operating permits through regulations to hazardous waste-related industries, and then inspect individual facilities over a period of years to ensure that they comply with the permit conditions. Facilities receiving a permit by rule will be required to pay an annual fee of $1,000. Based on information submitted by the department in the current year, we estimate that the fees from the permit-by-rule program will result in revenue of approximately $3.5 million, or $2.9 million less than the amount projected by the department.
- The department appears to have included in its projections $1.5 million from changes in law proposed by SB 1804 (Torres, 1990). However, SB 1804 *was vetoed by the Governor.*
- The department assumes that it will receive $4 million in 1990-91 and $7 million in 1991-92 from persons who have refused to pay fees pending an appeal to the Board of Equalization (BOE). The department assumes that a significant number of the appeals will be determined in the department's favor. However, if the BOE determines that the petitioners are not subject to the fees, or if the BOE

delays its decisions beyond the budget year, there will be a significant shortfall in the HWCA.

Although some of the department's assumptions appear overly optimistic, sufficient information is not available at this time to fully evaluate the likely fund condition of the HSA and HWCA in 1991-92. Therefore, we will continue to work with the department to evaluate the revenues for 1991-92 and report our findings to the Legislature at the time of budget hearings.

Department's Failure to Submit Reports Reduces Legislative Oversight

We withhold recommendation on $41,295,000 and 433 personnel-years, or 40 percent of the toxics budget, from various funds for (1) cleaning up toxic substance release sites, (2) recovering costs from responsible parties for site mitigation activities, and (3) permitting hazardous waste facilities and enforcing hazardous waste control laws, pending receipt and review of three reports required in the Supplemental Report of the 1990 Budget Act.

The budget proposes a total of $41.3 million and 433 personnel-years from various funds for (1) cleaning up toxic substance release sites ($5.4 million from the HSA), (2) recovering costs from responsible parties for site mitigation activities ($761,000 from the HSA), and (3) permitting hazardous waste facilities and enforcing hazardous waste control laws ($35.2 million from the HWCA and federal funds).

During hearings on the 1990-91 Budget Bill, the Legislature expressed concern over the department's implementation of these three programs. As a result, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* requiring the department to submit reports on the programs that would provide the Legislature with the information that it needs to ensure that the programs are funded properly, will meet programmatic goals, and are consistent with legislative direction. Specifically, the Legislature required the department to submit the following reports:

1. Criteria for the Cleanup of Toxic Substance Release Sites. The Legislature required the department to (a) develop and submit, by November 1, 1990, criteria for determining which hazardous waste sites — and which site mitigation activities at those sites — to fund and (b) submit, by January 10, 1991, information justifying the selection of the sites proposed for funding in 1991-92 based on the criteria. The Legislature requested this information because the department could not identify for the current year its reasons for proposing certain sites for funding rather than others, nor assure the Legislature that it was cleaning up the highest-priority sites. The Legislature needs this report to evaluate whether the department's proposals for cleaning up toxic substance release sites in 1991-92 and thereafter address the greatest threat to human health and the environment and are consistent with legislative priorities. Furthermore, the Legislature needs this report to assess the programmatic effect of the reduction in funding for direct site cleanup contracts.

DEPARTMENT OF HEALTH SERVICES—Continued

2. Responsible-Party Cost Recovery. The Legislature required the department to submit, by November 1, 1990, a plan for improving the effectiveness and efficiency of the cost recovery program. Specifically, the plan is to identify (a) the specific actions the department will take to significantly increase the amounts billed to, and collected from, responsible parties during 1990-91, 1991-92, and 1992-93 and (b) the specific actions the department will take to provide the Legislature with specified information necessary to evaluate the progress of the cost recovery program. The Legislature required this information because of its concern that the department has been too slow in recovering costs from responsible parties and has not developed the information systems necessary for the state to properly evaluate the progress of the cost recovery program. The Legislature needs this report to determine whether the department has taken, or will take, actions to address the Legislature's concerns.

3. Permitting and Enforcement of Hazardous Waste Facilities. The Legislature required the department to submit, by January 10, 1991, a report on the projected workload changes that will affect the permitting program and the surveillance and enforcement program in 1991-92 and 1992-93. The Legislature requested this information because recent changes in federal and state hazardous waste laws and programs have resulted in dramatic shifts in departmental workload. The Legislature requires this information to determine whether the department is staffed and funded properly to meet changing workload demands.

Department Has Not Submitted Reports. At the time we prepared this analysis (mid-January), the department had not submitted to the Legislature any of the reports required in the *Supplemental Report of the 1990 Budget Act.* Without these reports, the Legislature has no basis for determining whether (1) the department's proposal for cleaning up toxic substance release sites in 1991-92 is consistent with legislative priorities, (2) the department's plan for increasing cost recoveries is reasonable, or (3) the budget's funding proposals for permitting hazardous waste facilities and enforcing hazardous waste control laws are sufficient, in light of recent changes in hazardous waste laws and programs. Accordingly, we withhold recommendation on $41,295,000, and 433 personnel-years, from various funds for toxics-related activities, pending receipt and review of the three reports.

State Shares Liability in Cleanup of Stringfellow Hazardous Waste Site

Our analysis indicates that (1) the state is required by a recent judicial ruling to share with other responsible parties the costs of cleaning up the Stringfellow hazardous waste site, (2) the total costs of cleaning up the Stringfellow hazardous waste site will exceed $280 million (in current-year dollars), and (3) the exact amount for which the state is liable and when the state will be required to pay is unknown. We also find that another pending lawsuit could increase the state's liability.

The budget proposes a total of $8.1 million from federal funds, the Hazardous Substance Account (HSA), and the General Fund for characterizing and cleaning up the Stringfellow hazardous waste site. Since 1985, the Legislature has appropriated a total of approximately $30 million from the General Fund and the HSA for the characterization and cleanup of the Stringfellow site. Of this amount, the DHS has spent, or plans to spend, almost the entire amount for site characterization and cleanup.

Background. The Stringfellow site — named for the original owner, Mr. Stringfellow — is located in Riverside County, approximately five miles north of the City of Riverside. Between 1956 and 1972, the site was used as a state-authorized hazardous waste disposal facility. During that time, approximately 34 million gallons of industrial waste were deposited at the site. The wastes included solvents, acids, pesticide by-products, and highly toxic metals such as lead, chromium, nickel, and cadmium. These chemicals have contaminated the soils at the 17-acre site, and the solvents have contaminated the groundwater below the site.

The Stringfellow site is listed on the federal National Priorities List (Superfund list). Since 1980, the EPA and DHS have spent approximately $100 million on characterizing and cleaning up the Stringfellow site. The agencies have removed all liquids from the site, capped the site, constructed channels to remove surface water from the site, constructed groundwater extraction and treatment systems, and conducted various studies to identify the extent of contamination and the risks from the site.

Cleanup Costs Will Exceed $280 Million. In 1990, the EPA and DHS developed the plans for the next major stage in the final cleanup plan for the Stringfellow site. The EPA and DHS estimate that, in addition to the approximately $100 million that has already been spent, the proposed plan will cost an additional *$186 million (in current-year dollars) over the next 30 years.* Specifically, the agencies propose to (1) install and maintain additional groundwater extraction wells to reduce continued groundwater contamination, (2) install and maintain systems to remove air contaminants from the site, (3) replace the cap on the site, and (4) conduct studies on additional means of treating the soils on the site to reduce the level of contamination. Furthermore, the EPA may require additional soil cleanup or treatment in future years, depending on the results of the soil treatment studies. Accordingly the total costs of cleaning up the Stringfellow site are unknown, but will *exceed $280 million* (in current-year dollars).

State Found to Share the Liability for Cleanup of Stringfellow. In January 1990, the U.S. District Court found the state to be a responsible party for the Stringfellow site. Under the federal Comprehensive Environmental Response, Compensation, and Liability Act (the CERCLA, or Superfund Act), a "person" (which is defined to include governments) is liable for the cleanup of a site if specified conditions exist, and (1) the person currently owns or operates the site, (2) the person owned or operated the site when hazardous wastes were disposed of at the site, (3) the person arranged for disposal of its hazardous wastes at the site, or (4)

DEPARTMENT OF HEALTH SERVICES—Continued

the person transported hazardous waste to the site. The court found that the state was *liable both as a person who arranged for disposal of wastes at the site and as the owner and operator of the Stringfellow site.*

Specifically, the court found that the state arranged for the disposal of some hazardous substances at the site after Mr. Stringfellow had voluntarily closed the site, thereby making the state liable. In addition, the court found the state to be a liable as an owner and operator of the site. This is because the state took possession of the Stringfellow site due to the failure of Mr. Stringfellow to pay taxes. Also, the court found that the state caused or contributed to the release of hazardous substances from the site because it was negligent in the manner in which it carried out its regulatory and cleanup activities.

State Will Be Required to Share the Cleanup Costs. As a result of the court ruling, the state will be required to share in the over $280 million in cleanup costs for the Stringfellow site. This amount includes the $100 million that has been spent to date because in future years these costs will be recovered from responsible parties. At this time, however, neither the responsible parties nor the courts have decided (1) the final number of responsible parties involved or (2) the method for allocating the cleanup costs among the responsible parties. In addition, it is unclear exactly when the responsible parties will be required to pay the cleanup costs. Therefore, the exact amount for which the state is liable, and when the state will be required to pay, are unknown.

Outstanding Lawsuit Could Increase State's Liability. In addition to the state's liability for the cleanup of the Stringfellow site, the DHS indicates that the state also has been sued by the residents of the cities and towns surrounding the Stringfellow site. Approximately 3,400 residents have sued all responsible parties, the state (separate from the responsible parties), and the County of Riverside for (1) loss of property, (2) personal injury, and (3) wrongful death. To the extent the plaintiffs are successful in their suit, the DHS estimates that the costs to all parties that have been sued could be up to $1 billion to provide the compensation requested by residents. The trial to determine the merits of the case is scheduled to begin in February 1991.

Budget Bill Language Needed to Maintain Legislative Oversight

We recommend that the Legislature adopt the same Budget Bill language that was included in the 1990 Budget Act requiring the department to develop standards and guidelines prior to implementing the proposed Integrated Site Mitigation Process, in order to maintain legislative oversight.

The budget proposes a total of $54.6 million from various funds for support of the site mitigation program. Under the site mitigation program, the department (1) identifies and evaluates toxic substance release sites, (2) oversees the cleanup of toxic substance release sites by responsible parties, and (3) contracts for the cleanup of toxic substance release sites where no responsible parties exist or where a responsible party refuses to clean up a site.

Integrated Site Mitigation Process (ISMP). During 1989-90, the department proposed to significantly change the process used for cleaning up toxic substances release sites and overseeing cases where responsible parties clean up these sites. Specifically, the department proposed to implement, by September 1990, an ISMP in which the department would:

- Implement, prior to the full evaluation or characterization of a site, "long-term stabilization" actions to reduce the continued threat to the public health and the environment. The stabilization actions can include, for example, installing a temporary cap rather than removing contaminated soil from a site. Currently, the department requires a thorough evaluation of a site in order to develop a proper cleanup plan prior to taking long-term stabilization-type actions.
- Discontinue working towards full cleanup of sites where there are no responsible parties. Under the proposal, once the department has completed "long-term stabilization" actions, it would not continue cleaning up the site unless (1) cleaning up the site is found to be more cost-effective than providing ongoing maintenance at the site or (2) the department is directed by the Legislature to fully clean up the site.
- Allow responsible parties to fully clean up sites, after the site has been stabilized, without direct oversight by the department. Instead of direct oversight, the department proposed to issue cleanup standards and guidelines to guide the responsible parties in cleaning up sites. The department also proposed to certify sites as "clean" based on reports submitted by the responsible parties, and inspection of a sample of sites after site cleanup is completed.
- Allow sites to be cleaned up to a level that would vary according to the future intended use of the site. For instance, sites that are going to be used for an industrial purpose after being cleaned up generally would not have to be cleaned up to the same level as sites that are to be used for construction of homes. The department proposes to restrict the future uses of hazardous waste sites using deed restrictions.

Legislative Concern Over Department Proposal. During hearings on the 1990-91 budget, the Legislature expressed concern over various parts of the department's proposal, *particularly related to the proposal to allow responsible parties to clean up sites without direct departmental oversight.* As a result, the Legislature adopted language in the 1990 Budget Act prohibiting the department from spending any funds on self-directed cleanup or certification activities by responsible parties until the department:

1. Develops site stabilization and remediation guidance documents and standards.

2. Obtains public input on the documents through two or more public hearings.

3. Adopts regulations establishing cleanup standards pursuant to the California Administrative Procedures Act.

DEPARTMENT OF HEALTH SERVICES—Continued

4. Notifies the Joint Legislative Budget Committee 30 days prior to spending the money that it has complied with the previously stated requirements.

Regulations Behind Schedule. The department indicates that despite its original plan to implement the ISMP by September 1990, the department is still in the process of developing regulations and guidelines and does not plan to complete the regulations and guidelines for two to three years.

Budget Bill Language Needed to Maintain Legislative Oversight. In order to maintain legislative oversight over the development of the ISMP, and assure that the department does not implement the process until it has adopted the legislatively required guidance documents and regulations, we recommend that the Legislature adopt again in the 1991 Budget Bill the language that was contained in the 1990 Budget Act. Specifically, we recommend that the Legislature adopt the following Budget Bill language in Item 4260-011-014:

The department shall not expend any of the funds appropriated in Item 4260-011-455 and payable to this item to take any action to approve self-directed cleanup and certification activities under the proposed Integrated Site Mitigation Process, including self-directed site stabilization, self-directed site remediation, and self-certification of cleanup by responsible parties, at any site where removal or remedial actions are taking place pursuant to Chapter 6.8 (commencing with Section 25300) of Division 20 of the Health and Safety Code, until those activities are consistent with that chapter and the department has first done all of the following:

1. Developed site stabilization and site remediation guidance documents and cleanup standards.

2. Obtained public input on these documents through two or more public workshops, with at least one workshop held in the southern part of the state and one workshop held in the northern part of the state. In scheduling workshops, written notification shall be provided to interested representatives of industry, environmental groups, local enforcement agencies, the public, and the members of the following legislative committees: the Senate Committee on Toxics and Public Safety Management, the Assembly Committee on Environmental Safety and Toxic Materials, the Senate Committee on Budget and Fiscal Review, and the Assembly Committee on Ways and Means.

3. Adopted regulations establishing cleanup standards pursuant to the California Administrative Procedures Act. In addition, the department shall notify the public of the availability of these documents through (a) mailings to the same individuals and entities identified in subdivision (2) and (b) press releases to the written and electronic media.

Upon the satisfactory completion of the actions set forth in this provision, the department shall submit written notification to the Joint Legislative Budget Committee at least 30 days prior to the date on which it intends to expend funds appropriated in this item for the purpose of implementing self-directed cleanup and certification activities of the Integrated Site Mitigation Process.

Operating Expense and Equipment Overbudgeted

We recommend a reduction of $1.2 million from various funds for operating expense and equipment, because the department has not

justified its request. (Reduce Item 4260-011-014 by $683,000 and Item 4260-011-455 by $508,000.)

The budget proposes a total of $35.9 million from various funds to purchase equipment and pay for various expenses necessary to operate the department's headquarters and four regional offices. Of this amount, the budget proposes $1,191,000 from the Hazardous Substance Account (HSA) and the Hazardous Waste Control Account (HWCA) to purchase (1) modular furniture for two regional offices and (2) a data management system.

Modular Furniture. In the current year, the department indicates that it redirected approximately $1 million from various other operating expenses to purchase modular furniture. The budget proposes to again redirect approximately $1 million from other operating expense and equipment categories to purchase additional modular equipment. Of this amount, the department proposes to spend (1) $300,000 for special components for existing modular furniture in its Sacramento regional office and (2) $600,000 for new modular work stations for its Burbank regional office. The department indicates that it will be moving the Burbank office during 1991-92, and proposes to purchase new work stations for all employees at that time.

Data Management System. The budget proposes $291,000 from the HSA and HWCA for a particular type of data management system — an optical filing system. The system will enable the department to copy information from paper directly into a computer data base. The department indicates that it will be contracting with the California State University during the current year to (1) evaluate problems with the department's current data management system, (2) conduct an assessment of the department's data management needs, and (3) develop a comprehensive plan for organizing and unifying the department's record keeping.

Department Has Not Justified Its Request. The department has provided no information (1) justifying the need for additional components for the existing modular furniture in its Sacramento office or (2) explaining why it cannot simply move existing furniture to the new Burbank facility, rather than purchase new modular furniture. Thus, the Legislature has no basis to evaluate whether the modular furniture is needed. In addition, the department's proposal to purchase an optical filing system prior to the completion of the data management needs study and plan is premature. Accordingly, we recommend a reduction of $1,191,000 from the HSA and HWCA for modular furniture and an optical filing system.

Department Will Not Recover Costs that Exceed Fees

We recommend that the Legislature adopt the same Budget Bill language as adopted in the 1990-91 Budget Bill directing the department to bill and collect from responsible parties the costs that are in excess of fees paid by the responsible parties. This will result in additional revenue available for overseeing the cleanup of hazardous waste sites.

DEPARTMENT OF HEALTH SERVICES—Continued

Under current law, responsible parties are liable for the costs of site cleanup and state oversight of such cleanup. In the past, responsible parties could pay for state oversight 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. These acts authorize the department to bill responsible parties for supplementary amounts if the actual costs of oversight exceed the fees paid. The supplementary amounts collected are available for overseeing the cleanup of hazardous waste sites.

The department estimates that the fees authorized by Chapters 269 and 1032 are sufficient to pay for only 50 percent of the costs of overseeing hazardous waste site cleanups. Nevertheless, the department indicates that it will not bill responsible parties for costs that exceed fees, unless the department incurs extraordinary costs due to a recalcitrant responsible party. Thus, in most cases, the department indicates that it will not recover the amount that exceeds the fees. The department indicates that it believes this was the Legislature's intent in enacting Chapters 269 and 1032.

During hearings on the 1990-91 Budget Bill, the Legislature determined that the department's policy of not recovering costs in excess of the fees for cooperative responsible parties was inconsistent with legislative intent in enacting Chapters 269 and 1032. As a result, the Legislature adopted Budget Bill language clearly stating the intent of the Legislature that the department recover from responsible parties *all* costs for which the responsible parties are liable, including any costs in excess of the fees paid by the responsible parties. However, the Governor vetoed the language, stating that the provision was in excess of the requirements of Chapters 269 and 1032 and, therefore, was a substantive change in law that should be addressed in separate legislation.

Our review indicates that the language adopted by the Legislature in the 1990-91 Budget Bill is entirely consistent with the provisions of Chapters 269 and 1032. The department already intends to pursue payment for costs in excess of fees for recalcitrant responsible parties. The language simply clarifies the Legislature's intent that the department also pursue payment for costs in excess of fees for cooperative responsible parties. Accordingly, we recommend that the Legislature reaffirm its statement of intent by adopting the same language provided in the 1990-91 Budget Bill, but vetoed by the Governor. Specifically, we recommend that the Legislature adopt the following language in Item 4260-011-014:

> It is the intent of the Legislature that the department bill and collect from responsible parties the full costs for which the parties are liable, including any amounts that are in excess of the fees paid by the parties pursuant to Sections 25347.6 and 25347.7 of the Health and Safety Code.

5. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

MAJOR ISSUES

- ☑ A proposal to spend $876 million from the General Fund to budget Medi-Cal expenditures on an accrual, rather than a cash, accounting basis will eliminate fiscal strategies that distort the budget's reflection of actual costs and therefore has merit.
- ☑ The department's drug discount program may result in net costs of about $2.5 million General Fund in both 1990-91 and 1991-92, rather than resulting in expected net General Fund savings of $21.1 million.
- ☑ A proposal to save $21.2 million from the General Fund by requiring beneficiaries to make copayments could increase Medi-Cal costs for other services and limit beneficiaries' access to services.
- ☑ The budget proposes $15.1 million ($7.5 million General Fund) to implement federal nursing home provisions of the Omnibus Budget Reconciliation Act of 1987. The ongoing implementation costs could be significantly higher.

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 *cash* expenditures of $9.5 billion ($4.5 billion General Fund) in 1991-92, including $144.1 million ($48.6 million General Fund) for state administration. This represents a General Fund increase of $474.6 million, or 12 percent, above estimated current-year expenditures.

However, the budget includes $1.9 billion ($876 million General Fund) to change Medi-Cal accounting from a cash to an accrual basis. On an *accrual* basis, the budget proposes Medi-Cal expenditures of $11.4 billion

DEPARTMENT OF HEALTH SERVICES—Continued

($5.4 billion General Fund) in 1991-92. The total level of General Fund expenditures proposed for Medi-Cal in the budget year represents an increase of $1.4 billion, or 34 percent, above estimated expenditures in the current year.

Table 17 shows Medi-Cal expenditures for 1989-90 through 1991-92.

Table 17
Department of Health Services
Medi-Cal Program
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

	Fund	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Percent Change From 1990-91
Health care services	General	$3,327,650	$3,794,157	$5,111,523	34.7%
	All	6,706,825	8,134,900	10,745,566	32.1
County administration	General	113,044	148,048	181,351	22.5
	All	280,795	332,170	419,056	26.2
Claims processing	General	13,396	17,293	16,055	−7.2
	All	52,171	63,716	59,603	−6.5
Subtotals	General	$3,454,090	$3,959,498	$5,308,929	34.1%
	All	7,039,791	8,530,786	11,224,225	31.6
State administration	General	39,260	47,500	48,626	2.4
	All	130,111	139,719	144,084	3.1
Totals	General	$3,493,350	$4,006,998	$5,357,555	33.7%
	All	7,169,902	8,670,505	11,368,309	31.1

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 Supplementary Program (SSI/SSP). The categorically needy automatically receive Medi-Cal cards and pay no part of their medical expenses.

The *medically needy* include families with dependent children and aged, blind, or disabled persons who are ineligible for cash assistance because their income exceeds cash grant standards. Individuals who are not eligible for a cash grant due to their income can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133⅓ percent of the AFDC payment level specified for their household size. Medically needy beneficiaries who reside in long-term 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 185 percent of the federal poverty level, and (4) qualified Medicare beneficiaries.

In addition, during 1989-90 and 1990-91, state legislation extended Medi-Cal eligibility for some services to pregnant women and their children under age one in families with incomes up to 200 percent of the federal poverty level. The budget proposes to shift responsibility to serve these people from Medi-Cal to the Major Risk Medical Insurance Board. We discuss this proposal in our review of that budget (please see Item 4280).

Eligibles, Users, and Expenditures by Eligibility Category in 1991-92

Eligibles. Table 18 shows the average number of persons per month who were eligible for Medi-Cal in each eligibility category in 1989-90 and the number that the budget estimates will be eligible in 1990-91 and 1991-92. The table shows that an average of 4,240,100 persons will be eligible for Medi-Cal benefits each month during 1991-92. This is 238,000 individuals, or 5.9 percent, more than the average number of beneficiaries eligible in the current year.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 18

Department of Health Services
Average Monthly Medi-Cal Program Eligible Recipients
By Eligibility Category
1989-90 through 1991-92

	Actual 1989-90	*Est. 1990-91*	*Prop. 1991-92*	*Change from 1990-91*	
				Amount	*Percent*
Categorically needy					
AFDC	2,011,000	2,246,000	2,299,100	53,100	2.4%
SSI/SSP	843,500	883,800	916,600	32,800	3.7
Medically needy					
Families	235,200	300,400	313,700	13,300	4.4
Aged, blind, or disabled	55,200	55,000	55,700	700	1.3
Long-term care	63,300	65,200	66,200	1,000	1.5
Medically indigent					
Children	138,300	160,300	174,000	13,700	8.5
Adults	7,600	7,900	7,800	−100	−1.3
Refugees	10,200	10,600	10,900	300	2.8
Newly legalized persons	22,200	39,400	56,400	17,000	43.1
Undocumented persons	93,500	170,500	245,300	74,800	43.9
Pregnant women					
185 percent of poverty	26,700	58,500	91,300	32,800	56.1
200 percent of poverty	1,400	2,800	—	−2,800	−100.0
Qualified Medicare beneficiaries	—	1,700	3,100	1,400	82.4
Totals	3,508,100	4,002,100	4,240,100	238,000	5.9%

Expenditures by Eligibility Category. Table 19 shows the percentages of eligibles and expenditures that each eligible group is anticipated to account for in the current year. It also shows average cost per eligible. As

Table 19

Department of Health Services
Medi-Cal Expenditure Patterns by Eligibility Category
1990-91

	Percent of Eligibles	*Percent of Expenditures*	*Cost Per Eligible*
Categorically needy			
AFDC	56.1%	24.2%	$869
SSI/SSP	22.1	34.8	3,182
Medically needy			
Families	7.5	5.8	1,562
Aged, blind, or disabled	1.4	4.4	6,461
Long-term care	1.6	17.1	21,215
Medically indigent			
Children	4.0	3.3	1,636
Adults	0.2	0.8	7,991
Refugees	0.3	0.2	1,411
Newly legalized persons	1.0	1.3	2,716
Undocumented persons	4.2	6.1	2,882
Pregnant women			
185 percent of poverty	1.5	1.8	2,506
200 percent of poverty	0.1	0.2	5,031
Qualified Medicare beneficiaries	—	—	506
Totals	100.0%	100.0%	$2,017

the table shows, families receiving AFDC grants constitute 56 percent of Medi-Cal eligibles and 24 percent of expenditures. The SSI/SSP recipients, on the other hand, make up 22 percent of the caseload and account for 35 percent of the expenditures. Long-term care residents account for only 1.6 percent of the caseload, yet they account for 17 percent of expenditures.

Scope of Benefits

Medi-Cal recipients are entitled to a wide range of health services, including physician, inpatient and outpatient hospital, laboratory, nursing home care, and various other health-related services. Many Medi-Cal services, however, require prior state authorization and may not be paid for unless the service is medically necessary. Not all services allowed in California are required by federal law.

Federal law requires states participating in the Medicaid Program to provide a core of basic services, including hospital inpatient and outpatient care; skilled nursing care; physician services; laboratory and X-ray services; home health care; early periodic screening, diagnosis, and treatment (EPSDT) for individuals under age 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 $11.2 billion ($5.3 billion General Fund) requested for local assistance under the Medi-Cal Program, pending review of revised Medi-Cal expenditure estimates to be submitted in May.

The proposed expenditures for the Medi-Cal Program are based on actual program costs through August 1990. The department will present revised estimates in May, which will be based on program costs through February 1991. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1991-92 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 $13.6 Million in 1990-91

The budget anticipates that expenditures for Medi-Cal health services during 1990-91 will exceed available funds by $136 million ($13.6 million General Fund). Table 20 shows the components of the deficiency.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 20
Department of Health Services
Medi-Cal Health Care Services
Proposed Budget Changes
1990-91 and 1991-92
(dollars in millions)

	General Fund	*All Funds*
1990-91		
Funds available, 1990 Budget Act and other legislation:		
Health benefits item	$3,646.6	$7,552.3
Refugee reimbursements	—	9.3
Cost-of-living adjustment (COLA) item	38.5	77.0
Cigarette and Tobacco Products Surtax Fund	—	19.5 [a]
1989-90 deficiency legislation, Ch 194/90	95.0	190.0
Disproportionate Share and Emergency Services Fund	—	20.0
Department of Developmental Services (DDS) reimbursement	—	7.7
State Legalization Impact Assistance Grant (SLIAG) funds	—	122.6
Unanticipated reimbursements	0.5	0.5
Subtotals, 1990-91 funds available	$3,780.6	$7,998.9
Unfunded costs and other changes:		
Increased costs for undocumented persons	67.4	127.2
Expanded eligibility — *Edwards v. Kizer*	43.8	87.7
Drug discount program	22.9	48.0
Expansion of pregnancy coverage, Ch 980/88	14.1	28.3
Medicare crossover claims — *CAHHS v. Kizer*	12.6	25.1
Revised estimates of long-term care rate increase	9.6	19.1
Root canals and crowns — *Jackson v. Stockdale*	5.2	10.4
Omnibus Budget Reconciliation Act of 1987 (OBRA 87) long-term care reform	4.0	8.1
Contracting for durable medical equipment and laboratory services	2.6	5.2
Newly legalized persons	−31.6	−30.2
1989-90 deficiency carry-over	−27.9	−41.5
Delayed claiming by the DDS	−20.1	−41.0
Price controls on incontinence supplies	−16.9	−33.8
Qualified Medicare beneficiaries	−12.3	−24.6
Federal funding for refugees	−9.8	—
Checkwrite deferral	−8.0	−16.0
Disproportionate Share and Emergency Services Fund	—	91.7
Expansion of pregnancy coverage, Ch 1331/89	—	2.9
DDS case management	—	−33.3
Changes in caseload, utilization, and all other	−42.0	−97.3
1990-91 expenditures (revised)	$3,794.2	$8,134.9
Projected deficiency	−$13.6	−$136.0
1991-92		
Caseload and cost adjustments:		
Increase in eligibles	$89.2	$178.5
Increase in percent using services	−42.2	−84.3
Increases in cost per unit and units per user	77.0	154.1
Caseload and cost changes in capitated programs	18.0	38.7
Subtotals, caseload and cost adjustments	$142.0	$287.0
Full-year costs of 1990-91 COLAs and rate adjustments:		
Statutory COLAs for providers	$18.2	$37.2
Long-term care COLAs	26.7	54.8
Subtotals, 1990-91 COLAs and rate adjustments	$44.9	$92.0

Proposed program changes:		
Increased costs for undocumented persons	98.6	186.1
Eliminate savings due to 1990-91 checkwrite deferral	56.0	112.0
Payment of 1990-91 checkwrite deferral	56.0	112.0
Expansion of pregnancy coverage, Ch 980/88	43.2	86.3
Newly legalized persons	42.4	45.4
Edwards v. Kizer	17.1	34.1
Statutory COLAs for providers	13.9	28.5
Qualified Medicare beneficiaries	5.2	10.4
Orthodontia services — *Brown v. Kizer*	4.4	8.8
OBRA 87 long-term care reform	3.5	7.1
Increase in Medicare Part B deductible	2.3	4.5
Beneficiary copayments	−21.2	−42.4
Elimination of 1991-92 beneficiary COLA "spin-off"	−12.2	−24.4
Savings due to Office of Family Planning augmentation	−4.0	−7.0
Contracting for durable medical equipment and laboratory services	−2.6	−5.2
Disproportionate Share and Emergency Services Fund	—	−101.8
Shift of pregnancy coverage to Major Risk Medical Insurance Board	—	−22.4
Eliminate one-time costs	−12.6	−25.1
All other changes	−24.6	−55.2
Subtotals, proposed program changes	$265.4	$351.7
1991-92 cash expenditures (proposed)	$4,246.5	$8,865.6
Change from 1990-91:		
Amount	$452.3	$730.7
Percent	11.9%	9.0%
Accrual accounting	865.0	1,880.0
1991-92 accrual expenditures (proposed)	$5,111.5	$10,745.6
Change from 1990-91:		
Amount	$1,317.3	$2,610.7
Percent	34.7%	32.1%

[a] Excludes $1.5 million of the Cigarette and Tobacco Products Surtax Fund appropriation that is displayed in county administration.

The major elements of the current-year deficiency are:

- ***Undocumented Persons ($67.4 Million General Fund).*** The federal Omnibus Budget Reconciliation Act of 1986 requires states to provide coverage for certain medical services to undocumented persons. Chapter 1441, Statutes of 1988 (SB 175, Maddy), specifies how California implements these changes. The department projects that current-year expenditures for services for undocumented persons will be 35 percent higher than anticipated in the Budget Act.
- ***Edwards v. Kizer ($43.8 Million General Fund).*** AFDC recipients are automatically eligible for Medi-Cal. Under current law, AFDC recipients who stop receiving AFDC remain eligible for Medi-Cal until an eligibility worker reevaluates their cases to determine whether they are still eligible for Medi-Cal. In *Edwards v. Kizer*, the court found that Medi-Cal was not complying with this requirement, and required Medi-Cal to establish a system where Medi-Cal coverage is *automatically* continued until an eligibility worker determines that it should be discontinued. This increases the number of persons who are eligible for Medi-Cal.

DEPARTMENT OF HEALTH SERVICES—Continued

- ***Drug Discount Program ($22.9 Million General Fund).*** The administration developed the current-year budget on the assumption that it would achieve General Fund *savings* of $21.1 million by implementing a drug discount program. The department now estimates that the program will result in current-year local assistance *costs* of $1.8 million from the General Fund. We discuss this program in more detail below.
- ***Expansion of Pregnancy Coverage ($14.1 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 ($19,536 for a family of three in 1990). Based on actual caseload in this program, the department projects that current-year expenditures for this program will be 59 percent higher than anticipated in the Budget Act.
- ***Medicare Crossover Claims ($12.6 Million General Fund).*** Medi-Cal pays Medicare copayments and deductibles for crossover beneficiaries — those individuals who are eligible for both Medicare and Medi-Cal. Medi-Cal limits its payments for most medical procedures so that the combined Medicare and Medi-Cal reimbursement does not exceed the Medi-Cal rate for the same procedure. During 1989-90, the department extended the payment limitations to additional types of procedures without adopting new regulations. The court decision in *California Association of Hospitals and Health Systems v. Kizer* found that the department could not implement the policy without regulations and required the department to reimburse providers for the amount by which the department had limited its payments. The department reimbursed the providers in September 1990 and has since adopted regulations to implement this policy.
- ***Long-Term Care Rate Increases ($9.6 Million General Fund).*** The 1990 Budget Act included $77 million ($38.5 million General Fund) to fund long-term care rate increases beginning in December 1990. A court order required the department to provide the rate increases beginning in October 1990. As a result of the October (rather than December) implementation of the rate increases, combined with various other minor changes, current-year costs for long-term care rate increases will be $19.1 million ($9.6 million General Fund) higher than anticipated in the Budget Act.
- ***Root Canals and Crowns ($5 Million General Fund).*** The court decision in *Jackson v. Stockdale* requires Medi-Cal to cover all medically necessary root canals and crowns. The department estimates that current-year costs for these services will be almost two times the level anticipated in the Budget Act.
- ***Long-Term Care Reform ($4 Million General Fund).*** The Omnibus Budget Reconciliation Act of 1987 (OBRA 87) requires the department to implement various changes related to long-term care facilities. We discuss these requirements in more detail below.

- ***Contracting for Durable Medical Equipment and Laboratory Services ($2.6 Million General Fund).*** The Legislature reduced the Budget Act appropriation by $5.2 million ($2.6 million General Fund) in anticipation of savings the department would achieve by contracting with providers for durable medical equipment and laboratory services. The department has not begun contracting for these services and now intends to begin in January 1992.

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

- ***Newly Legalized Persons — Cost Documentation System (CDS) (Savings of $31.6 Million General Fund).*** The CDS is a federal system that compares Medi-Cal expenditures to federal files on newly legalized persons. The system permits Medi-Cal to claim federal State Legalization Impact Assistance Grant (SLIAG) funds for services provided to some persons who Medi-Cal has not been able to identify as newly legalized. These funds are *in addition to* the SLIAG funds claimed when Medi-Cal is able to identify a person as newly legalized. The Budget Act assumed that the department would use the CDS to claim an additional $54.1 million in federal SLIAG funds for expenditures made from 1987-88 through the first three quarters of 1990-91. The department now estimates that it will use the CDS to claim $85.7 million in SLIAG funds during the current year. These expenditures were originally funded with 50 percent General Fund and 50 percent federal funds. Federal SLIAG funds claimed through the CDS offset the General Fund portion of these expenditures.
- ***Deficiency Carry-Over (Savings of $27.9 Million General Fund).*** Chapter 194, Statutes of 1990 (AB 2705, Vasconcellos), appropriated $190 million ($95 million General Fund) to cover the costs of the 1989-90 Medi-Cal deficiency. The actual deficiency was lower than the department had anticipated, leaving $27.9 million from the General Fund available for current-year costs.
- ***Delayed Claiming by Department of Developmental Services (DDS) (Savings of $20.1 Million General Fund).*** The DDS has developed a new system for claiming reimbursements from Medi-Cal. In the transition to the new system, DDS claims to Medi-Cal have been delayed by approximately one month.
- ***Incontinence Supplies (Savings of $16.9 Million General Fund).*** Chapter 456, Statutes of 1990 (AB 3573, Baker), required the department to implement various price controls for incontinence supplies. The budget anticipated savings of $163.4 million ($81.7 million General Fund) from implementation of these and other price controls. The department now estimates that actual savings during the current year will be $197.2 million ($98.6 million General Fund).
- ***Qualified Medicare Beneficiaries (QMBs) (Savings of $12.3 Million General Fund).*** The federal Medicare Catastrophic Coverage Act requires Medi-Cal to pay Medicare premiums, coinsurance, and deductibles for QMBs — people with incomes below the poverty

DEPARTMENT OF HEALTH SERVICES—Continued

level whose assets are less than 200 percent of the SSI/SSP limit. The department estimates that the current-year costs for QMBs will be $24.6 million ($12.3 million General Fund) lower than anticipated in the Budget Act.

- ***Reduced Federal Funding for Refugees (Savings of $9.8 Million General Fund).*** The Budget Act anticipated that the federal government would reduce its funding for some categories of refugees by $10.1 million. Because the refugees remain eligible for Medi-Cal, the department anticipated a General Fund cost to offset the reduced federal funding. The federal government has since accelerated its payments for refugees, and the department now estimates that the reduction in federal funds will be only $300,000.
- ***1990-91 Deferred Checkwrite (Savings of $8 Million General Fund).*** Generally, Medi-Cal makes payments to providers 48 times a year. The Budget Act anticipated that the department would save $48 million General Fund by deferring the last checkwrite scheduled for the current year until 1991-92. Based on current estimates, savings from deferring that checkwrite will be $56 million.

Proposed Changes for 1991-92

Table 20 also displays the changes proposed for the Medi-Cal Program in 1991-92. The budget projects that Medi-Cal *cash* expenditures will increase by $730.7 million ($452.3 million General Fund). This represents a General Fund increase of 12 percent over estimated current-year expenditures. However, the budget includes $1.9 billion ($865 million General Fund) to change Medi-Cal accounting from a cash to an accrual basis. On an *accrual* basis, the budget projects that Medi-Cal expenditures will increase by $2.6 billion ($1.3 billion General Fund). This represents a General Fund increase of 35 percent over estimated current-year expenditures.

Table 20 groups these changes into four categories: (1) caseload and cost increases ($142 million General Fund), (2) full-year costs of 1990-91 cost-of-living adjustments (COLAs) and other rate increases ($44.9 million General Fund), (3) proposed program changes ($265.4 million General Fund), and (4) accrual accounting ($865 million General Fund).

The caseload and cost increases are due to the net effect of (1) increases in eligible beneficiaries ($89.2 million General Fund), (2) a reduction in the percent of eligible beneficiaries using services (reduction of $42.2 million General Fund), (3) increases in the cost per unit of service and the number of units of service per user ($77 million General Fund), and (4) caseload and cost increases in capitated programs, including dental ($18 million General Fund).

The 1991-92 increases for full-year costs of 1990-91 COLAs and rate adjustments consist of (1) statutory COLAs for providers ($18.2 million General Fund) and (2) long-term care COLAs ($26.7 million General Fund).

The proposed program changes consist of the following items:

- ***Undocumented Persons ($98.6 Million General Fund).*** The department projects that expenditures for services for undocumented persons will grow by 38 percent during the budget year.
- ***1990-91 Checkwrite Deferral ($112 Million General Fund).*** The deferral of the last checkwrite of the current year to the budget year requires two adjustments to the 1991-92 budget: (1) elimination of the one-time savings in the current year ($56 million General Fund) and (2) payment of the checkwrite in the budget year ($56 million General Fund).
- ***Phase-In Costs of Expanded Coverage of Pregnancy-Related Services ($43.2 Million General Fund).*** The department estimates that the costs of expanding Medi-Cal coverage for pregnancy services to include women in families with incomes up to 185 percent of the federal poverty level will continue to phase-in during the budget year.
- ***Newly Legalized Persons — Cost Documentation System (CDS) ($42.4 Million General Fund).*** The department estimates that using the CDS will result in reimbursement of $43.3 million in federal SLIAG funds for the last quarter of 1990-91 and the first three quarters of 1991-92. These funds are *in addition to* the SLIAG funds Medi-Cal will claim for persons it is able to identify as being newly legalized. This is $42.4 million lower than the reimbursement the department expects to receive during the current year.
- ***Edwards v. Kizer ($17.1 Million General Fund).*** The budget projects that expenditures resulting from the eligibility system required by the court decision in *Edwards v. Kizer* will continue to grow during the budget year.
- ***Statutory COLAs for Providers ($13.9 Million General Fund).*** The budget contains $10.4 million ($5.1 million General Fund) for an 8 percent increase for noncontract hospital inpatient services and $18.1 million ($8.8 million General Fund) for a 4.7 percent increase on drug ingredients.
- ***Qualified Medicare Beneficiaries ($5.2 Million General Fund).*** The budget assumes that the caseload of QMBs will continue to phase in during the budget year.
- ***Orthodontia Services ($4.4 Million General Fund).*** The court decision in *Brown v. Kizer* requires Medi-Cal to cover all medically necessary orthodontia services for children under age 21. The department began covering these services in January 1991.
- ***Phase-In Costs of Long-Term Care Reform ($3.5 Million General Fund).*** The department estimates that budget-year costs of implementing various OBRA 87 requirements for long-term care reform will be $7.1 million ($3.5 million General Fund) higher than in the current year. We discuss these requirements in more detail below.
- ***Increase in Medicare Part B Deductible ($2.3 Million General Fund).*** Medi-Cal pays Medicare copayments and deductibles for crossover beneficiaries — those individuals who are eligible for both

DEPARTMENT OF HEALTH SERVICES—Continued

Medicare and Medi-Cal — and QMBs. The Omnibus Budget Reconciliation Act of 1990 increased the Medicare Part B deductible from $75 to $100. Medicare Part B covers physician and other outpatient services.

- ***Beneficiary Copayments (Savings of $21.2 Million General Fund).*** The budget proposes the enactment of legislation to require some Medi-Cal beneficiaries to pay a copayment for certain services. Under this proposal, Medi-Cal would reduce its reimbursement to those providers who are required to collect copayments. We discuss this proposal in more detail below.
- ***Elimination of Beneficiary COLA (Savings of $12.2 Million General Fund).*** The budget proposal assumes that the Legislature will enact legislation to waive the requirement for inflation adjustments for AFDC benefits during 1991-92. 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 portion of medical expenditures paid for by medically needy beneficiaries and (2) increase the number of individuals who qualify for AFDC and therefore become automatically eligible for Medi-Cal. The savings calculated by the department assume that a 5.47 percent increase in AFDC benefits would be required under current law. The budget proposes the enactment of legislation to reduce AFDC payment levels during 1991-92. We discuss the effect of this proposal on the Medi-Cal budget in more detail below.
- ***Office of Family Planning Augmentation (Savings of $4 Million General Fund).*** The budget proposal assumes that a $10 million General Fund augmentation for the Office of Family Planning would result in Medi-Cal savings of $7 million ($4 million General Fund). We discuss the savings associated with this proposal in more detail below.
- ***Contracting for Durable Medical Equipment and Laboratory Services ($2.6 Million General Fund).*** The department plans to begin contracting with providers for durable medical equipment and laboratory services in January 1992.
- ***Accrual Accounting ($865 Million General Fund).*** The budget includes $1.9 billion ($865 million General Fund) for a proposal to change Medi-Cal accounting from a cash to an accrual basis. We discuss this proposal in more detail below.

1991-92 Long-Term Care COLA Costs Unfunded

We recommend that in its May revision of expenditures, 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 COLA 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 budget estimates costs of $88 million ($44.1 million General Fund) for the 1990-91 COLAs. It is too early to determine if 1991-92 long-term care COLA expenditures will be in the same cost range.

Budget Does Not Reflect Proposal to Reduce Maximum AFDC Payment

The budget does not reflect savings that would result from the administration's proposal to reduce the maximum AFDC payment.

The AFDC budget assumes that the Legislature will enact legislation to reduce the maximum aid payment (MAP) for AFDC recipients by an average of 8.8 percent below the current levels. (Please see Item 5180-101 for our discussion of the AFDC proposal.)

Reducing the MAP will affect Medi-Cal eligibility for medically needy beneficiaries. This is because the AFDC MAP is used to determine Medi-Cal eligibility for these individuals. Specifically, some individuals who are not eligible for AFDC or SSI/SSP can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133⅓ percent of the MAP. The difference between their incomes and 133⅓ percent of the MAP is their "share of cost." If the MAP is reduced, medically needy beneficiaries would have higher shares of cost because they would have to spend down their incomes to a lower level. An increase in a person's share of cost reduces the portion of medical expenditures covered by Medi-Cal.

The budget does not reflect savings that would result from the administration's proposal to reduce AFDC payment levels. The department indicates that it will incorporate these savings in its May revision of expenditure estimates.

Costs Likely From Dental Access Lawsuit

The budget does not reflect costs from a dental access lawsuit that is in settlement negotiations.

The department is currently in negotiations to settle *Clark v. Kizer*, a lawsuit regarding Medi-Cal beneficiary access to dental services. The department indicates that Medi-Cal costs in this settlement are likely to exceed $50 million ($25 million General Fund). The department plans to address this issue in the May revision of expenditure estimates.

Accrual Accounting

Budgeting Medi-Cal expenditures on an accrual, rather than cash, basis will eliminate fiscal strategies that distort the budget's reflection of actual costs and therefore has merit. The shift to accrual accounting, however, will also increase the uncertainty of the Medi-Cal estimate.

The budget proposal includes a total of $1.9 billion ($876 million General Fund) to change Medi-Cal accounting from a cash to an accrual basis. Specifically, the budget proposes increases of:

- $1,880 million ($865 million General Fund) for health services.
- $25 million ($10 million) for county administration costs.

DEPARTMENT OF HEALTH SERVICES—Continued

- $4 million ($1 million General Fund) for fiscal intermediary costs.

This proposal requires legislation. Below we (1) describe cash and accrual accounting, (2) discuss fiscal strategies available with cash accounting that can distort the budget's reflection of actual program costs, and (3) discuss various implementation issues associated with the accrual accounting proposal. On a related issue, the budget also proposes expansion of "capitated" health care, or managed care, once accrual accounting takes effect. We discuss this issue later in this analysis.

Cash Accounting. Under a cash accounting system, expenditures are counted when the services are paid for, not when they are provided. The delay between when a Medi-Cal beneficiary receives a service and when the state pays the provider is dependent on:

- How long the provider waits to submit a claim. Providers have up to six months after providing services to submit a claim.
- The length of time required to process and pay claims. This time period is shorter for providers who submit claims electronically than for those who submit claims on paper. Claims processing time is also extended if there are claims errors that require correcting.

At the end of a fiscal year, there can be an additional time lag before the state pays providers if the Legislature delays enactment of the annual deficiency bill.

The department estimates that 23 percent of the expenditures in any particular fiscal year are for services that were provided in prior years.

Accrual Accounting. With an accrual accounting system, expenditures generally are counted when services are provided, regardless of when the department actually pays for them. The same kinds of delays occur between provision of a service and payment for it, but the expenditures are always attributed back to when the service was provided.

Shifting Medi-Cal from cash to accrual accounting in the budget year would cause a one-time increase in expenditures because, during the budget year, Medi-Cal expenditures would include payments for (1) all services provided, but not paid for, in prior years and (2) all services provided in the budget year, regardless of when Medi-Cal actually pays for them.

Rationale. The administration indicates that it is proposing to change accounting procedures in order to bring Medi-Cal accounting into "conformity with statewide accounting policy." The budget proposes to pay for this proposal with one-time revenues resulting from changing accounting of various forms of revenues from a cash to an accrual basis. (We discuss the revenue proposal in Part II of *The 1991-92 Budget: Perspectives and Issues.*)

Accrual Accounting Eliminates Strategies to Distort Budget's Reflection of Actual Program Costs. Cash accounting permits the use of fiscal "strategies" that can distort the budget's reflection of actual program costs. Examples of such strategies include:

- ***Deferring Checkwrites.*** Medi-Cal typically pays providers (makes "checkwrites") 48 times a year. In 1988-89 the administration delayed

payment of the last checkwrite scheduled for June 1989 until July. This permitted the administration to attribute the costs of the checkwrite to the 1989-90 fiscal year, thus easing General Fund pressures in 1988-89. However, it created a chain reaction wherein the administration continued to defer one checkwrite each year so that no fiscal year would have to bear the burden of an extra checkwrite. While deferring the checkwrites reduced the costs attributable to each fiscal year, it had *no effect* on the total program expenditures, and forced providers to wait longer to receive their checks from Medi-Cal.

- ***Delaying Implementation of Programs Until Late in a Fiscal Year.*** If Medi-Cal implements a program late in a fiscal year, the costs during that year are very small. Consequently, policies that are too expensive to implement for a full year can be implemented late in the year at little additional cost. With cash accounting, the department could, for example, implement a program in the last two months of a fiscal year and, because of billing lags, incur almost no costs during that year. This incentive also exists with accrual accounting, but to a much lesser degree because the costs of the first two months would be attributed to the fiscal year that the program began.
- ***Requiring Prepayment of Drug Rebates.*** Some contracts that Medi-Cal has negotiated in its drug discount program require prepayment of rebates that the manufacturer would ordinarily pay in a later fiscal year. This permits the department to show net savings in the first fiscal year of the contract. However, it (1) does not affect the total savings resulting from the contract over time and (2) distorts the budget in future years by understating the savings attributed to later years.

Accrual Accounting Eliminates Fiscal Obstacle to Expanding Managed Health Care Programs. For Medi-Cal, cash accounting also creates a fiscal obstacle — called the "pipeline effect" — to expanding prepaid health care programs. (As noted previously, we discuss managed care later in this analysis.) Our discussion of the pipeline effect follows.

Medi-Cal pays for services provided on a fee-for-service basis *after* the services are provided. In capitation programs, however, Medi-Cal pays providers for services *before* they provide the services. If Medi-Cal shifts people from fee-for-service to capitated programs, it incurs costs at the same time for both (1) fee-for-service payments for services that have *already been* provided and (2) capitation payments for services that *will* be provided.

Under a cash accounting system, both sets of payments are applied to the same fiscal year, causing a one-time increase in expenditures. That one-time increase is the "pipeline effect." Under an accrual accounting system, however, while Medi-Cal would still make payments to both fee-for-service and capitation providers at the same time, the expenditures would be applied to the fiscal year in which the services are provided, and the budget would not reflect a one-time increase.

DEPARTMENT OF HEALTH SERVICES—Continued

Accrual Implementation Issues. The shift from cash to accrual accounting involves a number of implementation issues.

- *Changing accounting systems increases the uncertainty in the department's estimate of Medi-Cal expenditures.* Currently, the department's forecasting model is based on cash accounting. The model projects costs based on the checkwrite payments the department makes each month. This information is available immediately, and permits the department to use very recent data in making its projections. In order to forecast costs on an accrual basis, the department must use data based on the month of service. Because of billing and processing lags, complete month-of-service data for any month are not available for at least one year. Consequently, the department must base its projections on incomplete data. This will add uncertainty to the department's estimates on an ongoing basis, but the most significant effect relates to the department's forecast of budget-year costs. The department estimates that shifting to accrual accounting adds at least $300 million ($150 million General Fund) of uncertainty in the budget-year estimate — that is, actual costs may be up to $300 million higher or lower than the department estimates. As the department gains experience in forecasting on an accrual basis, the uncertainty resulting from the accounting change should decrease.
- *Accrual accounting may delay the discovery of deficiencies.* Because of the lag between date of service and date of payment, unanticipated increases in services may not be discovered until approximately six months after a fiscal year has ended. Any General Fund deficiencies would still be charged to the fiscal year when services occurred. To the extent that the deficiency in any given year is higher than estimated, the estimate of funds available in subsequent years will be overstated.
- *The shift to accrual accounting will increase support costs.* The federal government requires the department to provide data about Medi-Cal expenditures on a cash basis in order to claim matching funds. Consequently, the shift to accrual accounting requires the department to maintain the existing cash accounting system and also establish a second accrual accounting system. The department indicates that it will address the workload associated with this proposal in a Finance budget amendment letter.

In summary, although there are several implementation issues related to the accrual accounting proposal, our analysis indicates that, on balance, the proposal has merit. This is because (1) it provides a more accurate portrayal of the costs attributable to the Medi-Cal Program and (2) the most significant implementation issue, the uncertainty involved in forecasting on an accrual basis, should decline over time.

Major Policy Issues Related to Managed Care Proposal

The department has not yet developed its managed care proposal. The Legislature will face several key policy issues in evaluating whatever

proposal the department develops. We recommend that the department report during budget hearings on (1) specific proposals it expects to include in its managed care proposal and (2) its preliminary evaluation of its case management pilot projects.

The *Governor's Budget Summary* indicates that, in conjunction with its proposal to shift from cash to accrual accounting, the administration will propose expansion of various capitated health programs. The department indicates that its proposal may also include increased management of the fee-for-service system. At the time this analysis was prepared, the department was just beginning to develop its managed care proposal and indicated that it may not be fully developed in time to be implemented during the budget year. Below we (1) outline various options that the department may include in its proposal and (2) discuss issues that the Legislature will need to address in evaluating the department's proposal once it is presented.

Expansion of Capitated Programs. The department may propose to significantly expand its use of prepaid health plans (PHPs), county organized health systems, and primary care case management (PCCM) plans to provide Medi-Cal services. Medi-Cal reimburses these providers on a "capitated," or per-person, basis regardless of the number of services any given individual uses. This contrasts with the fee-for-service system, where Medi-Cal pays providers for individual services that they provide. Among the options the department could propose for expanding these programs are:

- ***Automatically assigning new Medi-Cal beneficiaries to a capitated program if they do not state a preference between a capitated program and fee-for-service.*** Currently, Medi-Cal beneficiaries who do not choose a specific capitated program automatically receive services through the fee-for-service system.
- ***Guaranteeing extended Medi-Cal eligibility to beneficiaries in capitated programs.*** A person's eligibility for Medi-Cal can change from month to month. Consequently, a Medi-Cal beneficiary may be enrolled in a capitated program one month and not the next. Providing appropriate preventive care is difficult for a provider if a person is not continuously enrolled in the provider's program. Guaranteeing Medi-Cal eligibility for a certain period of time could improve a capitated program's ability to manage the person's care. In an effort to test this approach, the Legislature enacted Ch 1466/90 (AB 3223, Campbell), which became effective in January 1991 and permits the department to establish two pilot projects where pregnant women who enroll in a PHP or PCCM plan are guaranteed Medi-Cal eligibility until six months after their delivery.
- ***Providing incentives for providers to establish new PHP contracts or PCCM plans.*** The department could establish various incentives to encourage PHP or PCCM expansion. The Legislature recently expressed its interest in expanding PCCM contracts by giving the department authority in Ch 1516/90 (AB 3439, Bronzan) to provide loans of up to $100,000 each to assist nonprofit organizations in

DEPARTMENT OF HEALTH SERVICES—Continued

becoming primary care case managers. The budget includes $300,000 from the General Fund in the current and budget years to begin providing loans.

- ***Expanding county organized health systems.*** Currently, Santa Barbara and San Mateo Counties have health care systems that serve most of the Medi-Cal beneficiaries in those counties. Creating additional county systems is not currently possible because of restrictions in federal law. The major issue in the federal law relates to the fact that establishing a county-wide system eliminates beneficiaries' ability to disenroll and receive services through another system if they are dissatisfied with the care they receive through the county system. The department states that it is seeking a change in federal law to allow additional county systems.

Increased Management of Fee-For-Service System. The department indicates that its managed care proposal will also include efforts to improve its fee-for-service system. The department states its proposal may include:

- ***Expanded case management for high-cost beneficiaries.*** Case management permits health providers to (1) ensure that a patient keeps doctor appointments and complies with medical instructions and (2) discourage unnecessary utilization of services or inappropriate reliance on emergency room care. The department is currently operating four pilot projects where the department provides extra funding for capitated providers to manage the care of high-cost beneficiaries. The pilot projects will be completed in September 1991, and the department expects to report on the results by January 1992. Preliminary program information may be available in spring 1991.
- ***Identifying beneficiaries who could be served through various home- and community-based waivers.*** Through various home- and community-based waiver programs, Medi-Cal beneficiaries can receive a broader range of services than Medi-Cal normally covers, as long as (1) the home- and community-based services keep a person from being placed in a hospital or nursing facility and (2) the total cost does not exceed the cost of being in a hospital or nursing facility. Currently, the department plays a reactive role in placing people in home- and community-based waiver programs, because field office staff must review and approve requests from beneficiaries to participate in waiver programs. The department could establish a proactive system where it uses field office staff to identify people who could receive more appropriate, and less expensive, care in waiver programs.

Issues the Legislature Needs to Consider. While the specific details of the department's proposal are not yet available, there are several factors that the Legislature will need to consider in evaluating any significant expansion of managed care:

- ***Is the proposal fiscally viable without providing an incentive for providers to make profits by limiting access to care?*** Managed care

programs can be less expensive than services provided on a fee-for-service basis because they are designed to (1) eliminate overutilization of services and (2) emphasize preventive care, thus eliminating the need for more expensive care later. Moreover, for most managed care programs, federal law requires that reimbursement rates not exceed the costs of serving beneficiaries on a fee-for-service basis. The risk, however, is that a provider will limit utilization too much and deny access to beneficiaries. Current law provides several safeguards intended to ensure that capitated programs cannot force underutilization of services, including establishing grievance procedures and permitting beneficiaries to disenroll if they feel they are not receiving appropriate care. In order to ensure that any expansion of managed care programs does not limit access, similar protections would be necessary.

- ***Does the proposal increase administrative costs,*** are the costs funded, and are they considered when calculating total program costs or savings?
- ***Does the proposal provide sufficient incentives for PHPs to maintain long-term contracts with Medi-Cal?*** In the last three years, almost 58,000 beneficiaries had to shift from capitation programs to fee-for-service because PHPs canceled their Medi-Cal contracts. While additional PHPs have also begun serving Medi-Cal beneficiaries during that period, the contract cancellations interrupted the continuity of care for the people who had been enrolled in the plans. If an expansion of capitated programs results in Medi-Cal beneficiaries shifting to capitated programs for a short time and then returning to fee-for-service, there would be serious consequences for continuity of care, as well as a potential reduction in savings.

We recommend that the department report during budget hearings on (1) the specific elements it expects to include in its managed care proposal and (2) its preliminary evaluation of the four case management pilot projects that will be completed in September 1991.

Drug Discount Program: Costs Not Savings?

The Medi-Cal drug discount program may result in net costs of about $2.5 million in both 1990-91 and 1991-92. In contrast, the program was originally projected to achieve annual General Fund savings of approximately $25 million. We recommend that the department report, prior to budget hearings, on (1) why the drug discount program has not yet resulted in net savings to Medi-Cal and (2) information about a new federal drug rebate program.

Current Drug Discount Program. Chapter 456, Statutes of 1990 (AB 3573, Baker), and related legislation require the department to establish a drug discount program. Under this program, the department can contract with drug manufacturers for rebates on outpatient drugs that Medi-Cal provides. The amount of the negotiated rebate is the difference between the amount that Medi-Cal pays pharmacists and the lowest price the manufacturer charges any other customer. Below we describe the major provisions of the drug discount program.

DEPARTMENT OF HEALTH SERVICES—Continued

- When Medi-Cal negotiates a rebate contract for a particular drug, the drug is placed on the "list of contract drugs." Drugs that are on the list can be provided to Medi-Cal beneficiaries without prior authorization. Providers must submit a treatment authorization request (TAR) to be reviewed by department staff before providing drugs that are not on the list.
- All drugs that were on the Medi-Cal drug formulary before the drug discount program began were grandfathered onto the list of contract drugs, regardless of whether manufacturers negotiated rebate contracts with the department.
- The department may add drugs to the list of contract drugs only if the manufacturer negotiates a rebate contract with the department, with certain exceptions:
  - — Drugs used to treat AIDS or an AIDS-related condition.
  - — Drugs used to treat cancer.
  - — Pentoxifylline (which is used to treat some persons with diabetes).
  - — Drugs that the Director determines meet an "essential need" of Medi-Cal beneficiaries.

  Drugs in these four categories are automatically included on the list of contract drugs, even if the manufacturers do not negotiate a rebate contract.
- The department must ensure that the list of contract drugs includes drugs in all major therapeutic categories.
- If manufacturers refuse to negotiate rebate contracts, the department is permitted to remove those manufacturers' drugs from the list of contract drugs.

The program sunsets January 1, 1993.

Status of Current Drug Discount Contracts. The department began its program by inviting all manufacturers to negotiate rebate contracts for any drugs. Once these negotiations are complete, the department will begin negotiating contracts for drugs within specific therapeutic categories. At the time this analysis was prepared, the department had signed rebate contracts with 10 manufacturers. As a result of these contracts, the department has added 19 drugs to the list of contract drugs. The department has not yet removed any drugs from the list.

The federal Food and Drug Administration rates drugs by their therapeutic value. Table 21 illustrates that most of the 19 drugs added to the contract list are rated as having either modest or little therapeutic value.

Table 21
Department of Health Services
Therapeutic Rating of Drugs Added by Contract to
Medi-Cal List of Contract Drugs
As of January 1991

Food and Drug Administration Therapeutic Rating	*Number of Drugs*
Important therapeutic advancement	2
Modest therapeutic advancement	5
Little or no therapeutic advancement	10
Orphan drugs — therapeutically important for a very small patient population	2
Total	19

Drug Discount Program Results in Net Costs in Current and Budget Years. The department estimates net local assistance expenditures in the current year of $3.6 million ($1.8 million General Fund) for the first nine contracts with manufacturers. (The department signed its tenth contract after the budget proposal was developed.) This is $48 million ($22.9 million General Fund) higher than anticipated in the budget. The department estimates that budget-year expenditures for these nine contracts will be slightly less than in the current year — $3.4 million ($1.7 million General Fund).

Table 22 shows the General Fund costs and savings associated with the drug discount proposal. When support costs are included, the net cost of the program is $5.2 million ($2.4 million General Fund) in 1990-91 and $5.5 million ($2.5 million General Fund) in 1991-92. In contrast, the 1990 Budget Act presumed $42.8 million ($20.4 million General Fund) in savings.

The program's costs or savings result from the net effect of (1) the costs of adding new drugs to the list of contract drugs, (2) the costs of program administration, and (3) the savings from rebates that drug manufacturers will provide to the department. (Mevacor, which is a drug that is used to reduce cholesterol levels, is listed separately because a separate provision in the 1990 Budget Act permitted the department to spend $5.6 million ($2.8 million General Fund) to sign a contract to add Mevacor to the list of contract drugs.)

Table 22
Department of Health Services
Medi-Cal Program
Fiscal Effect of Drug Discount Program
General Fund
1990-91 and 1991-92
(dollars in thousands)

	1990 Budget Act	*Est. 1990-91*	*Prop. 1991-92*
Local assistance			
Cost of adding new drugs to list of contract drugs, excluding Mevacor	—	$2,706	$4,801
Cost of adding Mevacor to list of contract drugs	2,800	2,288	2,796
Rebates from drug contracts, including Mevacor	−23,882	−3,206	−5,879
Totals, local assistance	−$21,082	$1,788	$1,718
Support	659	659	784
General Fund totals	−$20,423	$2,447	$2,502

DEPARTMENT OF HEALTH SERVICES—Continued

The budget proposes (1) costs of $15.2 million ($7.6 million General Fund) to add new drugs (including Mevacor) to the list of contract drugs and (2) savings of $11.8 million ($5.9 million General Fund) from rebates from drug manufacturers. The budget also proposes support expenditures of $2.1 million ($784,000 General Fund) for 40 positions to administer the drug discount program in 1991-92. This includes 12 positions to negotiate and manage contracts and 28 positions to process additional drug TARs that will be required if the department removes drugs from the list of contract drugs.

The department is continuing to negotiate contracts with drug manufacturers. The May revision of expenditures will reflect any additional contracts that the department executes this spring.

Federal Government Mandates New Nationwide Drug Discount Program. In the Omnibus Budget Reconciliation Act of 1990 (OBRA 90), the Congress required the federal Department of Health and Human Services (DHHS) to establish a nationwide drug discount program for all drugs covered by Medicaid programs (Medi-Cal in California). Many of the provisions are different from the provisions of the state drug discount program. Among the provisions of the federal program are:

- Manufacturers of drugs that are provided by Medi-Cal must provide a rebate. The amount of the rebate is either (1) the difference between the amount that Medi-Cal pays pharmacists and the lowest price the manufacturer charges any other customer or (2) a minimum percentage of the amount that Medi-Cal pays pharmacists, whichever is greater.
  - — In 1991, the minimum rebate required is 12.5 percent, and the maximum is 25 percent.
  - — In 1992, the minimum is 12.5 percent, and the maximum is 50 percent.
  - — In 1993, the minimum is 15 percent, with no maximum.
- Medi-Cal must cover all new drugs for the first six months after the FDA approves their sale.
- States may require prior authorization for drugs, as long as they can meet a 24-hour turnaround time.
- States are permitted to seek federal waiver approval to grandfather in existing state programs. Contracts that states negotiated before OBRA 90 only have to meet a 10 percent minimum rebate, rather than the 12.5 percent minimum in the federal program.
- The federal program was effective January 1, 1991.

At the time this analysis was prepared, the DHHS had developed a draft contract but had not started negotiating with drug manufacturers. In addition, the DHHS had not provided states with specific details about program requirements. The department indicates that 8 of its 10 contracts currently meet the 10 percent minimum rebate required for federal approval. It is currently negotiating changes to the other two contracts to bring them into compliance.

Issues for the Legislature to Consider. The department is currently pursuing a federal waiver that will allow it to use its program in lieu of the federal program. However, the Legislature faces three major issues regarding the state's drug discount program:

- Will the state drug discount program result in any net savings?
- If the program results in net savings, when will they occur?
- If the state's program can generate net savings, can it generate more savings than the federal program?

Because the federal program has not yet been implemented, the Legislature does not have sufficient information to compare the two programs. We therefore recommend that the department report during budget hearings on (1) why the drug discount program has not yet resulted in net savings to Medi-Cal, (2) the status of DHHS implementation of the federal drug rebate program, (3) the extent to which the state program meets new federal requirements, and (4) the status of the department's application to retain the state drug discount program rather than using the federal program.

Implementation of Nursing Reform Provisions of OBRA 87

We withhold recommendation on the proposed increase of $15.1 million ($7.5 million General Fund) to implement nursing facility provisions of the Omnibus Budget Reconciliation Act of 1987 (OBRA 87). We recommend that the department report prior to budget hearings on the status and potential costs of implementing the OBRA 87 nursing facility requirements.

The budget proposes an increase of $15.1 million ($7.5 million General Fund) to implement provisions of OBRA 87 not currently in state regulations. This proposal also includes a current-year augmentation of $8.1 million ($4 million General Fund) effective April 1991.

OBRA 87 Requirements. OBRA 87 made major changes in federal Medicare and Medicaid laws related to long-term care facilities. The changes are intended to improve the quality of life for nursing facility residents. OBRA 87 provides for "resident rights" requirements, a number of which are contained in the budget proposal described below. The major provisions of OBRA 87 include requirements to (1) ensure the freedom of nursing facility residents from unnecessary physical and/or chemical restraints and (2) provide each resident the quality of care that allows her or him to maintain "the highest practicable level" of physical and mental functions.

State Argued That it Was in Compliance with OBRA 87. At the time that OBRA 87 was enacted, the department felt that the state was in compliance with the new laws since most of the existing state regulations pertaining to nursing facilities conformed to the new OBRA 87 regulations. Thus, the department did not change existing regulations, modify federal certification surveys, or raise the Medi-Cal reimbursement rates paid to nursing facilities to implement the OBRA 87 requirements. In 1990, however, the Legislature passed Ch 502/90 (SB 1087, Mello) to change the Medi-Cal rate structure and enhance long-term care in

DEPARTMENT OF HEALTH SERVICES—Continued

California. The Legislature intended for Chapter 502 to allow the state to fulfill the OBRA 87 requirements.

Since Chapter 502 also addressed issues outside the scope of OBRA 87, a section was included in the statute to ensure that both Chapter 502 and OBRA 87 would not run concurrently. Because the state is now implementing OBRA 87, Chapter 502 has been rendered inoperative and the budget does not reflect any costs for its implementation.

Health Care Financing Administration (HCFA) Finds the State Out of Compliance With OBRA 87. In September 1990, the HCFA found the state out of compliance with OBRA 87 and did not approve the Medi-Cal state plan. In a letter to the department, the HCFA also made it clear that the department must use HCFA's interpretive guidelines for OBRA 87 (which are much more stringent than the OBRA 87 law itself or the associated regulations) for the state's federal certification surveys of long-term care facilities. The HCFA notes that, while the state must use the interpretive guidelines to conduct certification surveys, the guidelines do not necessarily impose additional requirements on nursing facilities. This is because adherence to the guidelines is not necessary to be in compliance with OBRA 87 regulations. Although the state is not required to comply with the OBRA 87 requirements, or with HCFA's rulings, there are a number of fiscal consequences for not doing so.

HCFA Rulings May Increase General Fund Costs. The HCFA rulings may affect Medi-Cal General Fund expenditures for nursing facilities. First, if the HCFA continues to find the state out of compliance, it may choose to withhold the federal share of Medi-Cal nursing facility reimbursements, which the DHS estimates to be in excess of $750 million for the current year. Unless it complied with the HCFA's requirements, the department would have to offset the lost federal funds by increasing General Fund expenditures. Second, if the HCFA requires the department to use the federal interpretive guidelines in its surveys, the department may have to provide additional Medi-Cal reimbursements to nursing facilities for the costs of adhering to higher standards. For example, the guidelines use a higher standard than OBRA 87 for demonstrating that physical and chemical restraints are used for patients only when medically necessary. A HCFA hearing is scheduled for mid-February 1991 to determine whether the state is still out of compliance with OBRA 87.

HCFA Withholds Federal Funding for Surveys. In October 1990, the HCFA decided to withhold federal funding for nursing facility certification surveys conducted by the state until new federal survey forms using the interpretive guidelines are used. (This issue is discussed earlier in our analysis of licensing and certification.) If the HCFA refuses to accept the certification of nursing facilities without the interpretive guidelines, this may also jeopardize the department's ability to claim the federal portion of Medi-Cal costs for nursing facilities in the future.

Court Orders the State to Implement OBRA 87. In January 1991, a federal court ordered the state to implement the OBRA 87 law and

provisions, but not the interpretive guidelines. What constitutes the court's definition of "implementation" is unclear. Since the state is now required under court order to implement OBRA 87, the department is negotiating with the nursing facility industry to determine an appropriate Medi-Cal rate increase to implement OBRA 87.

Budget Proposal. In December 1990, the department submitted amendments to the Medi-Cal state plan to fund the implementation of OBRA 87 regulations not currently in state regulation. The budget reflects this cost for the budget year at $15.1 million ($7.5 million General Fund) to increase Medi-Cal rates for nursing facilities. The rate increase will enable nursing facilities to (1) protect patient personal funds on request by the patient, (2) meet more stringent nursing facility certification requirements for nurse staffing, (3) employ a full-time qualified social worker in large facilities, and (4) ensure that nurse aides working in long-term care facilities complete a training and competency evaluation program.

The Department Estimates That Implementing Two OBRA 87 Provisions Could Cost up to $419 Million ($209 Million General Fund) Annually. The two provisions of OBRA 87 that have the highest potential cost are the requirements concerning (1) the unnecessary physical or chemical restraint of residents and (2) the quality of care that residents receive. However, the actual costs of these provisions cannot be estimated because the DHS and the HCFA have different assumptions about the actions needed to fulfill the OBRA 87 requirements.

Below we discuss the estimates the department made before the HCFA and the court found the state out of compliance with OBRA 87. The department has not updated these estimates.

Resident Restraints Costs Unclear. Under OBRA 87, the state must ensure that nursing facilities, for purposes of discipline or convenience, do not use physical restraints or administer psychoactive drugs unless they are required to treat the resident's medical symptoms. The department estimates that the cost of implementing this requirement could be up to $90.2 million ($45.1 General Fund) annually. The department assumes this requirement would increase costs because (1) nurses would have to document the need for restraints and (2) additional nurse aides would be needed to watch unrestrained residents. It is unclear, however, whether nursing facilities would incur long-term costs or savings. There is anecdotal evidence from nursing facilities with restraint-free environments that savings can be realized by purchasing fewer restraints and medications. The amount of savings would depend on the extent to which nursing facilities currently use physical restraints and psychoactive drugs.

Quality-of-Care Provisions are Ambiguous. OBRA 87 requires the state to ensure that nursing facilities provide or arrange the care necessary "to attain or maintain the highest practicable physical, mental, and psychosocial well-being of each resident." OBRA 87 does not contain a standard for evaluating this requirement, and the HCFA has not provided guidance on this issue. In the absence of such standards or guidance, the department has focused on the most accessible and

DEPARTMENT OF HEALTH SERVICES—Continued

quantifiable components of nursing home care — nurse and nurse aide staffing levels and documentation, which are costly. Moreover, the department noted that there is no guarantee that additional staffing will result in the quality of care needed to comply with this OBRA 87 provision.

The department's cost estimate is $328.3 million ($164.2 million General Fund) annually. The department assumes that facilities would incur additional costs to (1) hire additional nurses, nurse aides, and interdisciplinary staff (that is, physical, speech, and/or occupational therapists) and (2) increase documentation of residents' physical, mental, and psychosocial needs and conditions.

Future General Fund Costs to Implement OBRA 87 are Unknown and Potentially Significant. The difficulty in producing an accurate cost estimate to implement OBRA 87 lies in two areas: (1) the implications of using the HCFA's interpretive guidelines to conduct federal certification surveys of nursing homes and (2) the vague and ambiguous language in the quality-of-care regulations of OBRA 87.

Because new information on OBRA 87 is likely to be available to the Legislature in the spring, we withhold recommendation on the increase of $15.1 million to implement nursing facility provisions of OBRA 87. We also find that the potential costs for implementing OBRA 87 may be much higher than $15.1 million. Accordingly, we recommend that the department report prior to budget hearings on the status and potential costs of implementing the OBRA 87 nursing facility requirements.

Beneficiary Copayments

The savings assumed in the budget from requiring beneficiary copayments may be overstated because the copayment proposals may create perverse fiscal incentives that could increase Medi-Cal costs. The proposal may also limit beneficiaries' access to services. We recommend that, prior to budget hearings, the department submit additional details on how it would implement its proposal.

The budget assumes that the Legislature will enact legislation that will result in savings of $42.4 million ($21.2 million General Fund) by requiring some Medi-Cal beneficiaries to pay copayments for certain Medi-Cal services.

Background. Current law permits Medi-Cal providers to collect the following copayments for certain services:

- $5 for nonemergency services that are provided in an emergency room.
- $1 for outpatient services, except for perinatal services.
- $1 for dental services.
- $1 for prescription drugs.

Federal law requires Medi-Cal to exempt beneficiaries in the following categories from copayment requirements:

- Children under the age of 21.
- Persons who are inpatients in a hospital or nursing facility.

- Women receiving perinatal care.
- Persons receiving emergency care or family planning services.
- Persons receiving Medi-Cal services from a health maintenance organization.

Current law prohibits Medi-Cal from reducing provider rates to offset revenue providers could receive by collecting copayments. Consequently, providers may increase their total reimbursement for Medi-Cal services by choosing to collect copayments from beneficiaries. However, current law also prohibits providers from refusing to provide services to an individual Medi-Cal beneficiary because he or she cannot pay a copayment.

Budget Proposal. The budget proposes to (1) require Medi-Cal beneficiaries to make copayments and (2) reduce Medi-Cal reimbursement rates to providers by the amount of the copayment required. The budget proposal would exempt from copayment requirements those categories of Medi-Cal beneficiaries which are exempted under current law, but expands the services for which a copayment would be required.

Table 23 lists the services for which copayments would be required, the amount of the copayments, and the department's estimate of the annual savings resulting from reducing provider rates by the amount of the copayments.

Table 23
Department of Health Services
Medi-Cal Program
Estimate of Annual Savings From
Proposed Beneficiary Copayment Requirements

Service	Copayment Amount Per Service	Annual Savings (dollars in thousands) General Fund	Annual Savings (dollars in thousands) All Funds
Drug prescriptions	$1.00	$11,849	$23,697
Outpatient professional [a]	2.00	4,880	9,760
Medical transportation	3.00	1,428	2,855
Medical equipment [b]	3.00	1,021	2,041
Dental	2.00	748	1,496
Adult day health care	2.00	450	900
Hospital outpatient	1.00	366	731
Home health care	3.00	303	606
Acupuncture	1.00	100	200
Heroin detoxification	1.00	44	88
Occupational and physical therapy	1.00	25	50
Chiropractic	0.50	8	16
Totals		$21,221	$42,442

[a] Includes physician, psychology, optometry, speech, and audiology services.
[b] Includes hearing aids, orthotic and prosthetic devices, and durable medical equipment.

Proposal to Reduce Provider Rates May Affect Access. Presumably, the proposed legislation would continue to prohibit providers from refusing to provide services to Medi-Cal beneficiaries if they cannot pay the copayments. To the extent that beneficiaries do not make copayments at the time they receive services, providers must either (1) incur

DEPARTMENT OF HEALTH SERVICES—Continued

costs to try to collect the copayments or (2) waive the copayments and accept a lower level of reimbursement for providing services. Because the copayment amounts are so low, it is unlikely that it would be cost-effective for providers to try to collect copayments from beneficiaries who do not pay them at the time of service. Consequently, the real effect of the copayment requirement is likely to be a reduction in reimbursement to providers.

With few exceptions, the providers who would face reduced Medi-Cal rates under this proposal have not received Medi-Cal rate increases since 1985-86. (Medi-Cal increased rates for home health centers in 1987-88; dental services in 1989-90; and adult day health centers in 1986-87, 1987-88, and 1989-90.) Moreover, as we discussed earlier, the department is currently negotiating a settlement in *Clark v. Kizer* where the plaintiffs have argued that Medi-Cal rates for dental services are too low to provide access for beneficiaries. Some providers may respond to the rate reductions by refusing to provide to any Medi-Cal beneficiaries those services which require a copayment.

Copayment Provisions Apply Primarily to Aged, Blind, and Disabled Persons. Federal law defines the services and beneficiaries that Medi-Cal must exempt from copayment provisions. The effect of these exemptions is that the copayment provisions apply primarily to people who are:

- Aged, blind, or disabled and residing at home.
- Parents of dependent children who are seeking routine (not pregnancy-related or emergency) care.

Copayment Requirements for Primary Care Services May Shift Costs to Other Services. The actual savings from this proposal would depend in part on how beneficiaries respond to it. If beneficiaries (1) reduce unnecessary visits to physicians and other providers or (2) go to the emergency room only for emergency services, then the proposal would result in savings. However, if beneficiaries avoid copayments by not seeking primary care, they may develop more serious illnesses that require emergency or inpatient services. Ironically, because rates for providing inpatient or emergency services are higher than those for providing routine services, requiring beneficiary copayments could actually *increase* Medi-Cal costs.

Information Needed. At the time this analysis was prepared, the department had not drafted legislation to implement this proposal. The specific details of the proposed legislation could affect (1) how the proposal would affect beneficiary access to services and (2) the likelihood that the proposal would actually result in the level of savings anticipated by the budget proposal. Because the Legislature needs this information in order to evaluate the department's proposal, we recommend that the department submit details of its proposal prior to budget hearings.

Budget-Year Savings From Office of Family Planning (OFP) Augmentation May Be Optimistic

While the proposed $10 million augmentation for the OFP has merit, the related Medi-Cal savings will depend on how the Legislature directs the department to spend the augmentation. The savings assumed for the budget year may be optimistic.

The budget assumes that the proposed $10 million augmentation for the OFP will result in Medi-Cal savings of $7 million ($4 million General Fund) in the budget year. Specifically, the budget assumes that Medi-Cal expenditures will be reduced by $6 million ($3 million General Fund) for deliveries and $1 million General Fund for abortions.

As we discuss in our earlier section on the OFP, we believe the proposed augmentation has merit. Further, we agree that an augmentation for family planning services is likely to result in savings over the long-term to Medi-Cal by reducing costs for abortions, deliveries, and neonatal care. However, our analysis indicates that the department's estimate of $7 million in Medi-Cal savings during the budget year (1) has no analytical basis and (2) may be optimistic.

First, the extent to which the proposed augmentation will result in Medi-Cal savings depends on how the funds are used. This is because Medi-Cal savings will be highest if the OFP uses the funds to target services to women who would not otherwise obtain family planning services on their own. As we note in our earlier discussion, the OFP has not determined how it will allocate and target the funds. Without this information, the department has no analytical basis for assuming that the augmentation will result in $7 million, or any other particular level, of Medi-Cal savings.

Second, there is a lag between the time that family planning services are provided and the time that Medi-Cal will begin to experience savings from reduced delivery and neonatal care costs. Consequently, it is likely that most of the savings from the OFP augmentation will not begin until 1992-93.

B. COUNTY ADMINISTRATION

The budget proposes $419.1 million ($181.4 million General Fund) for county welfare departments to determine Medi-Cal eligibility for medically needy beneficiaries. The costs of eligibility determinations for categorically eligible beneficiaries (AFDC and SSI/SSP cash grant recipients) are covered by the AFDC and SSI/SSP Programs.

Current Year. The budget anticipates that General Fund Medi-Cal eligibility determination costs will be $1.3 million, or 0.8 percent, less than the amount available for the current year. Table 24 shows the principal current-year changes.

Budget Year. The proposed 1991-92 General Fund *cash* expenditures of $171.4 million for county administration represent an increase of $23.3 million, or 16 percent, over estimated current-year expenditures. After $10 million from the General Fund is added for the proposed change to accrual accounting, the proposed 1991-92 General Fund

DEPARTMENT OF HEALTH SERVICES—Continued

appropriation of $181.4 million represents an increase of $33.3 million, or 23 percent, over estimated current-year expenditures.

The current estimates of county administrative costs for 1991-92 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 to estimate county welfare department workload. Table 24 shows that the 1991-92 increases result primarily from the following factors:

- ***Phase in Caseloads for Recent Program Expansions ($18 Million General Fund).*** Programs experiencing phase-in of caseload are services to undocumented persons ($11.9 million), expansion of pregnancy-related services ($4.7 million), and the qualified Medicare beneficiaries program ($1.4 million).
- ***1990-91 Salary Increases ($4.7 Million General Fund).*** The budget proposes to fund a 6 percent salary increase for county welfare department employees. This is generally consistent with the Legislature's policy in most recent years.
- ***Restoration of 1989-90 Salary Increases ($4.2 Million General Fund).*** Unlike previous years, the Legislature in the current year did not fund the salary increases that local officials provided to their welfare department employees in 1989-90. The budget proposes to restore the funding for the 1989-90 salary increases in the budget year.
- ***Child Support Enforcement ($1.6 Million General Fund).*** Chapter 806, Statutes of 1988 (AB 1422, Wright), requires counties to refer Medi-Cal applicants with absent parents to local district attorneys for pursuit of child and spousal support. The department plans to adopt regulations and begin implementing this requirement in July 1991.
- ***Outstationing Eligibility Workers ($1.1 Million General Fund).*** The budget proposes $1.1 million from the General Fund 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. We discuss this proposal in more detail below.
- ***Accrual Accounting ($10 Million General Fund).*** We discuss the proposed change from cash to accrual accounting in our earlier section on health services.

Table 24

Department of Health Services
Medi-Cal County Administration
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1990 Budget Act and other legislation:		
Eligibility item	$140,949	$299,777
Federal refugee reimbursements	—	492
State Legalization Impact Assistance Grant (SLIAG)	—	4,515
Cigarette and Tobacco Products Surtax Fund	—	1,475
Unanticipated reimbursements	8,353	8,353
Subtotals, 1990-91 funds available	$149,302	$314,612
Unanticipated 1990-91 changes:		
Qualified Medicare beneficiaries	−16,473	−32,946
Increased costs for undocumented persons	8,755	17,511
Expanded eligibility—*Edwards v. Kizer*	6,938	13,876
Expansion of pregnancy coverage, Ch 980/88	4,703	9,406
Deficiency carry-over	2,651	4,329
Los Angeles County patient financial service workers pass-through	—	14,047
Increased costs for newly legalized persons	—	3,514
1989-90 expenditure reconciliation	—	−6,393
Other changes	−7,828	−5,786
1990-91 expenditures (estimated)	$148,048	$332,170
Projected surplus (deficiency)	1,254	−17,558
Proposed 1991-92 changes:		
Increased costs for undocumented persons	11,934	23,868
Expansion of pregnancy coverage	4,723	9,447
1990-91 salary increases	4,224	8,435
Restoration of 1989-90 salary increases	2,800	5,591
Child support enforcement	1,661	3,321
Qualified Medicare beneficiaries	1,416	2,832
Outstationing eligibility workers	1,063	3,125
Expanded eligibility — *Edwards v. Kizer*	541	1,082
Increased costs for newly legalized persons	—	5,412
Shift of pregnancy coverage to Major Risk Medical Insurance Board	—	−1,475
Los Angeles County patient financial service workers pass-through	—	−3,627
Outreach for pregnant women	—	3,000
Eliminate 1989-90 one-time costs	−2,651	2,064
Other changes	−2,408	−1,189
1991-92 cash expenditures (proposed)	$171,351	$394,056
Change from 1990-91 (estimated):		
Amount	$23,303	$61,886
Percent	15.7%	18.6%
Accrual estimate	10,000	25,000
1991-92 accrual expenditures (proposed)	$181,351	$419,056
Change from 1990-91 (estimated):		
Amount	$33,303	$86,886
Percent	22.5%	26.2%

DEPARTMENT OF HEALTH SERVICES—Continued

Appropriate Funding Level for Outstationing Proposal Unclear

We recommend that the department report prior to budget hearings on (1) how it plans to expand its outstationing program to target both pregnant women and children, (2) any information the federal government provides regarding the specific requirements of OBRA 90, (3) its analysis of the preliminary data from current outstationing proposals, and (4) what funding level is justified by this information.

The budget proposes $3.1 million ($1.1 million General Fund) to fund county proposals for stationing eligibility workers at locations other than welfare offices ("outstationing") in efforts to reach more people who are eligible for Medi-Cal.

Background. During 1988-89 and 1989-90, the department received funding from Ch 1446/89 (SB 822, Rosenthal) and Ch 1331/89 (AB 75, Isenberg) to permit counties to outstation eligibility workers to reach more pregnant women who are eligible for Medi-Cal. There are two primary purposes for outstationing: to (1) make it easier for pregnant women to apply for Medi-Cal and (2) encourage women to apply for Medi-Cal earlier in their pregnancies and seek more prenatal care. In the current year, the department expects to spend $3.1 million ($2.6 million from the Cigarette and Tobacco Products Surtax Fund, $250,000 from the General Fund, and $250,000 from federal funds) for 32 county proposals to station eligibility workers in clinics that treat high volumes of pregnant women.

The Omnibus Budget Reconciliation Act of 1990 (OBRA 90) requires Medi-Cal to station eligibility workers at locations other than county welfare offices, in order to reach pregnant women and children up to age 18. In order to comply with the OBRA 90 requirement, the budget proposes funding at the same level as the current year — $3.1 million ($1.1 million General Fund).

Technical Problem with Proposal. The department intended to provide total funding of $3.1 million ($1.6 million General Fund) for outstationing. Due to a technical error, however, the budget contains only $1.1 million from the General Fund. When matched with federal funds, the total funding that would be available for outstationing is $2.1 million, not $3.1 million. Funding the proposal at the level the department intended would require an additional $500,000 from the General Fund.

Appropriate Level of Funding is Unclear. We are unable to determine, however, whether $3.1 million is the appropriate level of funding to comply with the requirements of OBRA 90 for three reasons:

- ***OBRA 90 requires a broader focus than is required for the current program.*** As we mentioned above, the funding level proposed for the budget year is the same as the funding level for the current year. However, the current program targets only pregnant women, and OBRA 90 requires outstationing to target both pregnant women *and* children. It is not clear how the department could expand its

outstationing program to meet the broader focus required by OBRA 90 without an increase in funding.

- ***Specific details about the OBRA 90 requirements are not yet available.*** For example, it is not clear whether OBRA 90 requires that outstationing occur statewide or if the department could continue to provide funding only to those counties which choose to submit proposals. The federal government has not yet issued regulations regarding implementation of this mandate.
- ***The department has not yet determined the effectiveness of its existing outstationing projects.*** If federal regulations grant Medi-Cal flexibility in determining the extent to which it provides outstationing, the department should give highest consideration to proposals that (1) are most likely to be successful in either encouraging pregnant women and children to apply for Medi-Cal or apply sooner than they would have otherwise and (2) are the most cost-effective approaches to meeting these goals. At the time this analysis was prepared, the department had received preliminary data from the counties that have outstationed eligibility workers, but it had not analyzed the data to evaluate program effectiveness.

The Legislature does not have sufficient information to determine what level of funding is required in order to comply with the requirements of OBRA 90. The department should have access to more information during the spring. We therefore recommend that the department report prior to budget hearings on (1) how it plans to expand its outstationing program to target both pregnant women and children, (2) any information the federal government provides regarding the specific requirements of OBRA 90, (3) its analysis of the preliminary data from current outstationing proposals, and (4) what funding level is consistent with this information.

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). 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 1990-91 will be $17.3 million. This is $2.5 million, or 17 percent, higher than the amount appropriated in the 1990 Budget Act. Table 25 shows that the largest component of the current-year deficiency is due to increased payments to EDS and the State Controller. The primary reasons for the increased payments to EDS are (1) an increase in the number of total claims ($1.3 million General Fund) and (2) implementation of various cost-containment proposals ($417,000 General Fund). The budget reflects current-year General Fund savings of

DEPARTMENT OF HEALTH SERVICES—Continued

$1.6 million as a result of these cost-contain ment proposals. The increased payments to the State Controller result primarily from a reduction in the federal share of postage costs from 75 percent to 50 percent ($419,000 General Fund).

Table 25
Department of Health Services
Medi-Cal Claims Processing
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1990 Budget Act:		
Fiscal intermediary item	$14,765	$56,770
Refugee reimbursements	—	145
State Legalization Impact Assistance Grant	—	17
Cigarette and Tobacco Products Surtax Fund	—	269
Unanticipated reimbursements	6	6
Subtotals, 1990-91 funds available	$14,771	$57,207
Unanticipated 1990-91 changes:		
Electronic Data Systems (EDS) contract	1,718	5,230
Delta Dental contract	−79	149
State Controller agreement	513	391
1989-90 deficiency carry-over	370	739
1990-91 expenditures (estimated)	$17,293	$63,716
Projected deficiency	−2,522	−6,509
Proposed 1991-92 changes:		
EDS contract	−1,521	−5,773
Medicare crossover contract	8	31
State Controller contract	110	226
Delta Dental contract	−465	−1,858
Eliminate 1989-90 deficiency carry-over	−370	−739
1991-92 cash expenditures (proposed)	$15,055	$55,603
Change from 1990-91 (estimated):		
Amount	−$2,238	−$8,113
Percent	−12.9%	−12.7%
Accrual estimate	1,000	4,000
1991-92 accrual expenditures (proposed)	$16,055	$59,603
Change from 1990-91 (estimated):		
Amount	−$1,238	−$4,113
Percent	−7.16%	−6.46%

The Budget Year. The budget proposes General Fund *cash* expenditures of $15.1 million for fiscal intermediary services in 1991-92. This is a decrease of $2.2 million, or 13 percent, from estimated current-year cash expenditures. After $1 million is added from the General Fund for the proposed change to accrual accounting, the proposed appropriation for fiscal intermediary services in 1991-92 is $59.6 million ($16.1 million General Fund). This is a decrease of $1.2 million, or 7.2 percent, from estimated current-year General Fund expenditures. Table 24 shows that this decrease is due primarily to the net effects of (1) a reduction in the EDS contract, (2) a reduction in the Delta Dental contract, (3) the elimination of current-year payments for the 1989-90 deficiency, and (4)

the increases related to budgeting Medi-Cal on an accrual, rather than cash, basis. The decrease in EDS costs results primarily from a reduction in the cost per claim. The reduced costs for the Delta Dental contract result primarily from eliminating one-time payments in the current year related to Delta's takeover of a new contract and new contract requirements for enhancements to the dental claims processing system. We discuss the proposed change to accrual accounting in our earlier section on health services.

Postage Costs Understated in Both Current and Budget Years

The budget proposes to fund postage costs for EDS at 25 percent state and 75 percent federal funds in both the current and budget years. However, the federal government has reduced its share of postage costs from 75 percent to 50 percent. Consequently, postage costs for EDS are underfunded by $792,000 from the General Fund in the current year and $871,000 from the General Fund in the budget year. The department indicates that it will correct the funding ratios in the May estimates.

Department Appealing Reduced Federal Reimbursement for Overhead Costs

The department is appealing a recent federal audit that found that the department had improperly claimed 75 percent, rather than 50 percent, federal reimbursement for various overhead costs. The types of overhead covered by the audit include printing costs, distribution of provider manuals and bulletins, provider relations, and quality control. If the department loses its appeal of the audit, it estimates that it would be required to make a one-time payment of up to $14.9 million from the General Fund for overhead costs in prior years and would face increased costs of $3 million from the General Fund annually beginning in the current year. The department expects the appeal to be resolved this spring and indicates that it will propose any necessary funding in the May revision.

D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $151.8 million ($56.3 million General Fund) in various departments for state administration of the Medi-Cal Program in 1991-92. The General Fund amount represents an increase of $2 million, or 3.7 percent, above estimated expenditures in the current year. Table 26 displays Medi-Cal state administrative expenditures in 1990-91 and 1991-92.

The budget proposes to increase General Fund spending by the DHS by $1.1 million, or 2.4 percent, above estimated spending levels in the current year. This increase primarily reflects (1) increased funding to reimburse the Attorney General for defending the department in Medi-Cal lawsuits, (2) a proposal for staff to increase investigation of Medi-Cal fraud, and (3) a proposal to increase staff to audit cost reports from federally qualified health centers. The budget also proposes $124,000 in reimbursements from an unspecified source, to implement the Catastrophic Health Insurance Program established by Ch 1401/90 (AB 373, Elder).

DEPARTMENT OF HEALTH SERVICES—Continued

Table 26
Medi-Cal Program
State Administration Expenditures [a]
1990-91 and 1991-92
(dollars in thousands)

	Estimated 1990-91		Proposed 1991-92		Percent Change in General Fund
	General Fund	All Funds	General Fund	All Funds	
Department of Health Services	$47,500	$121,760	$48,626	$125,095	2.4%
Department of Social Services	2,562	11,355	2,644	11,371	3.2
Department of Mental Health	2,551	8,548	3,329	10,374	30.5
California Medical Assistance Commission	982	1,964	982	1,964	—
Department of Aging	719	1,483	732	1,508	1.8
Department of Developmental Services	15	1,438	15	1,474	—
Totals	$54,329	$146,548	$56,328	$151,786	3.7%

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

The budget proposes 1,649.3 positions in the DHS that can be attributed directly to the administration of the Medi-Cal Program. This is 40 positions, or 2.4 percent, less than the number of authorized positions in 1990-91. The increase reflects the expiration of 31 limited-term positions and a decrease of 9 positions.

Operation of Field Offices Needs Review

The budget does not propose sufficient staffing to continue existing procedures that control utilization of Medi-Cal services. We recommend that the department report prior to budget hearings on (1) options for controlling utilization of Medi-Cal services without increasing field office staff and (2) proposed work plans to implement the options.

The budget proposes $29.7 million ($8.7 million General Fund) and 506.4 positions in Medi-Cal field offices to review requests for prior authorization of certain Medi-Cal services.

Background. The Medi-Cal Program requires providers, such as physicians and hospitals, to submit treatment authorization requests (TARs) before providing some Medi-Cal services. The department requires that TARs be approved before services are provided to ensure that the services are (1) covered by Medi-Cal and (2) medically necessary. Services that require TARs include inpatient stays in hospitals or nursing facilities, surgeries, durable medical equipment, and drugs that are not included on the list of contract drugs.

Field office staff review the TARs. As the number of people eligible for Medi-Cal increases, the number of TARs, and therefore the field office workload, increases. Field office staffing levels are based on staffing standards the Department of Finance developed in 1985. The staffing standards define the number of TARs that field office staff can review in a year. The standards vary depending on the type of TARs (such as

long-term care days, hospital days, or drug prescriptions) to be reviewed and the type of staff (such as physician versus nurse) required for the review.

The department compares its estimate of the number and types of TARs it will receive in a year to the staffing standards to determine the number and types of positions needed in the field offices. Generally, the department's budget proposal includes a request for additional field office staff to accommodate the projected increase in total TARs.

Current-year staffing for field offices was based on the 1985 staffing standards and the department's estimate of the number of TARs it expected to receive during the year. However, the Legislature also approved the department's request for 28 additional positions to process TARs for drugs. This is because the department's new drug discount proposal gives it the authority to remove drugs from the list of contract drugs if drug manufacturers refuse to negotiate rebate contracts with the department. (We discuss the drug discount program in more detail in our earlier section on Medi-Cal health services.) Providers must submit TARs before providing drugs that are not on the contract list. To the extent that the department removes drugs from the contract list, then, the total number of TARs would increase.

Budget Proposal. The department's budget proposal does not propose an increase in field office staffing, in spite of the fact that the department expects TAR volume to increase during the budget year. In addition, as part of the 3 percent reduction required by Section 3.80 of the 1990 Budget Act, the department reduced field office staffing by 12 positions during the current year. The budget proposal also reflects this reduction.

Given existing procedures for reviewing TARs, the consequences of not fully staffing field offices are delays in processing TARs, and therefore delays in providing services to Medi-Cal beneficiaries. As we discuss below, however, it is possible that the department could fulfill its obligation to control utilization without increased staffing if it changes its procedures for controlling utilization.

Staffing Standards Outdated. The current staffing standards are over five years old and do not reflect recent changes in field office operation. Specifically, since the staffing standards were developed, the field offices have:

- Increased automation of TAR processing, including electronic transmission of TAR information to the fiscal intermediary.
- Shifted staff responsibilities to minimize the amount of strictly clerical work that physicians, pharmacists, and nurses do.

It is probable that these changes have reduced the costs and time required to process each TAR.

Drug TAR Workload Has Not Increased. As we mentioned above, the department received extra field office positions to process additional drug TAR workload resulting from removing some drugs from the list of contract drugs. However, the department has added 19 drugs to the list of contract drugs, but has not removed any. The Auditor General, in a January 1991 report on drug TARs, indicated that the number of drug

DEPARTMENT OF HEALTH SERVICES—Continued

TARs received each month has *decreased* since June 1990, the month the drug discount program began.

Department Considering Options to Change Field Office Operations. The department is currently considering changing its procedures for controlling utilization. We discussed two of these options in our earlier discussion of the department's proposal to expand managed care:

- Providing case management for high-cost beneficiaries.
- Initiating use of home- and community-based waiver services.

The department also indicates that it is interested in developing a utilization control system that targets "problem providers" — those which routinely request authorization for services that are not justified — rather than reviewing TARs from all providers. Specifically, the department may be able to use its new automation capabilities to develop profiles on individual providers. This would allow the department to focus its efforts in the most productive manner.

Additional Information Needed. We believe that the department may be able to change its field office operations to effectively control utilization without increasing its total staff. However, at the time this analysis was prepared, the department was in the beginning stages of considering these options. We recommend, therefore, that the department report prior to budget hearings on (1) options for controlling utilization of Medi-Cal services without increasing field office staff and (2) proposed work plans to implement the options.

Support Costs for Accrual Accounting and Managed Care Proposals Will Be Addressed in Finance Budget Amendment Letter

As we discussed in our earlier section on health services, the budget proposes $1.9 billion ($876 million General Fund) to change accounting of the Medi-Cal budget from a cash to an accrual basis. The budget proposal does not include funds for any support costs associated with this proposal. The administration indicates that it will address the workload associated with these proposals in a Finance budget amendment letter.

Implementation of Catastrophic Health Insurance Program May Be Unlikely

We find that the department's proposal to implement the Catastrophic Health Insurance Program established by Ch 1401/90 (AB 373, Elder) is unlikely to result in program implementation. We recommend that the department, in conjunction with the Major Risk Medical Insurance Board (MRMIB), report prior to budget hearings on (1) the basis for its proposal that one position is adequate to implement the program and (2) alternative methods of funding the start-up costs of the program, including the feasibility of expanding the role of the MRMIB to implement the Catastrophic Health Insurance Program.

The budget proposes $124,000 in "reimbursements" to implement the Catastrophic Health Insurance Program established by Chapter 1401.

These "reimbursements" would be used for one position and related external contract and travel expenses incurred in establishing the program.

Chapter 1401 requires the department to contract with catastrophic health insurance providers for coverage of any state resident, and requires the department to inform residents of the availability of catastrophic health insurance. Ongoing administrative costs are to be covered by the cost of premiums. However, no provision was made for start-up costs associated with the program.

The department's proposal requests $124,000 in "reimbursements" to support the start-up costs of the program. The department's proposal specifies a number of activities associated with implementing the program, including (1) negotiating a contract with one or more providers; (2) monitoring and overseeing premiums, marketing practices, management practices, and payment timeliness; (3) developing program standards and operating guidelines; and (4) specifying the benefit package.

We have two concerns with this proposal:

- ***The funding source is uncertain.*** The department informs us that it does not know where these "reimbursements" would come from. Department staff suggest that perhaps the department would seek foundation support for the proposal, or submit grant proposals for the start-up costs. At the time of our analysis, however, no funding was allocated for the program.
- ***The proposed staffing level may be inadequate.*** The department proposes one analyst, supplemented by an external consultant, to implement the program. Given the start-up activities included in implementing the program (discussed above), we question whether this will be adequate.

By way of comparison, the recently established Major Risk Medical Insurance Program (MRMIP) is proposing a support budget totaling $890,000 for staff and supplemental consultants for actuarial expertise. The MRMIP provides health insurance to residents who have been unable to obtain it through private insurance companies. (Please see Item 4280 for more discussion of this program.)

Given the uncertainty of the funding for implementing the Catastrophic Health Insurance Program, and the level of staffing proposed for the program, we find that the department's proposal to implement the Catastrophic Health Insurance Program is unlikely to result in program implementation. We recommend that the department, in conjunction with the MRMIB, report prior to budget hearings on (1) the basis for its proposal that one position is adequate to implement the program and (2) alternative methods of funding the start-up costs of the program, including the feasibility of expanding the role of the MRMIB to implement the Catastrophic Health Insurance Program.

DEPARTMENT OF HEALTH SERVICES—Continued

Budgeted Federal Reimbursements for Nursing Facility Preadmission Screening Too High

We recommend a reduction of $900,000 in federal funds to reflect lower preadmission screening caseload and costs. (Reduce Item 4260-007-890.)

The department's budget contains $3.7 million in federal funds to reimburse the Department of Mental Health (DMH) for evaluation of active treatment needs of mentally ill nursing facility clients, as required by the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87). The General Fund portion of the program is included in the DMH budget.

Our review indicates that the budgeted amount should be reduced because the screening caseload is lower than expected. We recommend a reduction of $900,000 in federal funds budgeted for allocation to the DMH to reflect projected screening caseload 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 $3,298,000 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 105

Requested 1991-92	$1,964,000
Estimated 1990-91	1,964,000
Actual 1989-90	1,640,000
Requested increase: None	
Total recommended reduction	None

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4270-001-001—Support	General	$982,000
Reimbursements	Federal	982,000
Total		$1,964,000

GENERAL PROGRAM STATEMENT

The California Medical Assistance Commission (CMAC) was established by Ch 329/82 (AB 3480, Robinson) 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 $1,964,000 ($982,000 from the General Fund and $982,000 in federal funds) for the support of the commission during 1991-92. This is the same level as estimated current-year expenditures. The Governor's Budget includes an unallocated trigger-related reduction of $44,000 ($22,000 General Fund) in funding for the commission. This reduction is included in the proposed budget for the commission in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Health and Welfare Agency

MAJOR RISK MEDICAL INSURANCE BOARD

Item 4280 from the Cigarette and Tobacco Products Surtax Fund — Budget p. HW 106

Requested 1991-92	$103,310,000
Estimated 1990-91	16,639,000
Actual 1989-90	—
Requested increase $86,671,000 (+520.9 percent)	
Total recommended reduction	None

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4280-001-309—Perinatal insurance program support	Cigarette and Tobacco Products Surtax Fund	$200,000
4280-001-313—Major Risk Medical Insurance Program support	Cigarette and Tobacco Products Surtax Fund	889,000
Pending legislation—perinatal insurance program local assistance (provider contracts)	Cigarette and Tobacco Products Surtax Fund	76,330,000
Pending legislation—Major Risk Medical Insurance Program local assistance (provider contracts)	Cigarette and Tobacco Products Surtax Fund	25,891,000
Total		$103,310,000

MAJOR RISK MEDICAL INSURANCE BOARD—Continued

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

GENERAL PROGRAM STATEMENT

The Major Risk Medical Insurance Board was established by Ch 1168/89 (AB 60, Isenberg), as amended by Ch 1060/90 (AB 3000, Isenberg). The Business, Transportation, and Housing Agency is currently responsible for the operation and fiscal management of the board, but the administration proposes to transfer this responsibility to the Health and Welfare Agency.

The board is responsible for administering the Major Risk Medical Insurance Program (MRMIP), which was also established by Chapters 1168 and 1060. Beginning in the spring of 1991, this program will provide health insurance to California residents who are unable to obtain it for themselves or their families because of pre-existing medical conditions.

The administration proposes legislation to make the board responsible for administering a proposed new perinatal insurance program, the Access for Infants and Mothers (AIM) Program. This program would provide coverage for women seeking pregnancy-related and neonatal medical care.

The board is comprised of six members (including one ex-officio nonvoting member). Staff support for the board totals 4.7 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $103.3 million from the Cigarette and Tobacco Products Surtax (C&T) Fund in 1991-92. Of this amount, $26.8 million is to fund the MRMIP and $76.5 million is to fund the proposed AIM Program.

This proposed level of expenditures is an increase of $86.7 million, or 521 percent, above estimated current-year expenditures.

Of the total $103.3 million proposed for expenditure in the budget year, the administration proposes to provide $1.1 million for state support through the budget, and proposes that the remaining $102.2 million be authorized through legislation.

The budget proposes a total of 8.9 personnel-years for the board in 1991-92. Table 1 displays how C&T funds are allocated to the MRMIP and AIM Program in the past, current, and budget years. Table 1 also displays reserves proposed to be set aside for future claim payments in the MRMIP and AIM Program.

Table 1
Major Risk Medical Insurance Board
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	*Est. 1990-91*	*Prop. 1991-92*	*Change from 1990-91 Amount*	*Percent*
Carry-over from prior fiscal year — Major Risk Medical Insurance Program (MRMIP)	—	$18,652	$2,013	—[a]	—[a]
Expenditures					
State operations:					
Support— MRMIP	—	$692	$889	$197	28.5%
Support — perinatal insurance	—	—	200	200	—[a]
Local assistance:					
Provider contracts — MRMIP	—	15,947	25,891	9,944	62.4
Provider contracts — perinatal insurance	—	—	76,330	76,330	—[a]
Totals	—	$16,639	$103,310	$86,671	520.9%
Reserves					
Reserve for claim payments — MRMIP	—	$1,772	$4,622	$2,850	160.8%
Reserve for claim payments — perinatal insurance	—	—	13,470	13,470	—[a]
Reserve for economic uncertainty — MRMIP	$18,652	241	611	370	153.5
Funding Sources					
Health Education Account, Cigarette and Tobacco Products Surtax (C&T) Fund	—	—	*50,206*	*50,206*	—[a]
Hospital Services Account, C&T Fund	*12,000*	—	*42,536*	*42,536*	—[a]
Physician Services Account, C&T Fund	*3,000*	—	*26,258*	*26,258*	—[a]
Unallocated Account, C&T Fund	*3,652*	—	*1,000*	*1,000*	—[a]

[a] Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

MRMIP Begins Offering Coverage

We recommend that the Major Risk Medical Insurance Board report prior to budget hearings on (1) its proposals to ensure that MRMIP costs do not exceed available resources and (2) in conjunction with the Department of Health Services (DHS), the feasibility of expanding the role of the MRMIP to implement the Catastrophic Health Insurance Program.

The budget proposes expenditures for support and local assistance of $26.8 million in C&T funds to implement the MRMIP in the budget year. This is an increase of $10.1 million, or 61 percent, from estimated expenditures in the current year.

The MRMIP is administered by the board, which has broad authority to (1) provide, either directly or through contracts with private health

MAJOR RISK MEDICAL INSURANCE BOARD—Continued

plans, major medical coverage for subscribers, (2) determine insurance eligibility and benefits, and (3) approve and establish subscriber contributions, plan rates, and program contributions.

Since its first meeting in July 1990, the board has taken several steps to implement the MRMIP. It has contracted with an outside consultant for actuarial studies, and on the basis of these studies, made the following decisions:

- *Eligibility.* Of the estimated 250,000 California residents unable to obtain insurance coverage due to pre-existing medical conditions, the MRMIP proposes to cover up to 10,000 subscribers in the budget year. Applications are being accepted on a first-come-first-served basis.
- *Scope of Benefits.* Covered benefits include inpatient and outpatient care, emergency care, durable medical equipment, outpatient prescription drugs, rehabilitation services, limited mental health care, and preventive care for minors.
- *Subscriber Fees.* Subscribers must pay a premium equal to 125 percent of the standard average individual rate. A single subscriber in the 35-39 age range, for example, would pay monthly premiums of between $110 and $234, depending on geographic location and choice of plan. Subscribers must also pay a 20 percent copayment and a $500 deductible up to specified limits.
- *Benefit Limits.* Maximum benefits are limited to $50,000 in a year and $500,000 in a lifetime.

The board has entered into contracts with three insurers to provide coverage to subscribers: Blue Cross of California, Blue Shield of California, and Pacific Mutual's PM Group Life Insurance Company. The board is also contracting with Blue Cross of California to process applications. The first applications were mailed to persons requesting them on January 28, 1991.

Specific Mechanisms for Cost Control May Need to be Established. Under the existing MRMIP, private insurers do not bear any risk for costs in excess of subscriber premiums. Instead, the state will reimburse insurers for these costs. As a result of this arrangement, one of the major uncertainties facing the board is how great these claims against the state will be.

Specifically, given the level of state funding for the program and anticipated premiums, the board estimates that 10,000 enrollees could be provided insurance. However, to the extent these enrollees' claims exceed the board's estimates, the program could be underfunded, requiring either (1) additional state funds to fully cover costs or (2) insurers to absorb some of the excess costs.

In order to guard against this potential underfunding, the board is developing protocols to monitor (1) incoming applications and medical conditions and (2) paid claims. That way, if a large number of enrollees have expensive medical conditions or expensive claims, adjustments can be made in the total number of enrollees accepted into the program.

While we agree that ongoing monitoring and analysis of applications and claims is essential, we question whether this is sufficient to safeguard the program against excess costs. Therefore, we recommend that the board report prior to budget hearings on the specific mechanisms it plans to establish to ensure that costs do not exceed available resources.

Shift in Funding Source Proposed for the Budget Year. Chapters 1168 and 1060 continuously appropriate $30 million from the Unallocated Account (UA) of the C&T Fund annually beginning in 1991-92 to implement the MRMIP.

The Governor's Budget proposes a shift in this funding source, from the UA to two other C&T accounts. Specifically, the administration proposes that $18 million be appropriated from the Hospital Services Account (HSA), $11 million from the Physician Services Account (PSA), and $1 million from the UA. According to the administration, this proposal results from the large number of programs requiring UA funds, and the administration's conclusion that there are insufficient UA funds to meet all of these demands. This proposal requires legislation.

We think it is reasonable to assume that the services provided by the MRMIP can be characterized as hospital and physician services appropriate for reimbursement by the HSA and PSA. However, we suggest that any decisions with respect to funding source be made in conjunction with overall decisions facing the Legislature in its consideration of the reauthorization of AB 75 (Ch 1331/89, Isenberg).

Problems with Catastrophic Health Insurance Program Implementation. As we discuss in our analysis of the Medi-Cal Program (see Item 4260), we believe the Department of Health Services (DHS) proposal for implementing another insurance program — the Catastrophic Health Insurance Program established by Ch 1401/90 (AB 373, Elder) — is unlikely to result in program implementation due to (1) an uncertain funding source and (2) inadequate proposed staffing. Based on our analysis, we recommend that the board, in conjunction with the DHS, report prior to budget hearings on alternative methods of funding the start-up costs of the program, including the feasibility of expanding the role of the MRMIP to implement the Catastrophic Health Insurance Program.

Proposal for New Perinatal Insurance Program Raises Policy Choices

We recommend that the Major Risk Medical Insurance Board report at budget hearings on (1) the specific details of its proposal for a perinatal insurance program and (2) how the proposal addresses the major policy questions facing the Legislature.

The budget proposes expenditures of $76.5 million in C&T funds to establish a perinatal insurance program, the Access for Infants and Mothers (AIM) Program, under the board. An additional $13.5 million is proposed as a reserve for future claim payments.

The proposed AIM Program would provide insurance coverage for women with incomes of between 185 and 250 percent of the federal poverty level (FPL) seeking pregnancy-related and neonatal medical

MAJOR RISK MEDICAL INSURANCE BOARD—Continued

care. The program would be structured similarly to the MRMIP (see preceding discussion), with the board entering into contracts with private insurers for subscriber coverage. Premium costs would be shared between the program and enrollees based on a sliding fee schedule. However, unlike the MRMIP where the state bears the risk for any excess costs, the proposed AIM Program would include a provision for risk-sharing by participating insurers.

Currently, women with incomes of between 185 and 200 percent of the FPL receive pregnancy-related and neonatal services through the Medi-Cal perinatal expansion program established by Ch 1331/89 (AB 75, Isenberg). This program, funded with C&T funds, sunsets on June 30, 1991 unless reauthorized through legislation.

Rather than continue the Medi-Cal perinatal expansion program, the administration proposes that women with incomes between 185 percent and 200 percent of the FPL be offered insurance through the proposed AIM Program. Consistent with this approach, the budget proposes a reduction of $20.9 million in C&T funds to eliminate the Medi-Cal perinatal expansion program.

In addition to providing insurance coverage to women who would currently be eligible for the Medi-Cal perinatal expansion program, the board estimates the proposed AIM Program could cover between 20,000 and 25,000 additional women annually. There are no data currently available on how many uninsured women with incomes of between 200 percent and 250 percent of the FPL give birth annually in California. However, based on various state data on the overall number of uninsured births in California annually, the board assumes that roughly 50,000 women may be eligible for the proposed AIM Program and that the program could cover about 50 percent of them. The number of women who would actually be covered by the proposed AIM Program depends on how the program is structured.

At the time of our analysis, the administration had provided only limited information on the proposed AIM Program. The board proposes to contract with an outside consultant for actuarial studies in order to make decisions with respect to rates, premiums, and other program specifics. These studies will not be available until some time during the budget year. This timing makes it difficult for the Legislature to assess the fiscal and programmatic impacts of the proposed AIM Program during its budget deliberations. Below, we discuss several key policy questions the Legislature will face as it evaluates the administration's proposed AIM Program.

1. How Much Will the Proposed AIM Program Really Cost? The board acknowledges that the $90 million proposed for the AIM Program is not based on any analytical study. The board indicates that (a) actuarial studies will provide more specific information on expected program costs and (b) program costs will be kept within available resources by adjusting the number of women covered.

As noted above, the timing of the proposed actuarial studies means this information will not be available during budget deliberations. Without information on projected costs per enrollee, the Legislature has no basis for comparing the proposal with the costs of other possible methods of expanding access to perinatal care. For example, how the costs of the proposed AIM Program compare with Medi-Cal cannot be determined until the premium and provider rates have been established and net program costs per enrollee can be determined.

2. Are C&T Funds an Appropriate Funding Source for the Proposed AIM Program? Currently, C&T funds are allocated to a variety of health programs, including health education and anti-smoking programs. The proposed AIM Program represents a significant shift in proposed expenditures of C&T funds, reflecting the administration's stated priority of funding perinatal care before tobacco-related health education.

In addition, C&T revenues are a declining funding source. Over time, relying on C&T revenues to support the AIM Program is likely to require (a) reductions in AIM Program enrollment and expenditures, (b) increasing reductions in other C&T-funded programs, or (c) an infusion of General Fund dollars.

We suggest that any decisions with respect to using C&T funds for the proposed AIM Program be made in conjunction with overall decisions facing the Legislature in its consideration of the reauthorization of AB 75 (Ch 1331/89, Isenberg).

3. Will the Proposed AIM Program be Successful in Meeting its Goals? According to the board, proposed AIM Program goals include (a) increasing access to maternity, delivery, and infant care services for low-income women and (b) better birth outcomes due to increased access to care.

How successful the proposed AIM Program will be in meeting these goals depends in large part on the answers to the following questions:

- *How will the sliding fee schedule be determined?* The premiums required from women participating in the program will determine, to a great extent, how many low-income women participate in the program. As noted above, the board states these rates would be determined as part of the actuarial studies to be done in the budget year. However, given its importance in determining enrollment, we suggest this issue be addressed *before* any decision is made with respect to the AIM program.

  For example, if premiums were set at 7.5 percent of annual gross income for a family of two at 250 percent of the FPL (as a preliminary example from the board suggested), required premiums would be $1,514. It would be difficult, at best, for a family making $20,190 annually to afford premium costs of this amount. To the extent premiums are set too high, those women who may be most in need of coverage will be unable to obtain it.
- *How will outreach be done?* Traditional routes for marketing private insurance may be unlikely to result in large numbers of uninsured women subscribing to the program. Therefore, we believe the

MAJOR RISK MEDICAL INSURANCE BOARD—Continued

marketing aspects of the program deserve careful review. The proposed AIM Program would need to provide outreach through providers most likely to serve these women already — clinics, community agencies, public hospitals, and other public health or maternal and child health programs, for example.

- *What services will be provided?* While access to medical care is clearly a factor in determining birth outcomes, the Legislature has established the Comprehensive Perinatal Services Program in recognition of the importance other factors such as health education and nutritional counseling play in enhancing birth outcomes. These services are generally not provided through traditional private medical insurance. To the extent that other factors such as health education and nutritional counseling affect birth outcomes, any proposal to improve birth outcomes needs to address these services.

4. Why Not Build on the Existing Medi-Cal and Maternal and Child Health (MCH) Programs Instead? There are a number of MCH programs as well as the Medi-Cal Program that currently provide services to pregnant women and their infants. Increasing funding for these programs, or modifying the ways in which they provide services, may be a more cost-effective way to achieve the stated AIM Program goals. We suggest that the board provide additional information as to (a) why program goals cannot be achieved through Medi-Cal and other MCH programs and (b) the rationale for establishing a new mechanism to provide the same services covered by the Medi-Cal Program.

In addition, there are potential problems with establishing a separate program to provide the same services provided by the Medi-Cal Program. The first is the problem of determining that applicants are not in fact eligible for Medi-Cal. The proposed AIM Program includes a simple income eligibility determination — from 185 percent to 250 percent of the FPL. However, Medi-Cal includes several income exemptions, so that a review of income alone may lead to enrollment in the AIM Program when an applicant is in fact eligible for Medi-Cal. Since Medi-Cal is 50 percent federally funded, this represents a potential loss of federal funds and a less cost-effective approach to providing coverage.

A related problem is the potential for a woman to "fall through the cracks" if her income is below 185 percent of the FPL but her assets are too high for Medi-Cal eligibility. (While eligibility for the proposed AIM Program would be based solely on income, eligibility for Medi-Cal considers both income and assets.) Under such a scenario, this woman may be referred first to Medi-Cal on the basis of her income, then rejected by Medi-Cal and referred back to the AIM Program, and potentially be referred back and forth several times without her situation being resolved.

Conclusion. The proposed AIM Program raises major policy choices for the Legislature. While some information will not be available until the budget year, we recommend that the board report at budget hearings, to the extent possible, on (1) the specific details of its proposal for a

perinatal insurance program and (2) how the proposal addresses the major policy questions facing the Legislature.

DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General Fund and various other funds — Budget p. HW 110

Requested 1991-92	$1,236,195,000
Estimated 1990-91	1,200,667,000
Actual 1989-90	1,094,330,000
Requested increase $35,528,000 (+3 percent)	
Total recommended reduction	1,564,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-001-001—Support	General	$24,072,000
4300-001-172—Support	Developmental Disabilities Program Development	241,000
4300-001-496—Support	Developmental Disabilities Service Account	60,000
4300-001-890—Support	Federal	2,243,000
4300-003-001—Developmental centers	General	41,926,000
4300-003-036—Developmental centers	Special Account for Capital Outlay	2,621,000
4300-003-814—Developmental centers	Lottery Education	599,000
4300-003-890—Developmental centers	Federal	1,109,000
4300-004-001—Developmental centers	General (Proposition 98)	18,544,000
4300-101-001—Local assistance	General	580,989,000
4300-101-172—Local assistance	Developmental Disabilities Program Development	3,415,000
Reimbursements	—	560,376,000
Total		$1,236,195,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

tation costs, and (c) adopt Budget Bill language. Further recommend that the department provide the legislative fiscal committees, by April 1, with revised expenditure estimates.

3. Early Intervention Services Program. Recommend that the department provide the legislative policy and fiscal committees, by April 1, (a) its recommendation on whether to apply for fourth-year Early Intervention Services Program funds, (b) a revised budget reflecting its recommendation, and (c) a status report on federal changes to the program. 656
4. Implementation of $24.2 Million Unallocated Reduction. Recommend that the Departments of Developmental Services and Finance report to the legislative fiscal committees, by April 1, 1991, relating to the unallocated reduction of $24.2 million. 661
5. Biennial Development of Individual Program Plans. Recommend that the department provide the legislative fiscal committees, by April 1, 1991, information on biennial client Individual Program Plans. 661
6. Targeted Case Management. The department will most likely implement Medi-Cal targeted case management for regional center clients in late February 1991—culminating an effort of over four years to obtain $34 million annually in federal Medi-Cal reimbursements. 663
7. Developmental Center Population and Medi-Cal Reimbursements. 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. 666
8. Certification and Accreditation. Recommend that the department provide the legislative fiscal committees, by April 15, with (a) the updated federal certification status of Stockton and Sonoma State Developmental Centers (and (b) its recommendation on continuing accreditation of the centers. 667
9. ***Adult Education Services for State Developmental Center Clients. Delete $714,000 from Item 4300-004-001.*** Recommend that the Legislature delete $714,000 from the SDC budget for educational services, to correct for double-budgeting. 669

MAJOR ISSUES

☑ To date, the department has spent only $290,000 of the $2.6 million provided for implementing *Sherry S.* and other court rulings. It has spent approximately $900,000 of the funds appropriated to offset its (1) unallocated reductions and (2) unreimbursed cost increases.

☑ The department will decide during February 1991 whether or not to apply for fourth-year federal early intervention services funds. Inherent in this decision is whether or not to establish — at an annual General Fund cost in the range of tens of millions of dollars — a new entitlement program for infants meeting a definition of developmental delay.

☑ The administration is proposing legislation to waive the entitlement to regional center services so that the regional centers can implement the proposed unallocated General Fund reduction of $24.2 million.

☑ The department is proposing legislation to require regional centers to develop client Individual Program Plans (IPPs) when needed. The budget assumes that regional centers will develop client IPPs — on average — every other year.

☑ The department will decide by April 1, 1991 whether to continue its 13-year policy of seeking state developmental center accreditation from the Accreditation Council on Services for Persons with Developmental Disabilities.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

GENERAL PROGRAM STATEMENT

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

The department has 11,402.6 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.

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 $35.5 million, or 3 percent, above estimated current-year expenditures. The budget proposes appropriations of $665.5 million from the General Fund to support DDS programs in 1991-92. This is an increase of $37.6 million, or 6 percent, above estimated current-year expenditures.

The change in expenditures from all funds is due primarily to the net effect of proposals for (1) an increase of $11.4 million to reflect the full-year cost of 1990-91 employee compensation increases, (2) an increase of $45 million to reflect caseload and utilization changes at the regional centers, (3) an increase of $11 million to change the rate methodology for day program providers pursuant to statutory requirements in Ch 1396/89 (AB 877, Bentley), and (4) a decrease of $24.2 million to reflect an unallocated trigger-related reduction to regional center support, which is in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Current-Year Deficiencies. The Governor's Budget reflects two current-year deficiencies totaling $25.7 million. Specifically, the department estimates a deficiency of (1) $16.1 million in the regional center budget and (2) $9.6 million in the state developmental center budget.

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
1989-90 through 1991-92
(dollars in thousands)

Expenditures	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Percent Change From 1990-91*
Department support	$28,343	$34,675	$27,697	−20.1%
Regional centers and community development programs	525,361	587,625	613,815	4.5
Developmental centers	540,626	578,367	594,683	2.8
Totals	$1,094,330	$1,200,667	$1,236,195	3.0%
Funding Sources				
General Fund	*$543,591*	*$627,947*	*$665,531*	*6.0%*
Special Account for Capital Outlay	*3,988*	*—*	*2,621*	*—[a]*
Lottery Education Funds	*390*	*599*	*599*	*—*
Developmental Disabilities Program Development Fund	*3,759*	*3,397*	*3,656*	*7.6*
Developmental Disabilities Services Account	*—*	*60*	*60*	*—*
Federal funds	*6,871*	*10,578*	*3,352*	*−68.3*
Reimbursements	*535,731*	*558,086*	*560,376*	*0.4*
Personnel-years				
Department support	392.3	420.4	404.3	−3.8%
Developmental centers	10,182.6	10,982.2	10,888.9	−0.8
Totals	10,574.9	11,402.6	11,293.2	−1.0%

[a] Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $24.1 million for support of the department in 1991-92. This is an increase of $317,000, or 1.3 percent, above estimated current-year expenditures.

Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $27.7 million, which is $6.9 million, or 20 percent, below estimated current-year expenditures.

Table 2 identifies the major changes in the department's support budget proposed for 1991-92.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 2
Department of Developmental Services
Department Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (Budget Act)	$23,903	$34,799
Adjustments, 1990-91:		
Retirement adjustment	−183	−199
Employee compensation increases	752	792
Unallocated reduction	−717	−717
1990-91 expenditures (revised)	$23,755	$34,675
Baseline adjustments, 1991-92:		
Full-year effect of 1990-91 employee compensation increases	$505	$543
Increase from Program Development Fund	—	14
Unallocated reduction	−488	−488
Reimbursement adjustment	—	−106
Program change proposals:		
Cost recovery system	300	300
Early intervention services	—	−7,241
1991-92 expenditures (proposed)	$24,072	$27,697
Change from 1990-91 (revised):		
Amount	$317	−$6,978
Percent	1.3%	−20.1%

Unallocated Expenditure Reductions May Total $1.7 Million

We recommend that the department provide the legislative fiscal committees, by April 1, with its expenditure plan for achieving specified unallocated reductions and unreimbursed cost increases for both the current and budget years.

The Governor's Budget includes an unallocated trigger-related General Fund reduction of $488,000 in funding for department support in 1991-92. This reduction is included in the proposed budget for the department in-lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Our analysis indicates that the unallocated reduction of $488,000 is misleading. In reality, the magnitude of the expenditure reductions required by the department is much greater. Specifically, the department will have to reduce General Fund expenditures during 1991-92 by as much as $1.7 million in order to accommodate the following:

- $1.2 million in unallocated reductions, including the $488,000 reflected in the budget. In the current year, the department used savings from implementing *Sherry S.* and related court decisions (discussed later) to backfill a portion of these reductions.
- $539,000 in unfunded rental and security costs. In the current year, the department also used the savings mentioned above to backfill a portion of these reductions.

Department's Expenditure Plan Uncertain. Because the department will not be able to use *Sherry S.* implementation savings to backfill its required reductions in 1991-92, the department will have to make

General Fund expenditure reductions of up to $1.7 million during 1991-92. However, at the time we prepared this analysis, the department was unable to tell us the total amount of expenditure reductions it will need to make during 1991-92 and the programs affected.

We recommend that the department provide the legislative fiscal committees, by April 1, its expenditure plan for achieving specified unallocated reductions and unreimbursed cost increases for both the current and budget years.

Sherry S. Implementation Savings in Both Current and Budget Years

We find that the department to date has spent only $290,000 of the $2.6 million provided for implementation of Sherry S. and related court decisions in the current year. We recommend that the Legislature (1) use any unexpended current-year balances for Sherry S. implementation to offset estimated current-year deficiencies, (2) delete $850,000 from the General Fund to reflect anticipated implementation costs (reduce Item 4300-001-001 by $515,000, Item 4300-003-001 by $25,000, and Item 4300-101-001 by $310,000), and (3) adopt specified Budget Bill language. We further recommend that the department provide revised expenditure estimates to the legislative fiscal committees by April 1.

The budget proposes 32.7 positions and $2.6 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 this same amount 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. Previous law had authorized the SDC placement of nonprotesting adults with developmental disabilities upon application by a regional center and with the request of a parent or conservator.

In the absence of a statutory commitment scheme, counties adopted a variety of commitment procedures to provide judicial reviews for this population. (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).

Recent Court Decisions. Two recent appellate court decisions — *North Bay Regional Center v. Sherry S.* and *In re Violet C.* — have held that (1) a regional center 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 child unless the parent is also the legal conservator.

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

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

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.

The Department Has Spent Only $290,000 of $2.6 Million to Implement Sherry S. and Related Cases. The department began implementing the *Hop* and *Sherry S.* court decisions during the spring of 1989. It received $1 million in 1989-90 and $2.6 million in 1990-91 for this purpose. The department indicates that as of the time of this analysis, it has spent only about $290,000 of the $2.6 million provided during the current year to implement the *Sherry S.* and related decisions. Specifically, the DDS has spent approximately (1) $190,000 of the $1.3 million appropriated for support, (2) $100,000 of the $962,000 appropriated to regional centers, and (3) none of the $350,000 appropriated to the SDCs.

The department cites several reasons for its reduced expenditures. Specifically, the department reports the following:

1. *Workload.* The regional centers have submitted fewer petitions for (a) conservatorships and (b) *Hop* hearings than anticipated.

- Conservatorships. The 1990-91 budget assumed that regional centers would request the department to (a) initiate conservatorship proceedings for 893 clients and (b) participate in the review of 666 conservatorships established in the prior year. The department has (a) received approximately 135 conservatorship petitions to date, or 15 percent of the amount expected, and (b) no requests to review an established conservatorship.
- *Hop* hearings. The 1990-91 budget assumed that regional centers would request the department to (a) initiate *Hop* hearings for 895 clients and (b) participate in the annual review of 222 *Hop* commitments established during the prior year. The department reports that the regional centers have initiated no *Hop* hearings to date.

  The department reports that it is currently working with regional centers to emphasize the importance of — and set priorities for —initiating conservatorship and *Hop* hearings.

2. *Client Attendance at Hearings.* The courts are requiring fewer clients to attend court hearings than was anticipated, thereby reducing staff and transportation costs. Specifically, the 1990-91 budget assumed that 75 percent of clients participating in a *Hop* or conservatorship hearing would attend the court proceedings. The department reports that court-appointed counsel have waived client appearance in virtually all cases.

3. *Location of Hearings.* The courts have agreed to hold more hearings at SDC sites than was anticipated, thereby reducing staff and transportation costs.

4. *Scheduling of Hearings.* The courts have scheduled and consolidated client *Hop* and conservatorship hearings in a more efficient manner than

was anticipated, such as multiple scheduling of clients in virtually all conservatorship hearings.

The Department Has Used Approximately $900,000 of the $2.6 Million to Backfill Unallocated Reductions. The department reports that it has used approximately $900,000 of the amount appropriated for *Sherry S.* to forestall current-year expenditure reductions due to (1) an unallocated General Fund reduction of $717,000 and (2) unreimbursed rent and security increases totaling $243,000. (These are the current-year portions of the total expenditure reductions we discuss earlier in this analysis).

Budget-Year Sherry S. Costs Overfunded. The budget proposal requests a total of $2.6 million to continue implementation of *Sherry S.* and related court decisions in 1991-92. Of this amount, the budget provides $1.3 million to department support, $962,000 to regional centers, and $349,000 to the SDCs. The department's proposal is predicated on the same inflated assumptions governing the current-year budget, which we outlined above.

Our analysis indicates that the department's request is overbudgeted by a total of $850,000 for implementing *Sherry S.* Specifically, we asked the department to revise its 1991-92 budget to reflect assumptions more in line with the current-year experience outlined earlier. The department reports that after adjusting for budget-year workload increases and cost-per-case savings, it would require approximately (1) $790,000 for department support, (2) $335,000 for the SDCs, and (3) $650,000 for the regional centers — thereby allowing for budget reductions of (1) $515,000 for department support, (2) $25,000 for the SDCs, and (3) $310,000 for the regional centers.

Findings and Recommendations. We make several findings and recommendations related to the department's current- and budget-year budgets for implementing *Sherry S.* and related court decisions.

Current-Year. We find that the department to date has spent only $290,000 of the $2.6 million provided for implementation of *Sherry S.* and related court decisions in the current year. We also find that the department estimates current-year deficiencies totaling $25.7 million. Because the state is obligated to pay these deficiencies, we recommend that the first priority for spending any remaining *Sherry S.* funds be to finance the department's deficiencies.

Budget Year. We recommend that the Legislature delete $850,000 from the General Fund proposed to implement *Sherry S.* and related court decisions in 1991-92 in order to more closely reflect anticipated implementation costs. To maintain legislative oversight, we further recommend that the Legislature adopt the following Budget Bill language in Items 4300-001-001, 4300-003-001, and 4300-101-001 requiring the department to spend funds appropriated for this purpose exclusively on implementing the court decisions:

> Of the amount appropriated in this item for implementation of the *Sherry S.* and related court decisions, these funds may only be used for this purpose.

Additional Information Required. We find that the Legislature will require a substantial amount of additional information from the depart-

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

ment in order for it to assess (1) how the department has spent, and plans to spend, funds provided for implementation of court hearings during the current year and (2) the reasonableness of its budget request for 1991-92. Accordingly, we recommend that the department provide the legislative fiscal committees, by April 1, revised (1) current-year expenditure estimates for the department, SDCs, and regional centers and (2) budget-year estimates that reflect updated current-year trends.

Legislature Faces Big Decision on Early Intervention Services Program

We find that the Legislature must determine this spring whether to establish — on an ongoing basis — the federal Early Intervention Services Program at an estimated annual General Fund cost ranging from at least $7.7 million to $83.6 million beginning in 1992-93. To assist the Legislature in its deliberations, we recommend that the department provide the legislative policy and fiscal committees, by April 1, (1) its recommendation on whether to apply for fourth-year early intervention services funds, (2) a revised budget reflecting its recommendation, and (3) a status report on federal changes to the program.

The budget proposes to spend $2 million in federal funds on the Early Intervention Services Program during 1991-92. This is a reduction of $7.2 million, or 77 percent, below estimated current-year expenditures. This reduction in federal funds assumes that the department will not apply for, or receive, a fourth-year federal grant during 1991-92. The department proposes to allocate the remaining funds as follows:

- $1.5 million to local planning agencies (LPAs) for planning, coordinating, and delivering services to handicapped infants and their families.
- $180,000 on contracts for (1) technical assistance to LPAs and (2) studies and pilot projects.
- $360,000 on state administration and support of the Interagency Coordinating Council.

Program Description. 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 planning and development of early intervention programs for approximately five years beginning with federal fiscal year (FFY) 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.

State Program Participation. The department has applied for and received first-, second-, and third-year grants. Before applying for third-year funds, the department secured written assurances from the federal government that (1) acceptance of third-year funds did not obligate the department to apply for funding in subsequent years and (2) a future decision not to continue participating in the federal program would not require California to return any program funds.

During its current-year budget deliberations, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* requiring the department to provide the Legislature, by February 1, 1991, information and analysis on alternatives to participation in the federal program that would improve the state's early intervention services system. The department reports that it will provide this information by February 15, 1991.

The Legislature's Impending Decision has Major Fiscal and Policy Consequences for 1992-93. The deadline for applying for fourth-year program funds of approximately $10.1 million is June 30, 1991. Thus, the Legislature faces a major decision this spring: whether to establish the Early Intervention Services Program on an ongoing basis.

The fiscal and policy consequences of the Legislature's decision are likely to be significant. Specifically, the department contracted with an outside consultant to prepare a cost estimate for establishing the program on an ongoing basis. The contractor projects annual costs — mostly General Fund — ranging from $7.7 million to $83.6 million, depending on (1) the definition of developmental delay the state adopts and (2) the extent of outreach provided to potentially eligible families.

Our analysis indicates that the costs associated with these decisions could be even higher than the estimates prepared by the contractor. This is because the contractor prepared a fiscal estimate for the services that infants — and not their families — are likely to require.

Federal regulations, however, require that families of infants meeting the state's definition of developmental delay are entitled to any service identified as needed in the program's Individual Family Service Plan (IFSP). Thus, to the extent the multidisciplinary team preparing the IFSP determines that an infant's parent needs substance abuse or mental health treatment, it appears that these services must be purchased. Purchasing services for family members could add millions of dollars to the cost of participation. The department is working with other states to seek federal action to reduce these non-infant-related service costs, as well as other changes.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Legislation Advised. The Legislature must make decisions on the Early Intervention Services Program this spring that have major policy and fiscal ramifications. The DDS information provided this February regarding alternatives for improving the state's early intervention services system should be useful to the Legislature in its deliberations.

However, the department also will have developed its recommendations on fourth-year funding prior to when the Legislature begins its budget deliberations. Accordingly, to further assist the Legislature, we recommend that the department provide the legislative policy and fiscal committees, by April 1, (1) its recommendation on whether or not to apply for fourth-year early intervention services funds, (2) a revised budget reflecting its recommendation, and (3) a status report on federal changes to the program.

To the extent the Legislature wants to establish this new entitlement program, we recommend that it (1) establish the program through legislation and (2) appropriate the fourth-year program funds in the bill.

2. REGIONAL CENTERS AND COMMUNITY PROGRAM DEVELOPMENT

The budget proposes expenditures of $613.8 million (all funds) for regional centers and community development programs in 1991-92. This is an increase of $26.2 million, or 4.5 percent, above estimated current-year expenditures.

Expenditures from the General Fund are proposed at $580.9 million, an increase of $26.5 million, or 4.8 percent, over estimated expenditures in the current year. The increase in expenditures is primarily due to the net effect of (1) increases of $45 million based on regional center caseload, utilization, and cost trends and $11.1 million proposed for implementation of a new rate methodology for day program providers and (2) decreases of $5.8 million to reflect the biennial development of client Individual Program Plans and an unallocated General Fund reduction of $24.2 million.

Total expenditures, including the expenditures of SSI/SSP payments to residential care providers, are proposed at $755.3 million, which is an increase of $29.7 million, or 4.1 percent, above estimated current-year expenditures. Expenditures from the Program Development Fund (PDF) are proposed at $4.8 million. This is $60,000, or 1.2 percent, less than estimated expenditures 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 1991-92.

Table 3

Department of Developmental Services
Regional Centers and Community Program Development
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

Expenditures	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Change From 1990-91 Amount*	*Change From 1990-91 Percent*
Regional centers					
Operations	$145,779	$156,050	$156,754	$704	0.5%
Purchase of service	377,242	429,219	478,973	49,754	11.6
Unallocated reduction	—	—	−24,208	−24,208	—[a]
Subtotals, regional centers	$523,021	$585,269	$611,519	$26,250	4.5%
Community program development					
Community placement	($3,887[b])	($6,196[b])	($6,041[b])	(−$155)	(−2.5%)
Program development	2,194	2,210	2,150	−60	−2.7
Cultural center	146	146	146	—	—
Subtotals, community program development	$2,340	$2,356	$2,296	−$60	−2.5%
Subtotals	$525,361	$587,625	$613,815	$26,190	4.5%
Supplemental Security Income/State Supplementary Program (SSI/SSP) reimbursements	$132,354	$137,996	$141,522	$3,526	2.6%
Totals	$657,715	$725,621	$755,337	$29,716	4.1%
Funding Sources					
General Fund					
Regional centers	*$491,645*	*$554,506*	*$580,989*	*$26,483*	*4.8%*
SSP[c]	*72,795*	*71,758*	*67,931*	*−3,827*	*−5.3*
Program Development Fund					
Parental fees	*3,554*	*3,175*	*3,415*	*240*	*7.6*
Federal reimbursements	*1,305*	*1,700*	*1,400*	*−300*	*−17.6*
Federal funds (SSI)[c]	*59,559*	*66,238*	*73,591*	*7,353*	*11.1*
Reimbursements	*28,857*	*28,244*	*28,011*	*−233*	*−0.8*

[a] Not a meaningful figure.
[b] These amounts are incorporated in the regional center purchase-of-service budget.
[c] Assumes funding split of 55 percent General Fund/45 percent federal funds in 1989-90, 52 percent to 48 percent in 1990-91, and 48 percent to 52 percent in 1991-92.

Table 4

Department of Developmental Services
Regional Centers and Community Development Programs
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Program Development Fund (PDF) Parental Fees*	*Program Development Fund (PDF) Federal Funds*	*Medi-Cal and Other Reimbursements*	*All Funds*
1990-91 expenditures (Budget Act)	$533,349	$2,975	$1,700	$28,101	$566,125
Adjustments, 1990-91:					
Reappropriation for intermediate care facilities for the developmentally disabled-nursing (ICF/DD-Ns)	—	200	—	—	200
Reappropriation for regional centers	3,047	—	—	—	3,047
Carry-over Ch 1396/89	2,131	—	—	—	2,131
Control Section 27 deficiency	16,122	—	—	—	16,122

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 4—Continued

Department of Developmental Services
Regional Centers and Community Development Programs
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	Program Development Fund (PDF) Parental Fees	Program Development Fund (PDF) Federal Funds	Medi-Cal and Other Reimbursements	All Funds
Home- and community-based waiver	—	—	—	1,368	1,368
Nursing home reform	—	—	—	−1,225	−1,225
Board of Control claim	−13	—	—	—	−13
Criminal justice claim	−28	—	—	—	−28
One-time savings	−102	—	—	—	−102
1990-91 expenditures (revised)	$554,506	$3,175	$1,700	$28,244	$587,625
Baseline adjustments, 1991-92:					
Back-out reappropriation	—	−200	—	—	−200
Compensatory education	—	—	—	−38	−38
Add back Board of Control claim	13	—	—	—	13
Add back criminal justice claim	28	—	—	—	28
Add back savings	102	—	—	—	102
Caseload, utilization, and cost changes:					
Purchase of service	37,541	—	—	—	37,541
Operations	7,736	—	—	−195	7,541
Decrease in allocation from state council	—	—	−300	—	−300
Increase in parental fees	—	440	—	—	440
Proposed program changes:					
Biennial development of IPPs	−5,799	—	—	—	−5,799
Day program rates	11,070	—	—	—	11,070
Unallocated reduction	*−24,208*	—	—	—	*−24,208*
1991-92 expenditures (proposed)	$580,989	$3,415	$1,400	$28,011	$613,815
Change from 1990-91 (revised):					
Amount	$26,483	$240	−$300	−$233	$26,190
Percent	4.8%	7.6%	−17.6%	−0.8%	4.5%

Regional Center Caseload

The department estimates that the midyear regional center caseload in 1991-92 will be 108,220 clients, an increase of 5,470 clients, or 5.3 percent, above the estimated current-year level. As Table 5 displays, the department estimates that the residential care caseload will increase by 486 clients, or 2.6 percent, above the estimated current-year level.

Table 5
Regional Centers' Midyear Caseload
1984-85 through 1991-92

	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	97,505	5.6	18,534	2.5
1990-91 (estimated)	102,750	5.4	19,048	2.8
1991-92 (proposed)	108,220	5.3	19,534	2.6

Implementation of $24.2 Million Unallocated Reduction in Question

We recommend that the Departments of Developmental Services and Finance report to the legislative fiscal committees, by April 1, 1991, on (1) the status of proposed legislation to waive the entitlement to regional center services to allow for an unallocated reduction of $24.2 million and (2) how regional centers plan to implement the reduction.

The Governor's Budget includes an unallocated trigger-related General Fund reduction of $24.2 million in funding for the regional centers in 1991-92. This reduction is included in the proposed budget for the regional centers in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The Department of Finance (DOF) indicates that it will seek legislation waiving the statutory entitlement to services to allow for the proposed unallocated reduction.

The Governor's Budget reflects regional center caseload and utilization increases totaling $45 million (General Fund) for 1991-92. Thus, implementation of the unallocated reduction would effectively fund 53 percent of the regional centers' caseload and utilization increases for 1991-92.

The DDS has not specified where or how the regional centers will limit client caseload or service utilization in order to limit their budget growth. The department expects regional centers to "reassess operations and purchase of services in order to effect the savings."

Current Law. Our analysis indicates that current law inhibits the regional centers from "reassessing" — or reducing — their purchase-of-service budgets in any meaningful way. Specifically, the California Supreme Court held in *Association for Retarded Citizens v. California* that regional center clients are entitled to receive those services listed in their Individual Program Plans. Regional centers must purchase the services to which clients are entitled until funds are depleted. Should appropriated funds be insufficient to cover purchase-of-service costs, the department must seek a deficiency appropriation from the Legislature. Finally, unless it changes the statutory entitlement to services, the Legislature must appropriate the funds required to fund the regional centers' purchase-of-service requests.

Recommendation. In view of the statutory requirements discussed above and the DOF's proposal to seek legislation to waive these requirements, we recommend that the DDS and DOF report to the legislative fiscal committees, by April 1, 1991, on the status of the proposed legislation. We further recommend that the departments also report at that time on how the regional centers plan to implement the proposed reduction.

Biennial Development of Individual Program Plans

We recommend that the department provide the legislative fiscal committees, by April 1, 1991, information on the extent to which developing biennial client Individual Program Plans (IPPs) will (1) interfere with a client's ability to receive appropriate services when

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

needed and (2) require prior federal approval and/or result in reduced federal reimbursements.

The budget proposes enactment of legislation to require regional centers to develop client Individual Program Plans (IPPS) when needed. Current law requires regional centers to develop client IPPs every year. Consistent with this legislative proposal, the budget reduces the regional center operations General Fund budget by $5.8 million to reflect the assumption that regional centers will develop client IPPs — on average — biennially.

In addition, the department's budget proposal assumes that (1) federal reimbursements for the Targeted Case Management, Home- and Community-Based Services, and Nursing Home Reform Programs and (2) clients' ability to receive needed services will not be affected.

We believe that the department's proposal warrants consideration. Specifically, because clients are entitled to all services listed in their IPPs, the Legislature has little ability to reduce regional center expenditures. Furthermore, the needs of many regional center clients do not undergo significant change every year. Accordingly, it may be of questionable value to require annual development of an IPP for every client without regard for individual need.

More Information Needed. However, our analysis indicates that the Legislature needs additional information in order to evaluate the merits of the budget proposal:

1. To what extent will biennial development of client IPPs interfere with a client's ability to receive appropriate services when needed? The department reports that clients will continue to receive the needed services to which they are entitled regardless of the amount of time elapsing between development of their IPPs. Specifically, the department indicates that its current regulations specify that clients whose service needs change between the time IPPs are developed are nevertheless entitled to receive additional or different services. Accordingly, the budget does not propose to reduce regional centers' purchase-of-service budgets. At the time we prepared this analysis, however, the department had not provided information on the specific regulations or statutes that might apply. Thus, we are unable to assess independently the extent to which existing service levels are likely to be maintained.

2. To what extent will biennial development of client IPPs (a) require prior federal approval and/or (b) result in reduced federal reimbursements? The department reports that its agreements with the federal government on the Targeted Case Management, Home- and Community-Based Services, and Nursing Home Reform Programs rely on regional centers conducting annual client reviews and/or developing annual IPPs as a way of ensuring that client services supported with federal funds are necessary and appropriate. To the extent that the requirement is altered, the department may need to seek prior federal approval through the Medi-Cal state plan or some other process.

Our analysis indicates that seeking federal approval may reduce the General Fund savings associated with this proposal for two reasons. First, seeking federal approval takes time and can delay implementation of the proposed change in the frequency of IPP development, thereby reducing the General Fund savings associated with this proposal for the budget year.

Second, to the extent federal funds share in the cost of preparing IPPs, preparing them less frequently will result in reduced federal reimbursements. For example, the department estimates that federal targeted case management reimbursements associated with IPP development will decrease by approximately $2 million, thereby lowering the net General Fund savings associated with the department's proposal from $5.8 million to approximately $3.8 million. To the extent the department's proposal results in the loss of additional federal reimbursements, actual General Fund savings will be further reduced.

In summary, we believe that the budget's proposal to move from annual to biennial development of client IPPs may have merit. However, the Legislature will require additional information on the proposal before it can fully assess the reasonableness of the proposed change. Accordingly, we recommend that the department provide the legislative fiscal committees, by April 1, with information on the extent to which biennial development of client IPPs will (1) interfere with a client's ability to receive appropriate services when needed and (2) require prior federal approval and/or result in reduced federal reimbursements.

Targeted Case Management Looks Like a Reality

We find that the department will most likely implement Medi-Cal targeted case management for regional center clients in late February 1991—culminating an effort of over four years to obtain $34 million annually in federal Medi-Cal reimbursements.

The budget assumed enactment of legislation—by February 1, 1991—requiring families to pay fees, according to a sliding scale, towards the regional centers' costs of case managing services provided to clients. Consistent with this assumption, the budget (1) reflects receipt of federal Medi-Cal reimbursements totaling $13 million in 1990–91 and $34 million in 1991–92 and (2) schedules these funds as a revenue. The department reports that for every month the required legislation is delayed, the state loses $2.6 million in federal reimbursements.

The department is proposing this legislation because the federal government agreed to reimburse regional centers for the cost of case managing Medi-Cal eligible clients if the state adopted a fee schedule applying to families with annual taxable incomes exceeding $50,000. If the federal government approves the fee schedule enacted by the Legislature, it will begin reimbursing regional centers, with 50 percent federal funds, for Medi-Cal targeted case management services provided currently at 100 percent General Fund cost.

Legislature Enacting Legislation Requiring Families to Pay Towards the Cost of Regional Center Case Management Services. At the time we prepared this analysis in mid-February, the Legislature was

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

expeditiously considering enactment of the department's legislative proposal (SB 92, Presley). In its current form the bill:

- Requires families with annual adjusted gross incomes exceeding $71,000 to pay fees, on a sliding scale, and adjusts the fee requirement for family size.This provision sunsets on July 1, 1995.
- Funds the anticipated current-year deficiency in the regional center budget.
- Appropriates funds to pay certain residential care providers a "red-circle" rate between January and June 1991. These rates are paid to residential care providers who would otherwise receive a rate reduction under the Alternative Residential Model, which was implemented on January 1, 1991.

Assuming that (1) the bill is enacted by late February and (2) the federal government approves the fee schedule enacted by the Legislature, our analysis indicates that the state will receive federal reimbursements approximating $11 million during 1990–91 and $34 million in 1991–92.

Community Program Development

The budget proposes expenditures of $8.3 million for community program development from various program funds. Table 6 displays the programs that would be funded with the $8.3 million.

Table 6
Department of Developmental Services
Community Program Development
1991-92
(in thousands)

		Program Development Fund		
Program	*General Fund*	*Parental Fees*	*Federal Reimbursements*	*All Funds*
State council projects	—	—	$1,400	$1,400
Department projects	—	$750	—	750
Place clients from developmental centers	$3,376 [a]	2,665 [a]	—	6,041 [a]
Cultural center	146	—	—	146
Totals	$3,522	$3,415	$1,400	$8,337

[a] These amounts are reflected in the regional center budget.

3. STATE DEVELOPMENTAL CENTERS

The budget proposes expenditures of $594.7 million (all funds) for programs to serve state developmental center (SDC) clients in 1991-92. This is an increase of $16.3 million, or 2.8 percent, above estimated current-year expenditures. The proposed General Fund appropriation for the SDCs is $60.5 million, which is $10.8 million, or 22 percent, above estimated current-year expenditures. The primary reason for this increase is the full-year effect of employee compensation increases granted in the current year.

The budget reflects an average population of 6,770 developmentally disabled clients in 1991-92 for the SDCs. This is an increase of two clients

over the average population estimated for the current year. The average cost per client in 1991-92 is $80,604, an increase of $2,342, or 3 percent, above the cost per client in the current year. The budget proposes 10,888.9 personnel-years for developmental services programs at the SDCs in the budget year. This is 93 personnel-years, or 0.8 percent, less 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 1991-92.

Table 7
Department of Developmental Services
Developmental Centers Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Expenditures	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Percent Change From 1989-90*
Developmental services programs	$496,420	$529,675	$545,690	3.0%
Mental health programs	44,206	48,692	48,993	0.6
Totals	$540,626	$578,367	$594,683	2.8%
Funding Sources				
General Fund	*$30,746*	*$49,686*	*$60,470*	*21.7%*
Special Account for Capital Outlay	*3,988*	—	*2,621*	—[a]
Federal funds	*979*	*1,109*	*1,109*	—
Lottery Education Fund	*390*	*599*	*599*	—
Mental health reimbursements	*44,206*	*48,692*	*48,692*	—
Medi-Cal reimbursements	*456,048*	*471,953*	*475,592*	*0.8*
Other reimbursements	*4,269*	*6,328*	*5,600*	*−11.5*
Developmental services programs	540,626	578,367	594,683	
Average developmentally disabled population	6,746	6,768	6,770	—[b]
Personnel-years	10,182.6	10,982.2	10,888.9	−0.8%
Cost per client (actual dollars)	$73,587	$78,262	$80,604	3.0

[a] Not a meaningful figure.
[b] Less than 0.1 percent.

Table 8
Department of Developmental Services
Programs for the Developmentally Disabled
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Medi-Cal Reimbursements*	*Other*	*All Funds*
1990-91 expenditures (Budget Act)	$32,546	$470,777	$56,124	$559,447
Baseline adjustments, 1990-91:				
Retirement adjustment	−5,266	—	−514	−5,780
Employee compensation	12,100	—	1,173	13,273
Medi-Cal reimbursement	—	10,823	—	10,823
Adult education costs	714	—	—	714
Federal research grant	—	—	253	253
Lottery education funds	—	—	−308	−308

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 8—Continued

Department of Developmental Services
Programs for the Developmentally Disabled
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Medi-Cal Reimbursements*	*Other*	*All Funds*
Board of Control one-time claim	−55	—	—	−55
Shortfall in Medi-Cal reimbursements	9,647	−9,647	—	—
1990-91 expenditures (revised)	$49,686	$471,953	$56,728	$578,367
Baseline adjustments, 1991-92:				
Full-year effect of 1990-91 employee compensation increases	9,916	—	970	10,886
Career Opportunity Development Program adjustment	—	—	−1,029	−1,029
Full-year effect of coverage factor	733	—	—	733
Back-out transfer to the Department of Mental Health	—	—	−669	−669
Add back Board of Control claims	55	—	—	55
Caseload and cost adjustments:				
Developmentally disabled population	−1,914	3,639	—	1,725
Program change proposals:				
Special repairs	—	—	2,621	2,621
Client education	1,994	—	—	1,994
1991-92 expenditures (proposed)	$60,470	$475,592	$58,621	$594,683
Change from 1990-91 (revised):				
Amount	$10,784	$3,639	$1,893	$16,316
Percent	21.7%	0.8%	3.3%	2.8%

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 a decrease of $1.9 million (General Fund) due to anticipated changes in SDC client characteristics based on a population of 6,768 at the end of the current year. The budget proposal estimates a net SDC population increase of 2 clients resulting from (1) a reduction of 49 clients and (2) an increase of 51 new clients. The budget requests 84 positions at a total cost of $1.7 million to care for the projected 51 new clients. This cost is relatively high because the new clients have more intense care needs than the 49 clients who are expected to leave during the current year. 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 that 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, we believe that the long-term care COLAs will be required due to 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 $4.1 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 into 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.

Certification and Accreditation

We recommend that the department provide the legislative fiscal committees, by April 15, with (1) the updated federal certification status of Stockton and Sonoma SDCs; (2) its recommendation on, and alternatives to, continuing accreditation of the SDCs; and (3) its assessment of how changing the SDCs' accreditation policy may affect their continued federal certification.

The budget proposal for the SDCs assumes Medi-Cal reimbursements totaling $475.6 million. To the extent the SDCs receive less in Medi-Cal reimbursements than the amount budgeted, they will require a commensurate increase in General Fund support.

Background. Currently, the SDCs undergo two different processes of review designed to assess the extent to which high-quality services are provided SDC clients.

Certification. Certification is the process through which the federal government acknowledges that a health facility is in substantial compliance with federal conditions for payment of Medicaid and Medicare. Until October 1990, the Department of Health Services (DHS) (1) conducted annual certification surveys of the SDCs and (2) determined their certification status. The federal government periodically conducted "look behind" surveys to ensure that the DHS surveys were in substantial compliance with federal requirements.

Since October, however, the authority for granting certification for skilled nursing facility (SNF) services has rested with the federal government. This change was made because the federal government was concerned about the potential conflict of interest in having one state agency responsible for determining the certification status of institutions operated by other state agencies. Losing certification for SNFs would jeopardize $62.9 million in federal Medi-Cal SNF reimbursements received annually.

Accreditation. Accreditation is a formal voluntary process of external and independent review that an agency *may* choose to undergo in order to obtain an assessment of the quality of services it provides. The department has chosen to pursue accreditation by the Accreditation Council on Services for Persons with Developmental Disabilities (ACDD) since 1978. While accreditation is essentially a matter of professional prestige, the federal government tends to base its federal certification standards on the accreditation standards used by the ACDD.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Status of SDC Certification and Accreditation May Change. Our analysis indicates that the SDCs' certification and accreditation may change during the current and budget years for two reasons.

1. Certification. The DDS indicates that many of the new federal requirements have not yet been published, and thus the SDCs do not know the extent to which they are in compliance. In addition, the DHS has been able to provide the SDCs little training or assistance in meeting new federal requirements due to major uncertainties regarding the nursing home provisions of the Omnibus Budget Reconciliation Act of 1987 (OBRA 87). (Please see our analysis of the DHS compliance with OBRA 87 in Item 4260).

The department reports that it is possible that the federal government will require a greater degree of compliance with its certification standards than (a) the DHS has required in the past and (b) the SDCs are able to meet. The federal government is scheduled to review Sonoma and Stockton SDCs for compliance with federal certification reviews for SNF services prior to the Legislature's budget deliberations this spring.

2. Accreditation. The SDCs have found it increasingly difficult to achieve and maintain their ACDD accreditation. Two centers (Fairview and Sonoma), which were accredited in January 1990, were *not* fully accredited at the time of the preparation of this analysis. (One center, Porterville, was not accredited in January 1990 and since that time has achieved accreditation.) The department reports that while achieving accreditation offers the SDCs prestige, it also (a) consumes a substantial amount of SDC staff, training, and financial resources and (b) lowers employee morale when passing scores are low. As a result, the department is currently evaluating whether ACDD accreditation is the best way of ensuring the delivery of quality services throughout the SDC system.

As part of this effort, the department is convening a task force of parents, advocates, SDC and department professionals, and other persons with expertise. This task force will assess the extent to which using (a) federal certification standards, (b) accreditation programs of agencies other than the ACDD, and/or (c) a department quality assurance program will best measure the quality of services provided by the SDCs. The task force will provide the department with its recommendations by April 1.

Legislature Needs Status Report. Losing certification threatens the receipt of millions of dollars in federal Medi-Cal reimbursements. Furthermore, while accreditation is primarily a matter of professional prestige, the federal government tends to use ACDD standards as the basis for its certification standards. As a result, changing the current accreditation policy might also change the SDCs' ability to continue meeting federal certification standards.

Accordingly, we recommend that the department provide the legislative fiscal committees, by April 15, with (1) the updated certification status of Stockton and Sonoma SDCs; (2) its recommendation on, and

alternatives to, continuing accreditation of the state developmental centers; and (3) its assessment of how changing the SDCs' accreditation policy may affect the continued certification of the SDCs.

Adult Education Services for State Developmental Center Clients

We recommend that the Legislature delete $714,000 from the SDC budget for educational services, to correct for double-budgeting. (Delete $714,000 from Item 4300-004-001.)

The budget proposes to spend $714,000 within the SDC budget on meeting the adult education needs of clients of Camarillo SDC who were previously served by Ventura Community College District. In addition, the Budget Bill proposes language in the community college budget item requiring the community colleges to set aside $3.7 million for expenditure on educational services for SDC and state hospital clients.

Background. Since the late 1970s, the community colleges have typically provided adult education services to SDC clients. Specifically, Ch 275/76 (AB 77, Lanterman) established what is now known as the Disabled Students Program and Services within the community colleges in order to provide adult educational services to persons with disabilities.

A subsequent statute, Ch 565/83 (SB 851, Alquist), required the Chancellor of the Community Colleges to (1) determine the level of service provided by community college districts to state hospital and developmental center clients in 1982-83, (2) transfer this amount — as adjusted for inflation — into a separate community college budget subitem for state hospital clients, (3) reduce by a commensurate amount the apportionment funds allocated to the affected community college districts, and (4) support the indirect services required by state hospital and developmental center clients from the community colleges' overall appropriation. This measure also prohibits community colleges from reducing services to persons with disabilities below the level of service provided in 1982-83.

Current Year. The 1990 Budget Act appropriated $2.8 million from the General Fund to community colleges for adult education services for state hospital and SDC clients. This appropriation includes support for adult education services to clients at Camarillo SDC, presumably through the Ventura Community College District. However, the district decided not to provide classes at Camarillo SDC in 1990-91. The Chancellor of the Community Colleges instead redirected the funds provided for this purpose into its overall disabled students program.

The DDS is required by federal law to ensure that educational services are provided to SDC clients. Accordingly, the Director of the Department of Finance (DOF) submitted a letter on January 14, 1991 pursuant to Section 27 of the Budget Act notifying the Legislature of the department's intent to incur a deficiency of $714,000 in Proposition 98 funds in order to purchase required educational services for clients of Camarillo SDC.

Budget Proposal. As mentioned earlier, the Budget Bill contains language in the community college budget item (Provision 6(e) of

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Item 6870-101-001) requiring the community colleges to set aside $3.7 million to spend on educational services for SDC and state hospital clients. This language also provides that, if the community colleges do not provide such services, the associated funds shall, upon order of the DOF and with 30-day notice to the Joint Legislative Budget Committee, be transferred to the DDS.

The budget also includes $714,000 in the SDC budget for meeting the adult education needs of the Camarillo SDC clients who were previously served by the Ventura Community College District.

Recommendation. Our analysis indicates that the $714,000 in the SDC budget is not needed for two reasons: (1) the funds have already been set aside (as part of the $3.7 million) in the community college budget and (2) to the extent the community colleges choose not to serve Camarillo SDC clients, the language in the community college item provides that the associated funds — in this case $714,000 — shall be transferred by the DOF to the DDS budget. Thus, we recommend that the Legislature delete $714,000 from the SDC budget, to correct for double-budgeting. (We recommend in our analysis of the community college budget — Item 6870-001-001 — approval of the Budget Bill language setting aside $3.7 million for educational services because the language is consistent with — and enforces — existing law.)

Capital Outlay

The Governor's Budget proposes an appropriation of $19,419,000 in Item 4300-301-036 for capital outlay expenditure in the DDS. 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 122

Requested 1991-92	$797,315,000
Estimated 1990-91	1,210,048,000
Actual 1989-90	1,222,753,000
Requested decrease $412,733,000 (−34 percent)	
Total recommended reduction	17,727,000
Recommendation pending	2,669,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4440-001-001—Department support	General	$29,292,000
4440-001-845—Department support	Primary Prevention	214,000
4440-001-890—Department support	Federal	2,147,000
4440-011-001—State hospitals	General	388,103,000
4440-011-036—Special repairs	Special Account for Capital Outlay	4,692,000
4440-016-001—Conditional release	General	15,869,000
4440-101-001—Local assistance	General	17,435,000
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	21,332,000
4440-111-001—Brain-damaged adults	General	5,047,000
4440-131-001—Special education	General	14,511,000
4440-141-001—Institutions for mental diseases	General	80,390,000
4440-490—Reappropriation from Ch 982/88	—	48,000
Ch 1271/87	General	45,000
Pending legislation to allocate Proposition 99 funds	—	40,000,000
Reimbursements from Short-Doyle audit exceptions	—	1,864,000
Reimbursements	—	174,088,000
Total		$797,315,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Unallocated Reduction. Recommend that the department provide the legislative fiscal committees, by April 1, with its expenditure plan for achieving specified unallocated reductions and unreimbursed cost increases for the budget year. — 677
2. ***Conditional Release Program. Reduce Item 4440-016-001 by $441,000.*** Recommend that the Legislature delete $441,000 (General Fund) from the budget for conditional release services to more accurately reflect projected caseload. — 679
3. Conditional Release Program. Recommend that Budget Bill language authorizing the transfer of funds between the (a) support item for conditional release services and the state hospitals and (b) two local assistance items be deleted because the language unnecessarily reduces the Legislature's oversight ability. (Delete provision 1 of Item 4440-001-001, provision 3 of Item 4440-011-001, and provision 2 of Item 4440-016-001.) — 680
4. Conditional Release Program. Recommend that the Legislature adopt Budget Bill language in Item 4440-016-001 requiring the department to contract with providers of conditional release services only on the basis of actual caseloads and per-client costs, to avoid potentially high future costs. We find that such language would have saved $600,000 (General Fund) in the current year. — 681

DEPARTMENT OF MENTAL HEALTH—Continued

DEPARTMENT OF MENTAL HEALTH—Continued

19. Federal Nursing Home Reform. Recommend that the department report to the Legislature prior to budget hearings on the steps it will initiate in 1991-92 to comply with the nursing home reform provisions of the federal Omnibus Budget Reconciliation Act of 1987. 721

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 the acute psychiatric units at the California Medical Facility at Vacaville, 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 7,496.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $797.3 million (all funds) for support of the DMH's activities in 1991-92. This is a decrease of $412.7 million, or 34 percent, below estimated current-year expenditures. Proposed General Fund expenditures for support of the department and its programs are $550.7 million, which is $414.6 million, or 43 percent, below estimated General Fund expenditures in the current year.

The Governor's Budget includes an unallocated trigger-related General Fund reduction of $15 million in funding for the department's programs for 1991-92. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The budget assumes that the unallocated reduction will be implemented as follows:

- $298,000 from the support budget item.
- $9.8 million from the state hospitals budget item.
- $726,000 from the local assistance budget item.
- $210,000 from the budget item for services to brain-damaged adults.
- $3.3 million from the institutions for mental diseases budget item.
- $605,000 from the special education pupils item.

Accordingly, in the descriptions and tables provided throughout our analysis of the DMH, we reflect this proposed implementation plan.

MAJOR ISSUES

- ☑ The budget proposes to transfer virtually all local mental health programs to counties, resulting in a General Fund reduction of $432 million. The proposal would exacerbate problems we have identified in the current system and would effectively encourage placements in the most costly and restrictive treatment settings.

- ☑ Serious questions have been raised regarding management practices at Napa and the department's procedures for budgeting and oversight of the entire state hospital system.

- ☑ Delivery of treatment to patients at the five state hospitals varies widely relative to the department's treatment standards. The five state hospitals delivered an average of just 62 percent of the department's treatment standard.

- ☑ The department has entered into a costly consent decree with the U.S. Department of Justice that severely constrains legislative flexibility.

- ☑ Changes in the department's management practices for institutions for mental diseases (IMDs) and the Conditional Release Program would potentially result in major General Fund savings.

- ☑ Allocation of IMD beds to counties and a required county match would conform the program to other state-funded mental health services and would result in a General Fund savings of $11.9 million in the budget year.

DEPARTMENT OF MENTAL HEALTH—Continued

The major changes proposed in the budget are (1) a decrease of $431.7 million (General Fund) to shift responsibility for most Short-Doyle mental health services to counties, (2) a net decrease of $2.7 million (General Fund) for staffing reductions associated with changes in the state hospital patient population, (3) an increase of $7 million (General Fund) for additional staff to implement a consent decree entered into by the DMH and the United States Department of Justice under the Civil Rights of Institutionalized Persons Act (CRIPA), (4) an increase of $4.7 million (Special Account for Capital Outlay) to reroof Atascadero State Hospital, (5) an increase of $8 million (all funds) to increase the number of beds funded through the Institutions for Mental Diseases Program.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

Table 1
Department of Mental Health
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Expenditures	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Change From 1990-91 Amount*	*Change From 1990-91 Percent*
Department support [a]	$53,264	$53,447	$56,163	$2,716	5.1%
State hospitals	383,259	422,521	434,671	12,150	2.9
Local programs	688,466	627,488	193,330	−434,158	−69.2
Special education pupils	15,116	15,791	14,511	−1,280	−8.1
Brain-damaged adults	5,373	5,257	5,047	−210	−4.0
Institutions for mental diseases	76,775	85,044	93,093	8,049	9.5
Traumatic brain injury projects	500	500	500	—	—
Totals	$1,222,753	$1,210,048	$797,315	−$412,733	−34.1%
Funding Sources					
General Fund	*$974,527*	*$965,304*	*$550,740*	*−$414,564*	*−42.9%*
Federal funds	*24,404*	*24,850*	*23,479*	*−1,371*	*−5.5*
Cigarette and Tobacco Products Surtax Fund [b]	*35,000*	*30,000*	*40,000*	*10,000*	*33.3*
State Legalization Impact Assistance Grant Fund	*9,803*	*8,981*	—	*−8,981*	*−100.0*
Primary Prevention Fund	*−234*	*333*	*226*	*−107*	*−32.1*
Asset Forfeiture Distribution Fund	*1,571*	*1,642*	*1,726*	*84*	*5.1*
Special Account for Capital Outlay	*1,688*	—	*4,692*	*4,692*	*100.0*
Reimbursements	*175,415*	*178,438*	*174,088*	*−4,350*	*−2.4*
Traumatic Brain Injury Fund	*500*	*500*	*500*	—	—
Natural disaster reimbursements — Loma Prieta	*79*	—	—	—	—
Amount funded from Short-Doyle audit exceptions	—	—	*1,864*	*1,864*	— [c]
Personnel-years					
Department support	385.2	415.3	428.6	13.3	3.2%
State hospitals	6,479.3	7,081.5	7,125.6	44.1	0.6
Totals	6,864.5	7,496.8	7,554.2	57.4	0.8%

[a] Includes Conditional Release Program.

[b] For 1989-90 and 1990-91, all expenditures are from the Unallocated Account. For 1991-92, the budget proposes expenditures of $36 million from the Unallocated Account and $4 million from the Physician Services Account.

[c] Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

Unallocated Reductions in Service Expenditures May Total $20.9 Million

We recommend that the department provide the legislative fiscal committees, by April 1, with its expenditure plan for achieving specified unallocated reductions and unreimbursed cost increases for the budget year.

The Governor's Budget includes an unallocated trigger-related reduction of $15 million in funding for the department's programs for 1991-92. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Our analysis indicates that the unallocated reduction of $15 million may be misleading. Based on information we requested from the department, the magnitude of expenditure reductions for services that will be required in the budget year appears to be much greater. Specifically, the department indicates it will have to reduce services during 1991-92 in order to accommodate $20.9 million for various unfunded costs, including the unallocated reduction, as follows:

- $2.1 million in merit salary adjustments not included in the department's budget. Of this amount, $1.9 million must be absorbed in the budget for state hospitals and $194,000 must be absorbed in the budget for departmental support.
- $2.7 million for General Fund price increases not included in the department's budget. Of this amount, $2.1 million must be absorbed in the budget for state hospitals and $572,000 in the budget for departmental support.
- $249,000 for rent increases in state-leased office space.
- Approximately $900,000 in anticipated state hospital worker's compensation costs in excess of the amount funded in the budget.
- $15 million in an unallocated reduction proposed for 1991-92.

Department's Expenditure Plan Uncertain. According to information provided by the department, approximately $16.5 million of the $20.9 million in anticipated reductions affect the state hospitals. The department has indicated that it will likely absorb the proposed reduction and unreimbursed cost increases by reducing the number of state hospital beds available to county clients, rather than by "holding open" patient-care positions.

However, at the time this analysis was prepared, the department was unable to evaluate the number and type of beds that will need to be reduced in order to accomplish this, nor has it indicated how the bed reductions would be allocated among counties.

We believe that without the department's plan for implementing the trigger-related reduction and for absorbing the other unreimbursed cost increases cited above, the Legislature cannot assess the reasonableness of the department's budget and its expenditure priorities. Accordingly, we recommend that the department provide the legislative fiscal commit-

DEPARTMENT OF MENTAL HEALTH—Continued

tees, by March 15, its expenditure plan for achieving specified unallocated reductions and unreimbursed cost increases for the budget year.

1. DEPARTMENT SUPPORT

The budget proposes expenditures of $56.2 million for support of the DMH in 1991-92. This amount consists of $35.3 million for department administration, $15.9 million for the Conditional Release Program, and $5 million for the Preadmission Screening and Annual Resident Review Program for nursing facility residents. As discussed earlier, these amounts reflect the department's plan to absorb in the support item $298,000 of the $15 million unallocated reduction the budget proposes for the department. Overall, the budget provides for an increase of $2.7 million, or 5 percent, above estimated current-year expenditures. Table 2 shows the department's expenditures and funding sources for the past, current, and budget years.

Table 2
Department of Mental Health Support
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

	Actual	Est.	Prop.	Change From 1990-91	
Expenditures	*1989-90*	*1990-91*	*1991-92*	*Amount*	*Percent*
Department administration [a]	$38,516	$39,441	$40,294	$853	2.2%
Conditional release	14,748	14,006	15,869	1,863	13.3
Totals	$53,264	$53,447	$56,163	$2,716	5.1%
Funding Sources					
General Fund	*$42,648*	*$43,759*	*$45,254*	*$1,495*	*3.4%*
Federal funds	*1,778*	*2,387*	*2,147*	*−240*	*−10.1*
Primary Prevention Fund	*76*	*237*	*214*	*−23*	*−9.7*
State Legalization Impact Assistance Grant Fund	*303*	*248*	*—*	*−248*	*−100.0*
Reimbursements	*8,380*	*6,816*	*7,809*	*993*	*14.6*
Natural disaster reimbursements — Loma Prieta	*79*	*—*	*—*	*—*	*—*
Amount funded from Short-Doyle audit exceptions	*—*	*—*	*739*	*739*	*100.0*

[a] Includes the Preadmission Screening and Annual Resident Review Program.

Budget Changes. Table 3 shows the changes in the department's support budget proposed for 1991-92. The major change is an increase of $1.9 million from the General Fund to reflect revised expenditure estimates for the Conditional Release Program.

Table 3
Department of Mental Health Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (Budget Act)	$41,944	$50,602
Adjustments, 1990-91:		
Community treatment facilities, Ch 1271/87	45	45
Services to families, Ch 1225/89, carry-over	145	145
State hospital staffing study reappropriation	300	300
Evaluation of adult system-of-care pilot projects, Ch 982/88 reappropriation	399	399
Conditional Release Program reappropriation	1,500	1,500
PERS rate reduction	−245	−303
Unallocated reduction per Section 3.80, 1990 Budget Act	−883	−883
Employee compensation adjustments	544	664
Implement Civil Rights of Institutionalized Persons Act (CRIPA) consent decree (deficiency)	10	10
Various federal grants	—	250
Robert Wood Johnson grant	—	743
Handicapped infant program grant	—	76
Reduction in federal SLIAG funds	—	−101
1990-91 expenditures (revised)	$43,759	$53,447
Baseline adjustments, 1991-92:		
Full-year cost of employee compensation adjustments	426	525
Reduce Ch 1225/89 carry-over	−145	−145
Reduce one-time only reappropriations	−1,899	−1,899
Restore Conditional Release Program funding	1,500	1,500
Reduce CRIPA deficiency	−10	−10
SWCAP and pro rata adjustments	—	22
Reduce various federal grants	—	−307
Additional Robert Wood Johnson grant	—	2
Reduce all federal SLIAG funds	—	−253
Reappropriate Ch 982/88	48	48
Miscellaneous adjustments	—	−56
Program change proposals:		
MDO population increase for Conditional Release Program	1,863	1,863
Convert contract funds to key data operator positions	—	—
Implement CRIPA consent decree	10	10
Short-Doyle/Medi-Cal administrative improvements	—	1,714
Unallocated reduction	*−298*	*−298*
1991-92 expenditures (proposed)	$45,254	$56,163
Change from 1990-91 (revised):		
Amount	$1,495	$2,716
Percent	3.4%	5.1%

CONREP: Caseload Projections Too High

We recommend that the Legislature delete $441,000 (General Fund) from the budget for conditional release services to more accurately reflect projected caseload. (Reduce Item 4440-016-001 by $441,000.)

The budget proposes an increase of $1.9 million (General Fund) to fund a projected increase in the mentally disordered offender (MDO) caseload for the Conditional Release Program (CONREP). The CONREP provides community-based mental health treatment to MDOs and judicially committed patients who are referred and accepted into the program following their stays in the state hospital system. Historically,

DEPARTMENT OF MENTAL HEALTH—Continued

CONREP expenditures have been determined on a caseload basis. The budget for the current year assumes an average caseload of roughly 630 judicially committed patients. The budget also assumes a zero caseload for MDOs in the current year, although the department reports that it anticipates 53 patients by the end of the year.

The department reports that, due to the increasing number of MDOs in the state hospitals, the number of MDO patients entering CONREP is expected to increase to 138 patients by the end of 1991-92. The department's projection is based on the number of MDO patients who are currently in the state hospitals, because this population serves as the "pool" from which CONREP patients are transferred.

Our review indicates that the department's projections are too high, primarily because the actual number of MDO patients currently in the state hospitals is not as high as the number used to project caseload for the CONREP. Using the department's assumptions regarding the rate at which patients will be transferred from the state hospitals into the CONREP, we estimate that the number of patients in the CONREP will reach 41 by the end of the current year (rather than 53), and will increase to 77 (rather than 138) patients during 1991-92. Accordingly, we recommend that the Legislature reduce the amount budgeted for conditional release services by $441,000.

CONREP: Transfer Language No Longer Necessary

We recommend that Budget Bill language authorizing the transfer of funds between the (1) support item for conditional release services and the state hospitals and (2) two local assistance items be deleted because the language unnecessarily reduces the Legislature's oversight ability. (Delete provision 1 of Item 4440-001-001, provision 3 of Item 4440-011-001, and provision 2 of Item 4440-016-001.)

The Budget Bill includes language identical to that in previous Budget Acts authorizing the transfer of funds between the support items (for the CONREP and the state hospitals) and two local assistance items. The Legislature originally enacted this language at the department's request to provide for funding flexibility in addition to that provided under the Control Section 28 legislative review process. This was because the CONREP was a new program and the department had little basis on which to estimate caseload.

We find that the program has now been in place for a sufficient length of time to allow for accurate caseload estimates. Thus, the Section 28 process, which allows for the transfer of funds between items following a 30-day legislative review period, should provide adequate funding flexibility to the department.

Our review also indicates that the CONREP has been overbudgeted historically. Because the amounts budgeted in previous years have exceeded the amount needed for caseload in the program, the department has in the past been able to transfer funds — without the Legislature's review — from the CONREP to use for other departmental priorities.

Accordingly, we find that the language is no longer needed and unnecessarily restricts the Legislature's oversight capability. Therefore, we recommend that the Budget Bill language authorizing transfer between the conditional release item and the state hospital and support items be deleted, and that conforming actions be taken in the related items.

CONREP: Tighter Contracting Procedures Could Reduce Treatment Costs

We recommend that the Legislature adopt Budget Bill language in Item 4440-016-001 requiring the department to contract with providers of conditional release services only on the basis of actual caseloads and per-client costs, to avoid potentially high future costs. We find that such language would have saved $600,000 (General Fund) in the current year.

The DMH provides CONREP treatment services through "negotiated net amount" contracts with counties and private providers. "Negotiated net amount" contracts total $11.7 million in the current year. An additional $300,000 is set aside for unexpected caseload increases for these services. The department enters into contracts for a fixed number of patients, based on anticipated caseload. If the number of patients exceeds the number in the contract, the contractor may be reimbursed for additional costs from the department's set-aside funds. However, if the number of patients falls below the contracted amount, the provider still is paid the full amount.

Our review indicates that, if the department had contracted on the basis of per-client costs and actual caseloads in the current year (rather than using the negotiated net amount process), it could have saved $600,000 (General Fund) or 5 percent of the CONREP budget for treatment services.

Department Rationale Not Convincing. The department advances several reasons for preferring negotiated net amount contracts over contracts based on per-client costs and actual caseloads. Our review indicates that the department's rationale does not provide a convincing justification for the high treatment costs that have resulted from the department's approach. Specifically:

- *Providers Want Guarantees.* The department indicates that it needs to guarantee providers a fixed amount at the beginning of each year because providers must hire a certain amount of staff in order to administer the program, regardless of the number of actual patients that will receive services. The department believes it would have difficulty attracting providers were it no longer able to do this.
  Comment. Our review indicates that the department has been able to sign contracts for as few as two patients, which suggests that staffing arrangements can be made for very small numbers of patients. In addition, caseload has remained very stable for every contract signed in the current year. Rarely has the number of patients changed by more than one or two patients over a six-month period.

DEPARTMENT OF MENTAL HEALTH—Continued

- *Department Has Tightened Contracts.* The department also notes that it has reduced contract caseloads based on prior-year experiences. Specifically, the department reports that it has reduced the difference between the budgeted amount for treatment costs and expenditures based on caseload.
  Comment. The department's approach means that corrections occur (1) only after-the-fact, resulting in a one-year delay before General Fund savings materialize, (2) presumably only in cases where there are relatively large discrepancies, and (3) at the discretion of the department.
- *It's Only 5 Percent.* Finally, the department states that the difference in the current year between actual and contracted caseloads for each provider is relatively small, and that the resulting additional expenditures total only a small portion (roughly 5 percent) of the program's budget for treatment services.
  Comment. The program's caseload is projected to grow by 14 percent in 1991-92, and is expected to continue growing in later years. Thus the $600,000 savings between negotiated net amount contracting and the alternative we recommend will most likely grow significantly in the future.

Recommendation. Because the department's rationale for continuing to pay CONREP providers in excess of actual caseloads in our view is not justified, and because costs that result from this practice are likely to grow in future years, we recommend that the Legislature adopt Budget Bill language in Item 4440-016-001 requiring the use of contracts based on per-client costs and actual caseloads. Our review indicates that this language should ultimately reduce treatment costs for conditional release services. The following language is consistent with this recommendation:

> The department shall enter into contracts for conditional release treatment services only on the basis of actual caseloads and per-client costs.

Budget Overstates Amount Needed to Screen Nursing Facility Residents

We recommend a reduction of $1.2 million budgeted for preadmission screening and annual resident reviews (PASARR) because the number of patients who will require screening is likely to be significantly lower than the budget assumes. (Reduce Item 4440-001-001 by $300,000 and reimbursements by $900,000.)

The department's budget includes a total of $5 million to complete federally required screening of persons in nursing facilities. This amount consists of $1.2 million from the General Fund and $3.7 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 continue 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 the 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 to the DMH for mental health screening.

Our review indicates that the amount budgeted for screening should be reduced because the referral percentage has been substantially lower in the current year than anticipated, and the budget has not been revised to account for this lower referral rate. Based on the referral rate in the current year, the department estimates that it will need to complete approximately half the number of screens assumed in the budget.

Budget-Year Amount Should be Reduced by $1.2 Million. Because the number of screens required in 1991-92 will be lower than anticipated, we recommend that the amount budgeted for the PASARR Program be reduced by $1.2 million. The reduction would consist of $300,000 from the General Fund and $900,000 in federal reimbursements.

2. STATE HOSPITAL PROGRAMS

The budget proposes expenditures of $434.7 million from all funds in 1991-92 for clients in state hospitals for the mentally disabled. This is an increase of $12.2 million, or 2.9 percent, above estimated current-year expenditures. The budget proposes an appropriation of $388.1 million from the General Fund for these programs, which is an increase of $12.3 million, or 3.3 percent, above estimated current-year expenditures. As discussed earlier, this amount reflects the department's plan to absorb in the state hospital item $9.8 million of the $15 million unallocated reduction the budget proposes for the department. Table 4 shows the components of the state hospital budget in the past, current, and budget years.

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.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 4

Department of Mental Health
State Hospitals
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Actual	*Est.*	*Prop.*	*Change From 1990-91*	
Expenditures	*1989-90*	*1990-91*	*1991-92*	*Amount*	*Percent*
County clients	$213,074	$233,963	$245,602 [a]	$11,639	5.0%
Judicially committed clients	127,873	141,821	147,193	5,372	3.8
Other clients [b]	42,312	46,737	41,876	−4,861	−10.4
Totals	$383,259	$422,521	$434,671	$12,150	2.9%
Funding Sources					
General Fund	*$388,054*	*$375,784*	*$388,103*	*$12,319*	*3.3%*
Reimbursements	*43,517*	*46,737*	*41,876*	*−4,861*	*−10.4*
Special Account for Capital Outlay	*1,688*	—	*4,692*	*4,692*	— [c]
Average population					
County clients	2,494	2,516	2,557	41	1.6%
Judicially committed clients	1,546	1,663	1,762	99	6.0
Other clients [b]	625	654	622	−32	−4.9
Totals	4,665	4,833	4,941	108	2.2%
Authorized positions					
Department of Mental Health	6,479	7,635	7,676	41	0.5%
Department of Developmental Services	714	796	796	—	—
Totals	7,193	8,431	8,472	41	0.5%
Cost per client (actual dollars)					
County clients	$85,435	$92,990	$96,051	$3,061	3.3%
Judicially committed clients	82,712	85,280	83,357	−1,923	−2.3
Other clients [b]	67,699	71,463	67,325	−4,138	−5.8
Totals	$82,156	$87,424	$87,972	$548	0.6%

[a] Based on DMH proposal to achieve the unallocated reduction by reducing the number of beds for county clients.
[b] Includes clients from the Department of Corrections, the Department of Developmental Services, and the Department of the Youth Authority.
[c] Not a meaningful figure.

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 1991-92 include (1) increases totaling $7 million (General Fund) for additional patient care staff to implement a consent decree entered into by the department with the U.S. Department of Justice, (2) an increase of $4.7 million (Special Account for Capital Outlay) to reroof Atascadero State Hospital, (3) an increase of $5.5 million for full-year funding of 1990-91 patient bed increases, (4) an increase of $3 million for additional staff associated with a projected increase in judicially committed clients and mentally disordered offenders, and (5) a decrease of $5.7 million (in reimbursements) to reduce the

number of beds for Department of Corrections patients. Table 5 displays the budget changes proposed for 1991-92.

Table 5
Department of Mental Health
State Hospitals
Proposed 1991-92 Budget Changes
(dollars in thousands

	General Fund	*All Funds*
1990-91 expenditures (Budget Act)	$366,297	$412,186
Adjustments, 1990-91:		
Employee compensation	10,441	11,610
Retirement reduction	−3,032	−3,414
Allocation to Board of Control	−66	−66
Deficiency for additional patient-care staff to implement Civil Rights of Institutionalized Persons Act (CRIPA) consent decree	2,144	2,144
Reimbursement adjustments	—	61
1990-91 expenditures (revised)	$375,784	$422,521
Baseline adjustments, 1991-92:		
Full-year effect of 1990-91 bed increase	5,474	5,474
Full-year effect of 1990-91 staffing increase to implement CRIPA consent decree	3,217	3,217
Full-year effect of salary savings rate reduction and merit salary adjustments	896	896
Reverse allocation to Board of Control	66	66
Retirement reduction (additional)	−60	−68
Reduce CRIPA deficiency	−2,144	−2,144
Employee compensation	7,827	8,692
Caseload and cost adjustments:		
Increase beds for MDOs and judicially committed patients	3,049	3,049
Reduce beds for Department of Corrections patients	—	−5,718
Program change proposals:		
Additional patient-care staff to implement CRIPA consent decree	3,780	3,780
Reroofing Atascadero	—	4,692
Unallocated reduction	*−9,786*	*−9,786*
1991-92 expenditures (proposed)	$388,103	$434,671
Change from 1990-91 (revised):		
Amount	$12,319	$12,150
Percent	3.3%	2.9%

Serious Problems at Napa Raise Concerns About Management of the State Hospital System

We find that (1) major improvements are needed in management practices at Napa State Hospital and (2) changes are needed in the department's procedures for budgeting and overseeing the entire state hospital system.

A common thread runs through the analysis that follows. For virtually every issue we discuss below, Napa State Hospital serves as the most

DEPARTMENT OF MENTAL HEALTH—Continued

severe example of management failures in the state hospital system. Examples of this situation include:

- ***Certification to Receive Federal Medicaid Funds has Been Lost at Napa.*** The federal Health Care Financing Administration acted to revoke certification to receive federal Medicaid funds for patients treated in the children and adolescent unit at Napa. This action has resulted in a General Fund revenue loss of $5 million in the current year. Napa State Hospital is currently the only noncertified state hospital among the three hospitals treating primarily county clients.
- ***Excessive Seclusion and Restraint Practices and Inadequate Medical Record-Keeping Have Resulted in a Costly Consent Decree.*** An investigation by the U.S. Attorney General (USAG) has found that patients at Napa are being subjected to conditions of confinement that violate their civil rights. The USAG was particularly concerned with excessive use of seclusion and restraints and poor medical record-keeping practices. The investigation has resulted in a consent decree that will cost the state $13.1 million annually by 1992-93.
- ***Planned Scheduled Treatment Levels Have Fallen Further Below Department Standards.*** Data provided by the department indicate that the amount of planned scheduled treatment (PST) at Napa dropped by *nearly one-fourth* between 1988-89 and 1989-90. Napa currently ranks fourth among the five state hospitals in delivering PST to patients (Metropolitan is fifth), despite having patients who are no more acutely ill than those in the other hospitals serving county patients. Napa delivered only 47 percent of the department's standard for PST in 1989-90.
- ***Patient Population Far Below Budgeted Number of Beds.*** Data reported by the department indicate that the number of patients served at Napa (and at other state hospitals) has been consistently below the amount the facility is budgeted and staffed to provide. In the current year, Napa has averaged 107 patients below the number provided for in its budget. It is not clear what the reasons are for this difference between actual and budgeted service levels. The result, however, has been a severe constraint on access to state hospital services for counties in the Bay Area.
- ***Accreditation by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) Has Been Revoked and is Under Appeal.*** The JCAHO, the major independent reviewing body for hospitals, revoked its accreditation of Napa. The department has appealed the JCAHO determination, and the facility's status is technically listed as "Accredited; adverse action under appeal."

We believe these examples clearly point to the need for major improvements in the management and operation of Napa State Hospital. In addition, these examples — particularly on PST and service levels —

call into question the department's budgeting and oversight procedures for the *entire* state hospital system, and indicate that changes are needed.

Consent Decree Very Costly and Severely Constrains Legislative Flexibility

We find that the consent decree entered into by the department with the U.S. Department of Justice has severely constrained legislative flexibility for budgeting purposes, and may not address serious problems involving patient care at Napa State Hospital.

To assist the Legislature in its oversight capacity, we recommend that the department report prior to budget hearings on several specified decree implementation issues. We further recommend that the Legislature (1) establish a separate Budget Bill item for the decree's costs, (2) adopt specified supplemental report language, and (3) delete $3.8 million and 65 positions in Item 4440-011-001 because additional staff are not required in 1991-92.

The budget proposes a total of $7 million (General Fund) to continue implementation of a consent decree the DMH has entered into in federal court. Of this amount, $3.2 million reflects full-year funding for 63 positions approved for the current year and $3.8 million is to fund an additional 65 positions for the budget year. To fully implement the decree, the department reports that it will need to add a total of 181 positions by 1992-93 at a General Fund cost of approximately $13.1 million annually.

Background. The consent decree stems from an investigation into conditions at Napa State Hospital initiated by the United States Attorney General's Office (USAG) under the federal Civil Rights of Institutionalized Persons Act (CRIPA). The USAG found that patients at Napa are being subjected to conditions of confinement that are in violation of their constitutional rights. Specifically, the USAG stated that staffing and treatment levels, medication practices, and patient record-keeping procedures violate the rights of Napa residents to be free from undue bodily restraint and unreasonable risks to their personal safety, and to receive medical care that is consistent with accepted medical judgment.

Consent Decree Requires Higher Staff-to-Patient Ratios. The consent decree entered into by the DMH commits the state to achieve specified staff-to-patient ratios. Under the terms of the decree, the DMH may implement this provision either by (1) hiring specified numbers of psychiatrists, physicians, registered nurses, and other direct patient-care staff according to a timetable spelled out in the decree or (2) reducing the number of patients residing at the facility. The decree also requires that the department:

- Evaluate all patients in the facility who are receiving psychotropic medication for medication-induced side effects within 60 days, and to take other steps related to the appropriateness of medications.
- Establish revised policies regarding restraint and seclusion within 60 days.
- Establish revised policies regarding medication practices within 90 days.

DEPARTMENT OF MENTAL HEALTH—Continued

- Submit for USAG approval its plans to achieve the staff-to-resident ratios noted above, and a set of reports concerning DMH "procedures" covering specified topics. *This requirement would appear to provide the USAG with review authority over virtually all matters related to administration and patient care at Napa.*

Finally, the DMH must file quarterly compliance reports over the three-year period covered under the decree, which also are subject to approval by the USAG.

The consent decree raises a number of substantial issues, which we discuss below.

Decree's Requirements Constrain Legislative Flexibility. The decree severely constrains legislative flexibility, due to the requirements for higher staff-to-resident ratios. Specifically, it may not be feasible for the Legislature to direct the department to comply with the consent decree's staff-to-resident ratios by reducing the patient population at Napa. This is because the department's population projections indicate (1) that the state hospital system's bed capacity will be under strain during the budget year and is likely to face more severe strains in future years and (2) most of the additional bed capacity in the state hospital system is at Napa.

Accordingly, the Legislature has little choice but to continue funding for the 63 positions approved for the current year.

The decree also may constrain legislative flexibility in future years. First, because of the review authority the decree grants to the USAG, the Legislature may face considerable pressure to adopt additional budget proposals. For example, the State of Michigan, which also has entered into consent decrees under CRIPA, has found that its entire treatment program must be negotiated with the USAG.

Second, the department is currently undertaking a study mandated by the Legislature to revise its staffing standards throughout the state hospital system, based on the types of wards in each facility, the amount of patient treatment the department's standards require, and the degree of illness among patients. The Legislature expressed its intent that these new standards serve as the basis for budgeted staffing levels in 1992-93. *The consent decree will preempt this at Napa.*

Higher Staffing Alone is Unlikely to Address Serious Problems at Napa. We believe the proposed staffing ratios at Napa are of concern for several reasons. First, in contrast to what the Legislature has required the DMH to develop in the forthcoming staffing study, the consent decree's staffing ratios are not based on any empirical standard, so far as we have been able to determine. Rather, they are the product of negotiations between the DMH and the USAG, and generally reflect the USAG's view that existing staffing levels are below what it considers to be "minimally adequate." The department indicates that the USAG did not provide it with the basis for the ratios that were agreed to in the decree, other than to provide the DMH with some of the USAG consultant's survey findings. Instead, the DMH states that the ratios are "reasonably within the

framework" of what other states have agreed to as a result of CRIPA reviews.

Second, the USAG concluded a CRIPA review at Atascadero State Hospital in May 1990, and notified the state that it did not intend to take *any* actions based on its findings at that facility. This is significant because, based on data provided by the department, the staff-to-resident ratios at Napa during 1989-90 appear to have been *higher* than those at Atascadero.

Finally, the staff-to-resident ratios established in the decree give no assurance to the Legislature that the particular problems identified by the USAG, such as levels of restraint and seclusion, will be resolved. This is true regardless of whether the higher ratios are implemented through the addition of patient care staff or through adjustments in the patient population.

In order for the Legislature to ensure that additional staff are utilized to achieve the decree's broader objectives for improving patient care, we recommend that the department report prior to budget hearings regarding the specific steps it is initiating in the following areas:

- Seclusion and restraint procedures.
- Medical records procedures.
- Improvements in recruitment and retention of direct patient care professionals.
- Additional treatment for patients.

We further recommend that the department report to the Legislature prior to budget hearings on its plans for monitoring the hospital's progress in these areas.

Actions Needed to Provide for Legislative Oversight in Future Years. To ensure that the Legislature has effective oversight capability in future years, we recommend that the Legislature take two actions. First, we recommend that the Legislature establish a separate appropriation in the Budget Bill for funding related to implementation of the consent decree in order to more effectively monitor the department's compliance with the decree. Second, we recommend the adoption of supplemental report language requiring the department to provide a detailed status report of its progress in addressing the decree's requirements by December 1, 1991.

Taking these actions now will allow the Legislature to (1) ensure that the department continues to take concrete steps to address the problems identified in the decree and (2) reduce the possibility that the USAG will seek further costly changes for Napa in future years.

Consent Decree Does Not Require Additional Positions for 1991-92. The consent decree establishes a series of timelines for achieving various staff-to-resident ratios. The Legislature already has approved the addition of 63 positions to comply with the first set of deadlines. Accordingly, in order to comply with the decree, the department does not need to add *any* additional staff until the 1992-93 fiscal year. Thus, we recommend that the Legislature continue budget-year funding for the positions

DEPARTMENT OF MENTAL HEALTH—Continued

established in the current year and that it delete $3.8 million and 65 positions requested for 1991-92.

State Hospital Reform: Six Years Later

We find that the performance of Napa State Hospital relative to the goals of the 1984-85 State Hospital Reform Initiative has further eroded and that the consequences of this performance include less treatment being delivered to patients, serious violations of patients' rights, and the loss of the majority of federal funding for the state hospital system. We recommend that the department report prior to budget hearings regarding its plans to remedy this situation.

In our review of the budget, we evaluated the (1) current status of treatment levels, (2) accreditation by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO), and (3) Health Care Financing Administration (HCFA) certification to receive federal Medicare and Medicaid funds at Napa State Hospital. Specifically, we compared treatment levels for 1988-89, 1989-90, and the first three quarters of 1990-91 to those proposed by the department as part of its 1984 state hospitals initiative, and to those reported by the department for 1988-89. In addition, we reviewed the hospital's present certification and accreditation status.

Background. Beginning in 1984-85, the Legislature approved a series of departmental 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 (1) allowed all five of the department's hospitals to obtain accreditation by the JCAHO and (2) enabled the three hospitals that serve the majority of county-admitted clients (Camarillo, Napa, and Metropolitan State Hospitals) to be certified by the HCFA and in turn receive Medi-Cal and Medicare payments.

Certification and Accreditation. HCFA certification and JCAHO accreditation are both indications of an independent "stamp of approval" regarding the quality of mental health services provided in the state hospitals.

Certification is the process through which the federal government acknowledges that a health facility is in substantial compliance with federal conditions for payment of Medicaid and Medicare. Until October 1990, the Department of Health Services (DHS) conducted annual certification surveys of the state hospitals and determined their certification status. Since October, however, the authority for granting certification has rested with the federal government.

Accreditation is a formal and voluntary process of independent review that an agency may choose to undergo in order to obtain an assessment of the quality of services it provides. While accreditation is essentially a matter of professional prestige, the federal government uses similar standards in its certification process, as does the JCAHO. In addition,

while both organizations generally measure compliance through periodic tours of facilities, a facility that is accredited is exempted from annual HCFA surveys.

Treatment Program Improvements. The treatment program improvements that were initiated beginning in 1984-85 included 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" (PST) per day. Scheduled treatment activities include group therapy, individual therapy, 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 PST program, the Legislature required the department to (1) track the amount of treatment being delivered to patients, (2) assess the quality of the treatment services, and (3) submit a series of reports on treatment levels.

Treatment Levels Still Below Standard. We compared treatment levels delivered in 1988-89, 1989-90, and the first quarter of 1990-91 with the amount the department committed to achieve in 1984-85, when it requested the staffing augmentations. (Because the data for the first quarter of 1990-91 indicated only minor changes from the 12-month average for 1989-90, the discussion below focuses on the full-year experience.)

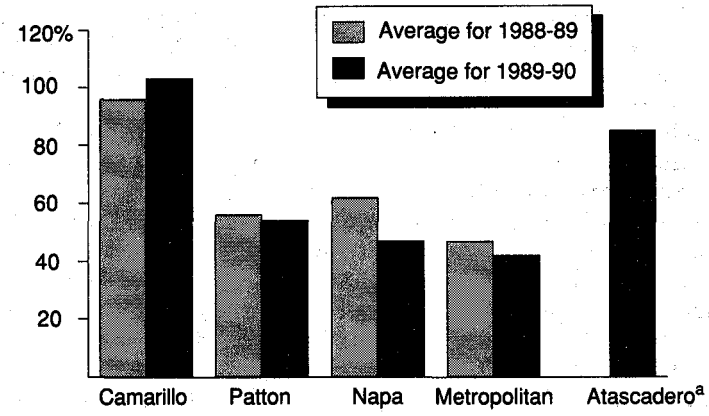
Our review indicates that in 1988-89, Napa delivered an average of 62 percent of the treatment hours the department sought to achieve in its 1984-85 state hospitals initiative. In 1989-90, the amount of treatment hours at Napa dropped to an average of 47 percent of the department's standard. These data indicate that one in four hours of treatment being delivered to patients at Napa in 1988-89 were not being delivered in 1989-90. When compared with other state hospitals, Napa ranks fourth of the five hospitals in its delivery of PST (Metropolitan is fifth). Chart 1 shows treatment hours data by hospital for 1988-89 and 1989-90.

DEPARTMENT OF MENTAL HEALTH—Continued

Chart 1

Department Of Mental Health
Planned Scheduled Treatment
Hours Delivered As Percent Of Department Standard

1988-89 and 1989-90



[a]Atascadero data were unavailable for 1988-89.

The delivery of PST for the entire system stood at 62 percent of the standard in 1989-90. For the three state hospitals for which data are available to make comparisons, PST levels dropped slightly between 1988-89 and 1989-90 at Patton and Metropolitan, and increased by nearly 10 percent at Camarillo.

There is substantial variation in hospital performance relative to the department's treatment standards. The PST delivery in 1989-90 ranged from a low of 42 percent at Metropolitan to a high of 103 percent at Camarillo. This means that patients placed at Camarillo State Hospital could expect in 1989-90 to receive nearly *two and one-half times* the amount of treatment as those patients placed at Metropolitan and Napa. All three hospitals serve primarily county clients.

The department indicates that it has *not* taken specific steps to remedy the disparity in treatment delivery among the individual hospitals. However, the department reports that it intends to take a variety of steps in the near future to improve the delivery of PST in the system as a whole.

We recommend that the department present its findings prior to budget hearings, along with its specific proposals for remedying the serious underdelivery of treatment at Patton, Metropolitan, and Napa State Hospital.

Half of Federal Medicaid Funds for the State Hospital System Have Been Lost Due to Decertification at Napa. A second goal of the 1984-85 State Hospital Reform Initiative was to secure federal certification to receive Medicaid funds for eligible patients being treated in state hospitals. In 1989-90, the General Fund received federal revenues of over $9 million as a result of this effort.

Based on the results of an unannounced survey in May 1990, however, the federal Health Care Financing Administration (HCFA) has revoked certification for the children and adolescent unit at Napa. This action has resulted in an estimated General Fund revenue loss of approximately $5 million in the current year.

The HCFA indicated that its action was based primarily on two factors. First, the department's practices for maintaining medical records were determined to be inadequate. For example, HCFA regulations require that patients placed in seclusion and restraints must be checked hourly. The HCFA reviewed the records of one such patient and found that the records indicated the nursing staff on duty had checked the patient as required through 7:00 a.m. The patient's records also indicated that the patient's circulation and respiration had been observed hourly and that the patient had been repositioned at 6:00 a.m.

However, the HCFA determined that *all the entries* made on the patient's chart between 3:00 a.m. and 7:00 a.m. *were false,* because the hospital's records clearly indicated that the patient had *died* at approximately 3:15 a.m.

The HCFA also determined that the hospital's registered nursing coverage was inadequate. HCFA standards require 24-hour registered nurse coverage for each unit. The HCFA reviewers found that the hospital was routinely substituting psychiatric technicians for registered nurses, particularly on the night shifts. This finding does not speak to the *number* of nursing staff, since the department's staffing standards consider both registered nurses and psychiatric technicians to be nursing staff, but to the department's practice of substituting staff in a manner contrary to HCFA regulations.

The department appealed the HCFA action, but was not successful. The department has indicated that it is in the process of assigning registered nurses on a 24-hour basis and that it intends to request in the spring another survey of the unit that was decertified by the HCFA. Accordingly, we recommend that the department report prior to budget hearings on the status of federal certification at Napa.

JCAHO Accreditation Revoked; Under Appeal. A third goal of the State Hospital Reform Initiative was to achieve accreditation by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) for all five state hospitals. As discussed earlier, the JCAHO is a private reviewing organization that addresses general quality-of-care issues. Most private hospitals have JCAHO accreditation.

The department's efforts to attain JCAHO accreditation have generally been successful. Prior to July 1990, all five state hospitals were accredited by the JCAHO. However, in July 1990, the JCAHO revoked its accredi-

tation of Napa State Hospital, citing conditions that "represent a serious threat to patient health and safety."

The JCAHO cited two major concerns in its report. First, like the HCFA certification review, the JCAHO raised serious questions regarding the hospital's medical record-keeping practices. In addition, however, the JCAHO made clear its primary concern stemmed from observations that clinical decisions regarding the treatment of Napa patients were being made by psychiatric technicians. The JCAHO indicated that such technicians are not qualified to make clinical decisions.

The department has appealed the JCAHO's action, and a finding by the JCAHO regarding the department's appeal is anticipated in the early spring. Accordingly, we recommend that the department report prior to budget hearings on the status of JCAHO accreditation for Napa State Hospital.

Poor Management Has Contributed to Constraints on County Access to State Hospital Beds

We find that the department has consistently not provided services to the number of patients the hospitals are budgeted and staffed to provide.

In reviewing the department's budget proposal to make staffing adjustments due to projected changes in the patient population, we compared the number of patients being served in the state hospital system with the number provided for in the budgets for 1989-90 and 1990-91. Our review indicates that the department has consistently not provided services to the number of patients the hospital system has been budgeted and staffed to provide.

For example, for the first five months of 1990-91, filled beds in the state hospital system have averaged approximately 115 beds below budgeted levels. Most of this discrepancy has occurred in beds that are reserved for county patients. Based on data provided by the department, our review indicates that filled county beds have averaged roughly 110 beds below budgeted levels.

Filled beds at Napa have averaged roughly 107 beds below the budgeted number for the facility, and over 80 percent of Napa's beds are budgeted for county clients.

Conflicting Information Regarding Underutilization of County Beds. We have received conflicting information from the department regarding the reasons that county beds, and beds at Napa in particular, are not being used. For example, the department reports that specialized programs at Napa, such as the children and adolescent unit, are underutilized. Our review indicates that, while this is accurate to some extent, underutilization of specialized programs accounts for only a small portion of the discrepancy at Napa. The department also indicates, however, that the hospital has elected to close units that ordinarily would be available to adult subacute patients. The department is not able to explain why this has occurred.

Finally, the department indicates that it does not know why counties are not using the available beds at Napa. It has indicated that it *routinely* consults with counties to assist them in using their bed allocations. Our review indicates, however, that (1) county beds have not been fully utilized since July 1989 and (2) the situation has grown considerably worse in the current year, particularly at Napa.

Several Bay Area counties have not been able to place subacute adult patients at Napa, because the hospital has indicated to the counties that such beds were unavailable. For example, one county reports that it has not been able to admit any patients to Napa since August 1990. It reports that 14 adult patients were, at the time we prepared this analysis, waiting for beds to become available at Napa and that the county had incurred approximately $1 million in costs to treat these patients in a county inpatient facility. Other Bay Area counties have encountered similar problems, though with smaller numbers of patients.

We are unable to determine conclusively why Bay Area counties have not been able to place patients at Napa. However, it appears that poor management by the DMH has at least *contributed* to the placement problems. If, as the department indicates, specialized programs have been consistently underutilized, and counties have waiting lists for general subacute care adult patients, one would expect that the department would make available more general subacute care beds at Napa and fewer beds for specialized programs. This has not occurred.

In our 1990-91 *Analysis,* we noted that the department's procedures for making adjustments in the types of hospital programs it operates appeared to be the result of "ad hoc" input from the hospitals, rather than the result of a systematic review of trends in the patient population. To the extent counties have been involved in the decision-making process, their input appears to be incorporated on an "ad hoc" basis as well.

Adjustment for Patient Population Likely To Be Revised

We withhold recommendation on the proposed General Fund reduction of $2.7 million in Item 4440-011-001 for projected changes in the state hospital population until the May revision of the budget.

The department proposes to delete 19 level-of-care (direct patient care) positions on a full-year basis and an additional 63 positions for part of the year in the state hospitals due to a projected decrease in the patient population. The proposed changes result in a General Fund reduction of $2.7 million for 1991-92. The population changes include:

- A net increase of 75 patients resulting from (1) an increase of 118 mentally disordered offenders (MDOs), (2) a decrease of 32 judicially committed patients, and (3) a reduction of 11 mentally disordered sex offenders and other penal code patients.
- A proposed reduction of 160 beds for California Department of Corrections (CDC) patients. The proposal would reduce from 412 to 252 the number of state hospital beds available to CDC patients in 1991-92.

We withhold recommendation on the department's proposal. As mentioned above, the department's proposal would result in a substantial

DEPARTMENT OF MENTAL HEALTH—Continued

reduction in the number of beds available to CDC patients. The DMH has indicated it intends to substantially revise its proposal during the May revision of the budget in order to avoid the loss of beds to the CDC. Accordingly, we withhold recommendation until the May revision of the budget. (Please see our analysis of the CDC budget (Item 5240) for further discussion of this issue.)

3. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes $31.9 million from the General Fund for local mental health programs in 1991-92. This is a decrease of $436.5 million, or 93 percent, below estimated current-year expenditures. Total expenditures for local programs, including expenditures from the Cigarette and Tobacco Products Surtax (C&T) Fund (to be incorporated in pending legislation), reimbursements, and federal funds are proposed at $207.8 million, which is $435.4 million, or 68 percent, below estimated current-year expenditures. These figures reflect the department's plan to absorb in the local assistance and special education pupil budget items $1.3 million of the $15 million unallocated trigger-related reduction the budget proposes for the department.

Table 6 displays local assistance expenditures and funding sources for the past, current, and budget years.

Table 6
Department of Mental Health
Local Mental Health Programs
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

	Actual	*Est.*	*Prop.*	*Change from 1990-91*	
Expenditures	*1989-90*	*1990-91*	*1991-92*	*Amount*	*Percent*
Short-Doyle allocations	$642,690	$580,465	$155,968	−$424,497	−73.1%
AIDS	1,500	1,500	1,500	—	—
Primary intervention projects	1,261	1,738	1,738	—	—
Federal block grant	18,242	18,242	18,242	—	—
Federal community support program	261	162	—	−162	−100.0
Federal homeless program	2,984	3,090	3,090	—	—
Federal disaster relief	1,139	969	—	−969	−100.0
State Legalization Impact Assistance Grant (SLIAG)	9,500	8,733	—	−8,733	−100.0
Mental health services to special education pupils[a]	15,116	15,791	14,511	−1,280	−8.1
System of care of severely mentally disabled adults	8,000	8,000	8,000	—	—
Children's mental health services	2,889	4,589	5,518	929	20.2
Unallocated reduction	—	—	−726	−726	—[b]
Totals	$703,582	$643,279	$207,841	−$435,438	−67.7%
Funding Sources					
General Fund	*$523,392*	*$468,492*	*$31,946*	*−$436,546*	*−93.2%*
Reimbursements	*111,803*	*111,853*	*111,700*	*−153*	*−0.1*
Federal funds	*22,626*	*22,463*	*21,332*	*−1,131*	*−5.0*
Primary Prevention Fund	*−310*	*96*	*12*	*−84*	*−87.5*

Cigarette and Tobacco Products Surtax Fund[c]	*35,000*	*30,000*	*40,000*	*10,000*	*33.3*
SLIAG Fund	*9,500*	*8,733*	—	*−8,733*	*−100.0*
Asset Forfeiture Distribution Fund	*1,571*	*1,642*	*1,726*	*84*	*5.1*
Amount funded from Short-Doyle audit exceptions	—	—	*1,125*	*1,125*	*100.0*

[a] Includes a $605,000 unallocated reduction for special education pupils.
[b] Not a meaningful figure.
[c] For 1989-90 and 1990-91, all expenditures are from the Unallocated Account. For 1991-92, the budget proposes expenditures of $36 million from the Unallocated Account and $4 million from the Physician Services Account.

Table 7 shows the proposed changes to the budget for 1991-92 for local mental health programs.

Table 7
Department of Mental Health
Local Mental Health Programs
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (Budget Act)	$462,392	$609,288
Adjustments, 1990-91:		
Partial restoration of Governor's veto	5,700	10,700
Butte County deficiency	400	400
Sunset of Proposition 99 implementing legislation	—	25,000
Reduce various disaster relief funds	—	1,122
Reduce Alameda community support program grants	—	36
State Legalization Impact Assistance Grant (SLIAG) reduction	—	−3,267
1990-91 expenditures (revised)	$468,492	$643,279
Baseline adjustments, 1991-92:		
Reduce disaster funds	—	−153
Full-year funding for Riverside County children's program	929	929
Reduce all Cigarette and Tobacco Products Surtax (C&T) funding	—	−30,000
Reduce General Fund appropriation for one-time partial restoration of Governor's veto	−4,000	−4,000
Reduce Butte County deficiency	−400	−400
Reduce portion of disaster relief funds	—	−969
Reduce Alameda community support program grants	—	−162
Reduce all SLIAG funding	—	−8,733
Program change proposals:		
Transfer of Short-Doyle mental health services to counties	−431,744	−431,744
Pending legislation to maintain C&T funding	—	40,000
Short-Doyle/Medi-Cal administrative improvements	—	1,125
Unallocated reduction	*−726*	*−726*
Unallocated reduction for special education pupils	*−605*	*−605*
1991-92 expenditures (proposed)	$31,946	$207,841
Change from 1990-91 (revised):		
Amount	−$436,546	−$435,438
Percent	−93.2%	−67.7%

The major changes proposed for 1991-92 are:

- A reduction of $431.7 million (General Fund) for local mental due to the administration's proposed "realignment" of local mental health programs.

DEPARTMENT OF MENTAL HEALTH—Continued

- The elimination of $8.7 million in federal State Legalization Impact Assistance Grant (SLIAG) funds for local mental health programs. (We discuss various SLIAG funding changes in our analysis of Control Section 23.50 later in this analysis.)
- An increase of $1.1 million (recoveries from audit exceptions) to fund additional staff for Short-Doyle/Medi-Cal audits and administration. (The budget also includes $739,000 (recoveries from audit exceptions) in the support budget item and $975,000 (federal reimbursements) associated with this proposal, for a total of $2.8 million.)

Realignment of Local Mental Health Programs

We recommend that the Legislature reject the administration's proposal because it would exacerbate problems we have identified in the current system and would likely increase General Fund pressures to provide additional funding for the most costly and restrictive settings. We further recommend that the Legislature enact comprehensive reform of the state's mental health service delivery system to improve system performance. We find that the Legislature has two options to the extent it wishes to achieve major General Fund savings through a transfer of some funding responsibility for mental health programs to the counties.

The budget proposes to "realign" mental health programs by (1) transferring responsibility for community-based mental health services from the state to counties, (2) eliminating $432 million in General Fund support for the services, and (3) providing counties with additional revenues that could be used to support mental health programs. The budget also proposes a similar "realignment" of AB 8 county health programs involving $471.5 million in General Fund support. These proposals are a major component of the administration's overall strategy for addressing the state's structural budget problem, representing $937 million of the net $5.4 billion in General Fund expenditure reductions we identify for 1991-92. (Please see Item 4260 for a discussion of the county health services proposal and *The 1991-92 Budget: Perspectives and Issues* for a discussion of program alignment issues generally.)

Under the proposal, counties would receive additional revenues totaling roughly $942 million from increased motor vehicle license fees and the state alcohol tax. Of this amount, roughly $173 million would result from the proposed increase in the alcohol tax and roughly $770 million would be from the proposed increase in vehicle license fees. The State Constitution requires that vehicle license fee revenues be allocated to local governments. The proposed revenues would be sufficient for counties to fund county health services at the projected budget-year level and mental health services at the current-year level.

Under the administration's proposal for mental health programs, the state would continue funding and retain the administrative responsibility for the state hospitals and institutions for mental diseases. The proposal

would transfer responsibility for the funding and the operation of local mental health programs to counties.

In the discussion that follows, we present a brief overview of the current mental health delivery system, discuss problems that we have identified in the current system, and identify various options for reform. Based on this discussion, we review the programmatic implications of the administration's proposal and make recommendations for achieving broader system reform. Finally, we identify for legislative consideration two alternatives.

OVERVIEW OF CALIFORNIA'S MENTAL HEALTH SYSTEM

California's mental health system is governed by the Short-Doyle Act, which was originally enacted in 1957. Under the Short-Doyle Act, the state and the counties have specific responsibilities:

State Responsibilities. The Short-Doyle Act requires the DMH to provide leadership in administering, planning, developing, financing, and overseeing mental health services, including local programs. The DMH also operates state hospitals and provides 100 percent of nonfederal funding for institutions for mental diseases (IMDs) and board-and-care homes. These programs encompass the major long-term care options for the most chronically disabled county clients. The DMH also administers the Short-Doyle/Medi-Cal Program, which the budget estimates will provide $130 million in federal funds to offset the cost of treating patients in community settings.

County Responsibilities. Counties are responsible for establishing and maintaining a community-based mental health system. Services include 24-hour care in local facilities, day treatment, short- or long-term counseling, outreach, and case management.

In addition, counties are responsible for submitting a county Short-Doyle plan for DMH approval and operating a quality assurance system that covers all county-operated and contracted mental health facilities and programs.

Funding Arrangements for Short-Doyle Services

Short-Doyle mental health services are funded primarily from state funds (General Fund and Cigarette and Tobacco Products Surtax Fund) and county matching funds. Inpatient hospital services, including state hospital services, generally are funded 85 percent state/15 percent county. Other services generally are funded 90 percent state/10 percent county. Short-Doyle mental health services are supported from a variety of other funding sources as well, including federal grants, additional county funds above the required matching funds (referred to as overmatch), fees collected from patients who are able to pay them, payments made on behalf of particular clients — for example, by Medicare, Medi-Cal, and insurance — and other sources.

Categorical Funding. In addition to broad allocations of funds to counties, the Legislature has appropriated funds to serve particular

DEPARTMENT OF MENTAL HEALTH—Continued

populations with special needs, such as homeless persons and children receiving special education. These "categorical" funds are allocated to counties in the same way as other funds; that is, counties must generally provide a 10 percent match.

CONCERNS WITH THE CURRENT SYSTEM

Legislative Mandate Overly Broad

Our review indicates that the Short-Doyle Act's mandate is overly broad, given the limited state resources that have historically been available for local mental health services. The act directs counties to serve persons with a very wide range of illnesses, including those which are temporary and those which are life-long in nature. For example, counties could interpret the act as requiring them to provide mental health services both to persons suffering from acute psychoses involving hallucinations and to persons suffering from job stress.

The effect of the overly broad mandate is that the mental health delivery system lacks explicit goals. This has two implications: (1) counties lack clear expectations from the Legislature regarding the groups of mentally ill persons who should have priority in receiving services and (2) the department has no clear direction regarding the focus of its oversight function in order to assure that the Legislature's objectives in providing mental health services are realized.

In addition, no data are available that allow the Legislature to review whether state funding is being used efficiently and effectively. Although the DMH collects data from counties on the types of services provided, the number of persons served, and the costs of specific services provided, the data are not comparable between counties and do not measure the effectiveness of various treatment options provided to the mentally ill.

Due to the overly broad mandate and the serious data limitations, the current system does not allow the Legislature to determine whether the types of services counties are providing (1) represent the most cost-effective approach to delivering treatment services or (2) reflect its priorities for serving mentally ill persons.

A Fragmented System

Our review of California's current array of mental health programs indicates that, since 1968, programs have been patched together in response to service needs and availability of funding. This has resulted in a fragmented system where it is not clear which level of government has overall responsibility.

For example, the state is responsible for providing services in the most expensive long-term care options for chronically mentally ill patients — state hospitals and IMDs. However, the counties are responsible for providing the types of services that often prevent utilization of these long-term care options, with little effective oversight by the state.

We identify two problems that have resulted from this arrangement.

- *There is little coordination between the state and counties in providing treatment to patients.* Counties appear to have little

involvement in programmatic decisions affecting county clients in the state hospitals or clinical decisions regarding their state hospital patients' readiness for transfer to a community setting. This may partially explain why the department reports that patient stays are routinely extended for substantial lengths of time (sometimes exceeding one year) while awaiting a community placement, and counties express frustration that their patients are kept in state hospitals longer than their patients' illnesses require.

- *The state exercises little effective oversight regarding the cost-effectiveness of county programs.* The Short-Doyle Act requires the department to review the effectiveness of county Short-Doyle plans, but provides little specific authority to review program configurations. As a result, the review process is essentially *pro-forma,* with little attention given to the cost-effectiveness of county resource allocation plans.

Current Funding Arrangements Provide Counter-Productive Fiscal Incentives

The funding and resource allocation mechanisms established under the Short-Doyle Act were intended to encourage the least restrictive and least costly treatment options for the mentally ill. Our review indicates that, due to a variety of factors, the present cost-sharing ratios and resource allocation mechanisms restrict county flexibility with regard to treatment choices and result in treatment decisions that conflict with the goals of the Short-Doyle Act. Following are some examples of how these incentives work.

State Hospital and IMD Beds: Use 'em or Lose 'em. State hospital beds are allocated to counties as a resource for the most severely mentally ill patients. The annual cost for one state hospital bed for county patients is $96,000 (generally funded 85 percent state, 15 percent county). Counties' ability to trade a state hospital bed for additional funds that could be used to expand treatment options in the community has been limited because (1) the DMH generally has been unwilling to approve such trades and (2) such trades might be financially detrimental to counties over the longer term because funding for the state hospital system has been much more stable in recent years than funding for local programs. Accordingly, in any given year, counties must use their state hospital beds or lose the share of their resources the bed allocation represents.

Similarly, IMD beds for county clients are funded *entirely* through state and federal funds at an annual cost per bed of roughly $21,000, and counties cannot use state IMD funds for other purposes. Thus, counties have an incentive to utilize IMD beds, whether or not patients they place in that setting could be more appropriately treated in a less restrictive and less costly long-term care treatment alternative.

Incentives Encourage Counties to Place Children in AFDC-Foster Care (AFDC-FC) Group Homes. Services for seriously emotionally disturbed children are often provided in one of two ways. First, counties may place a child in an AFDC-FC group home that provides intensive psychiatric services. Placements in this setting cost an average of $34,000

DEPARTMENT OF MENTAL HEALTH—Continued

annually. The system is funded as an entitlement; that is, the state and federal governments reimburse counties for 95 percent of the costs for all children who meet statutory eligibility requirements.

In many cases, the more appropriate treatment approach for these children is a package of mental health treatment services that support them in their home environment, including counseling in school-based settings, family counseling, and other family services. Under the Short-Doyle Act, counties must pay a 10 percent match to provide mental health services, and the amount of funding available is capped.

The effect of these program arrangements is that counties wishing to provide services to as many children as possible effectively pay a financial penalty for utilizing less restrictive and less costly preventive treatment options such as school-based and family services. To the extent that counties choose the more costly and restrictive setting — foster care homes — they are able to obtain essentially unlimited state funds for a 5 percent share of the total cost.

This may be one of a variety of factors that has contributed to the dramatic growth in expenditures for foster care group homes in recent years. Between 1983-84 and 1990-91, foster care group home expenditures, including those for seriously emotionally disturbed children, have increased from $139 million to $546 million, an increase of 294 percent. In contrast, state funding for all county mental health programs during the same time period (including funding for programs to serve adults) has increased from $317 million to $516 million, for an increase of $99 million, or 31 percent.

Access to Mental Health Services Varies Widely Among Counties

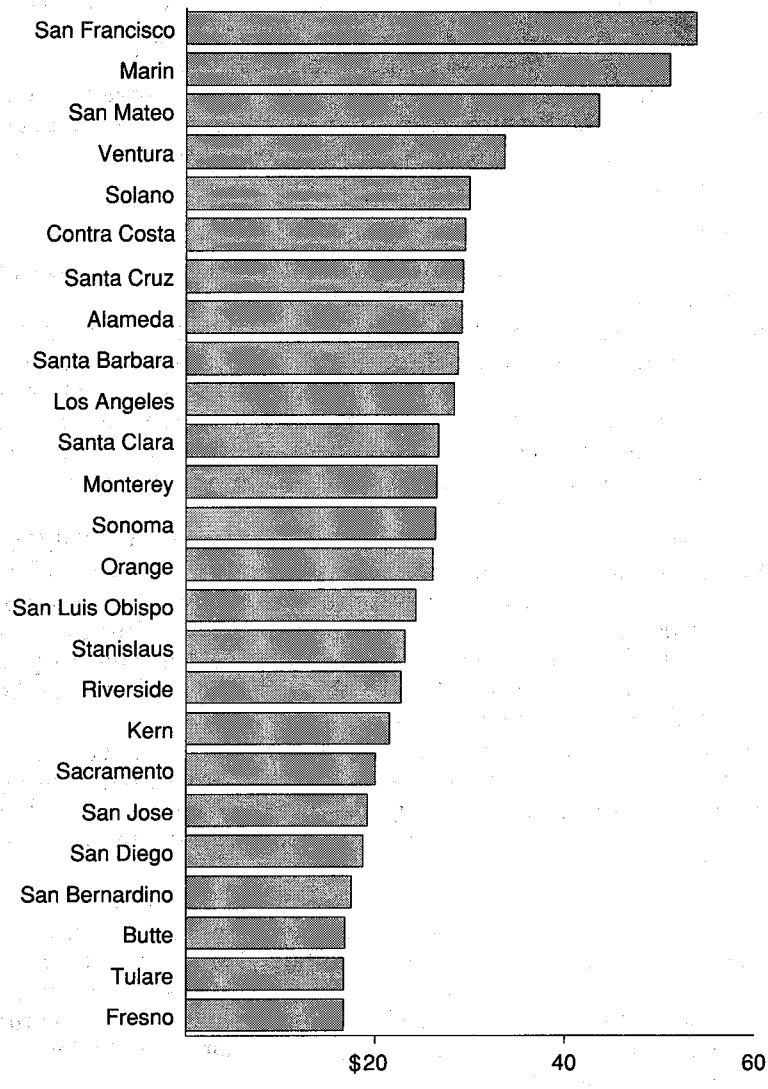
The amount of state funds allocated for local mental health programs varies widely across counties. The variation is due in large part to the level of county expenditures at the time counties chose to enter the Short-Doyle system. That is, counties that opted into the program earlier generally were spending more per person compared to counties that started later.

Although the Legislature has required that changes in state funding levels be allocated to counties in order to mitigate varying service levels, progress toward "equity" in funding has been limited. ("Equity" is defined as eliminating variation in resources across counties given a county's population and its share of the state's poverty population.) Per-capita county allocations in the current year, weighted by the poverty level, range from approximately $17 per person (Tulare County) to a high of $56 per person (Mono County). Chart 2 shows this variation in funding for the 25 largest counties. The result of the variation in county resources is that access to mental health services varies widely from one county to the next.

Chart 2

State-Allocated Resources For County Mental Health Services Per Capita[a]

(Adjusted for county poverty levels)



[a] Data are for 25 largest counties.

DEPARTMENT OF MENTAL HEALTH—Continued

WHAT WORKS: PILOT PROJECTS IN CALIFORNIA AND REFORMS IN COLORADO

In recent years, the Legislature has utilized two strategies for enhancing Short-Doyle mental health services: categorical programs and pilot programs. In addition, the Legislature has (1) established a task force with a broad mandate to identify options by October 1991 for reforming the mental health system and (2) directed the Departments of Health Services and Mental Health to develop options for revising Medi-Cal services.

In the section that follows, we discuss some alternative structures for delivering mental health services that have been implemented (1) through legislation establishing pilot programs within California and (2) more broadly in Colorado, which is generally considered a leader in the mental health field.

Pilot Programs

The Legislature has enacted three major pilot programs to improve the effectiveness of local mental health programs.

Chapter 1207, Statutes of 1983 (SB 900, Maddy), allows the state and counties to negotiate a fixed funding amount for the provision of specified treatment services. Under the "SB 900 process," to the extent counties are able to provide services more cheaply than the negotiated amount, the funds can be "rolled over" into the next fiscal year for mental health-related activities. The Legislature made the SB 900 program permanent in 1990.

Chapter 1361, Statutes of 1987 (AB 377, Wright), and Ch 982/88 (AB 3777, Wright) established pilot programs to test, for children and adults respectively, how communities can more effectively and economically coordinate a comprehensive array of services for seriously mentally ill children and adults. These two pilot programs are designed to provide more structure and accountability in the provision of mental health treatment and support services.

As part of the pilot programs, the state and contractors have developed methods for measuring client outcomes, services, and costs. The results obtained from the projects to date suggest that the framework established for the pilots can dramatically improve the cost-effectiveness of the present system.

For example, the children's pilot project in Ventura County has reported successes on all of the outcome measures incorporated in the program's performance contract with the state. The two most significant outcomes are as follows: (1) the number of arrests after treatment of juvenile offenders has been reduced by roughly half and (2) Ventura's growth rate for group home placements has been substantially lower than that for the state as a whole.

It is unclear which of the specific programming approaches implemented in Ventura and at other pilot program sites are the most effective. However, our review indicates that the broad framework

established for the pilot projects point to specific reforms that would improve the delivery of mental health services in California. Specifically, the legislation implementing the pilots ensured that all of the pilot sites would share the following characteristics:

- A single point of responsibility.
- Clear target populations.
- Specific data collection requirements.
- Concrete outcome measures.
- Performance-based contracts with the state.
- Financial incentives to prevent costly and restrictive institutional forms of treatment.

Colorado's Experience

Colorado has implemented on a statewide basis an approach for delivering mental health services that incorporates components of (1) the SB 900 process and (2) performance-based contracts with nonprofit organizations as is the case with some of California's pilot sites for seriously mentally ill adults. In Colorado, the state is responsible for identifying target populations and funding services. Local mental health services are delivered under performance contracts with 19 nonprofit organizations and 1 county government. Colorado defines explicit performance objectives for service delivery and has established financial incentives for local mental health service providers to deliver cost-effective services.

For example, local service providers are allocated a specific number of state hospital beds. If the provider uses an amount above its allocation, it must pay the full cost of the placement. If the provider uses less than its allocation, a portion of the state's avoided costs are treated as a credit due to the provider in future years if the Legislature appropriates additional funds for mental health services.

As a comparison to California's approach to providing state hospital services, we reviewed state hospital utilization in Colorado. Colorado has established a system for close coordination between local program administrators and the state hospitals. For example, local mental health program administrators in Colorado are involved in all decisions regarding patient stays and discharges.

This coordination may be one of many potential factors that account for the much lower average length of stay for state hospital patients in Colorado. At the time of our analysis, Colorado reported that roughly 30 of 600 patients, or 5 percent, had been residing in its hospitals for more than six months. In contrast, the DMH reports that of 2,478 county patients in the state hospitals during November 1990, 1,858 patients, or *three-quarters* of the total, had been residing in the hospital for at least six months.

It is important to note that (1) Colorado's per-capita expenditures from all sources for public mental health services are slightly less than per-capita expenditures for such services in California and (2) Colorado's approach is a variation on similar frameworks implemented on a statewide basis in Ohio, Rhode Island, Vermont, and Wisconsin.

DEPARTMENT OF MENTAL HEALTH—Continued

COMMENTS AND RECOMMENDATIONS ON THE ADMINISTRATION'S PROPOSAL

Although the administration's proposal would represent a significant step in addressing the state's structural budget problem, and may offer benefits from increased county flexibility, our review indicates that the mental health portion of the proposal, as it is presently formulated, has significant negative aspects. Accordingly, we recommend that it be rejected.

We discuss below (1) our findings on the proposal, (2) the principles we believe the Legislature should follow to implement comprehensive reform of the state's mental health system, and (3) alternatives to the proposal that follow those principles and allow for a transfer of funding responsibility to local governments.

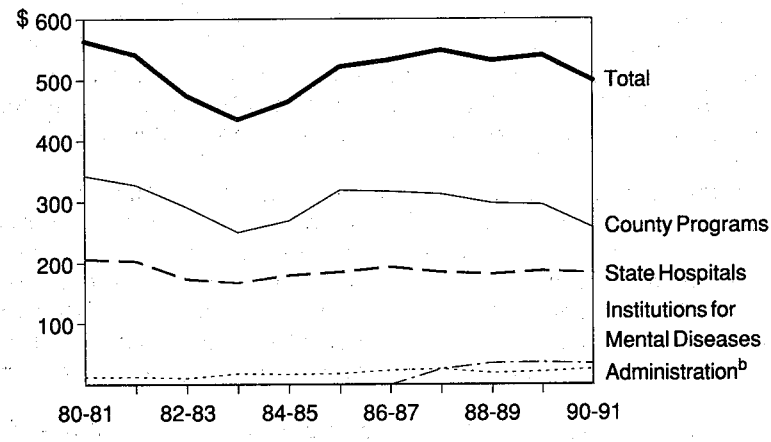
Comments on the Proposal

Fiscal Benefits for Counties Uncertain. The proposal offers a fiscal benefit to counties in that it would provide them with a stable funding source. As Chart 3 indicates, state funding for county mental health programs has varied considerably from year to year over the last 10 years. In contrast, the total vehicle license fee and alcohol tax revenues included in the administration's realignment proposal are likely to grow steadily in

Chart 3

California Department of Mental Health Appropriations By Program

1980-81 through 1990-91 (in millions)[a]



[a] Appropriations adjusted for inflation and population growth.
[b] Includes Conditional Release program.

future years. However, we estimate that the expected growth rate will not be sufficient to maintain current service levels in future years. Accordingly, the proposal is not likely to guarantee current levels of mental health services over the longer term.

Increase in County Flexibility Unclear. The administration's proposal may result in increased county flexibility, depending on the requirements that are established in the legislation that will be necessary to allocate the vehicle license fee and alcohol tax funds to counties. On one extreme, the legislation could allow counties to use the revenues for any county programs. In this case, counties would experience major gains in flexibility.

However, we note that if the counties wish to continue to receive approximately $130 million in federal Medi-Cal funds, it is unlikely that counties will experience significantly greater flexibility in operating their mental health programs than the Short-Doyle Act already allows. This is because provisions in federal law require "statewideness," quality assurance programs, and various additional standards to be maintained for programs where costs are being offset with federal funds.

Alternatively, the legislation could eliminate categorical program requirements. Our review indicates that the benefit from increased flexibility that would result in this case is somewhat limited. The majority of counties have funding needs that *exceed* the amount they are required to spend for services to specific populations. For example, most urban counties report funding needs for services to the homeless mentally ill that exceed the categorical level they are allocated for such services. In addition, the proportion of county allocations earmarked for specific purposes is fairly small. In the current year, categorical programs represent roughly 10 percent of total state funding for county mental health programs.

Proposal Would Not Protect State's Interest in Ensuring Effective Mental Health Programs. Our review indicates that the state has an interest in ensuring effective mental health programs for two reasons:

First, to the extent that service levels vary widely from one jurisdiction to another, there are significant concerns regarding (1) equity in access to a minimum level of service for citizens regardless of where they happen to live and (2) the possibility that local governments offering enhanced services will be burdened by "migration" from jurisdictions offering more limited services. Concerns regarding migration are especially significant in the case of mental health services because of the transitory nature of the seriously mentally ill population.

At the time of this analysis, it was unclear how or whether the administration's proposal would seek to ensure minimum service levels across counties.

Second, very seriously mentally ill persons who do not receive treatment can become dangerous to themselves and to others, due to the nature of severe mental illnesses. Mental health and law enforcement professionals have long contended that severely and chronically mentally ill persons who do not receive effective treatment in hospital and

DEPARTMENT OF MENTAL HEALTH—Continued

community-based settings frequently become incarcerated in jails and prisons. This hypothesis has not been proven in the academic literature. Several studies, however, have presented data that appear to offer strong support for it. For example, studies attempting to quantify the incidence of serious mental illness among jail and prison inmates have consistently found prevalence rates that exceed the rate that would be expected in the general population for those illnesses.

The administration's proposal, in our view, is not consistent with a view that the state holds an interest in assuring effective mental health programs because responsibility would be transferred to counties. Specifically, enactment of the administration's proposal would:

- Be inconsistent with the Legislature's recent efforts at implementing system reforms that may lead to better care for patients in a more cost-effective manner.
- Make permanent, for all intents and purposes, the existing system's lack of a single point of responsibility and accountability for effective delivery of mental health services.
- Preclude statewide replication of the framework that has produced impressive results in California's pilot programs and in other states such as Colorado.

Fragmented Responsibility for Patients Would Continue. The administration's proposal would also continue the fragmented responsibility for patients that characterizes the current system. Under the proposal, the state would continue to have responsibility for two of the three long-term care options, while the counties would assume complete responsibility for serving patients in the community. The administration's proposal does not address how it would resolve the problems we identified earlier in this analysis that result from program fragmentation. These include (1) poor coordination between the state and counties in providing treatment to patients and (2) little effective oversight regarding the cost-effectiveness of county programs.

Proposal Establishes Counter-Productive Fiscal Incentives. The administration's proposal would exacerbate the existing counter-productive fiscal incentives we discussed earlier in this analysis. Under the proposal, county costs for the most expensive and institutionalized forms of treatment would continue to be 15 percent of total costs for state hospitals and zero for treatment provided in IMDs. (In addition, placements in AFDC-FC group homes for children would continue to be available as an entitlement with a 5 percent county match.) At the same time, county costs for community-based services, which are less restrictive, generally more cost-effective, and are used to *prevent* institutionalized placements in the first place, could only be provided at 100 percent county expense.

Consequently, rather than encouraging alternatives to costly and restrictive institutionalized placements in state hospitals, IMDs, and foster care group homes, the proposal's financial incentives would encourage such placements. Over time, then, the administration's proposal would likely result in increased public costs for providing mental

health services and additional General Fund pressures at the state level to expand state hospitals, IMDs, and AFDC-FC group homes.

Uncertainties. Several aspects of the administration's proposal were not clear at the time of this analysis. For example, it is unclear (1) whether the administration proposes a mechanism to ensure minimum service levels across counties, (2) how the proposal would provide for movement towards equity in funding levels across counties as vehicle license fee revenues increase over time, and (3) how the state will continue to receive $130 million in federal Medi-Cal funds for community-based treatment. While these questions exist, we find that on balance, the proposal would result in serious fiscal and programmatic problems that are unlikely to be resolved when the areas of uncertainty are clarified.

Principles to Guide Reform

Given a state interest in assuring effective mental health services, and based on the preceding discussions of (1) problems with the current mental health delivery system and the administration's proposal and (2) the strengths of California's pilot programs and programs in other states, we believe the following principles would assist the Legislature in implementing needed reforms:

- *Make it Clear.* Establishing clear system goals and specific target populations ensures that (1) all levels of government know what is expected of them and (2) the Legislature's priorities for delivering mental health services are implemented consistently across the state. California's pilots require that first priority for community-based mental health services be given to seriously mentally ill persons (1) who are at greatest personal risk, (2) who are a public responsibility, and (3) for whom alternative treatment options would be the most costly.
- *Put Someone in Charge.* Mental health delivery systems that place final authority for programmatic direction at a single level of government have demonstrated success in achieving results. We believe programmatic control and funding should be linked. Our review indicates this is a crucial step in order for the Legislature to ensure accountability.
- *Allow Flexibility — Expect Results.* Many successful programs allow those responsible for delivering services at the local level some flexibility in determining what specific treatment options they wish to implement. However, local program administrators remain responsible for demonstrating clear standards for service delivery and for achieving results. This approach allows the Legislature to balance the value it has placed on local innovation with the need to ensure that state funds are used effectively.
- *Make Better Services Cheaper.* Through incentives for avoiding acute hospitalization and amendments in their state Medicaid plans, several states have developed fiscal incentives that are in line with sound programmatic approaches. Appropriate fiscal incentives allow

DEPARTMENT OF MENTAL HEALTH—Continued

the Legislature to rely on the cost of services to help it achieve programmatic results.

- *Expect People to Work Together.* Children and adults with serious mental illnesses generally have other health and social service needs. They enter the public social welfare system through schools; county welfare, health, and mental health departments; and the courts. A successful system needs to require formal interagency collaboration to combine resources and to ensure that mentally ill persons meeting target population definitions receive mental health services.
- *Establish Regional Agencies When Appropriate.* An efficient system must allow for regional service delivery to maximize economies of scale. Colorado has 20 regional "catchment areas," of which only one is a single county. We believe this is especially important in California, given that county populations range from 1,200 in Alpine to 8 million in Los Angeles.
- *Get Results.* California's pilots and other states have established concrete outcome measures that are closely linked to their target populations. For example, for the children's pilot program, the target population includes those seriously emotionally disturbed children who are at risk of (1) being separated from their families, (2) dropping out of school, or (3) going to jail. Accordingly, the outcome measures used to evaluate the pilot's success include whether the pilot has significantly reduced (1) out-of-home placements, (2) school drop-out rates, (3) jail "recidivism," and (4) acute hospitalizations. In addition, the pilot sites are required to collect data that link services costs and outcomes in order to track the cost-effectiveness of treatment strategies. A results-oriented system not only benefits clients but establishes a mechanism for achieving accountability and cost-effectiveness.

Reforms Should be Implemented Now

Whether or not the Legislature includes mental health programs in a state-county realignment, we recommend that the Legislature enact legislation to implement comprehensive reform of the current mental health delivery system. Based on the principles we have identified above, we recommend that the programmatic framework established under the pilot programs be enacted on a statewide basis.

Given the state's interest in ensuring effective mental health services, such legislation should identify the DMH as having final responsibility for ensuring effective mental health services in the state. To accomplish this, we recommend that the legislation specify (1) clear target populations, (2) detailed data collection requirements, and (3) concrete outcome measures. The legislation should also require case management services for mentally ill persons fitting the target population definition. This will ensure a single point of responsibility for coordinating services at the local level for every patient. These recommendations are consistent with the findings of the pilot projects, the experience of other states, and our observations in site visits to various counties.

In addition, we recommend that the legislation modify and expand the SB 900 contract framework, which provides fiscal incentives to provide appropriate services in the least expensive manner possible. We recommend that the reform legislation modify the SB 900 framework to require *performance-based* contracts with all counties in the state, based on specific target populations and outcome measures contained in the legislation.

Legislation with these components would (1) give clear legislative direction regarding priorities for mental health service delivery, (2) allow the Legislature to hold the DMH accountable for effective mental health services throughout the state, (3) ensure a clear point of responsibility at the county level for integrated service delivery to each patient, and (4) give counties a financial incentive to provide cost-effective services. This approach also would maintain the Legislature's ability to move toward equity among counties over time, and make further reforms based on data showing which program configurations produce results.

Realignment Alternatives

If, in light of the state's structural budget problem, the Legislature chooses to include mental health programs in a state-county realignment to achieve General Fund savings of roughly the amount proposed by the administration, we have identified two options that the Legislature may wish to consider in lieu of the administration's proposal. These options would allow the Legislature to avoid most of the serious programmatic and fiscal problems we have identified above. Both options would involve:

- Increasing county costs for mental health programs.
- Offsetting such costs with the revenues that are incorporated in the administration's proposal.
- Maintaining a significant level of state funding for community-based programs in order to implement the broader system reforms we have recommended.

We discuss these options below.

Transfer Funding for 24-Hour Care Services. First, the Legislature could transfer responsibility for 24-hour care and case management services. Specifically, the budget proposes the following expenditures that could be incorporated in a transfer to counties to achieve General Fund savings:

- $322.6 million for state hospitals and IMDs.
- $3.7 million for case management services.
- $18.4 million for the board-and-care home supplemental rate program. Of this amount, $16.6 million is incorporated in the administration's realignment proposal.
- At least $50 million for 24-hour care provided in acute county hospitals, also incorporated in the administration's proposal.

A transfer of these program costs would result in a General Fund savings of at least $394.7 million for 1991-92.

DEPARTMENT OF MENTAL HEALTH—Continued

This option would provide fiscal incentives for counties to deliver the least restrictive and less expensive mental health services. This is because counties would pay only 10 percent of the costs for providing community-based treatment, while they would incur 100 percent of the costs for providing treatment in institutional settings.

However, enacting this option would create fiscal disincentives for counties to deliver institutional care to patients who may require that type of care. To counteract this, the Legislature could require that the transferred funds be earmarked for the purpose of providing acute 24-hour care, long-term care, or case management services for seriously mentally ill patients. This would not create a mandate under the State Constitution as long as no specific service levels are imposed, and would ensure that current funding levels for long-term care would be maintained within the state.

Finally, by incorporating case management in the transfer, to the extent counties may be able to reduce costs for institutional 24-hour and long-term care through additional case management services, they would retain the flexibility to do so.

Require A 50 Percent County Match for All Mental Health Services. Alternatively, the Legislature could enact changes in the current sharing ratios for mental health services. Under current law and practice, required sharing ratios for most counties range from zero for IMD placements to 15 percent for 24-hour hospitalization. However, the Legislature could increase the sharing ratios to require a 50 percent county match for *all* mental health services. Based on proposed expenditures for 1991-92 (including those incorporated in the administration's proposed transfer), this option would result in General Fund savings of approximately $391.5 million in 1991-92.

Under this option, the Legislature could require that the transferred funds be expended only for the purposes of providing mental health services in accordance with county performance contracts. In addition, the Legislature could allow counties to purchase on an annual basis the number of state hospital, IMD, and board-and-care home beds they require for long-term care.

This option would establish programmatically sound fiscal incentives because counties would incur the proportionate cost of various treatment options for the mentally ill. The Legislature could also assure, as part of this option, that current service levels for the delivery of mental health services are maintained throughout the state. It is important to note, however, that to the extent the Legislature might in the future appropriate additional funds for mental health services in excess of the roughly 8 percent annual growth rate for the revenue sources proposed for transfer, this option may require the Legislature to fund 100 percent of county costs specifically associated with any such program growth due to the mandate provisions of the State Constitution.

Conclusion. Adoption of either of these options would allow the Legislature to enact the specific reforms we have identified and would

lead to improvements relative to the current system. However, it is important to note that both of these options would transfer some degree of funding responsibility to counties, due to the requirement that vehicle license fee revenues be distributed to local governments.

Given the state's interest in ensuring sound, cost-effective mental health programs and the importance of linking programmatic direction with funding responsibility, we believe (1) maintaining state funding for all components of the mental health system and (2) enactment of the various reforms discussed earlier in this analysis would lead to the more comprehensive reform we believe is warranted. This approach would require the Legislature to identify either (1) a revenue source other than the vehicle license fee in order to maintain funding for mental health programs at approximately their current-year levels or (2) another program that could be transferred to local governments.

Short-Doyle/Medi-Cal Administration

We withhold recommendation on $1.1 million in Item 4440-101-001 to fund additional positions for Short-Doyle/Medi-Cal audits and administration, pending additional information regarding how the proposal would be affected by the local programs "realignment."

The department proposes increases of $1.1 million in the local assistance budget item, $739,000 in the support budget item, and $975,000 in its reimbursement authority, to fund 26 positions for additional administrative functions related to the Short-Doyle/Medi-Cal Program. The Short-Doyle/Medi-Cal Program allows counties to receive federal reimbursements for mental health services provided to Medi-Cal eligible beneficiaries. The program is administered by the DMH under an interagency agreement with the Department of Health Services.

The DMH reports that its proposal is in response to various reviews by the federal Health Care Financing Administration (HCFA) and the Office of the Inspector General for the federal Department of Health and Human Services that have identified deficiencies in the department's administration of the Short-Doyle/Medi-Cal Program. The deficiencies include inadequacies in (1) the number of fiscal audits of Short-Doyle/Medi-Cal services provided through county mental health programs, (2) the number of utilization reviews for such services, and (3) automated tracking of services and expenditures for all Short-Doyle mental health services, including those billed through the Short-Doyle/Medi-Cal system.

At the time of our analysis, it was not clear how this proposal would be affected by the administration's proposal for realignment of local mental health programs. For example, it is not clear whether the HCFA would continue to approve the interagency agreement that allows mental health services to be billed through a program separate from the broader Medi-Cal Program if counties are given complete discretion to determine the level of mental health services offered. Such an approach would appear to violate the "statewideness" provisions of federal law governing Medi-Cal.

DEPARTMENT OF MENTAL HEALTH—Continued

In addition, the department's proposal assumes that the proposed positions can be maintained on a continuing basis solely through funds recovered from counties due to determinations that state funds have been inappropriately expended. To the extent that the administration's proposal to eliminate virtually all state funds for county mental health programs is enacted, this assumption may be optimistic. Presumably, these issues will need to be addressed in any legislation to implement the administration's realignment proposal.

Because the proposal will need to be evaluated in the context of the administration's forthcoming legislative proposal to initiate the local programs realignment, we withhold recommendation on the additional positions.

4. SPECIAL EDUCATION PUPILS

We withhold recommendation on the $15.1 million proposed for mental health services to special education pupils until the May revision of the budget, pending receipt of (1) a legislatively mandated report by the Health and Welfare Agency and the Superintendent of Public Instruction, (2) additional caseload and cost information, and (3) proposed legislation to provide mental health services to elementary school pupils.

Chapter 1747, Statutes of 1984 (AB 3632, Willie Brown), and Ch 1274/85 (AB 882, Willie Brown) mandated local mental health programs to provide assessment, treatment, and case management services to special education pupils referred to them by school districts. These services are to be provided pursuant to a child's individualized education plan (IEP) if necessary for the child to benefit from his/her education.

The budget includes $15.1 million from the General Fund for mental health assessment, treatment, and case management costs of special education pupils. In addition, the budget for local programs, Item 4440-101-001, includes $675,000 in federal reimbursements for Short-Doyle/Medi-Cal services to special education pupils, for a total of $15.8 million in proposed expenditures. Accordingly, the budget proposes to continue expenditures for this program at the same level that has been appropriated for the last three years.

Our review indicates that there are three pieces of information that will assist the Legislature in its review of the budget for this program. We discuss these below.

Health and Welfare Agency Report Due. The *Supplemental Report of the 1990 Budget Act* requires the DMH, at the direction of the Health and Welfare Agency, and the Superintendent of Public Instruction to convene a work group to review and make recommendations on a variety of issues related to the delivery of mental health and other services to special education pupils that have been of longstanding concern to the Legislature. These include:

- Maximizing federal financial participation.

- Ensuring compliance of the program with the California State Plan for Part B of the federal Education of the Handicapped Act to assure no loss in federal special education funds.
- Resolving various issues that have prevented the adoption of final regulations for the program.

The agency and the Superintendent of Public Instruction indicate they will make recommendations to comply with the reporting requirement by March 1, 1991.

Caseload and Cost Estimates Unrealistic. Because the department's budget for special education pupils continues current-year expenditure levels, it assumes that there will be *no* net increase in the budget year in pupils identified as needing mental health treatment, and that the cost for providing these services will not increase. This assumption is not based on any supporting data and in our judgment is unrealistic given recent and projected caseload growth for these pupils. Accordingly, we recommend that the department provide updated caseload and cost estimates for the program to allow the Legislature to make an informed decision regarding the appropriate level of expenditures for the program in the budget year.

Governor's Initiative to Provide Mental Health Treatment to Elementary School Pupils May Affect Legislative Deliberations on This Program. The Governor's Budget document proposes $10 million in General Fund expenditures to begin providing mental health services to elementary school pupils. At the time of our analysis, the proposed legislation to implement this proposal had not yet been introduced. (These funds are not included in the Budget Bill but are shown in the Governor's Budget as reserved for pending legislation.) Because the types of services that presumably will be offered in the Governor's proposal are very similar to those provided through this program, we believe the Legislature may wish to consider the special education pupils portion of the DMH budget in light of the Governor's proposed legislation.

Because the (1) pending report, (2) updated caseload and cost information, and (3) proposed legislation would assist the Legislature in its review of the proposed budget for special education pupils, we withhold recommendation until the May revision of the budget.

5. INSTITUTIONS FOR MENTAL DISEASES

The budget proposes a total of $96.4 million to fund the administration, care, and treatment of mentally disabled patients in institutions for mental diseases (IMDs). (An IMD is a facility that, prior to August 1987, was classified as a skilled nursing facility with special treatment programs.) However, the budget document also proposes to allocate $3.3 million of the proposed unallocated reduction (which is described earlier in this analysis) to the IMD Program, resulting in $93.1 million in net expenditures. Accordingly, the budget proposes a net increase of $8 million, or 9.5 percent, over estimated current-year expenditures.

DEPARTMENT OF MENTAL HEALTH—Continued

Budget Overstates IMD Treatment Costs

We recommend (1) a General Fund reduction of $598,000 in the amount budgeted for treatment costs of IMD services and (2) a conforming augmentation of $598,000 in reimbursements for additional SSI/SSP receipts to correct for overbudgeting. We further recommend a General Fund reduction of $386,000 to more accurately reflect the timing of beds that are proposed to be added. (Reduce Item 4440-141-001 by $984,000 and increase reimbursements by $598,000.)

The budget proposes net expenditures of $93.1 million to fund the care and treatment of mentally ill persons in IMDs. The $93.1 million consists of $80.4 million from the General Fund and $12.7 million in reimbursements from SSI/SSP payments to eligible beneficiaries. (Other revenues are collected by facilities and therefore are not incorporated in the budget.) The proposed amount results in 3,851 *funded* beds, an increase of 219 beds, or 6 percent, over the current-year level.

The amount the state compensates IMD providers for treatment costs is based on gross IMD treatment costs less "share of cost" and "other patient revenue" collected by IMD providers on behalf of patients. "Share of cost" and "other patient revenue" include such sources as a patient's Social Security income, 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 $7.5 million, and SSI/SSP reimbursements are estimated to be $13 million, thereby reducing the states share of treatment costs by $20.5 million.

SSI/SSP Reimbursements. As mentioned, the budget for 1991-92 is based on collections of 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 $288 per month during the first half of calendar year 1990, the most recent period for which complete data are available. Based on these data, we estimate the department will collect $598,000 more than the $12.7 million estimated for SSI/SSP reimbursements. The $598,000 could be used to offset General Fund expenditures by a similar amount.

Bed Phase-In. In addition, the department assumes that the 219 IMD beds proposed in the budget will be in place and accepting clients on the first day of the 1991-92 fiscal year. This is because the department generally provides additional IMD services by expanding its contracts with existing facilities rather than by building new facilities.

Our review indicates, however, that the department consistently has encountered at least a one-month delay before facilities with new state-funded beds actually are able to begin accepting clients. Presumably, the delay has resulted because providers must wait to admit state-funded clients until clients whose care is funded from other sources

are discharged. Accordingly, we estimate that the department will incur treatment costs of up to $4.2 million for the 219 IMD beds, or at least $386,000 less than the budgeted amount.

We therefore recommend (1) a General Fund reduction of $598,000 due to overbudgeting of the state's share of the treatment costs for the proposed 3,851 IMD beds, (2) an increase of the same amount in the department's reimbursement authority for SSI/SSP receipts, and (3) a General Fund reduction of $386,000 to more accurately reflect when facilities with new or expanded IMD contracts will actually begin accepting state-funded clients. Given the department's historical expenditure patterns, these recommendations would not affect the level of IMD services proposed in the Governor's Budget.

IMD Program Changes Would Reduce Administration and Treatment Costs

The IMD Program was established in 1987-88 due to a federal determination that federal Medicaid funds may not be used to fund nursing care for persons with mental disabilities. The state was forced to abruptly assume responsibility for the program, and to initiate procedures for covering the cost of treatment for persons in IMD facilities. As we have described previously, the costs for IMD treatment services are met through three sources: (1) "share of cost" and "other patient revenue," collected by IMD providers; (2) SSI/SSP reimbursements, collected by the department; and (3) a General Fund appropriation, which pays for the remainder of treatment costs.

When the department established these funding arrangements, they were intended to be temporary. In 1987 the department's long-term plan proposed to turn over the operation of the IMD Program to counties by early 1989-90. Since that time, negotiations between the department and counties to transfer the program have been unsuccessful. The department also originally intended to transfer responsibility for collection of SSI/SSP reimbursements to providers, which has not occurred. Finally, the department's procedures for estimating "share of cost" and "other patient revenue" collections by providers have remained unchanged, and the department appears to have exercised little oversight to ensure that the amounts collected by facilities are appropriate.

Our review indicates that the present framework for providing IMD treatment services needs substantial changes. We discuss these issues below.

More Effective Collections Procedures Needed

We recommend that the Legislature adopt Budget Bill language directing the department to conform its procedures for collecting "share of cost" and "other patient revenues" in the IMD Program to the billing procedures that currently apply to nursing facilities that want to be reimbursed by Medi-Cal.

The department requires IMD providers to undertake "reasonable efforts" to collect reimbursements from "share of cost" or "other patient revenue" sources, and estimates the amount facilities will collect based on prior-year averages. The estimated collection amount is deducted

DEPARTMENT OF MENTAL HEALTH—Continued

from a facility's gross treatment costs to determine the General Fund amount the state is contractually obligated to pay the IMD provider.

We have three concerns with this approach. First, the department's estimates for the amount that *new* IMD providers will collect continues to be based on data collected in 1986-87, before the establishment of the IMD Program. At that time, the department reviewed "share-of-cost" amounts for Medi-Cal patients in nursing facilities and determined that such revenues could be expected to equal 3.3 percent of treatment costs. However, the department's data regarding the actual collections experience of existing IMD facilities in 1989-90 indicate that "share of cost" and "other patient revenues" covered 8.9 percent of treatment costs, or *nearly three times* the rate the department continues to assume for new facilities. In the current year, had the department expected new facilities to collect share-of-cost revenues at a rate equal to the average rate of existing facilities, the state would have saved $388,000 in treatment costs.

Second, the department's method of using prior-year averages gives the Legislature only limited information from which to determine what the actual collection rates, and therefore the state's share of treatment costs, should be. Our review indicates that collection rates vary from 3 percent to 34 percent of treatment costs, depending on the facility. Although significant variation may be due to different patient populations, we are concerned that the variability may also reflect different procedures and levels of effort on the part of IMD providers to collect "share of cost" and "other patient revenues."

Finally, the department's monitoring and oversight of share of cost and other patient revenues is very limited. For example, although actual collections fell approximately 10 percent below what the department estimated would be collected in 1989-90, and have fallen an additional 10 percent in the current year, the department reports it has reviewed the collection procedures of a single provider only, and on only *one* occasion in the last 18 months.

Our review indicates that the department could, by making relatively minor changes to its contracting and monitoring procedures, collect more share of cost and other patient revenues. This would result in savings to the General Fund. Our recommendations follow.

Recommendations to Increase Collection of Share of Cost and Other Patient Revenues. First, we recommend that the Legislature direct the department to require IMD providers to submit data regarding patient eligibility for share of cost and other patient revenues according to information obtained upon admission from patients' Medi-Cal cards. (All state-funded patients served in IMDs should be Medi-Cal-eligible. Although Medi-Cal does not cover treatment costs for patients in IMDs, Medi-Cal cards reflect a comprehensive listing of benefits to which patients are entitled, and IMDs already are required to submit patient Medi-Cal numbers to the department.)

Second, we recommend that the Legislature direct the department to verify the provider data regarding share of cost and other patient

revenues with the Department of Health Services (DHS). This information is contained on computer tapes, and verification would be a relatively straightforward procedure. The department reports that it has had preliminary discussions with the DHS on this subject but that no agreement has been reached.

Finally, we recommend that the Legislature adopt Budget Bill language directing that the department's contracts with IMD providers (1) require providers to bill "share of cost" and "other patient revenue" sources for treatment costs before submitting claims for treatment costs to the state and (2) require providers to submit documentation that this procedure has been followed *before* the state will reimburse providers for the remainder of treatment costs.

Enactment of these recommendations would effectively conform the department's procedures for collecting "share of cost" and "other patient revenues" to the billing procedures that currently apply to nursing facilities wishing to be reimbursed by Medi-Cal. Finally, to the extent that the proposed collection procedures result in additional collections of "share of cost" and "other patient revenues," the state's share of IMD treatment costs would be reduced.

Collections of SSI/SSP Should be Transferred to Providers

We find that enactment of legislation to transfer responsibility for collection of SSI/SSP reimbursements to IMD service providers would result in substantial General Fund savings.

In our *Analysis of the 1990-91 Budget Bill,* we recommended that the Legislature take steps to initiate a transfer of SSI/SSP collection responsibility because, as the department has indicated previously, facility operators are in the best position to recover SSI/SSP payments. This is because providers have direct contact with the patient and the patient's designated payee.

Accordingly, the Legislature adopted language in the 1990 Budget Act requiring the transfer of SSI/SSP collection responsibilities to providers, subject to the enactment of legislation giving IMD providers statutory authority to collect the board-and-care portion of SSI/SSP grants. The language further required the department to report by April 1, 1990 on specific steps that would facilitate the transfer in 1991-92, if legislation authorizing providers to collect SSI/SSP revenues was not enacted.

Because legislation was not enacted, the department recently has submitted a draft of the required report. Our preliminary review of this report indicates that the department's efforts on this issue have been commendable. The report contains a draft of urgency legislation that the department indicates will be introduced in the current legislative session to give IMD providers statutory authority to collect SSI/SSP reimbursements. In addition, the draft report indicates the department's intent to transfer collection responsibility effective July 1, 1991.

The department estimates that up to $1 million in additional SSI/SSP collections would be available in 1991-92 due to improved collections by providers and that additional interest savings and further improvements

DEPARTMENT OF MENTAL HEALTH—Continued

in collections would result in General Fund savings exceeding $2 million for 1992-93 and annually thereafter. However, the department does not anticipate administrative savings until 1993-94.

We concur that enactment of legislation to transfer SSI/SSP collections would result in substantial General Fund savings as indicated by the department.

No Systematic Bed Allocation Methodology

We recommend that the Legislature adopt Budget Bill language specifying an allocation methodology for IMD beds to ensure that allocations reflect county needs for services and that county costs are minimized to the extent possible.

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 (1) results in treatment services being provided without regard for the need for mental health services generally in a given county, (2) potentially exacerbates disparities among counties in state allocations for other 24-hour care services, and (3) increases competition between counties for available beds.

In some cases, additional funds are expended by counties, increasing public costs for IMD placements. For example, the department informs us that some counties, in order to ensure their 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. Accordingly, 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.

We recommend that the Legislature adopt Budget Bill language specifying an allocation method for IMD beds. However, because legislative action on the proposed "realignment" of local mental health programs may affect the IMD Program, we do not recommend a specific allocation method for inclusion in Budget Bill language at this time. We will make a recommendation following legislative deliberations on the proposed "realignment" in the spring.

Counties Should Pay a Portion of IMD Treatment Costs for County Clients

We recommend a reduction of $11.9 million in the amount budgeted for IMD treatment services (Item 4440-141-001). We further recommend that the Legislature adopt Budget Bill language requiring a county match for those counties wishing to utilize treatment services provided in IMDs.

Under current law, counties pay 15 percent of net treatment costs for services in all types of long-term 24-hour care facilities for mentally ill persons except IMDs and board-and-care homes. The state pays the remaining 85 percent of net treatment costs.

The department proposes to continue 100 percent state funding for 24-hour care services provided in IMDs for 1991-92. We do not believe there is any analytical justification for continuing this practice. The current approach provides a substantial incentive for counties to place patients in IMDs, whether or not patients require a skilled nursing level of care. In addition, it is inconsistent with existing requirements that counties share in the costs of virtually all other treatment options under the Short-Doyle Act.

Implementing the same 85 percent/15 percent sharing ratio for IMD services would result in a General Fund savings of $11.9 million for 1991-92. These recommendations would (1) ensure that counties share in the cost for IMD services as is the case for all other treatment options under the Short-Doyle Act and (2) eliminate the current financial incentive to place patients in IMDs irrespective of patients' treatment needs. Accordingly, we recommend that the Legislature delete $11.9 million in the amount budgeted for IMD treatment services and adopt Budget Bill language in Item 4440-141-001 requiring a county match for counties wishing to use such services. The following language is consistent with this recommendation:

> For the purposes of Section 5705 of the Welfare and Institutions Code, it is the intent of the Legislature that Institutions for Mental Diseases be considered 24-hour hospital services. Accordingly, a county shall have access to state-funded IMD beds provided that the county pays 15 percent of net treatment costs.

To the extent counties choose to maintain existing service levels, this action would require increased county expenditures of the same amount.

Department Not in Compliance With Federal Nursing Home Reform Act

We recommend that the department report to the Legislature prior to budget hearings on the steps it will initiate in 1991-92 to comply with the nursing home reform provisions of the federal Omnibus Budget Reconciliation Act of 1987 (OBRA 87).

Background. OBRA 87 made major changes in federal Medicare and Medicaid laws related to nursing facilities. One intent of OBRA 87 was to address concerns that mentally ill persons 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 mentally ill 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 required 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 in 1989-90. The department received permission

DEPARTMENT OF MENTAL HEALTH—Continued

from the federal Health Care Financing Administration (HCFA) 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 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.

In our *Analysis of the 1990-91 Budget Bill,* we noted that the department had not begun to transfer patients pursuant to the requirements of the ADP. Based on our recommendation, the Legislature adopted Budget Bill language assigning first priority for new IMD beds to patients requiring transfer from nursing homes due to the results of PASARR screens. This language, however, was vetoed by the Governor.

Impact Smaller Than Anticipated; Transfer of Patients Still Hasn't Begun. Recently, we reviewed a departmental draft of a report assessing various issues regarding implementation of the ADP, as required by the *Supplemental Report of the 1989 Budget Act.* The draft report indicates that the number of patients needing to be transferred to more appropriate placements is much smaller than originally anticipated, and that the department has not yet begun to transfer patients as required in the ADP. The draft report appears to indicate that both state hospitals and IMDs will be affected by the transfer provisions of the ADP, in addition to community placements.

California already has experienced strong reactions from the HCFA for not complying with other provisions of OBRA. For example, the HCFA has withheld federal funds for licensing and certification reviews of nursing facilities performed by the Department of Health Services (DHS). According to the DHS, this action has resulted in a General Fund revenue loss of approximately $25 million for the current and budget years.

Because of the potential loss of substantial federal funds, we recommend that the department report to the Legislature prior to budget hearings on its plans for complying with the transfer provisions of the ADP.

Capital Outlay

The Governor's Budget proposes an appropriation of $814,000 in Item 4440-301-036 for capital outlay expenditures in the DMH. 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 139

Requested 1991-92	$5,810,643,000
Estimated 1990-91	5,366,319,000
Actual 1989-90	4,500,429,000
Requested increase $444,324,000 (+8.3 percent)	
Total recommended reduction	3,433,000
Increased revenues to the General Fund	4,633,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5100-001-001—Support	General	$23,250,000
5100-001-184—Support	Benefit Audit	8,059,000
5100-001-185—Support	Contingent	25,583,000
5100-001-514—Support	Employment Training	95,087,000
5100-001-588—Support	Unemployment Compensation Disability Insurance	107,438,000
5100-001-869—Support	Consolidated Work Program	59,577,000
5100-001-870—Support	Unemployment Administration	402,742,000
5100-001-871—Support	Unemployment Trust — Reed Act	736,000
5100-001-908—Support	School Employees	603,000
5100-011-890—Support	Federal Trust	(402,742,000)
5100-021-890—Support	Federal Trust	(59,577,000)
5100-031-890—Support	Federal Trust	(736,000)
5100-101-588—Local assistance	Unemployment Compensation Disability Insurance	2,407,630,000
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	2,427,825,000
5100-101-890—Local assistance	Federal Trust	(222,299,000)
5100-101-908—Local assistance	School Employees	16,679,000
5100-111-890—Local assistance	Federal Trust	(2,430,735,000)
Reimbursements	—	25,025,000
Unemployment Insurance Code Section 1586	Contingent	400,000
Reimbursement to Federal Government	School Employees	-15,200,000
Total		$5,810,643,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. ***Unemployment Insurance Management Information System. Reduce Item 5100-001-185 by $3,433,000.*** Recommend deletion because the department has not justified the need for the project and because the proposed funding source is inappropriate. This recommendation would increase the amount transferred to the General Fund in 1991-92, and thereby the amount of General Fund available for appropriation, by $3,433,000. — 728

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

2. ***Employment Training Fund Balance. Reduce Item 5100-001-514 by $1.2 million.*** Recommend transferring $1.2 million balance to the General Fund. 732

GENERAL PROGRAM STATEMENT

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

In addition, the department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their UI contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The department has 10,596.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $5.8 billion from various funds for support of the EDD in 1991-92. This is an increase of $444 million, or 8.3 percent, above estimated current-year expenditures. Of the total amount proposed, $4.8 billion is for the payment of UI and DI benefits, and $971 million is for various other programs and administration.

The $971 million proposed for other programs and administration is $124 million, or 11 percent, below estimated current-year expenditures. This reduction is due primarily to two factors. First, the budget shows a $116 million reduction in funds available for the Job Training Partnership Act (JTPA) Program because the current-year budget includes $88 million in local assistance funds reappropriated from the previous year and $30 million in new federal funds. Although not shown in the budget document, a comparable level of JTPA funds will likely be carried over into the budget year, thus offsetting this reduction. Second, the budget shows a $30 million decrease in funds available for the Employment Training Panel (ETP) because the current-year budget includes $52 million in funds carried over from the prior year. It also is likely that a significant level of ETP funds will be carried forward into the budget year.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

Table 1

Employment Development Department
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change From 1990-91 to 1991-92 Amount	Percent
Employment programs:					
Employment service	$125,380	$138,093	$139,466	$1,373	1.0%
GAIN county reimbursable	9,244	15,420	15,768	348	2.3
Service center	7,212	7,889	8,186	297	3.8
Job agent	3,200	3,411	3,535	124	3.6
Job service reimbursable	1,318	3,646	3,718	72	2.0
Subtotals, employment programs	($146,354)	($168,459)	($170,673)	($2,214)	(1.3%)
Employment Training Panel	$137,091	$96,149	$65,783	−$30,366	−31.6%
Job Training Partnership Act (JTPA):					
Administrative cost pool	$8,996	$10,204	$12,652	$2,448	24.0%
Incentive awards and technical assistance	9,560	10,237	10,237	—	—
Older workers	5,973	5,433	5,433	—	—
Educational linkages	17,102	14,487	14,487	—	—
Special local projects	1,092	364	364	—	—
Displaced workers	30,205	49,847	28,071	−21,776	−43.7
Veterans	513	800	800	—	—
Adult and youth training	163,873	168,238	141,251	−26,987	−16.0
Summer youth	72,800	138,295	68,581	−69,714	−50.4
Subtotals, JTPA	($310,114)	($397,905)	($281,876)	(−$116,029)	(−29.2%)
Unemployment Insurance (UI):					
Administration	$264,841	$298,332	$309,835	$11,503	3.9%
Benefits	1,881,546	2,277,830	2,432,214	154,384	6.8
Subtotals, UI	($2,146,387)	($2,576,162)	($2,742,049)	($165,887)	(6.4%)
Disability Insurance (DI):					
Administration	$88,059	$101,596	$108,484	$6,888	6.8%
Benefits	1,642,583	1,993,470	2,407,630	414,160	20.8
Subtotals, DI	($1,730,642)	($2,095,066)	($2,516,114)	($421,048)	(20.1%)
Personal income tax collections	$24,069	$26,708	$27,571	$863	3.2%
Employment training tax collections	2,808	2,981	3,116	135	4.5
General administration, undistributed	2,964	2,889	3,965	1,076	37.2
Unallocated trigger reduction	—	—	−504	−504	—
Total budget	$4,500,429	$5,366,319	$5,810,643	$444,324	8.3%
(Program)	($976,300)	($1,095,019)	($970,799)	(−$124,220)	(−11.3%)
(UI and DI benefits)	($3,524,129)	($4,271,300)	($4,839,844)	($568,544)	(13.3%)
Funding Sources					
General Fund	*$29,671*	*$23,338*	*$23,250*	*−$88*	*−0.4%*
Outer Continental Shelf Land Act Fund	*350*	—	—	—	—
Benefit Audit Fund	*6,066*	*7,889*	*8,059*	*170*	*2.2*
EDD Contingent Fund	*32,716*	*21,140*	*25,983*	*4,843*	*22.9*
Employment Training Fund	*139,899*	*125,021*	*95,087*	*−29,934*	*−23.9*
Disability Fund	*1,729,696*	*2,094,044*	*2,515,068*	*421,024*	*20.1*
Consolidated Work Program Fund	*310,114*	*397,905*	*281,876*	*−116,029*	*−29.2*
Unemployment Administration Fund	*360,638*	*396,109*	*405,652*	*9,543*	*2.4*
Unemployment Fund — Federal	*1,864,049*	*2,258,568*	*2,413,361*	*154,793*	*6.9*
State Legalization Impact Assistance Grant	—	*548*	—	*−548*	*−100.0*
School Employees Fund	*15,150*	*16,853*	*17,282*	*429*	*2.5*
Reimbursements	*12,080*	*24,904*	*25,025*	*121*	*0.5*

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

ANALYSIS AND RECOMMENDATIONS

General Fund and Contingent Fund Requests

The budget proposes a total appropriation of $49 million from the General Fund ($23 million) and the EDD Contingent Fund ($26 million) to support the EDD in 1991-92. This represents a net increase of $4.8 million, or 11 percent, from these funds as compared with estimated current-year expenditures. The EDD Contingent Fund is composed of revenues from penalties and interest charges levied against employers who pay their taxes late. Of these funds, penalty revenues 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 the Employment Training Tax (ETT) remain in the 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 increase of $4.8 million. Several of the individual changes are discussed later in this analysis.

Table 2
Employment Development Department
Proposed 1991-92 General and Contingent Fund Budget Changes
(dollars in thousands)

	General Fund	*Contingent Fund*	*Totals*
Funds available, 1990 Budget Act	$22,944	$20,551	$43,495
Baseline adjustments			
Salary, benefit, and price increase	$615	$295	$910
Retirement rate reduction	−221	−106	−327
Subtotals, baseline adjustments	($394)	($189)	($583)
Interest on refunds and judgments	—	$400	$400
1990-91 expenditures (revised)	$23,338	$21,140	$44,478
Baseline adjustments			
Elimination of one-time costs for Job Service (JS) Automation System	—	−$3,906	−$3,906
Elimination of one-time costs for UI Appeals Board Automation System	—	−1,525	−1,525
Elimination of one-time costs for auditors	—	−622	−622
Salary, benefit, and price increase	$416	200	616
Adjustments for one-time expenditures	—	145	145
Unallocated trigger reduction	−504	—	−504
Subtotals, baseline adjustments	(−$88)	(−$5,708)	(−$5,796)
Program changes			
First-year operating costs of JS Automation System	—	$3,870	$3,870
Expansion of personal income tax collection and auditing activities	—	591	591
UI Management Information System	—	3,433	3,433
Increased rent costs	—	2,657	2,657
Subtotals, program changes	(—)	($10,551)	($10,551)
1991-92 expenditures (proposed)	$23,250	$25,983	$49,233
Change from 1990-91 (revised):			
Amount	−$88	$4,843	$4,755
Percent	−0.4%	22.9%	10.7%

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

- A $3.9 million reduction due to elimination of one-time expenditures for the Job Service Automation System (JSAS). This reduction is offset by a $3.9 million increase to reimburse the Health and Welfare Agency Data Center for its first full-year costs of operating the JSAS.
- A $1.5 million reduction due to the elimination of one-time expenditures for the UI Appeals Board Automation System. The EDD proposes to fund the $736,000 ongoing costs of this system from federal funds in the budget year.
- A $622,000 reduction as a result of the elimination of one-time expenditures for lap-top computers for the department's tax auditors.
- A $591,000 increase, and an additional 10.1 personnel-years, to expand EDD's employer tax auditing and collection activities for Personal Income Tax (PIT) and ETT programs. In addition, the budget requests 21 personnel-years for tax auditing and collection workload in the UI and DI programs.
- A $2.7 million increase to pay for higher rental costs for EDD's offices.

DEPARTMENTAL PROGRAMS AND SUPPORT

Proposed Staffing Changes Reflect a Variety of Factors

The budget proposes a net increase of 323.9 personnel-years in 1991-92. Table 3 shows the proposed personnel-year changes, categorized according to the reason for the change. It also shows the salaries, benefits, and operating expenses that correspond to the staffing changes. Table 4 shows how the staffing changes are distributed among EDD's programs.

The major causes for the position changes in each category shown in Tables 3 and 4 are discussed below:

Table 3
Employment Development Department
Proposed Personnel-Year Changes
and Fiscal Effect
1991-92
(dollars in thousands)

	Personnel-Years			*Net Fiscal Effect*				
Reason for Change	*Added*	*Reduced*	*Net*	*Salaries*	*Benefits*	*OE&E*	*Other*	*Totals*
Program changes and legislative mandates	22.1	−28.0	−5.9	$34	$14	$1,065	−$33	$1,080
Workload changes	329.8	—	329.8	10,040	3,198	9,278	1,194	23,710
Totals	351.9	−28.0	323.9	$10,074	$3,212	$10,343	$1,161	$24,790

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 4
Employment Development Department
Proposed Changes in Personnel-Years by Program
1991-92

Reason for Change	*Unemployment Insurance*	*Disability Insurance*	*Employment Service*	*Tax Collections*	*Other Employment Programs*	*Totals*
Program changes and legislative mandates	−13.0	—	−11.9	—	19.0	−5.9
Workload changes	115.7	197.3	—	10.1	6.7	329.8
Totals	102.7	197.3	−11.9	10.1	25.7	323.9

- ***Program Changes and Legislation.*** The budget proposes a net decrease of 5.9 personnel-years due to program changes and legislation. The major additions are due to the department's proposals to (1) add 16 personnel-years to continue the development of the Job Training Automation Project, (2) add 3.1 personnel-years to the Youth Employment Opportunity Program, and (3) establish an ETP regional office in San Diego as mandated by Ch 926/89 (AB 28, Johnston). The department proposes to reduce staff by (1) eliminating a program designed to educate employers about the Immigration Reform and Control Act of 1986, because State Legalization Impact Assistance Grant funds are no longer available for this purpose, and (2) decreasing the number of personnel-years for administration of the Child Support Intercept Program because of efficiencies resulting from the centralization of program operations.
- ***Workload Changes.*** The department proposes to add a net of 329.8 personnel-years because of workload increases. The largest workload-driven increases in personnel-years are in the UI and DI programs.

Budget Proposes an Unallocated $504,000 Trigger-Related Reduction

The Governor's Budget includes an unallocated trigger-related reduction of $504,000 for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that otherwise would be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The EDD advises that the reduction would be allocated among the three programs supported by the General Fund: the California Jobs Tax Credit, Job Agent, and Personal Income Tax programs.

Proposed Automation System Would Not Be Cost-Effective

We recommend deletion of $3,433,000 from the EDD Contingent Fund proposed for the development of the UI management information system because the department has not justified the need for this project and because this is an inappropriate use of Contingent Fund resources. (Reduce Item 5100-001-185 by $3,433,000.)

The budget proposes $3.4 million from the EDD Contingent Fund for the first-year development costs of a proposed UI management information system. Currently, the EDD collects UI management information

(for example, staff workload data) through a variety of manual and automated processes. The proposed system would create a fully-automated system linking every UI office in the state. The EDD advises that the system would result in cost savings to the UI Program in the long run.

The feasibility study of the system indicates that the development of the project would be completed in 1993-94 at a total cost of $7.1 million. As Table 5 shows, the department proposes to fund these costs with $2.7 million in UI funds to be redirected within the UI Program and $4.4 million from the EDD Contingent Fund. Of the EDD Contingent Fund development costs, $3.4 million is proposed for 1991-92 and $1 million would be proposed for 1992-93. The EDD expects the project to provide a net savings of 21.4 personnel-years in 1993-94 and 51.4 personnel-years in 1994-95 and each year thereafter. Over the five-year span of EDD's analysis, the project is expected to generate a net savings of $208,600.

Table 5
Employment Development Department
Estimated Development Costs
UI Management Information System
1991-92 through 1993-94
(dollars in thousands)

	EDD Contingent Fund	*UI Fund* [a]	*Totals*
1991-92	$3,433	$484	$3,917
1992-93	978	1,203	2,181
1993-94	—	1,016	1,016
Totals	$4,411	$2,703	$7,114

[a] According to the feasibility study, these funds would be redirected from other UI activities.

Based on our review, we have two concerns with the department's proposal.

1. ***System Would Not be Cost-Effective.*** Our analysis of this project indicates that this system will not be cost-effective. The department's evaluation claims that over a five-year period this project would produce a net savings to the UI Program of $209,000. The EDD's analysis is flawed, however, because it did not use standard benefit-cost analysis techniques, which take into account the time frames in which savings occur. Using these techniques, we calculate that the system would result in net *costs* of $960,000 over the five-year horizon presented in the department's estimates.

2. ***Proposed Funding Source is Inappropriate.*** Despite the net financial cost of the system, upon completion it would generate some personnel-year savings. However, these savings would accrue *entirely* to the UI Program. Consequently, although nearly two-thirds of the project's costs would be covered by the EDD Contingent Fund, the project's benefits would accrue to the federal UI Fund, *not* to the Contingent Fund or the General Fund. In general, it makes sense for the

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

fund or program that benefits from an automation project to cover the project's development costs.

For these reasons, we recommend elimination of the $3,433,000 of EDD Contingent Fund monies proposed for the system. This recommendation will result in a $3,433,000 *increase* in the amount of EDD Contingent Fund monies transferred to the General Fund on June 30, 1992, thereby increasing the amount of General Fund available for appropriation in 1991-92 by the same amount.

The department maintains that the proposed management information system is needed to ensure that the EDD is complying with federal UI data reporting requirements. While the department has indicated that the proposed system would resolve these data collection issues, it has *not* shown that the creation of a new computer system is the most cost-effective way to resolve these relatively minor reporting problems. We recommend that the department evaluate whether nonautomated processes could be used to solve these reporting problems.

EMPLOYMENT TRAINING PANEL PROGRAM

The Employment Training Panel (ETP) Program was established in 1982 to provide employment training to workers covered under the Unemployment Insurance (UI) Program. Specifically, the ETP provides training to individuals who are:

- Unemployed and receiving UI benefits.
- Unemployed, but have exhausted UI benefits within the past two years.
- Employed, but likely to be displaced and become UI recipients.
- Employed, but eligible for training in skills for which there exists a demonstrable shortage.

The purpose of the ETP Program is to (1) encourage job creation in California, (2) reduce employers' UI costs, and (3) meet employers' needs for skilled workers by providing training to individuals covered by the UI system. The program is governed by the ETP, which consists of seven members appointed by the Governor and the Legislature.

Recent Changes in ETP Funding

The ETP Program is supported by the Employment Training Tax (ETT), which is a one-tenth of 1 percent payroll tax paid by employers who maintain a positive balance in the UI Fund. Employers maintain a positive balance in the UI Fund by paying more into the fund over time than their laid-off employees collect in unemployment benefits.

Prior to 1990-91, the Employment Training Fund (ETF) received up to $55 million of the ETT revenue each year. Any ETT collections above that amount reverted to the UI Fund. Pursuant to Ch 1668/90 (AB 2694, Johnston), beginning in 1990-91 all revenues from the ETT accrue to the ETF.

Under state law, the panel can spend ETF resources to (1) pay contractors for training costs and reasonable administrative expenses, (2)

cover the administrative costs of the ETP Program (which are restricted by state law to no more than 15 percent of ETT collections), and (3) pay for services provided by Small Business Centers pursuant to an agreement with the Department of Commerce. The panel allocates its training funds through contracts with employers and training agencies. Under these contracts, the panel reimburses training providers at a fixed amount per trainee, provided the trainee remains employed with a single employer, in a job for which he or she was trained, for 90 consecutive days after training.

The panel has a staff of 94.2 personnel-years in 1990-91. The budget proposes to increase ETP staff by 9.7 personnel-years in 1991-92. The panel requests three personnel-years to staff the ETP office in San Diego that was mandated by Chapter 926, and 6.7 personnel-years to enhance the ability of the panel's staff to monitor the progress of training contracts. We recommend approval of these proposals because they will enable the ETP to meet the requirements of state law and provide for better oversight of training contracts.

Table 6
Employment Development Department
Employment Training Panel
Revenues and Expenditures
1989-90 through 1991-92
(in thousands)

	Actual	*Estimated*	*Proposed*
Revenues	*1989-90*	*1990-91*	*1991-92*
Employment Training Tax collections	$76,315	$77,374	$81,307
Interest on Employment Training Fund	17,240	20,778	18,000
Rollover disencumbrances [a]	34,239	—	—
Carry-over available for new projects:			
Reflected in Governor's Budget	63,662	51,650	22,374
Not reflected in Governor's Budget [b]	—	5,665	32,150
Other	93	93	93
Totals available for expenditure	$191,549	$155,560	$153,924
Expenditures			
Costs for non-ETP programs:			
Job services	—	$18,002	$18,002
Service centers	—	7,889	8,186
Department of Industrial Relations	—	2,500	—
ETP costs:			
ETT collection	$2,808	2,981	3,116
Administration and marketing	6,908	7,658	8,542
Training grants rolled over to original contractors	34,239	—	—
New training grants	95,944	94,156	89,391
Total expenditures	$139,899	$133,186	$127,237
Transfer to General Fund	—	—	$22,374
Reserve for economic uncertainties	$51,650	$22,374	$4,313

[a] "Rollover disencumbrances" are disencumbrances in which the funds are reencumbered to the same contractor. The ETP advises that some amount of rollover disencumbrance will occur in 1990-91 and 1991-92, but could not provide an estimate of these amounts.

[b] LAO estimates based on data provided by the ETP.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 6 shows ETP revenues and expenditures for 1989-90 through 1991-92. The table shows that:

- The combined tax and interest revenues of the ETP have grown from $94 million in 1989-90 to an estimated $99 million in 1991-92.
- The ETF now pays the cost for several programs *outside* the ETP. In the current year, ETF monies were used for the Job Services (JS) Program, the Service Center Program, and the Division of Apprenticeship Standards within the Department of Industrial Relations, thereby adding $28 million in expenditures for non-ETP programs. The budget proposes to continue funding the JS and Service Center programs from the ETF, for a total non-ETP appropriation of $26 million.
- The table shows that the ETP had available for new training grants about $96 million in 1989-90 and about $94 million in 1990-91, and $89 million is proposed for 1991-92. Since the amount shown in Table 6 as available for new grants in 1991-92 is based on a preliminary estimate, it is possible that substantially more than $89 million will actually be available.
- The budget also proposes to transfer $22.4 million from the ETF to the General Fund in 1991-92.

Unused ETF Funds are Available for Transfer to the General Fund

We recommend transferring $1.2 million in unused ETF resources to the General Fund. (Reduce Item 5100-001-514 by $1,200,000.)

As Table 6 shows, the budget proposes to transfer $22.4 million from the ETF to the General Fund. This amount represents the additional funds received by the ETF during 1990-91 as a result of eliminating the $55 million annual limit on ETF receipts, pursuant to Chapter 1668. Although these funds accrue to the ETF in 1990-91, the ETP lacks budget authority to spend the funds in the current year. Thus, the funds represent an excess balance in the ETF. Consequently, we recommend approval of the proposed transfer.

Even after accounting for this transfer, the budget estimates that the ETF will have a reserve for economic uncertainties for 1991-92 of $4.3 million. The EDD advises that it will submit a request to use a portion of this reserve to fund the State-Local Cooperative Labor Market Information (LMI) Program. Chapter 1668 permits ETF monies to be used to pay for up to one-half of the costs of the LMI Program. The EDD advises that it will request as much as $3.1 million of the reserve for this program, leaving a balance of approximately $1.2 million in the fund. Based on historical experience, it is likely that the ETP will receive more funds through disencumbrances in 1991-92 than is currently estimated. These funds (at least $1 million) should be sufficient to provide for any unforeseen program needs. Consequently, in order to increase the Legislature's fiscal flexibility, we recommend transferring the unused ETF balance ($1.2 million) to the General Fund.

Budget Proposes to Continue ETF Support for the Job Services and the Service Center Programs

We recommend approval.

As Table 6 shows, the budget proposes to use $26 million from the ETF to pay for the state's share of the JS and Service Center Programs. The JS Program refers qualified job applicants to potential employers and offers a variety of employment services to job seekers. The Service Center Program provides employability development and placement services to individuals in nine economically disadvantaged areas throughout the state.

The 1990 Budget Act appropriated $18.0 million from the ETF for the JS 90-Percent Program and $7.7 million for service centers. For 1991-92, the budget proposes $18.0 million for JS and $8.2 million for service centers. The additional funds for service centers will pay for salary and operating expense increases. Since funding these programs from the ETF is consistent with the Legislature's actions in the current year, we recommend approval.

UNEMPLOYMENT INSURANCE PROGRAM

The purpose of the Unemployment Insurance (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 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 $310 million for UI administration and $2.4 billion for benefit payments in 1991-92. The level of administrative expenditures proposed is $11.5 million, or 3.9 percent, above estimated current-year levels. This increase is primarily due to an increase of $9.6 million in salaries, benefits, and operating expenses and equipment. The $2.4 billion proposed for UI benefits in 1991-92 is $154 million, or 6.8 percent, higher than current-year benefit levels. This increase is primarily due to an anticipated increase in the number and duration of unemployment claims and increases in the amount of unemployment benefits as mandated by Ch 1166/89 (SB 600, Roberti). This legislation increased the minimum and maximum weekly benefit amounts for unemployment insurance claimants. Specifically, the *minimum* weekly benefit amount rose from $30 to $40 and the *maximum* weekly benefit amount rose from $166 to $190, effective January 1, 1990. On January 1 of 1991 and 1992, the maximum weekly benefit amount will increase to $210 and $230, respectively.

Estimates Will be Updated in May

The department's estimates of UI expenditures are based on actual program costs through March 1990 and on a forecast of employment

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

trends. This forecast is based on projections of future employment rates that were made in June 1990. At that time, the EDD was predicting an unemployment rate of 5.4 percent for 1991. A more recent forecast by the EDD reflects the current slowing of the state's economy and anticipates an unemployment rate of 6.3 percent in 1991.

Although the UI estimates used in the budget are not based on this prediction of unemployment, the department will revise its estimates in May. The May revision will be based on data through March 1991 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 1991-92 expenditures.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 5100-301-185 for capital outlay expenditures in the Employment Development Department. Please see our analysis of the proposed EDD Capital Outlay Program in the capital outlay section of this *Analysis,* which is in the back of this document.

EMPLOYMENT DEVELOPMENT DEPARTMENT—REAPPROPRIATION

Item 5100-490 from federal funds Budget p. HW 139

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 1991-92 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, 1991 of the actual amount of JTPA local assistance funds carried over into 1991-92.

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 159

Requested 1991-92	$265,736,000
Estimated 1990-91	265,984,000
Actual 1989-90	241,401,000
Requested decrease $248,000 (−0.1 percent)	
Total recommended reduction	588,000
Recommendation pending	75,921,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5160-001-001—Support	General	$27,355,000
5160-001-890—Support	Federal Trust	154,093,000
Statutory Appropriation—Government Code Section 16370	Vending Stand Account, Special Deposit	2,150,000
5160-101-001—Local assistance	General	78,606,000
Reimbursements	—	3,532,000
Total		$265,736,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

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 1,865.9 personnel-years in the current year.

DEPARTMENT OF REHABILITATION—Continued

MAJOR ISSUES

☑ **$3.3 million General Fund unallocated reduction could result in the loss of $2.7 million in federal funds and the loss of services to approximately 1,200 clients.**

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $265.7 million for DOR in 1991-92. This includes $106 million from the General Fund, $154.1 million from federal funds, $2.2 million from the Vending Stand Account, and $3.5 million in reimbursements. Total expenditures proposed for 1991-92 are $248,000, or 0.1 percent, less than estimated current-year expenditures.

Table 1
Department of Rehabilitation
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change From 1990-91 Amount	Change From 1990-91 Percent
Vocational rehabilitation	$166,523	$180,998	$182,662	$1,664	0.9%
Habilitation services	66,961	77,323	78,642	1,319	1.7
Support of community facilities	7,353	7,663	7,707	44	0.6
Administration (undistributed)	564	—	—	—	—
Unallocated reduction	—	—	−3,275	−3,275	—[a]
Administration (distributed)	(13,559)	(15,502)	(16,302)	(800)	(5.2)
Totals, expenditures	$241,401	$265,984	$265,736	−$248	−0.1%
Funding Sources					
General Fund	*$98,758*	*$107,124*	*$105,961*	*−$1,163*	*−1.1%*
Federal Trust Fund	*137,255*	*153,078*	*154,093*	*1,015*	*0.7*
Vending Stand Account	*2,097*	*2,150*	*2,150*	—	—
Reimbursements	*3,291*	*3,632*	*3,532*	*−100*	*−2.8*
Personnel-Years					
Vocational rehabilitation	1,546.9	1,614.6	1,622.4	7.8	0.5%
Habilitation services	24.4	23.4	23.4	—	—
Support of community facilities	15.0	14.2	14.2	—	—
Administration	197.4	213.7	213.7	—	—
Totals, personnel-years	1,783.7	1,865.9	1,873.7	7.8	0.4%

[a] Not a meaningful figure.

The $106 million proposed from the General Fund for support of the DOR in 1991-92 is a decrease of $1.2 million, or 1.1 percent, below estimated current-year expenditures. The proposed General Fund amount includes $27.4 million for support of the department and $78.6 million for local assistance.

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

The budget proposes to increase the number of personnel-years in the DOR by 7.8, or 0.4 percent, from the current-year estimate. This is due to a proposed change in the method of funding these positions: from contract funds (where the positions are not reflected in the budget) to the department's personal services budget.

Table 2 displays the significant changes in expenditure levels proposed in the budget for 1991-92. With respect to the General Fund, the major budget changes proposed are:

- A $1.6 million cost to fund the anticipated caseload increase in the Habilitation Services Program.
- A $3.3 million savings due to an unallocated trigger-related reduction.

Table 2
Department of Rehabilitation
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (revised)	$107,124	$265,984
Cost adjustments:		
Employee compensation adjustments	$534	$2,010
Statewide cost allocation plan increase	—	127
Habilitation Program caseload increase	1,567	4,509
1990-91 one-time expenditure	—	−700
Unallocated reduction	−3,275	−6,005
Other	11	−189
1991-92 expenditures (proposed)	$105,961$	265,736
Change from 1990-91:		
Amount	−$1,163	−$248
Percent	−1.0%	−0.1%

Unallocated Reduction Could Have Significant Impact

We find that the $3.3 million General Fund unallocated reduction could result in the loss of $2.7 million in federal funds and the loss of DOR services to approximately 1,200 clients.

The Governor's Budget does not include funding for price increases or merit salary adjustments for DOR's state operations ($2.3 million). As noted above, the budget includes an unallocated trigger-related reduction of $6 million, consisting of $3.3 million from the General Fund and $2.7 million in federal funds from the department's local assistance budget. This reduction is included in the proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

DEPARTMENT OF REHABILITATION—Continued

The General Fund portion of the unallocated reduction is equivalent to a 4 percent reduction to the DOR's local assistance programs. If the department applies the reduction proportionately to all programs, it would affect primarily the VR Program and the Work Activity Program/ Supported Employment Program (WAP/SEP). In such a case, the reduction would result in a reduction in services provided under these programs.

We estimate that the reduction in the VR Program would ultimately reduce by 500 the number of clients rehabilitated by the DOR. The reduction in the WAP/SEP probably would preclude about 700 individuals — primarily developmentally disabled persons — from being served. (We describe these programs later in this analysis.)

We note that current law provides that persons with developmental disabilities have the right to habilitation services. Thus, allocation of the proposed unallocated reduction to the WAP/SEP would require legislation. The Department of Finance indicates that the Governor will propose such legislation.

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 DOR for the full cost of successfully rehabilitating certain VR clients.

The budget proposes $182.7 million for VR services in 1991-92, which includes $167.4 million for direct client services and $15.3 million for state administrative costs. Of the total amount proposed for VR services, $25 million is from the General Fund, $152 million is from federal funds, and $5.7 million is from fees and reimbursements.

Vending Stand Account Has Sufficient Balances to Replace General Fund Support of the Business Enterprise Program

We recommend that (1) General Fund support for administration of the Business Enterprise Program be eliminated, for a savings of $588,000, and (2) Budget Bill language be adopted requiring the DOR to expend funds from the Special Deposit Fund (Vending Stand Account) to offset the loss of General Fund support. (Reduce Item 5160-001-001 by $588,000.)

The Business Enterprise Program (BEP) provides training and employment for legally blind persons in the management of food service and vending facilities. Vendors retain the profits from the facilities they manage, except for a specified percentage — known as set-aside fees — deposited into the Vending Stand Account of the Special Deposit Fund. These funds, in conjunction with federal matching funds, are continuously appropriated by Section 16370 of the Government Code for the establishment of new facilities and the maintenance of existing facilities.

The budget proposes an expenditure of $7.5 million for the BEP in 1991-92, consisting of $588,000 from the General Fund, $4.8 million in federal funds, and $2.2 million from the Vending Stand Account (set-aside fees). The General Fund appropriation is allocated exclusively for state operations, providing administrative support for the program, such as management training and the development of new sites for vending facilities.

In reviewing the fund condition of the Vending Stand Account, we found that in recent years the revenues have been well in excess of the amount expended. Year-end balances in 1989-90, for example, amounted to $4 million, compared to $2.1 million in expenditures during the year.

If these funds were used for state administrative support of the program, the state could realize a significant General Fund savings without having to increase fees paid by the vendors. State law, however, specifies that these fees can be used only for the following purposes: maintenance and replacement of equipment, the purchase of new equipment, the construction of new facilities, loans for initial stock, the committee of blind vendors, and specified employee benefits for vendors.

In order to effect a General Fund savings while maintaining the level of support for the BEP, we recommend that (1) General Fund support for the program be deleted and (2) Budget Bill language be adopted requiring the DOR to expend sufficient funds from the Vending Stand Account to replace the General Fund monies in 1991-92, notwithstanding the provisions of current law. The suggested language follows:

> Notwithstanding the provisions of Welfare and Institutions Code Section 19629, the Department of Rehabilitation shall expend, from the Vending Stand Account of the Special Deposit Fund, $588,000 for administrative support of the Business Enterprise Program.

We note that while federal law permits the use of set-aside fees for managerial services, it is possible that some state administrative services do not fall within the federal definition. We have asked the DOR to investigate this issue and, if necessary, will modify our recommendation accordingly.

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,

DEPARTMENT OF REHABILITATION—Continued

(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 $78.6 million for habilitation services in 1991-92, which includes $77.8 million for client services and $809,000 for state administrative costs. Of the total amount proposed for habilitation services, $78.5 million is from the General Fund and $186,000 is from federal funds.

WAP and SEP Estimates Will Be Updated in May

We withhold recommendation on $75.9 million from the General Fund requested for WAP and SEP, pending review of the May estimates of caseloads and costs.

The budget requests $75.9 million from the General Fund for local assistance support of the WAP ($54.9 million) and SEP ($21.5 million) in 1991-92. This is an increase of 2.1 percent over the estimated expenditures for these programs in the current year. The budget proposal would fund the anticipated caseload increases for the programs in 1991-92 (pending allocation of the proposed 4 percent unallocated reduction).

In May, the department will present revised caseload estimates for the WAP and SEP. Because the revised estimates will be based on more recent caseload and expenditure data, they will provide the Legislature with a more reliable basis for budgeting expenditures for 1991-92. Consequently, we withhold recommendation on the amount proposed for the WAP and SEP, pending 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. The budget proposes $7.7 million ($5.8 million General Fund) for these facilities in 1991-92.

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 $11.5 billion for programs administered by the department in 1991-92. This is an increase of $77 million, or 0.7 percent, above estimated current-year expenditures. Table 1 identifies total expenditures from all funds for programs administered by the DSS for the past, current, and budget years.

Table 1
Department of Social Services
Budget Summary
Expenditures and Revenues, by Program
All Funds
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Departmental support	$261,534	$280,722	$279,487	−$1,235	−0.4%
AFDC [a]	5,414,122	6,031,650	5,833,141	−198,509	−3.3
SSI/SSP [b]	2,215,736	2,320,711	2,321,587	876	— [c]
Special adult	3,001	3,030	3,040	10	0.3
Refugee	34,130	26,862	29,411	2,549	9.5
County welfare department administration [a]	894,128	1,153,652	1,311,157	157,505	13.7
Social services [a,d]	1,412,593	1,549,944	1,665,953	116,009	7.5
Community care licensing	14,823	11,866	11,288	−578	−4.9
Totals	$10,250,067	$11,378,437	$11,455,064	$76,627	0.7%
Funding Sources					
General Fund [d]	*$5,906,526*	*$6,411,782*	*$6,474,883*	*$63,101*	*1.0%*
Federal funds [b]	*3,789,614*	*4,281,288*	*4,286,769*	*5,481*	*0.1*
County funds	*530,209*	*644,275*	*637,840*	*−6,435*	*−1.0*
Reimbursements	*11,046*	*13,988*	*13,881*	*−107*	*−0.8*
State Children's Trust Fund	*806*	*1,089*	*1,378*	*289*	*26.5*
Foster Family Home and Small Home Insurance Fund	*134*	*−68*	*—*	*68*	*100.0*
Continuing Care Provider Fee Fund	*30*	*219*	*236*	*17*	*7.8*
State Legalization Impact Assistance Grant	*11,670*	*25,819*	*40,065*	*14,246*	*55.2*
Residential Care Facility for the Elderly Administrative Certification Fund	*32*	*23*	*—*	*−23*	*−100.0*
Special Deposit Fund	*—*	*22*	*12*	*−10*	*−45.5*

[a] Includes county funds.
[b] Excludes SSI federal grant funds.
[c] Not a meaningful number.
[d] Excludes General Fund expenditures for GAIN from Control Section 22 and other funds for GAIN appropriated in other items in the Budget Bill. Table 5 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—Continued

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by the DSS. The budget requests a total of $6.5 billion from the General Fund for these programs in 1991-92. This is an increase of $63 million, or 1 percent, over estimated current-year expenditures. The increase is due largely to increases in the caseload and hours of service per case of the In-Home Supportive Services Program and to growth in the caseload of the Child Welfare Services Program.

Table 2
Department of Social Services
General Fund Expenditures
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Departmental support	$107,139	$111,212	$111,487	$275	0.2%
Aid to Families with Dependent Children	2,649,267	3,002,205	2,949,128	−53,077	−1.8
Supplemental Security Income/State Supplementary Program	2,203,946	2,298,805	2,286,200	−12,605	−0.5
Special adult	3,000	2,955	2,965	10	0.3
County welfare department administration	173,068	199,521	225,822	26,301	13.2
Social services [a]	760,284	788,039	890,836	102,797	13.0
Community care licensing	9,822	9,045	8,445	−600	−6.6
Totals	$5,906,526	$6,411,782	$6,474,883	$63,101	1.0%

[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 5 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 166

Requested 1991-92	$279,487,000
Estimated 1990-91	280,722,000
Actual 1989-90	261,534,000
Requested decrease $1,235,000 (−0.4 percent)	
Total recommended reduction	None

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Support	General	$110,920,000
5180-001-131—Support	Foster Family Home and Small Family Home Insurance	740,000
Less General Fund transfer	—	−504,000
Less Federal Trust Fund transfer	—	−236,000
Subtotal, 5180-001-131		(—)
5180-001-890—Support	Federal	$156,087,000

5180-011-001—Support	General	504,000
5180-011-890—Support	Federal	236,000
Reimbursements	—	10,646,000
Welfare and Institutions Code Section 18969—Appropriation	State Children's Trust	92,000
Health and Safety Code Section 1778—Appropriation	Continuing Care Provider Fee	236,000
Health and Safety Code Section 1569.69—Appropriation	General	63,000
Control Section 23.50—Support	State Legalization Impact Assistance Grant	691,000
Government Code Section 16370	Special Deposit	12,000
Total		$279,487,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Social Services Advisory Board. The budget proposes legislation to eliminate the Social Services Advisory Board for a savings of $154,000 ($60,000 General Fund, $88,000 federal funds, $6,000 reimbursements). — 748
2. Community Care Licensing (CCL). Recommend that the department evaluate the alternatives for improving the CCL Program's efficiency and controlling its costs, and submit a plan to the Legislature for dealing with the CCL Division's long-term staffing problem. — 749
3. Independent Adoptions Fees. Recommend enactment of legislation to (a) authorize the state's district adoption offices to charge a fee, based on income, for all independent adoptions cases in which a petition is filed, (b) increase the independent adoptions fee from $500 to $2,400, and (c) adjust the fee on a periodic basis. — 751
4. Independent Adoptions, Nonprofit Agencies. Recommend enactment of legislation to allow private, nonprofit agencies to provide independent adoptions services. — 752

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 3,804 personnel-years in the current year to administer these programs.

Departmental Support—Continued

MAJOR ISSUES

☑ The budget proposes legislation to institute a new revised licensing fee schedule for the Community Care Licensing Program. The budget anticipates that this revision would increase General Fund revenues from $1.3 million to $6.9 million in 1991-92.

☑ The budget proposes legislation to increase the fee from $500 to $1,896 that the state's district adoption offices may charge prospective adoptive parents under the Independent Adoptions Program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $279 million from all funds, including reimbursements, for support of the department in 1991-92. This is $1.2 million, or 0.4 percent, less than estimated current-year expenditures. Of the total amount requested, $122 million is from state funds ($111 million General Fund) and $157 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
1989-90 through 1991-92
(in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
AFDC-family group and unemployed parent	$16,248	$16,218	$16,917	$699	4.3%
AFDC-foster care	4,069	4,556	4,651	95	2.1
Child support enforcement	11,307	13,200	12,878	−322	−2.4
Transitional child care	8	250	257	7	2.8
Supplemental security income/state supplementary	508	597	612	15	2.5
Special adult	312	371	379	8	2.2
Food stamps	19,864	21,321	22,155	834	3.9
Refugee programs	5,335	6,114	6,146	32	0.5
Child welfare services	6,673	8,960	10,490	1,530	17.1
County services block grant	1,215	1,101	1,127	26	2.4
In-home supportive services	1,601	2,739	2,537	−202	−7.4
Specialized adult services	717	305	322	17	5.6

Employment programs	6,941	7,710	7,579	−131	−1.7
Adoptions	9,810	11,146	10,855	−291	−2.6
Child abuse prevention	1,416	1,638	1,660	22	1.3
Community care licensing	39,940	51,624	58,612	6,988	13.5
Disability evaluation	109,051	120,738	117,019	−3,719	−3.1
Administration	6,353	7,421	7,691	270	3.6
Disaster relief	20,166	4,713	—	−4,713	−100.0
Unallocated reduction	—	—	−2,400	−2,400	—
Totals	$261,534	$280,722	$279,487	−$1,235	−0.4%
Funding Sources					
General Fund	*$107,139*	*$111,212*	*$111,487*	*$275*	*0.2%*
Federal funds	*145,273*	*157,846*	*156,323*	*−1,523*	*−1.0*
Reimbursements	*8,311*	*10,753*	*10,646*	*−107*	*−1.0*
State Children's Trust Fund	*57*	*79*	*92*	*13*	*16.5*
State Legalization Impact Assistance Grant	*558*	*636*	*691*	*55*	*8.6*
Foster Family Home and Small Family Home Insurance Fund	*134*	*−68*	—	*68*	*100.0*
Continuing Care Provider Fee Fund	*30*	*219*	*236*	*17*	*7.8*
Residential Care Facility for the Elderly Administrative Certification Fund	*32*	*23*	—	*−23*	*−100.0*
Special Deposit Fund	—	*22*	*12*	*−10*	*−45.5*

Proposed General Fund Changes

Table 2 shows the changes in the department's support expenditures that are proposed for 1991-92. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Other Funds*[a]	*Total* Funds
1990-91 expenditures (revised)	$111,212	$169,510	$280,722
Baseline adjustments			
Position changes:			
Caseload increase, community care licensing	$5,230	−$379	$4,851
Full-year cost of 1990-91 employee COLA	1,814	2,326	4,140
Expiration of federal grant for community care licensing	—	−2,045	−2,045
Transfer of Los Angeles, Modoc, San Diego, and San Joaquin counties' community care licensing to the state	1,852	116	1,968
Full-year funding of positions	632	342	974
Expiration of limited-term positions, Greater Avenues for Independence (GAIN) Program and other programs	−640	−211	−851
Establishment of permanent positions, Independent Adoptions Program	530	—	530
Establishment of permanent positions, GAIN Program	134	133	267

Departmental Support—Continued

Table 2—Continued
Department of Social Services
Departmental Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Other Funds*[a]	*Total* Funds
Other baseline adjustments:			
Elimination of one-time costs for disaster relief...	−4,713	—	−4,713
Operating expense and equipment price increases	1,192	3,160	4,352
Program audit exception, Disability Evaluation Division	−2,518	—	−2,518
Merit salary adjustments	1,030	1,361	2,391
Elimination of one-time operating expense and equipment costs	−743	−671	−1,414
Implementation of child welfare services case management system, pursuant to Ch 1294/89 (SB 370, Presley):			
Training costs	682	—	682
System design and pilot implementation contract	656	—	656
Other	−181	−1,027	−1,208
Subtotals, baseline adjustments	($4,957)	($3,105)	($8,062)
Policy proposals			
Unallocated reduction	−$2,400	—	−$2,400
Additional unallocated reduction	−2,222	−4,521	−6,743
Elimination of Social Services Advisory Board	−60	−94	−154
Subtotals, policy proposals	(−$4,682)	(−$4,615)	(−$9,297)
1991-92 expenditures (proposed)	$111,487	$168,000	$279,487
Change from 1990-91:			
Amount	$275	−$1,510	−$1,235
Percent	0.2%	−0.9%	−0.4%

[a] Includes federal funds, special funds, and reimbursements.

Proposed Position Changes

The budget requests authorization of 4,204 positions in 1991-92. This is a net increase of 179 positions, or 4.4 percent. The net increase consists of 240 additional positions, offset by a reduction of 61 positions. The major increases in positions include (1) the establishment of 134 positions in the Community Care Licensing (CCL) Program because of the state's assumption of responsibility for the program in Los Angeles, San Diego, and San Joaquin counties and (2) the addition of 72 positions in CCL due to caseload growth. The major decreases in positions include (1) the elimination of 12 positions in the Disability Evaluation Division (DED) and (2) the elimination of 19 positions in CCL as a result of the 3 percent unallocated reduction taken in the current year pursuant to Section 3.80 of the 1990-91 Budget Act.

Table 3
Department of Social Services
Proposed Position Changes
1991-92

Program	Existing Positions	Reductions	Additions	Total Proposed Positions	Net Changes Amount	Net Changes Percent
AFDC-family group and unemployed parent	306.0	−7.1	0.6	299.5	−6.5	−2.1%
AFDC-foster care	73.8	−0.4	2.1	75.5	1.7	2.3
Child support	105.9	−0.5	0.2	105.6	−0.3	−0.3
Supplemental security income/state supplementary	8.0	—	—	8.0	—	—
Special adult	6.2	—	—	6.2	—	—
Food stamps	248.3	−6.1	0.5	242.7	−5.6	−2.3
Refugee programs	71.1	−0.4	2.1	72.8	1.7	2.4
Immigration Reform and Control Act	15.6	−2.0	—	13.6	−2.0	−12.8
Child welfare services	106.1	−0.4	20.8	126.5	20.4	19.2
County services block grant	19.9	−1.1	0.1	18.9	−1.0	−5.0
In-home supportive services	33.3	—	—	33.3	—	—
Specialized adult services	8.2	−0.1	—	8.1	−0.1	−1.2
Employment programs	74.8	−1.4	4.9	78.3	3.5	4.7
Adoptions	153.3	−3.6	17.4	167.1	13.8	9.0
Child abuse prevention	25.9	−2.1	0.1	23.9	−2.0	−7.7
Community care licensing	912.6	−20.0	190.8	1,083.4	170.8	18.7
Disability evaluation	1,761.3	−13.9	—	1,747.4	−13.9	−0.8
Administration	95.0	−1.7	0.3	93.6	−1.4	−1.5
Totals	4,025.3	−60.8	239.9	4,204.4	179.1	4.4%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following major changes that are not discussed elsewhere in this analysis:

- An increase of $4.1 million ($1.8 million General Fund) for the full-year costs of the 1990-91 employee cost-of-living adjustment (COLA).
- A decrease of $2.0 million due to the expiration of federal Family Support Act grant funds received for 1990-91 by the CCL Division for various program improvement activities.
- An increase of $2.0 million ($1.9 million General Fund) due to the full-year costs of the assumption of state responsibility for the CCL programs of Los Angeles, Modoc, San Diego, and San Joaquin Counties.
- An increase of $974,000 ($632,000 General Fund) for full-year funding of positions established in the current year in the CCL Program.
- A reduction of $851,000 ($640,000 General Fund) for the expiration of limited-term positions in the Greater Avenues for Independence (GAIN) Program and other programs.
- An increase of $530,000 from the General Fund to permanently establish 11.0 limited-term positions in the Independent Adoptions Program.
- A $267,000 increase ($134,000 General Fund) to convert existing limited-term positions to permanent positions in the GAIN and Food

Departmental Support—Continued

Stamp Employment Training programs due to ongoing workload required by court cases, federal reporting criteria and Ch 1568/90 (AB 312, Eastin).

- A General Fund decrease of $4.7 million due to the elimination of one-time disaster relief costs associated with the Loma Prieta earthquake of 1989 and the wildland fires of 1990.
- An increase of $4.4 million ($1.2 million General Fund) to pay for operating expense and equipment price increases and an increase of $2.4 million for merit salary adjustments ($1 million General Fund). As noted below, the budget proposes an unallocated reduction in an amount equivalent to these increases.
- A General Fund reduction of $2.5 million to reflect one-time, current-year payment of a federal audit disallowance by the DED.
- A reduction of $1.4 million ($743,000 General Fund) due to the elimination of one-time equipment expenditures.
- An increase of $1.3 million General Fund to continue the implementation of the statewide Child Welfare Services Case Management System, pursuant to Ch 1294/89 (SB 370, Presley). This increase consists of (1) a $682,000 General Fund increase for 9.5 positions to provide training to social workers and support staff in the four counties that will pilot the system and (2) a $656,000 increase for the initial payment to the contractor who will design and implement the system. The department plans to award the contract for the system in March 1991.

Budget Proposes Two Unallocated Reductions

The budget includes an unallocated trigger-related reduction of $2.4 million for departmental support. This reduction is proposed in lieu of the reduction that otherwise would be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The budget also proposes a second unallocated reduction of $6.7 million ($2.2 million General Fund) for the department. This reduction corresponds to the amounts of the operating expense and equipment price increases and merit salary adjustments that are shown in Table 2.

Budget Proposes to Eliminate the Social Services Advisory Board

The budget proposes legislation to eliminate the Social Services Advisory Board for a savings of $154,000 ($60,000 General Fund, $88,000 federal funds, $6,000 reimbursements).

The Social Services Advisory Board consists of 28 members whose responsibility it is to advise the Department of Social Services, the Health and Welfare Agency, and the Governor on how to resolve statewide problems relating to the delivery of social services. In addition, under current law, the board is required to (1) attend hearings called by the director of the department to determine whether a county welfare department is out of compliance with the provisions of current law and (2) advise the director as to what action should be taken to secure county compliance.

The budget proposes legislation to eliminate the Social Services Advisory Board in 1991-92 for a savings of $154,000 ($60,000 General Fund, $88,000 federal funds, $6,000 reimbursements). At the time this analysis was prepared, however, the department had not developed a specific proposal for legislation to eliminate the board. We believe that the proposed legislation should include provisions for establishing an alternative procedure for securing county compliance with social services laws, in order to ensure that the department continues to have adequate oversight of the provision of social services to clients statewide. We presume that the department will have more details about the specific proposal to eliminate the board and the alternative procedures that will be necessary to continue statewide oversight of county welfare departments at the time of budget hearings.

COMMUNITY CARE LICENSING DIVISION

The Community Care Licensing (CCL) Division develops and enforces health and safety regulations for community day care and 24-hour residential care facilities for the mentally ill; the developmentally disabled; the elderly; the chronically, terminally ill; and socially dependent children, as well as child day care.

Budget Proposes a Caseload-Related Increase

We recommend approval.

The budget proposes an increase of $4.9 million ($5.2 million General Fund) and 52.8 personnel-years to cover caseload growth in the CCL Program. The increased caseload is due to an expected 10 percent increase in the number of licensed community care facilities for 1991-92. In addition, this proposal includes funds to lease two new district offices, relocate three district offices, and expand one district office to absorb the proposed additional staff. The department's proposal appears reasonable. We therefore recommend approval.

Staffing May Be Inadequate to Meet Statutory Licensing Requirements

We recommend that the department evaluate alternatives for improving the CCL Program's efficiency and controlling its costs, and submit a plan to the fiscal committees during budget hearings for dealing with the division's long-term staffing problem.

In November 1990 the department advised the Legislature that due to unfunded costs (the 3 percent funding reduction in Control Section 3.80 and the 1 percent funding reduction required by Executive Order #D90-90), its staffing level was inadequate to meet all statutorily mandated licensing requirements. At that time, the department provided its staff with a list of activities that would no longer be required. These activities fell into two categories: (1) changes in department licensing procedures that did not require legislation and (2) changes in department licensing procedures that placed the department out of compliance with state law. The statutorily mandated activities that it discontinued included various inspections of, and visits to, community care facilities.

The 3 percent and 1 percent reductions taken in 1990-91 are *not* restored in the budget proposal for 1991-92. In addition, as discussed

Departmental Support—Continued

above, the budget proposes two unallocated reductions for 1991-92. As a result, at the funding levels proposed in the budget, it is likely that the CCL Program would be understaffed in 1991-92. While authorizing staff to forego certain statutorily mandated activities may have been the department's only recourse for dealing with its staffing problem in the current year, we do not believe that this represents a prudent approach for dealing with the long-run staffing problem faced by the department. Therefore, we recommend that the department evaluate alternatives for improving the CCL Program's efficiency and controlling its costs, and submit a plan to the fiscal committees during budget hearings for dealing with the long-term staffing problem. The plan should include (1) an assessment of the adverse effects of the department's workload cutbacks in 1990-91, (2) an assessment of state laws and policies that reduce the CCL Program's cost-effectiveness, (3) an assessment of the effect of limiting licensing reviews to key licensing indicators, (4) an assessment of the accuracy of the CCL Program's workload standards in light of the changing nature of community care and advancements in information technology, and (5) recommendations for decreasing the costs and increasing the productivity of the CCL Program through statutory, regulatory, and/or administrative changes.

The Budget Proposes Legislation to Increase Community Care Licensing Fees

We recommend approval.

The budget proposes legislation to institute a revised licensing fee schedule for the CCL Program, and it anticipates that this revised schedule would increase General Fund revenues from $1.3 million to $6.9 million in 1991-92.

Specifically, this proposal would institute (1) an annual $50 fee for family day care homes, (2) an annual fee of $100 to $300, depending on size, for child day care centers, and (3) an annual $1,000 fee for foster family agencies. In addition, this proposal would triple existing fees for residential care facilities (the annual fee for the smallest facilities would be increased from $100 to $300, while the fee for the largest facilities would be increased from $250 to $750).

Our analysis indicates that operators of community care facilities receive a benefit from being licensed by the DSS — a certification which assures the public that an "approved" standard of care is provided and attracts the public to the facility. For this reason, we believe that it is appropriate for licensees to pay at least a portion of the state's cost of licensing community care facilities.

In addition, our review indicates that the fees proposed in the budget are reasonable. For example, the $50 fee proposed for family day care homes would amount to less than three-tenths of 1 percent of the average home's business revenue and the $1,000 fee proposed for foster family agencies would amount to less than two-tenths of 1 percent of these agencies' revenues. For these reasons, we recommend approval of the proposed legislation to increase CCL fees.

ADOPTIONS

The Proposed Independent Adoptions Fee Increase Does Not Reflect All of the Program's Costs

We recommend enactment of legislation to (1) authorize the state's district adoptions offices to charge a fee, based on income, for all independent adoptions cases in which a petition is filed, (2) increase the independent adoptions fee from $500 to $2,400, and (3) adjust the fee on a periodic basis.

The budget proposes legislation to raise from $500 to $1,896 the maximum fee that the state's district adoptions offices may charge prospective adoptive parents under the Independent Adoptions Program. The budget anticipates that the raised fees would increase General Fund revenues from $0.8 million to $3.0 million in 1991-92. The budget indicates that the fee increase is intended to make the program fully fee supported.

Background. Under the Independent Adoptions Program, the natural parents, instead of an adoption agency, place the child directly with the adopting parents of their choice. Most of these adoptions involve healthy newborn infants who are generally regarded as the easiest children to place. For 1991-92, the Department of Social Services (DSS) estimates that its district adoptions offices will provide independent adoptions services to about 1,990 families.

The role of the state adoptions offices and county adoptions agencies in an independent adoption is limited to visiting the home of the adoptive parents and preparing a report — referred to as a home study. The court uses the home study in combination with other information to determine whether the adoption is in the best interest of the child, the natural parents, and the adoptive parents.

Independent Adoptions Fees. Under current law, a fee is only charged to the prospective adoptive parents in independent adoptions cases prior to the time the state adoptions office or county adoptions agency files a *favorable* report in superior court. The fee may be waived or reduced when in the judgment of the state or county agency the payment would cause economic hardship to the adoptive parents and would be detrimental to the welfare of the adoptive child. Revenues generated by the fees collected by state adoptions offices must be used to fund the state costs associated with the Independent Adoptions Program.

Increasing the Fee Has Merit. Our analysis indicates that increasing the independent adoptions fee makes sense for two primary reasons:

1. Those parties who primarily benefit from the independent adoption — the prospective adoptive parents — would pay a fee that more fully reflects the cost of the independent adoption services they actually receive. The current $500 fee covers only about 20 percent of the cost of providing these services.

2. Many prospective adoptive parents have sufficient incomes to absorb a significant fee increase. In 1989-90, the median gross annual household income of adoptive parents in this program was $56,860 and about 30 percent had incomes of at least $80,000. Moreover, in those cases where

Departmental Support—Continued

the prospective parents do not have sufficient income to pay the increased fee, the fee can be reduced or entirely waived if warranted.

A Larger Fee Increase Than Proposed in the Budget is Justified. The DSS advises that the total General Fund costs of the Independent Adoptions Program in 1991-92 will be $4.8 million. This reflects both the direct costs of adoptions caseworker salaries and the departmental overhead costs associated with the program. The proposed $1,896 fee, however, reflects only the department's estimate of its *direct* costs, and is *not* therefore adequate to cover all of the program's associated overhead costs. We believe that it is reasonable to consider overhead costs in setting the fee because these costs are allocated to the program and constitute a cost to the program under the department's cost allocation system.

Additionally, the fee is based on the department's estimate of the number of *favorable* reports that will be filed in superior court during 1991-92. We believe that it would be more reasonable to charge a fee, based on income, for *all* cases on which a petition is filed and a significant amount of service is provided. This is because even those cases that receive an unfavorable report create workload for the program. We therefore recommend enactment of legislation that authorizes the state's district adoption offices to charge a fee, based on income, for all independent adoption cases in which a petition is filed.

We estimate that a fee of $2,400 for 1991-92 would reflect the average cost per case for the Independent Adoptions Program. This estimate includes all associated overhead costs and is based on the *total* number of reports, favorable and unfavorable, that the department anticipates filing in superior court. We therefore recommend enactment of legislation to increase the Independent Adoptions fee to $2,400. In order to ensure that the fee continues to fully reflect the actual costs of the Independent Adoptions Program over time, we further recommend that the legislation require the department to update the fee each year.

It is important to note that not all prospective adoptive parents are required to pay the maximum independent adoptions fee. Thus, even the $2,400 fee that we recommend would not generate enough revenue to fully cover the costs of the program. Specifically, we estimate that a fee of $2,400 would generate additional General Fund revenues of $4.2 million. This is $1.2 million more than the revenues that would result from the fee proposed in the budget, but $600,000 less than the full cost of the program.

Private, Nonprofit Agencies Are a Reasonable Additional Source of Independent Adoptions Services

We recommend enactment of legislation to allow private, nonprofit agencies to provide independent adoptions services.

Under current law, private, nonprofit agencies are not authorized to provide independent adoptions services. However, we believe that these agencies could be a reasonable additional source of these services for prospective adoptive parents, because:

1. Nonprofit agencies would likely be able to provide these services at less cost than the state can provide the same services, since private agencies generally have lower overhead costs than the state.

2. Nonprofit agencies successfully perform this function in several other states.

3. Since all independent adoptions are supervised by the court, the work of the agencies would be reviewed by the court.

We therefore recommend enactment of legislation to authorize private, nonprofit agencies to provide services as an alternative to prospective adoptive parents who prefer not to purchase these services from the state.

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 167

Requested 1991-92	$5,604,876,000
Estimated 1990-91	5,784,729,000
Actual 1989-90	5,220,409,000
Requested decrease $179,853,000 (−3.1 percent)	
Total recommended reduction	None
Recommendation pending	5,604,876,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for children	General	$2,949,128,000
5180-101-890—Payments for children	Federal	2,653,778,000
Control Section 23.50—local assistance	State Legalization Impact Assistance Grant	1,970,000
Total		$5,604,876,000

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. — 761
2. AFDC-Family Group (AFDC-FG) and Unemployed Parent (AFDC-U) Caseload. We find that the department has substantially underestimated caseloads. — 762
3. AFDC-FG and U Statutory Cost-of-Living Adjustment (COLA). The budget proposes legislation to suspend the statutory COLA for AFDC-FG and U recipients. The department estimates this proposal would result in savings of — 763

Aid to Families with Dependent Children—Continued

order to account for the estimated differential between AFDC and non-AFDC collections per case, and (b) any savings resulting from this provision be reallocated to (1) incentives based on medical support orders or (2) an administrative workload supplement based on the proportion of the county's population represented by AFDC recipients.

13. Adoption Assistance Program (AAP). The *Supplemental Report of the 1990 Budget Act* requires the DSS to report to the Legislature by March 1, 1991 on (a) options for establishing standards for adoption workers to follow in setting AAP grant levels and (b) the feasibility of placing time limits on state-only AAP benefits. This report should provide the Legislature with options for reducing costs in the AAP. 783

14. Transitional Child Care (TCC). We find that the department has overestimated TCC Program costs. 785

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) Program provides cash grants to certain families and children whose incomes are 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 599,700 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 83,900 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 64,900 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 10,700 children will receive assistance each month through this program.
- The Transitional Child Care Program provides cash payments to certain individuals who lose AFDC eligibility due to employment. In the current year an average of 8,900 families will receive assistance each month through this program.

Aid to Families with Dependent Children—Continued

MAJOR ISSUES

☑ The department's AFDC-FG and U caseload estimates are substantially understated.

The budget proposes enactment of legislation to accomplish the following:

☑ Suspend the statutory COLA for AFDC-FG and U recipients in 1991-92, for a General Fund savings of $154 million.

☑ Reduce maximum aid payments to AFDC recipients, for a General Fund savings of $205 million.

☑ Eliminate the AFDC Homeless Assistance Program, for a General Fund savings of $35 million.

☑ Eliminate the state-only AFDC-U Program, for a General Fund savings of $7 million.

☑ Disqualify AFDC recipients found guilty of intentional program violations, for a General Fund savings of $2.8 million.

☑ Freeze foster care group home rates, for an estimated General Fund savings of $33 million.

☑ Increase federal fund support for wards of the court who are placed in foster care, for a General Fund savings of $25 million.

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 $228 million in county funds) for AFDC cash grants in 1991-92, including $2 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 1989-90 through 1991-92. As the table shows, the AFDC-FG Program accounts for

Table 1
Department of Social Services
Expenditures for AFDC Grants by Category of Recipient
1989-90 through 1991-92
(in thousands)

	Actual 1989-90				*Estimated 1990-91*				*Proposed 1991-92*			
	State	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
Recipient Category												
Family group	$1,899,001	$2,100,758	$208,564	$4,208,323	$2,004,087	$2,205,175	$241,888	$4,451,150	$1,897,784	$2,083,739	$228,982	$4,210,505
Unemployed parent	339,523	373,697	38,277	751,497	381,800	401,930	46,114	829,844	334,810	362,894	40,426	738,130
Foster care	451,779	153,082	21,724	626,585	639,870	212,812	33,693	886,375	743,777	245,001	38,463	1,027,241
Child support collections	−92,322	−102,767	−11,197	-206,286	−106,067	−111,923	−12,643	−230,633	−122,167	−124,560	−14,252	−260,979
Child support incentive payments to counties	20,631	33,508	−63,655	−9,516	23,395	38,736	−62,131	—	22,508	42,846	−65,354	—
Adoption Assistance Program	28,851	11,061	—	39,912	38,661	15,336	—	53,997	49,224	19,619	—	68,843
Transitional child care	1,804	1,803	—	3,607	20,459	20,458	—	40,917	26,209	26,209	—	52,418
Unallocated reduction	—	—	—	—	—	—	—	—	−3,017	—	—	−3,017
Subtotals	($2,649,267)	($2,571,142)[a]	($193,713)	($5,414,122)[a]	($3,002,205)	($2,782,524)[a]	($246,921)	($6,031,650)[a]	($2,949,128)	($2,655,748)[a]	($228,265)	($5,833,141)[a]
AFDC cash grants to refugees:												
Time-expired	($234,913)	($256,764)	($28,443)	($520,120)	($310,004)	($339,763)	($37,421)	($687,188)	($304,079)	($333,269)	($36,706)	($674,054)
Time-eligible	(—)	(99,209)	(—)	(99,209)	(—)	(8,692)	(—)	(8,692)	(—)	(9,142)	(—)	(9,142)
Totals	$2,649,267	$2,571,142	$193,713	$5,414,122	$3,002,205	$2,782,524	$246,921	$6,031,650	$2,949,128	$2,655,748	$228,265	$5,833,141

[a] Includes State Legalization Impact Assistance Grant (SLIAG).

Aid to Families with Dependent Children—Continued

$4.2 billion (all funds), or 71 percent, of total estimated grant costs under the three major AFDC programs (excluding child support collections). The Foster Care Program accounts for 17 percent and the Unemployed Parent Program accounts for 12 percent of the total.

Increases in Current-Year AFDC Grant Costs. The department estimates that AFDC expenditures in the current year will *exceed* the amount appropriated in the 1990 Budget Act by $81 million ($40 million General Fund). Table 2 shows that the factors resulting in this net increase include:

- A $38 million ($11 million General Fund) increase due to higher-than-anticipated AFDC-FG and U caseloads.
- An $18 million ($8.3 million General Fund) decrease due to delayed implementation of Ch 1285/89 (SB 991, Watson). This legislation, which establishes an earlier beginning date of aid, became operative upon the settlement of the *Welfare Recipients League (WRL) v. McMahon* lawsuit. The implementation of the legislation was delayed because the lawsuit was settled later than anticipated.

Table 2
Department of Social Services
Proposed AFDC Budget Changes
1990-91 and 1991-92
(dollars in thousands)

	General Fund	*All Funds*
1990 Budget Act (Item 5180-101 and Control Section 23.5)	$2,962,664	$5,950,785
Adjustments to appropriations		
AFDC-Family Group and Unemployed Parent (AFDC-FG & U)		
Increase in caseload estimate	$11,201	$38,229
Delay in implementing beginning date of aid changes enacted by Ch 1285/89 (SB 991, Watson)	−8,266	−17,970
Reestimate of homeless assistance costs	7,107	16,273
Reestimate of Greater Avenues for Independence (GAIN) savings	5,021	11,258
Court cases	5,161	11,435
Other changes	−1,937	−1,181
Subtotals, AFDC-FG & U	($18,287)	($58,044)
AFDC-Foster Care (AFDC-FC)		
Sequestration of federal Title IV-E funds	$7,885	$8,300
Other changes	6,758	860
Subtotals, AFDC-FC	($14,643)	($9,160)
Child support enforcement		
Decrease in collections	$5,159	$10,588
Decrease in incentive payments	−278	—
Subtotals, child support enforcement	($4,881)	($10,588)
Adoption Assistance Program (AAP) reestimate	$388	$389
Transitional Child Care (TCC) Program reestimate	1,342	2,684
Total changes	$39,541	$80,865
1990-91 expenditures (revised)	$3,002,205	$6,031,650

1991-92 adjustments		
AFDC-FG & U:		
Baseline adjustments		
Caseload increase	$126,175	$280,538
1991-92 cost-of-living adjustment (COLA)	142,876	316,724
Reduction in homeless assistance fraud pursuant to the Budget Act of 1990	−6,349	−14,069
Savings due to expansion of existing fraud detection programs	−7,018	−15,727
Court cases	−2,349	−5,780
Full-year effect of Chapter 1285	10,428	23,105
Effect of past-year federal disallowances	−2,944	—
Other changes	39	−613
Policy changes		
Elimination of 1991-92 COLA	−142,876	−316,724
Reduction in maximum grants	−225,415	−505,415
Elimination of homeless assistance	−35,306	−78,229
Termination of state-only AFDC-U	−6,685	−7,494
Compliance with federal disqualification requirements	−2,769	−6,209
Impact of family planning funding increase	−1,100	−2,466
Subtotals, AFDC-FG & U	(−$153,293)	(−$332,359)
AFDC-FC:		
Baseline adjustments		
Caseload and average grant increases	$98,657	$138,666
Implementation of Ch 1294/89 (SB 370, Presley):		
Group-home rate restructuring	32,600	40,100
Full-year costs of 1990-91 foster family home rate increase	17,173	19,705
Foster family home special needs program	12,700	12,700
Changes in federal eligibility requirements	17,442	—
Other	−4,365	−7,305
Policy changes		
Increased federal funds support for wards in foster care	−25,000	—
Group-home rate freeze	−32,600	−50,300
Elimination of foster family home special needs program	−12,700	−12,700
Subtotals, AFDC-FC	($103,907)	($140,866)
Child support enforcement:		
Baseline adjustments		
Increase in collections	−$16,100	−$30,346
Decrease in incentive payments	−887	—
Subtotals, child support enforcement	(−$16,987)	(−$30,346)
AAP, caseload and grant increases	$10,563	$14,846
TCC, caseload increase	5,750	11,501
Unallocated reduction in lieu of Ch 458/90 (AB 2348, Willie Brown)	−3,017	−3,017
Total adjustments	−$53,077	−$198,509
1991-92 expenditures (proposed)	$2,949,128	$5,833,141
Change from 1990-91 estimated expenditures		
Amount	−$53,077	−$198,509
Percent	−1.8%	−3.3%

- A $16 million ($7.1 million General Fund) increase due to higher-than-anticipated costs to provide housing assistance to homeless AFDC families.
- An $11 million ($5.0 million General Fund) increase in AFDC expenditures due to lower-than-estimated grant savings from the

Aid to Families with Dependent Children—Continued

Greater Avenues for Independence (GAIN) Program. This reflects a reduction in the department's estimate of the number of AFDC clients who will receive training and education services through the GAIN Program in the current year. The reduction in GAIN participation is due to unanticipated increases in the average cost per case in the GAIN Program.

- An $11 million ($5.2 million General Fund) increase due to settlement of two lawsuits: (1) *WRL v. Woods,* which changes income/liquid assets requirements of applicants for immediate need payments, and (2) *Sallis v. McMahon,* which makes recipients receiving state disability insurance eligible for earned income disregards.
- An $8.3 million ($7.9 million General Fund) increase due to the federal government sequestration of federal funds for foster family home cost-of-living adjustments (COLAs) in federal fiscal year 1990.
- An $11 million ($5.2 million General Fund) increase due to lower-than-anticipated savings from child support collections.

Budget Proposes a Net Reduction in AFDC Expenditures in 1991-92

The budget proposes expenditures for AFDC grants in 1991-92 of $5.8 billion. This is $199 million, or 3.3 percent, below the total of $6 billion estimated for the current year. The total General Fund request of $2.9 billion is $53 million, or 1.8 percent, below the estimated $3 billion for the current year. These net expenditure decreases represent both expenditure increases due to baseline adjustments and offsetting expenditure decreases proposed in the Governor's Budget for changes in existing law and welfare policy.

Baseline Adjustments. The baseline adjustments proposed for 1991-92 represent a $781 million ($431 million General Fund), or 12 percent, increase from the department's revised estimate of expenditures in the current year.

Table 2 shows the factors resulting in the baseline expenditure increases for the AFDC Program in 1991-92. The major baseline changes *not* discussed elsewhere in this analysis are as follows:

- A $14 million ($6.3 million General Fund) decrease due to reduced Homeless Assistance Program fraud. The department is implementing new regulations designed to reduce fraud in this program pursuant to 1990 Budget Act language. As we note below, the budget proposes legislation to eliminate this program.
- A $16 million ($7 million General Fund) savings from increased fraud detection primarily due to the expansion of the Fraud Early Detection (FRED) Program to all 58 counties as required by Ch 465/90 (SB 2454, Royce). Previously, 25 counties operated the FRED Program.
- A $5.8 million ($2.3 million General Fund) net decrease due to settlement of two court cases in the current year (*WRL v. Woods and Sallis v. McMahon).*

- A $23 million ($10 million General Fund) increase due to the full-year effect of Ch 1285/89 (SB 991, Watson), which enacted an earlier date for granting aid to AFDC applicants.
- A $2.9 million General Fund increase in the AFDC Program due to settlement of federal audit findings related to AFDC-U cases in 1982. The findings related to claims affected by the reduction of the state-only AFDC-U Program from 12 to 3 months.
- A $139 million ($99 million General Fund) increase in the AFDC-FC Program primarily due to anticipated caseload growth of 13 percent.
- A $40 million ($33 million General Fund) increase in the AFDC-FC Program due to the restructuring of foster care group home rates pursuant to 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, however, group homes receive a rate that is based on the service they provide. As discussed below, the budget proposes legislation to suspend Chapter 1294.
- A $20 million ($17 million General Fund) increase in the AFDC-FC Program due to the full-year fiscal effect of the foster family home COLAs granted in 1989-90 and 1990-91, pursuant to Chapter 1294.
- A $17 million General Fund increase due to clarification from the federal Department of Health and Human Services (DHHS) regarding the eligibility requirements for the federal AFDC-FC Program. Specifically, the DHHS has advised the department that in order for a child to be eligible for the federal AFDC-FC Program, the child's family must have been receiving, or eligible to receive, an AFDC-FG grant in the month the child was removed from the home. The state had been claiming federal eligibility for any child whose family was receiving, or eligible to receive, an AFDC-FG grant in any of the *six months* prior to the child's removal from the home.
- A net $30 million ($17 million General Fund) savings in the Child Support Enforcement Program, due primarily to a projected increase in collections for AFDC families.

Proposed Policy Changes More Than Offset Baseline Increases. As noted above, the estimated reductions associated with the policy changes proposed in the budget would more than offset the baseline adjustments. The budget proposes policy changes that would result in reductions totaling $980 million ($484 million General Fund). As a result, the total funding proposed for the AFDC Program in 1991-92 represents a $199 million, or 3.3 percent decrease from the department's revised estimate of expenditures in the current year. These proposals are summarized in Table 2 and are discussed in detail below.

ANALYSIS AND RECOMMENDATIONS

AFDC Estimates are Expected to Change in May

We withhold recommendation on $5.6 billion ($2.9 billion General Fund, $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 1991-92 are based on actual caseloads and costs through June 1990, updated to reflect the

Aid to Families with Dependent Children—Continued

department's caseload and cost projections through 1991-92. In May, the department will present revised estimates of AFDC costs based on actual caseload and grant costs through December 1990. 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 1991-92 expenditures. Therefore, we withhold recommendation on the amount requested for AFDC grant costs pending review of the May estimate.

Caseload Likely to Exceed Budget Projections

We find that the department has substantially underestimated AFDC program cost because its caseload projections appear to be too low.

Background. The department's estimate of 1990-91 and 1991-92 AFDC-FG and U caseloads consists of two separate estimates for each caseload. One estimate is for Los Angeles County and the other is for the remaining 57 counties. This methodology was adopted in order to account for a divergence in caseload growth trends in Los Angeles County as compared to trends in other counties. Specifically, Los Angeles County experienced a decrease in caseload during the period January 1987 to July 1988. This decrease in caseload appears to be related to undocumented persons who were eligible for amnesty under the federal Immigration Reform and Control Act (IRCA) of 1986. Apparently, a number of these individuals acted on incorrect information and voluntarily removed their citizen children from aid to avoid jeopardizing their own chances of obtaining permanent residency status under IRCA. Los Angeles County noticed a significant increase in applications from aliens with U. S. citizen children beginning in January 1989, after word spread within the community that being on assistance would not affect eligibility for amnesty.

In order to isolate this "IRCA-related" trend in Los Angeles from the general statewide caseload trend, the department forecast Los Angeles' caseload using a base period of July 1984 through July 1986. The department then added a factor to the trend caseload estimate to account for caseload growth associated with undocumented aliens with citizen children. Our analysis indicates that this methodology may no longer be appropriate because: (1) it is likely that those recipients who left aid due to the incorrect information have already returned to aid and (2) the use of a 1984 through 1986 base period for forecasts extending to the end of the 1991-92 budget year, does not adequately account for recent caseload trends.

AFDC-FG Caseload. The department projects the average monthly AFDC-FG caseload for the budget year at 635,600, which is 6 percent above the current-year average monthly caseload estimate of 599,600. This year-to-year increase is significantly below the year-over-year percentage increase in *actual* caseload during the last 11 months. In fact, the year-over-year growth in caseload has exceeded 8 percent for each of the six months, from June through November 1990. Projecting the average monthly caseload using the most recent data available and not splitting

out Los Angeles County suggests that the AFDC-FG caseload could be as much as 3.2 percent higher in both the current and budget year than the department estimates.

AFDC-U Caseload. The department projects the average monthly caseload in the budget year at 84,000, which is only 0.1 percent above the current-year average monthly caseload estimate of 83,900. This increase is attributed entirely to the IRCA-related effect on Los Angeles County's caseload. The department's caseload estimate assumes that the AFDC-U caseload is unaffected by the current economic slowdown. The AFDC-U caseload, however, has been very sensitive to economic slowdowns in the past. In the first five months of the current year, the AFDC-U Program has shown a monthly average year-over-year caseload growth of more than 22 percent. About 10 percent of this growth was due to a change in federal refugee program eligibility. Thus, the remaining 12 percent growth is attributable to the economic slowdown. Even a cautious estimate of the effect of the current economic downturn on AFDC-U caseload growth suggests that average monthly caseloads could be over 30 percent higher in the budget year than the department estimates.

Conclusion. Based on our higher caseload projections, we estimate that AFDC-FG and U costs could be as much as $389 million ($175 million General Fund), or 7.1 percent higher in the budget year than the department's estimate. The department is reviewing its estimates and we anticipate that it will provide revised projections for the current and budget year at the time of the May revision.

Budget Proposes Two Changes That Would Reduce AFDC Grants

The budget contains two separate proposals that would have the effect of reducing AFDC grants below the levels specified in current law — a proposal to suspend the statutory AFDC COLA and a proposal to reduce the maximum aid payment (MAP) below its current levels. We discuss these proposals in detail below. Both proposals represent major policy issues that the Legislature will have to decide based on its overall policy and fiscal priorities. In order to help the Legislature in evaluating these proposals, we present an analysis of options for controlling AFDC costs and reducing welfare dependency in the companion document to this analysis, *The 1991-92 Budget: Perspectives and Issues.*

Proposal to Suspend AFDC COLA

The budget proposes legislation to suspend the 5.49 percent statutory COLA for AFDC for a savings estimated by the department to be $317 million ($143 million General Fund). We find that the department has underestimated the savings that would result from this proposal given our more likely caseload estimates.

The budget proposes to suspend the 5.49 percent statutory COLA, which under current law would be applied to the MAP and the Minimum Basic Standard of Adequate Care, commonly referred to as the need standard. We discuss the MAP and the need standard in detail below. In general, the effect of the proposal not to provide the COLA in 1991-92 would be to keep AFDC grants at their current levels.

Aid to Families with Dependent Children—Continued

Current state law requires that the MAP and need standard be adjusted, effective July 1, 1991, based on the change in the California Necessities Index (CNI) during calendar year 1990. 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 1990 is 5.49 percent.

Table 3 displays the effect of the 5.49 percent COLA on the MAP and the need standard for families with up to five members. The table shows that both the MAP and the need standard for a family of three, for example, would be increased from $694 per month in 1990-91 to $732 per month in 1991-92 as a result of the COLA required under current law.

Table 3
Department of Social Services
AFDC MAP and Need Standard
Budget Proposal Compared to Current Law
1990-91 and 1991-92

	Current Law MAP and Need Standard[a]		*Budget Proposal 1991-92*	
Family Size	*1990-91*	*1991-92*[b]	*MAP*	*Need Standard*
1	$341	$360	$311	$341
2	560	591	511	560
3	694	732	633	694
4	824	869	753	824
5	940	992	859	940

[a] Under current law, the MAP and the need standard are the same for all family sizes except for a slight difference for families of nine or more persons.

[b] Assumes a 5.49 percent COLA, effective July 1, 1991, based on the change in the CNI.

The department estimates that the proposal to suspend the AFDC COLA in 1991-92 would result in savings of $317 million ($143 million General Fund, $157 million federal funds, and $17 million county funds) in 1991-92. The budget indicates that the proposed elimination of the COLA would be in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). Under Chapter 458, the statutory COLA would be reduced by up to four *percentage points* if the Commission on State Finance certifies that General Fund revenues are more than 0.5 percent less than would be needed for a workload budget. The measure defines a workload budget as the amount needed to fund the current level of service as adjusted for caseload increases, statutory COLAs, and other baseline adjustments.

As indicated above, the department's caseload estimate may substantially understate the actual caseload for the budget year. To the extent caseloads are higher, and thus more costly, than the budget assumes, the projected savings from suspending the COLA would also be higher. We estimate that the savings from suspending the COLA would be about $340 million ($154 million General Fund), or about 7.1 percent more than the savings estimate reflected in the budget.

Proposal to Reduce AFDC MAP

The budget proposes legislation to reduce the MAP to AFDC recipients by an average of 8.8 percent for a savings of $505 million ($225 million General Fund). We find that the department has overestimated the savings that would result from this proposal.

In addition to the proposal to suspend the 1991-92 COLA, the budget proposes legislation to (1) reduce the AFDC MAP by an average of 8.8 percent below the current MAP and (2) use the need standard rather than the MAP as the basis for determining actual AFDC grants for those recipients with income.

Background. The MAP is the largest grant a family can receive. It varies according to the number of family members in the AFDC household. Table 3 shows, for example, that the current MAP for a family of three is $694 per month. As indicated above, and illustrated on Table 3, this amount will increase by 5.49 percent under existing law, effective July 1, 1991. The budget proposes to reduce this amount to $633 in 1991-92.

The need standard is an estimate of the costs of basic necessities, such as housing, transportation, and food. Federal law requires all states to have statutes that estimate these costs. The need standard also varies by family size. Federal law allows (1) the need standard to be established at a level above the MAP and (2) the need standard to be used as a basis for determining grants when a recipient has income. Since 1981, California's need standard has been the same as its MAP with the exception of a slight difference for families of nine or more persons.

Under current law, the actual grant paid to recipients with earned or unearned income is equal to their *MAP* less their countable income. Countable income is the income used to determine the actual grant received by families with income. Federal law requires that all *unearned* income (income from sources other than employment, such as social security, child support, and unemployment insurance payments) received by recipients, except for the first $50 of child support, be used to offset (count against) their AFDC grant. Some of a recipient's *earned* income (income from employment), however, is disregarded. A family of three for whom the MAP is currently $694, receives an AFDC grant of $352 if they have countable income of $342 ($694 - $342 = $352).

The Budget Proposal Would Not Reduce the Total Income Available to Most Families With Outside (Non-AFDC) Income. Most recipients who have income would not be affected by the proposed reduction in the MAP. This is because their grants would be determined by subtracting their countable income from the need standard appropriate to their family size, rather than by subtracting their income from the MAP (as is done under current law). The effect of this is to allow the family to keep any income up to the difference between the need standard and the MAP *before* the grant is reduced. Table 4 provides an example of how the proposal would affect the AFDC grant and the income available to a family of three. The table shows that a family would be able to keep the first $61 of countable income, thus offsetting the $61 reduction in its

Aid to Families with Dependent Children—Continued

grant. The result is that this family would have the same amount of total income (countable income plus the AFDC grant) as it has currently. We estimate that about 95,000, or 12 percent, of AFDC families have enough income to fully offset the grant reduction and about 11,000, or 1.4 percent, of AFDC families currently have only enough income to partially offset their grant reductions.

Table 4
Department of Social Services
Budget Proposal to Reduce AFDC Grants
Effect on Family of Three
Without and With Outside (Non-AFDC) Income

	Families Without Outside Income		*Families With Outside Income*	
	Current[a] Statute	*Budget Proposal*	*Current[a] Statute*	*Budget Proposal*
MAP	$694	$633	$694	$633
Need standard	694	694	694	694
Countable income	—	—	61	61
AFDC grant	694	633	633[b]	633[c]
Total income available to family	694	633	694	694

[a] Figures reflect the 1990-91 MAP and need standards.
[b] Under current law, the grant is computed by subtracting countable income from the MAP.
[c] Under the budget proposal, the grant is computed by subtracting countable income from the need standard.

The Budget Proposal Would Reduce the Total Income Available to Families With No Outside Income. Table 4 illustrates this point. Specifically, it shows that a family of three with no outside income would experience a grant reduction of $61 under the budget proposal. For a family that relies exclusively on its AFDC grant, this would mean a $61 reduction in the total income available to support the family. We estimate that about 658,000, or 86 percent, of AFDC families would initially experience a reduction of 8.8 percent in their total available income under the Governor's proposal. It is important to note, however, that these families could avoid a decrease in their total available income to the extent that they become employed and earn at least enough to offset the grant reduction.

Food Stamps Increase Would Potentially Offset a Portion of Proposed AFDC Grant Reductions. While most AFDC families (the 86 percent with no outside income) would experience an initial 8.8 percent reduction in their AFDC grants, these families would also be eligible for additional food stamps. This is because the amount of the food stamps allotment is determined, in part, by the families' total income (countable income plus AFDC income). For example, a family of three would have its grant reduced by $61 and also be eligible for $19 in additional food stamps for a net benefit reduction of $42, or 4.9 percent.

The Proposal Would Increase the Financial Incentive to Work. The proposal would increase the financial incentive for nonworking AFDC recipients to work by allowing recipients to keep enough income to offset the grant reduction. As we indicated above, under the proposal an AFDC

family of three would keep the first $61 of their countable income. Depending on the cost of child care, most recipients would have to work between 23 and 41 hours per month at the minimum wage in order to make up their grant reductions (over 90 percent of current working AFDC families do not report having any child care expenses).

This increase in the work incentive could result in savings to the AFDC Program in two ways. First, recipients who respond to the increased work incentive by taking jobs may earn more than enough to offset their grant reductions. To the extent this occurs, it would result in additional AFDC savings. It is not possible to estimate the magnitude of these savings because it is impossible to predict how many recipients would take jobs to offset the grant reductions proposed in the budget.

The second work incentive-related savings would occur over a longer time period. Specifically, to the extent that the proposal encourages current recipients to work, it could ultimately help them to earn enough to go off welfare. This is because recipients who work are more likely to leave welfare as a result of an increase in their earnings than are those who do not work while they are on welfare. These long-range savings also cannot be estimated.

Department's Estimate of Savings is Technically Flawed. The department estimates that the grant reductions proposed in the budget would result in savings of $505 million ($225 million General Fund). This estimate is flawed because it assumes that every AFDC family would have its grant reduced. As we discuss above, most of those recipients with income would not have their grants reduced as a result of this proposal. In addition, as indicated above, the budget's caseload estimate understates the actual caseload for the budget year. To the extent caseloads are higher than the budget assumes, both program costs and the savings projected for this proposal would be higher.

We estimate, after taking into account these two factors, that the net savings would be about $460 million ($205 million General Fund) or about 8.9 percent less than the department's estimate. The department currently is reviewing its estimate and we anticipate an adjustment will be made at the time of the May revision. In addition, as indicated above, the proposal would result in savings that cannot be estimated (employment-related savings). Thus, neither our estimate nor the department's takes these additional savings into account.

It is important to note that this proposal requires enactment of legislation and that the timing of the legislation could affect the budget-year savings. Specifically, since the proposal would result in grant reductions, all affected recipients must be notified of the action and given an opportunity to appeal. This notification and appeal process could take up to four months, therefore, to obtain a full year of savings, it would be necessary to make the required statutory change by March 1, 1991.

Budget Proposes to Eliminate the AFDC Homeless Assistance Program

The budget proposes legislation to eliminate the AFDC Homeless Assistance (AFDC-HA) Program for a savings of $78 million ($35 million General Fund).

Aid to Families with Dependent Children—Continued

Chapter 1353, Statutes of 1987 (AB 1733, Isenberg), established a special payment for AFDC-eligible homeless families. The measure provides for (1) *temporary shelter* payments to cover temporary housing needs of $30 to $60 per day, depending on family size, for a maximum of 28 days, and (2) *permanent housing payments*, which are generally limited to 80 percent of a family's maximum grant ($694 for a family of three) for a security and utility hook-up deposits, plus *an additional* 80 percent of the family's grant for the last month's rent. In order to qualify for these payments, the applicant must demonstrate that she is *apparently* — appears to meet all categorical requirements for assistance — eligible for AFDC.

The *Supplemental Report of the 1988 Budget Act* required the department to report on the costs and effectiveness of the AFDC-HA Program. As part of its response to the reporting requirement, the department compiled characteristics data on AFDC-HA recipients in a May 1989 survey (Los Angeles County used April data due to a computer problem) — with a follow-up survey of those same cases in November 1989. Of the 11,650 approved applications for May 1989 (1) 9,113, or 78 percent, of recipients received temporary shelter benefits averaging $490, (2) 5,109, or 44 percent, of recipients received permanent housing benefits averaging $587, and (3) 2,575, or 22 percent, received both temporary shelter and permanent housing benefits.

Table 5
Department of Social Services
AFDC Homeless Assistance Program
Living Arrangement at Time of Assistance
1989

Reasons for leaving last permanent residence		
Evicted by landlord	4,783	41.1%
Evicted by housemate	4,077	35.0
Voluntarily moved	1,087	9.3
Domestic violence	453	3.9
Residence uninhabitable	163	1.4
Released from institution	91	0.8
Natural disaster	72	0.6
Unknown	924	7.9
Living arrangement at the time of application		
Home of friend or relative	2,888	50.5
Motel or hotel	2,378	20.4
Public or private shelter	997	8.6
Motor vehicle	1,033	8.9
Outdoors	1,033	8.9
Not applicable [a]	163	1.4
Unknown	163	1.4

[a] These are families who applied for assistance as soon as they became homeless; therefore had not established a living arrangement.

Table 5 provides information on (1) the reason given by recipients for leaving their last permanent residence and (2) the living arrangement of recipients at the time of application. The most common reasons for

leaving their last permanent residence were eviction by either a landlord (41 percent) or a housemate (35 percent). Over 70 percent of the applicants were either living with a friend or relative (50 percent) or living in a motel or hotel (20 percent) at the time they applied for homeless assistance.

Auditor General's Report. The Auditor General released a report in April 1990 entitled *Improvements are Needed in the State's Program to Provide Assistance to Homeless Families.* The report identified a number of problems with the AFDC-HA Program, presented findings and made recommendations in three areas. First, the report found that the department and the counties need to increase their efforts to limit fraud and abuse in the AFDC-HA Program. For example, the report found that in 9 of the 83 cases reviewed, the family either was not actually homeless or provided false or misleading information in order to receive assistance. Also, in 8 of the cases reviewed, the family receiving a homeless payment reported the same address they had before they applied for homeless assistance.

Second, the Auditor General found that, because the program is designed to respond immediately to an applicant's need, county eligibility workers have limited opportunity to verify the applicant's actual needs prior to granting aid. Further, the report found that existing regulations do not require sufficient verification (1) of the actual homelessness of the applicant or (2) that the assistance funds are actually used for shelter. Finally, the report found that the department and the counties need improved quality control, statistical reporting, and case-tracking procedures. For example, the report indicates that counties have been slow to implement the Homeless Assistance Payment Indicator System (a computerized fraud detection system) and to enter accurate payment data when the system is used.

Legislative Intent to Improve Program Integrity. The department has revised its regulations once since its initial regulations were developed for this program. Pursuant to legislative intent language in the 1990 Budget Act, the department will implement a second set of revisions on April 1, 1991 to reduce fraud, and increase both county accountability and recipient verification of eligibility and use of benefits. These rule changes include requirements that recipients (1) provide receipts for all expenditures, (2) repay their permanent housing payment if they return to their former address (with specific exceptions), and (3) repay any permanent housing benefit if they are found ineligible.

The department estimates that these changes would save the AFDC-HA Program about $20 million ($9 million General Fund) in the budget year. This estimate is based on the findings in the Auditor General's report and assumes that all counties will be equally effective in the way they implement the new regulations. Given the relatively small sample size in the Auditor General's report, however, this estimate is subject to significant error.

Conclusion. The AFDC-HA Program has been subject to abuse. At the same time, it has helped many truly homeless families. The department

Aid to Families with Dependent Children—Continued

is making changes that it believes will improve the performance of the program. We are unable to estimate the number of truly homeless AFDC-eligible families that might benefit from this program. To the extent the AFDC-HA Program is effective, however, the Governor's proposal to eliminate the program clearly would adversely affect homeless families.

Proposed Elimination of State-Only AFDC-U Would Transfer Responsibility to the Counties

The budget proposes legislation to eliminate the state-only AFDC-U Program for a savings of $7 million to the General Fund. We find that this proposal would result in a transfer of responsibility for those recipients to the counties.

The budget proposes legislation to terminate the state-only AFDC-U Program for a savings of $7 million to the General Fund. Currently the state operates a limited-term AFDC-U Program (3 months of aid out of each 12-month period) for families that do not meet the requirements of the federal AFDC-U Program. The department estimates that about 760 families per month would qualify for assistance under this program during 1991-92. If this program is eliminated, as proposed in the budget, a substantial number of these families likely would apply for general assistance in the counties where they reside. Thus, elimination of this program would, in effect, result in a transfer of responsibility for these families to the counties.

Budget Proposes Compliance with Federal Disqualification Requirements in the AFDC Program

The budget proposes legislation to disqualify AFDC recipients who commit intentional program violations for a savings of $6.2 million ($2.8 million General Fund).

The budget proposes legislation to comply with federal disqualification requirements for intentional program violations (IPVs) in the AFDC-FG and U Program. If this legislation is enacted, the department estimates savings of $6.2 million ($2.8 million General Fund) in 1991-92.

Currently the state receives $2 million annually in enhanced federal funding (75 percent share of cost as compared to the normal 50 percent federal share for most administrative activities) for fraud investigators. The enhanced funding for fraud control was established as part of the Omnibus Budget Reconciliation Act of 1987 (OBRA-87). In addition, under OBRA-87, counties receive both federal and state funds for county prosecutor costs (75 percent federal plus 12.5 percent state compared to the normal 100 percent county funds). The OBRA-87 allows states to disqualify recipients found to have committed IPVs — such as providing false or misleading information, or concealing or withholding facts — for 6 months for the first violation, 12 months for the second violation, and permanently for the third violation. According to the DSS, the federal government is expected to publish final regulations early in 1991

requiring states to adopt these disqualification provisions as a condition of continued receipt of enhanced fraud funding. The department estimates that if legislation to disqualify IPVs is enacted, about 560 recipients per month would be disqualified for an average of six months each.

Budget Includes Savings Anticipated to Result From the Family Planning Initiative

The budget anticipates savings of $2.5 million ($1.1 million General Fund) to the AFDC-FG and U Program resulting from its proposal to increase funding for the Family Planning Program. Family planning expenditures have been shown to result in reduced expenditures for welfare. The exact magnitude of the savings that would be achieved in the budget year, however, are unknown. Thus, the department's estimate of these savings is subject to some error. We discuss the Family Planning initiative in detail elsewhere in this analysis (please see Item 4260, Office of Family Planning).

AID TO FAMILIES WITH DEPENDENT CHILDREN-FOSTER CARE

Overview. The Aid to Families with Dependent Children-Foster Care (AFDC-FC) Program pays for the care provided to children by guardians, foster parents, and foster care group homes. Children are placed in foster care in one of four ways:

- ***Court Action.*** A juvenile court may place a child in foster care if the child has been abused, abandoned, or neglected and cannot be safely returned home. The court may also place a minor who has committed a criminal or status offense in foster care. In addition, until January 1992, a court may place a child in foster care if the child is beyond the control of his or her parent(s) or guardian(s). Effective January 1, 1992, however, Ch 913/89 (SB 551, Presley) deletes this provision of law. Finally, probate courts place children in guardianship arrangements for a variety of reasons.
- ***Voluntary Agreement.*** County welfare or probation departments may place a child in foster care pursuant to a voluntary agreement between the department and the child's parent(s) or guardian(s).
- ***Relinquishment.*** A child who has been relinquished for adoption may be placed in foster care by an adoption agency, prior to his or her adoption.
- ***Individualized Education Program.*** Since July 1986, an individualized education program (IEP) team may place a child in foster care if it determines that the child (1) needs special education services, (2) is seriously emotionally disturbed (SED), and (3) needs 24-hour out-of-home care in order to meet his or her educational needs.

Children in the foster care system for any of these reasons can be placed in either a foster family home or a foster care group home. Both types of foster care facilities provide 24-hour residential care. Foster family homes must be located in the residence of the foster parent(s), provide service to no more than six children, and be either licensed by the DSS or certified by a Foster Family Agency. Foster care group homes

Aid to Families with Dependent Children—Continued

are licensed by the DSS to provide services to seven or more children. In order to qualify for a license, a group home must offer planned activities for children in its care and employ staff at least part-time to deliver services.

Budget Proposal. The 1991-92 budget proposes total expenditures of $1 billion ($744 million from the General Fund, $245 million in federal funds, and $38 million in county funds). The total General Fund request for AFDC-FC represents an increase of $104 million, or 16 percent, above estimated 1990-91 expenditures.

Proposal to Freeze Foster Care Rates is a Major Policy Issue

The budget proposes legislation to suspend the statutory rate increases for foster care group homes for a savings of $50 million ($33 million General Fund). We find that the DSS has underestimated the fiscal effect of the savings that would result from this proposal.

Budget Proposal. The budget proposes legislation to freeze foster care group home rates in lieu of the trigger reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The department estimates that this proposal will result in savings of $50 million ($33 million General Fund) in 1991-92.

The current system for reimbursing foster care group homes was established by Ch 1294/89 (SB 370, Presley). Specifically, Chapter 1294 established a standardized schedule of rates for reimbursing group home providers. The statute specifies 14 rate classification categories that are based on the level of service provided.

Prior to the enactment of Chapter 1294, group homes that provided the same level of care were reimbursed at substantially different rates. Chapter 1294 established a three-year phase-in schedule to equalize the rates of group homes at each level of care. With respect to group homes whose rates are below the statutory rate classification level, Chapter 1294 requires the department to raise rates to a specified amount that is increased each year of the three-year phase-in period. In 1990-91, this amount is 85 percent of the statutory rate for each classification level. Chapter 1294 requires that the rate minimum be raised to 92.5 percent in 1991-92. In addition, Chapter 1294 increases the statutory rates for each classification level in 1991-92 by 5.49 percent, which is the percentage change in the California Necessities Index during the 1990 calendar year.

The proposal to freeze group home rates in 1991-92 represents a major policy decision that the Legislature will have to decide based on its overall fiscal and policy priorities for this and other state programs. One potential drawback of the proposal is that it may restrict the supply of foster care group home beds in 1991-92. We have requested, and the department has agreed, to provide the Legislature with an estimate of (1) the number of group home beds currently available in the state, (2) the number of children who will need group home care in 1991-92, and (3) the extent to which the proposed freeze on rates will affect the supply of group homes in 1991-92. We will provide the Legislature with our

analysis of this information at the time of budget hearings.

Department's Estimate of the Fiscal Effect of the Rate Freeze Proposal is Flawed. We have identified two errors in the department's estimate of the fiscal effect of the rate freeze proposal. First, our analysis indicates that the department has underestimated the savings that would result from the implementation of the proposal. This occurred because the department assumed that, despite the rate freeze, group home rates in 1991-92 would increase by an average of 5.2 percent, which was the average annual rate of increase for group home rates prior to the implementation of Chapter 1294. Since the proposal would freeze each individual provider's rate at the 1990-91 level, there is no basis for assuming that there would be *any* increase in group home rates as a result of the proposal. In addition, our analysis indicates that the department miscalculated the federal and county shares of the savings associated with the proposal.

After correcting for these errors, we estimate that the actual savings that would result from the rate freeze in 1991-92 would be $64 million ($49 million General Fund, $12 million federal funds, $2.6 million county funds), which is $14 million ($16 million General Fund) more than the budget proposes. We anticipate that the department will correct these errors in the May revision.

Budget Does Not Provide Funding for Specialized Foster Care Programs

The budget does not fund the specialized foster care programs anticipated by Chapter 1294.

Chapter 1294 expresses legislative intent to increase General Fund support for foster family homes by 5 percent in 1991-92, in order to fund programs to encourage the placement of more foster care children in foster family homes, rather than in group homes. Specifically, Chapter 1294 expresses legislative intent that these funds be used to (1) increase foster family home grants to foster parents who care for children with special needs, (2) recruit and train foster parents to care for these children, and (3) develop county programs to encourage the placement of these children in foster family homes. The department estimates that it would cost $12.7 million from the General Fund to support these activities in 1991-92. To the extent that these activities are effective at increasing the number of children placed in foster family homes, rather than in more expensive group homes, these activities could have resulted in net savings to the foster care program in 1991-92. However, the budget does not include funding for these programs.

Budget Proposes to Claim Increased Federal Funds for Wards of the Court Who are Placed in Foster Care

We find that the department's proposal to increase federal support for wards of the court lacks detailed information that would allow the Legislature to fully evaluate its fiscal effect and feasibility. Therefore, we recommend that the DSS report to the Legislature during budget hearings on (1) its specific plans for implementing the proposal and (2) its revised fiscal estimate of the proposal.

Aid to Families with Dependent Children—Continued

Background. The DSS estimates that there are currently 5,600 wards of the court residing in foster family homes or foster care group homes in California. Under federal law, California is permitted to claim federal foster care funds for two types of costs related to the care of these wards:

- ***Foster Care Grant Costs.*** The federal government will pay for 50 percent of the foster care grant costs of wards if (1) the ward's family was receiving, or was eligible to receive, an AFDC grant in the month in which the minor was placed in foster care and (2) the ward is placed in a foster family home or a *nonprofit* group home. The foster care costs for wards of the court who do not meet these eligibility criteria are supported by the state-only foster care program, for which the state pays 95 percent and the counties pay 5 percent of the costs.
- ***Case Management Costs.*** The federal government pays 50 percent of certain case management and administrative costs for federally eligible wards in foster care. Currently, the DSS claims federal foster care funds for case management and administrative costs of county *welfare* departments, which serve abused and neglected children in foster care. To date, however, the department has never claimed federal foster care funds on behalf of county *probation* departments for any of the services they provide to wards in foster care.

Budget Proposal. The budget proposes a $25 million federal funds increase in foster care grant costs and a corresponding reduction in General Fund support. This assumes that the state would be able to claim federal eligibility for 50 percent of the wards in foster care. Currently, the department estimates that approximately 32 percent of the wards in foster care participate in the federal foster care program.

In addition, the budget proposes an increase of $24 million in federal funds support in Item 5180-151-890. This assumes that the state would be able to claim federal foster care funds for the case management and administrative activities performed by county probation departments on behalf of federally eligible wards in foster care.

We have three concerns with the budget proposal:

1. It is unclear how many wards who currently receive state-only funded foster care are actually eligible for the federal Foster Care Program. The department's assumption that the state could receive federal funding for 50 percent of the wards in foster care is based on a report prepared under contract with the DSS by a private consulting firm. However, in preparing the report, the contractor did *not* review any individual cases to determine whether they were, in fact, federally eligible. Moreover, the DSS has not proposed any plan that counties could follow to accomplish such a substantial increase in the number of wards claimed to the federal program.

2. The department's estimate overstates the amount of the shift that would occur between the General Fund and federal funds in the Foster Care Program as a result of this proposal. This is because the department used estimates prepared by the contractor, which overestimated

the total number of wards in foster care statewide and the General Fund savings that would result from shifting each ward to the federally funded program. Based on foster care placement and cost data provided by the department, we estimate that increasing the percentage of federally eligible wards from 32 percent to 50 percent, as assumed in the department's proposal, would result in General Fund savings of $17 million, as compared to the $25 million estimated by the department.

3. There are several implementation issues that need to be resolved before the DSS can begin claiming federal foster care funds for the case management and administrative activities performed by county probation departments. There are two major issues that the department needs to resolve in order to claim the additional federal foster care funds proposed for probation departments' case management and administrative activities. Specifically, the following issues had not been resolved at the time this analysis was prepared:

- ***How Will the DSS Monitor the Performance of County Probation Departments?*** As a condition of receiving federal funds, federal law requires the department to "monitor and conduct periodic evaluations of activities" carried out by the agencies providing services to federally eligible children in foster care. However, the DSS has not yet developed a plan for supervising the activities of county probation departments. Thus, it is unclear how the department intends to meet this federal requirement.
- ***Will Administrative Procedures to Claim Federal Funds for Case Management and Administrative Activities Be In Place by July 1, 1991?*** In order for the DSS to claim federal foster care funds for administration and case management activities provided on behalf of wards in foster care, county probation departments will need to establish (1) methods to track the time spent by probation officers on federally eligible activities and (2) procedures to submit the necessary information to county welfare departments. In some cases, this may require county probation departments to reorganize their staff in order to track staff costs associated with federally eligible wards in foster care. In addition, it will require county probation departments, county welfare departments, and the DSS to establish interagency agreements that detail how cost and caseload information will be collected, transmitted, and audited. It will take concerted efforts to resolve these issues by the beginning of the budget year, as contemplated by the department's estimate.

Recommendation. At the time this analysis was prepared, the DSS had just begun meeting with county welfare departments and county probation departments to discuss this proposal. According to the department, it intends to begin implementing the proposal in four counties — Contra Costa, Riverside, Los Angeles, and Orange — during February of the current year. We expect that the department will have more detailed information regarding the implementation issues discussed above after these counties begin implementing the proposal. In addition, we believe that it would be possible for the department to develop a more accurate

Aid to Families with Dependent Children—Continued

estimate of the fiscal effects of the proposal by conducting a survey of the eligibility characteristics of wards in these or other selected counties. This information would allow the department to more accurately estimate the extent to which the federal eligibility of wards in foster care could be improved. Our analysis indicates that this kind of fiscal and programmatic information will be necessary in order for the Legislature to fully evaluate the feasibility and potential fiscal effect of the proposal. For this reason, we recommend that the DSS report to the Legislature at the time of the May revision on (1) its plans for implementing the proposal and (2) its revised fiscal estimate.

Budget Includes Funding for Children Who Will Not Be Eligible For Foster Care Under Current Law

We recommend that the department report to the Legislature at the time of budget hearings on its estimate of the number of emotionally disturbed children who will remain in foster care after the sunset of Ch 913/89 (SB 551, Presley) and the amount of funding that will be necessary to support the foster care costs for these children in 1991-92.

We estimate that the budget includes expenditures of $17 million ($13 million General Fund, $3.5 million federal funds, $700,000 county funds) for foster care grants to approximately 500 children who were placed in foster care because the courts determined that they were beyond the control of their parents or guardians. Typically, these children have emotional or behavioral problems that make it difficult for their parents to keep them at home. Most of these children have been in foster care for several years.

Effective January 1, 1992, Chapter 913 will delete the provision of law that allowed the courts to place children in foster care because they are beyond the control of their parents. Thus, these children will *not* be eligible to continue to receive AFDC payments under this provision of law after January 1, 1992. Moreover, the department will not have the statutory authority to spend the funds included in the budget for their foster care costs in the last half of 1991-92.

It is unclear what the placement options for these children will be after January 1, 1992. However, the county welfare department and mental health department administrators we contacted indicated that the following options exist for these children:

- ***Remaining in Foster Care Under Different Statutory Authority, as Dependents or Wards of the Court.*** After the provisions of Chapter 913 sunset, it may be possible for the juvenile courts to continue the authority for the placement of some of these children under different statutory authority. However, this would require the court to find that either (1) the child's parent(s) had abused or neglected the child or (2) the child had committed a status or criminal offense. It is unclear how many of these children would be maintained in foster care for these reasons.
- ***Remaining in Foster Care Under the Seriously Emotionally Disturbed (SED) Program.*** According to one county administrator we

contacted, some of the children in foster care under the authority of Chapter 913 may also be eligible for the SED Program. The SED Program provides foster care, specialized education programs, and mental health services to seriously emotionally disturbed children. In order to be eligible for the SED Program, a child must be identified by his or her local public school as needing foster care for educational reasons. It is possible that in some counties, children who are in foster care as a result of the provisions of Chapter 913 would be able to continue in foster care, if they are diagnosed as SED. However, it is unclear how many of these children would be diagnosed as being SED during 1991-92, since their schools have previously not identified them as SED eligible.

- ***Entering Other Publicly Funded Residential Placement Facilities.*** It is also possible that some of these children would be placed in other publicly funded residential facilities that provide psychiatric care, such as state hospitals.
- ***Entering Private Residential Facilities.*** The parents of some of these children may have the resources to pay for the costs of a private residential facility that would meet the treatment needs of the child. However, one county administrator we contacted advised us that the reason many of these children are currently in foster care is because their parents have exhausted their own resources for the support of the children in private facilities.
- ***Returning to Live at Home With Their Parents.*** Some of these children may be able to return to live at home with their parents. According the county administrators we contacted, however, it is unlikely that a substantial number of children could be maintained successfully in their homes unless the county could provide additional mental health and support services to the child and the family. It is unclear whether county mental health departments can provide the level of service that would be necessary to maintain these children in their homes.

At the time this analysis was prepared, the DSS had not estimated the number of these children who will continue to reside in foster care after the sunset of Chapter 913. We believe the department could develop such an estimate by surveying county welfare departments. This estimate would assist the Legislature in identifying (1) the correct amount of funding to leave in this item for foster care grants to the emotionally disturbed children who would remain in foster care after the sunset of Chapter 913 and (2) the amount of excess funds currently proposed in this item that could be used either to support other services for these children — such as mental health treatment services for children who return to live at home with their parents — or for other legislative priorities. Therefore, we recommend that the department report to the Legislature at the time of budget hearings on its estimate of the number of children who will remain in foster care after Chapter 913 sunsets and the amount of funding that will be necessary to support their continued foster care costs.

Aid to Families with Dependent Children—Continued

CHILD SUPPORT ENFORCEMENT

Background. The child support enforcement program is 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 1991 (FFY 91), the federal government pays counties an amount equal to 6 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.

New Criteria for Incentive Payments

Pursuant to Ch 1647/90 (AB 1033, Wright), the distribution of incentive payments to counties will be revised, effective January 1, 1992. Counties will receive up to 11 percent of *total* collections (AFDC and non-AFDC) in the last 6 months of 1991-92 and in all of 1992-93, increasing annually by 1 percent through 1995-96. The actual amount that counties receive will consist of a minimum "base" rate and an additional percentage depending on their performance with respect to (1) compliance with federal and state regulations and audit criteria and (2) three specific components of the administrative process: location of absent parents, establishment of paternities, and establishment of support orders. The minimum base rate in 1991-92 is established at 10 percent, decreasing by 1 percent annually through 1995-96. Counties can earn an additional 1 percent in 1991-92 for compliance with state and federal regulations, increasing annually by 1 percent through 1995-96. Finally, counties that qualify for the compliance incentive rates can earn an additional 1 percent in 1993-94 for their performance on the three components of the administrative process, increasing by 1 percent annually through 1995-96.

Table 6 summarizes the new system for distributing incentive payments.

Table 6
Department of Social Services
Child Support Program Incentive Payments
1991-92 through 1995-96

	Base Rate[a]	*Compliance Rate*[a]	*Performance Rate*[a]	*Total*[a]
1991-92[b]	10%	1%		11%
1992-93	9	2		11
1993-94	8	3	1%	12
1994-95	7	4	2	13
1995-96	6	5	3	14

[a] Applied to total child support collections (AFDC and non-AFDC).
[b] Effective January 1, 1992.

New Incentive Payment System Favors Non-AFDC Collections

We recommend that legislation be enacted to provide that (1) in determining the incentive payments allocated to counties for child support collections (effective January 1, 1992), the percentage applied to non-AFDC collections be reduced by 18 percent in order to account for the estimated differential between AFDC and non-AFDC collections per case, and (2) any savings resulting from this provision be reallocated to (a) incentives based on medical support orders or (b) an administrative workload supplement based on the proportion of the county's population represented by AFDC recipients.

As explained above, the new incentive payment system that will be implemented on January 1, 1992, pursuant to Chapter 1647, provides that state and federal incentive payments will be distributed to counties based on a specified percentage (10 percent or 11 percent in 1991-92, depending on compliance with state and federal regulations) of total collections for AFDC and non-AFDC families. This represents a shift in incentives toward non-AFDC collections (for which the state receives no direct savings through recoupment of AFDC grants) because prior law provided that the state portion of incentive payments be allocated only on the basis of AFDC collections.

In developing the new incentive payment system and sponsoring Chapter 1647, the DSS defended this change by contending that giving priority to AFDC collections would not be consistent with federal law. (Specifically, federal legislation requires only that child support services be made available to anyone requesting these services.) We note, however, that the dollar value of child support collections made on behalf of non-AFDC families is higher, on a per case basis, than those collected for AFDC families, due to the differences in family income levels. Thus, allocating incentive payments by applying the *same* percentage to AFDC and non-AFDC collections will, in effect, give counties *more* incentive to pursue non-AFDC cases.

In order to equalize the "real" incentive to process AFDC and non-AFDC cases, the percentage applied to non-AFDC cases would have to be set at a level below the percentage applied to AFDC cases, compensating for the difference in collections per case between the two

Aid to Families with Dependent Children—Continued

categories. Based on the most recent annual data, we estimate non-AFDC collections per case are, on average, 18 percent higher than AFDC collections per case. Thus, the incentive to pursue collections on each type of case could effectively be equalized by one of the following alternatives: reducing the percentage applied to non-AFDC cases by 18 percent (in 1991-92, for example, reducing the maximum incentive rate from 11 percent to 9 percent); increasing the percentage applied to AFDC cases by 18 percent; or some combination of the preceding two actions.

Given the fiscal problems facing the state, augmenting the budget to increase the AFDC incentive does not appear to be a realistic option. Reducing the non-AFDC incentive, on the other hand, would generate an estimated savings of $3.2 million in 1991-92 and $6.7 million in 1992-93, increasing moderately annually thereafter through 1995-96. From a fiscal standpoint, this is an attractive alternative. We believe, however, that these funds would be used cost-effectively by reallocating them within the child support enforcement program, provided that the funds are expended on those components of the program that result in the greatest savings to the state. We identify two alternatives to achieve this objective:

1. Provide an incentive for establishment of medical support orders. Federal regulations require child support enforcement agencies to seek medical support (noncustodial parents' health insurance coverage) in conjunction with child support orders, including the modification of existing orders. County child support agencies, however, do not receive any savings or incentive payments for medical support orders. Thus, they have less fiscal incentive to pursue this activity than to engage in other administrative tasks that result in collections. The state and federal governments, on the other hand, could realize significant savings because the health insurance coverage would reduce Medi-Cal costs for those families in the Medi-Cal Program. To the extent that incentive payments are effective, therefore, it seems reasonable to establish an incentive for medical support enforcement.

2. Provide an administrative workload supplement based on each county's population of AFDC recipients as a percentage of its total population. As we discussed in last year's *Analysis*, there is a strong correlation between a county's administrative effort — measured by its administrative expenditures as a percentage of its AFDC grant expenditures — and the county's child support collections performance, as measured by its AFDC recoupment rate. In other words, we would expect that, on average, a county with a relatively large welfare population would have to allocate correspondingly more resources to its child support program than would a county with a small welfare population, in order to achieve the same level of performance. A county's resources, however, would be related more closely to its total population than to the size of its welfare population. Thus, counties with high welfare populations in proportion to their total population may find it more

difficult to devote the level of resources needed for its child support program.

An administrative supplement, based on each county's population of AFDC recipients as a percentage of its total population, would help to address this problem. Such an allowance could be accompanied by a maintenance of effort provision in order to ensure that it does not result in supplanting of county funds.

Conclusion. While we do not agree with the DSS's contention that federal law appears to require that state as well as federal incentive payments be distributed so as to treat AFDC and non-AFDC cases on an equal basis, our recommendation to reduce the percentage that will be applied to non-AFDC collections is consistent with the department's underlying premise in developing the new incentive system. With respect to the possible reallocation of the savings generated by this change, we believe that both of the alternatives that we identified have merit. Consequently, we recommend that legislation be enacted to revise the distribution of incentive payments, and we suggest that the department consider the alternatives for reallocating the incentive payments and be prepared to comment on them during any hearings that might be held concerning our proposal.

Fiscal Impact of Program

As Table 7 shows, the child support enforcement program is estimated to result in *net savings* of $94 million to the state's General Fund in 1991-92. The federal government is estimated to spend $106 million more in 1991-92 than it will receive in the form of grant savings. California counties are expected to incur a net cost to administer the program in the amount of $5 million in 1991-92.

Table 7
Department of Social Services
Child Support Enforcement Program
1991-92
(in thousands)

Program costs	*General Fund*	*Federal Funds*	*County Funds*	*Total*
County administration	$1,769	$179,477	$84,543	$265,789
State administration	4,153	8,725	—	12,878
Incentive payments	22,508	42,846	−65,354	—
Savings				
Welfare collections	−122,167	−124,560	−14,252	−260,979
Net fiscal impact	−$93,737	$106,488	$4,937	$17,688

Table 7 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.

Aid to Families with Dependent Children—Continued

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 8 shows the change in statewide collections of child support from 1982-83 through 1989-90. As the table shows, statewide collections increased at an average annual rate of 10 percent during this period.

Table 8
Department of Social Services
Statewide Child Support Collections [a]
1982-83 through 1989-90
(dollars in thousands)

	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
1989-90	246.4	267.1	513.5	7.7
Average annual increase				10.0%

[a] Data provided by Child Support Management Information System, Department of Social Services. Figures for 1989-90 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 9 shows the recoupment rate from 1982-83 through 1989-90. During this period, the state recouped an average of 6.2 percent of state, federal, and county expenditures through the child support enforcement program.

Table 9
Department of Social Services
Child Support Enforcement "Recoupment Rates" [a]
All Counties
1982-83 through 1989-90

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
1989-90	5.9
Average rate	6.2%

[a] AFDC collections as percent of grant expenditures.

State Passes Follow-Up Audit

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 had not complied substantially with the federal requirements.

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 DSS submitted a corrective action plan in January 1989 and it was approved by the DHHS. The plan has been implemented, and the federal follow-up audit found that the state is in compliance with federal regulations.

UNALLOCATED REDUCTION

The Governor's Budget includes an unallocated trigger-related reduction of $3 million from the General Fund in this item. This reduction is included in the proposed budget for this item in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The department advises that the unallocated reduction in this item would be applied only to the Adoption Assistance Program (AAP) and the Transitional Child Care (TCC) Program. The department also indicates, however, that the budget inadvertently omits the trigger-related reduction to child support incentive payments, in the amount of $900,000. We anticipate that this will be included in the May revision.

Our analysis indicates that reductions in the AAP and TCC programs would require legislation. This is because the eligibility requirements and benefits received by recipients in both programs are established in statute, and cannot be altered through action on the budget. However, at the time this analysis was prepared the department had not proposed a plan for how this reduction would be implemented. We discuss options for reducing costs in the AAP below. We also note that the amount proposed for the TCC Program may substantially overstate the true costs of the program in the budget year.

The Governor's Budget also proposes trigger-related reductions in this item for the AFDC-FG and U and AFDC-FC programs, but in these cases the proposed reductions have been allocated to these programs. Specifically, the budget states that a portion of the savings that would result from (1) suspending the statutory AFDC COLA and (2) the proposed foster care rate freeze (both of which are discussed above) are proposed in lieu of the Chapter 458 trigger reduction.

Department's Report on Developing Standards and Time Limits for AAP Grants May Provide Options for Reducing AAP Costs

The Supplemental Report of the 1990 Budget Act requires the DSS to report to the Legislature by March 1, 1991 on (1) options for establish-

Aid to Families with Dependent Children—Continued

ing standards for adoption workers to follow in setting AAP grant levels and (2) the feasibility of placing time limits on state-only AAP benefits. This report should provide the Legislature with options for reducing costs in the AAP.

Background. The 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 of their age, racial or ethnic background, or handicap, or because they are a member of a sibling group that should remain intact. Adoptive parents receive AAP 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.

Under current law, 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 $346 to $485 per month, depending on the age of the child. However, adoption workers can set adoption assistance grants as high as the foster care group home rate — an average of $2,770 per month in 1990-91.

For federally eligible children, the federal government pays for 50 percent of any AAP 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 General Fund pays for all grant costs not covered by the federal government.

Budget Proposal. The budget proposes $69 million ($49 million General Fund, $20 million federal funds) for the AAP. However, this does not take into account the unallocated trigger-related reduction proposed in this item. While the budget does not specify how much of the trigger-related reduction would apply to the AAP, the amount of the trigger was calculated by taking 4 percent of the total scheduled for the AAP and TCC programs. A 4 percent reduction in the General Fund amount proposed for AAP would be $2 million.

The General Fund request (not including the effect of the trigger) represents an increase of $11 million, or 27 percent, over 1990-91 expenditures.

AAP Costs Have Grown Dramatically. Adoption assistance costs have increased dramatically since the program was established in 1983-84. This increase is primarily attributable to two factors: caseload growth and the average amounts granted to each adoptive family.

- ***Caseload Growth.*** The average monthly adoption assistance caseload has grown from 2,300 in 1983-84 to an estimated 12,500 in 1991-92. This constitutes a 443 percent increase over the period, or an average annual increase of 24 percent.
- ***Grant Increases.*** Between 1983-84 and 1991-92, the average adoption assistance grant per case grew by 115 percent, from $208 per month to $447 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.

Department's Report to the Legislature Should Provide Options for Controlling Costs in the AAP. In our *Analysis of the 1990-91 Budget Bill,* we examined the reasons for the rapid growth in AAP grant costs. We found that the primary reason for the rapid growth in AAP grant costs is the lack of state controls on the amount of grants adoptive parents are eligible to receive. Specifically, we found that the AAP is unique among the major grant programs operated by the DSS in that it allows individual county adoption workers broad discretion in determining both the amount and the beginning date of the grants. In addition, we found that the lack of statewide standards for adoption workers to use in setting the amount and the beginning date of any grants awarded results in large variations in adoption assistance grants across counties. (Please see our *Analysis of the 1990-91 Budget Bill,* page 715 for further discussion of this issue.) It is important to note in this respect that in a recently issued policy memo to the states, the federal DHHS advised states that they must have a state policy that describes the procedures used to set AAP grant levels. To date, however, the department has not developed procedures for adoption workers to use in setting AAP grant levels.

Recognizing that there was a need for better controls on the AAP, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* that stated the Legislature's intent to establish standards for the AAP and required the department to report to the Legislature by March 1, 1991 on (1) options for establishing standards for adoption workers to follow in setting AAP grant levels and (2) the feasibility of placing time limits on state-only AAP benefits. We anticipate that this report will identify options for controlling cost growth in the AAP.

Transitional Child Care

We find that the department substantially overestimated the Transitional Child Care (TCC) Program costs because its projections are based on survey rather than actual program data.

Chapter 36, Statutes of 1990 (AB 1706, Bates) created the TCC Program, which started April 1, 1990. The TCC Program provides child care to certain families leaving AFDC due to increased earnings, increased hours of work, or loss of an earned income disregard. To qualify for a TCC grant families (1) must have been on AFDC for at least three of the last six months and (2) need child care in order to continue employment. Recipients receive 12 months of child care under the program and pay a share of the costs based on their income.

The budget proposes $52 million ($26 million General Fund) in the budget year for the TCC Program. However, this does not take into account the unallocated trigger-related reduction proposed in this item. While the budget does not specify how much of the trigger-related reduction would apply to this program, the amount of the trigger was calculated by taking 4 percent of the total scheduled for the AAP and the TCC programs. A 4 percent reduction in the General Fund amount proposed for TCC would be about $1 million.

Aid to Families with Dependent Children—Continued

Department's Estimate Overstates TCC Costs. Since the TCC Program is a relatively new program, the department's estimates are based on survey data rather than actual caseloads and costs. Our review of the most recent five months of actual caseload and cost data for the TCC Program suggests that the department's estimate substantially overstates the likely costs of the program in both the current and the budget years. For example, the department estimates that the average monthly caseload would be about 11,000 cases and that the average cost per case would be $390 in 1991-92.

Based on actual program data, we estimate the costs of the TCC Program will be $12 million ($6 million General Fund) in the budget year, which is $40 million ($20 million General Fund) less than the amount proposed in the budget. We anticipate that the department will provide an updated estimate of the TCC costs in the May revision.

DEPARTMENT OF SOCIAL SERVICES

State Supplementary Program for the Aged, Blind, and Disabled

Item 5180-111 from the General Fund and Federal Trust Fund — Budget p. HW 170

Requested 1991-92	$2,321,587,000
Estimated 1990-91	2,320,711,000
Actual 1989-90	2,215,736,000
Requested increase $876,000 (+0.04 percent)	
Total recommended reduction	None
Recommendation pending	2,321,587,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$2,286,200,000
Control Section 23.50—Payments to aged, blind, and disabled	State Legalization Impact Assistance Grant—Federal	35,387,000
Total		$2,321,587,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS — *Analysis page*

1. The Legislature's options for cost control in this program are (a) suspending the state cost-of-living adjustment, as proposed in the budget, and (b) otherwise reducing State Supplementary Program grant levels. — 792
2. Withhold recommendation on $2.3 billion from the General Fund pending review of revised estimates in May. — 794

GENERAL PROGRAM STATEMENT

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. Persons may be eligible for the SSI/SSP Program if:

- They are age 65 or older, blind, or too disabled to work.
- Their income is less than the SSI/SSP payment standards.
- Their resources do not exceed $2,000 for individuals or $3,000 for couples (this cap does not apply to the value of such significant assets as a home or automobile).

The maximum grant received by an SSI/SSP recipient varies according to the recipient's eligibility category (aged, blind, disabled), other income, and living situation.

In California, the federal government administers the SSI/SSP Program through local Social Security Administration (SSA) offices. The federal government pays the cost of the SSI grant and all costs of program administration. 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. However, the federal government pays for the SSP grants for newly legalized persons through the State Legalization Impact Assistance Grant (SLIAG).

The federal government annually provides a cost-of-living adjustment (COLA) to SSI/SSP recipients, increasing the amount of the SSI payment by the percentage increase in the Consumer Price Index (CPI). Under existing law, the state must annually fund another COLA, increasing the total SSI/SSP grant by the percentage increase in the California Necessities Index (CNI). The Commission on State Finance has determined that the actual change in the CNI for calendar year 1990 is 5.49 percent, while the estimated change in the CPI for calendar year 1990 is 4.8 percent. The state COLA may be reduced by up to four percentage points if budget reductions occur pursuant to Ch 458/90 (AB 2348, Willie Brown).

MAJOR ISSUES

☑ **The budget proposes legislation to suspend the statutory requirement for a state COLA (5.49 percent) for SSI/SSP grants in 1991-92 for a General Fund savings of $168 million.**

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $2.3 billion from the General Fund for the state's share of the SSI/SSP Program in 1991-92. The budget also includes $35.4 million from the federal SLIAG for grants to newly legalized persons under the federal Immigration Reform and Control

State Supplementary Program for the Aged, Blind, and Disabled—Continued

Act. The total proposed appropriations are an increase of $876,000, or less than one-tenth of 1 percent, above estimated current-year expenditures.

The budget also assumes that federal expenditures for SSI grant costs will be $2.4 billion. This is an increase of approximately 15 percent over estimated federal expenditures in the current year. The combined state and federal expenditures anticipated by the budget for the SSI/SSP Program is $4.8 billion, an increase of $326 million, or 7.3 percent above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures by category of recipient and by funding source, for the years 1989-90 through 1991-92.

Table 1
Department of Social Services
SSI/SSP Expenditures
1989-90 through 1991-92
(dollars in thousands)

Category of Recipient	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Percent Change From 1990-91*
Aged	$1,242,550	$1,356,259	$1,439,076	6.1%
Blind	119,170	126,303	129,331	2.4
Disabled	2,658,186	2,956,360	3,196,086	8.1
Totals	$4,019,906	$4,438,922	$4,764,493	7.3%
Funding Sources				
Included in Budget Bill:				
General Fund	*$2,203,946*	*$2,298,805*	*$2,286,200*	*−0.5%*
Federal funds (reimbursement for refugees)	*3,667*	—	—	—
State Legalization Impact Assistance Grants	*8,123*	*21,906*	*35,387*	*61.5*
Subtotals, Budget Bill	($2,215,736)	($2,320,711)	($2,321,587)	(—)[a]
Not included in Budget Bill:				
SSI grants	$1,804,170	$2,118,211	$2,442,906	15.3%

[a] Less than one-tenth of 1 percent.

Table 2 shows the factors resulting in the 1991-92 net increase of $326 million in SSI/SSP expenditures. Several significant changes and adjustments contribute to this increase:

- A $359 million ($174 million General Fund) increase to fund an anticipated 7.3 percent caseload growth.
- A $158 million General Fund reduction resulting from federal SSI COLAs in 1991 and 1992.
- A $58 million ($42 million General Fund) reduction resulting from federal social security COLAs in 1991 and 1992 (federal social security COLAs are counted as increased beneficiary income, and thus reduce SSI/SSP grant levels to persons who receive both SSI/SSP and social security payments).

Table 2 also shows that the budget proposes not to provide a 5.49 percent state COLA in 1991-92, for a net savings of $149 million ($168 million General Fund).

Table 2
Department of Social Services
SSI/SSP Budget Changes
1991-92
(dollars in thousands)

	General Fund	*All Funds*[a]
1990 Budget Act	$2,274.8	$4,304.4
1990-91 adjustments to appropriations:		
Higher-than-anticipated caseload growth	$34.4	$129.6
One-time federal payment — eligibility determination errors	−13.6	—
Other	3.2	4.9
Subtotals, expenditure adjustments	($24.0)	($134.5)
1990-91 expenditures, revised	$2,298.8	$4,438.9
1991-92 adjustments:		
Baseline adjustments		
Caseload increase	$174.2	$359.5
Full-year savings of 1991 federal COLA	−83.3	−0.3
Income offset related to 1991 social security COLA (full year)	−26.9	−39.5
1991 federal COLA (4.8 percent)	−74.5	−0.9
Income offset related to 1992 social security COLA	−15.3	−18.6
1992 state COLA (5.49 percent)	167.6	148.6
Other	13.2	25.4
Program change		
Proposed suspension of 5.49 percent COLA for 1992	−167.6	−148.6
1991-92 expenditures (proposed)	$2,286.2	$4,764.5
Change from 1990-91 (revised):		
Amount	−$12.6	$325.6
Percent	−0.5%	7.3%

[a] Includes federal SSI payments not appropriated in the state budget as well as General Fund amount.

ANALYSIS AND RECOMMENDATIONS

General Fund Deficiency of $24 Million in 1990-91

The budget anticipates that General Fund expenditures for SSI/SSP during 1990-91 will exceed the amount appropriated by $24 million, or 1.1 percent. As Table 2 shows, the deficiency results primarily from unexpectedly rapid caseload growth.

Perspectives on SSI/SSP Costs

Chart 1 displays General Fund expenditures for the SSI/SSP Program for a 10-year period from 1982-83 through 1991-92. The figure shows that expenditures have grown at an average annual rate of about 8.0 percent since 1983-84. In 1984-85 through 1989-90, when caseload growth and statutory COLAs combined to drive up expenditures, General Fund costs increased at a rate of nearly 12 percent annually. The relatively slow expenditure growth (4.1 percent) between 1989-90 and the current year results from suspension of the January 1, 1991 state COLA for SSI/SSP grants. The projected decline in expenditures between 1990-91 and 1991-92 reflects (1) the full-year effect of suspending the January 1, 1991 state COLA, (2) the Governor's proposal to suspend the January 1, 1992 state COLA, and (3) the increase in the federal SSI grant due to the

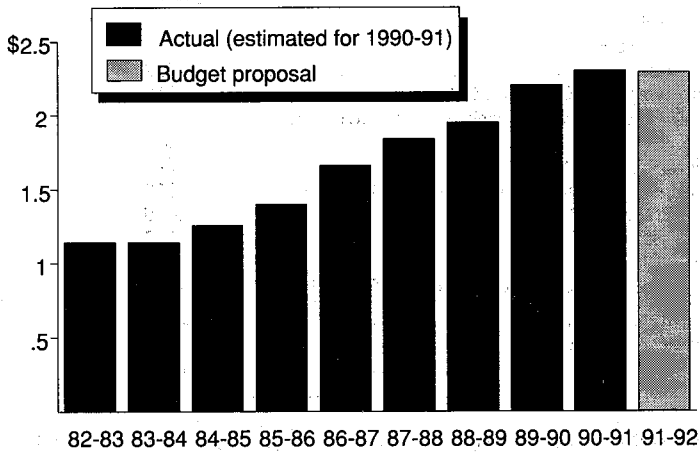
State Supplementary Program for the Aged, Blind, and Disabled—Continued

federal COLAs for 1991 and 1992, which have the effect of reducing the state's share of total SSI/SSP costs.

Chart 1

SSI/SSP General Fund Expenditures

1982-83 through 1991-92 (in billions)



Two factors account for the growth in SSI/SSP expenditures: caseload growth and increases in grants. We estimate that each factor accounts for about half of the expenditure growth between 1982-83 and 1991-92. Policymakers at the state level have no direct influence on SSI/SSP caseload growth, because SSI/SSP eligibility criteria are set at the federal level. State policymakers can, however, influence the SSI/SSP grant level by modifying statutory COLAs or by actually reducing grants. We also note that the ability to control grant levels gives state policymakers *indirect* control over caseload growth. This is because the maximum allowable amount of nongrant income for SSI/SSP recipients increases or decreases as the SSI/SSP grant level increases or decreases. In other words, all else being equal, an increase in grant levels makes more people eligible for SSI/SSP because people with higher levels of income become eligible. On the other hand, reductions in grant levels make fewer people eligible because people with income exceeding the new, lower income limit become ineligible.

Caseload Growth Accelerates. Since 1982-83, SSI/SSP caseload growth has accelerated. Between 1982-83 and 1983-84, the SSI/SSP caseload increased by 1.9 percent to a monthly average of 655,800 recipients.

Between 1988-89 and 1989-90, however, the SSI/SSP caseload increased by 5.2 percent. The Department of Social Services (DSS) estimates that caseload will increase by 7.3 percent to a monthly average caseload of 934,600 recipients between the current and budget years.

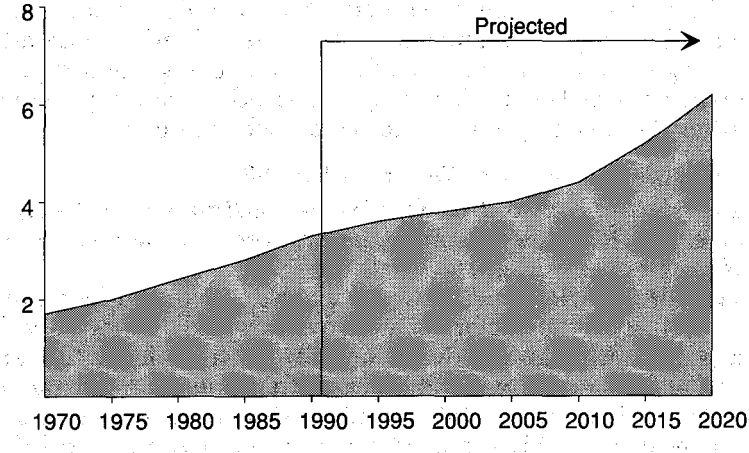
Both major components of the SSI/SSP caseload — the aged and the disabled — reflect the overall pattern of accelerating growth. The disabled caseload, however, has grown faster (5.1 percent per year since 1982-83) than the aged caseload (2.6 percent per year since 1982-83). Several factors account for these trends:

- ***Aged Caseload.*** The eligible population — individuals aged 65 or older — increased faster than any other age category in California during the 1980s (an annual average rate of 3 percent since 1982-83). Chart 2 shows that the rate of increase in this population will slow to about 1.5 percent annually during the 1990s, but increase to 3.5 percent annually for the period 2010 to 2020.

Chart 2

California Population Age 65 or Older

1970 through 2020 (in millions)



- ***Disabled Caseload.*** The disabled caseload has grown at a substantially greater rate than the number of individuals in the eligible age group (primarily ages 18-64). This is consistent with the increased incidence of disability among all age groups noted by some experts in the early 1980s. The DSS advises that the increasing incidence of AIDS-related disabilities is one significant factor that contributed to the increased incidence of disability.

State Supplementary Program for the Aged, Blind, and Disabled—Continued

Changes in federal policy have also played a part. In response to a 1986 lawsuit, the SSA liberalized the criteria for establishing a disability on the basis of a mental or emotional impairment. The recently settled *Zebley* suit has made it easier for children with developmental disabilities to qualify for SSI/SSP. As a result of these and other changes, the percentage of California SSI/SSP disability applications approved after initial review increased from 31 percent in federal fiscal year 1986 (FFY 86) to 46 percent in FFY 90.

- ***Decline in Case Termination Rate.*** The DSS advises that there has been a decline in the rate at which SSI/SSP recipients are leaving the caseload. The DSS indicates that people are entering the program at an earlier age and remaining in the caseload longer, due to increased life expectancy. For example, the DSS reports that the percentage of recipients aged 65 through 69 increased from 16 percent in January 1986 to 21 percent in November 1988.
- ***Federal and State Outreach Programs.*** The SSA has been conducting an outreach campaign since the spring of 1990 to make homeless and mentally impaired individuals aware of their potential eligibility for SSI. The DSS attributes much of the expected current-year increase in SSI/SSP caseload to this campaign. The DSS also indicates that additional individuals are becoming aware of their SSI/SSP eligibility through the Qualified Medicare Beneficiary Program. Under this program, mandated by the federal Medicare Catastrophic Coverage Act, the federal Health Care Financing Authority, and the Department of Health Services, among other things, provide information about state programs to people who are eligible for SSI/SSP.

Legislature's Options for Cost Control in SSI/SSP

The Legislature can control SSI/SSP expenditures by (1) suspending the state cost-of-living adjustment, as proposed in the budget, and (2) otherwise reducing SSP grant levels.

Legislature Can Reduce SSP Grant Levels. While the Legislature has little control over the factors that drive caseload, it has considerable flexibility in setting grant levels for SSI/SSP recipients. Federal law requires California to provide SSP grants that equal at least the level of SSP grants provided by the state on July 1, 1983. Current SSP grant levels substantially exceed this required level. Table 3 shows the difference between current SSP grant levels and 1983 levels for the categories of recipients that make up the substantial majority of the SSI/SSP caseload. As the table shows, the Legislature could reduce the maximum monthly SSP grant levels to these recipients by amounts ranging from $66 to $218, or 29 percent to 30 percent, depending on the category of recipient.

Table 3
Department of Social Services
Maximum Monthly SSP Grant Levels
General Fund
July 1, 1983 and January 1, 1991

Category of recipient	*July 1, 1983*	*January 1, 1991*	*Difference*	*Percent Difference*
Aged or disabled individual	$156.70	$223	$66.30	29.7%
Aged or disabled couple	396.60	557	160.40	28.6
Blind individual	211.70	297	85.30	28.7
Blind couple	543.60	762	218.40	28.7

COLA Suspension Reduces SSP Grant Levels. One option for reducing SSP grant levels is to suspend the state SSI/SSP COLA. The Legislature, for example, suspended the January 1, 1991 state SSI/SSP COLA. As a result, *total* SSI/SSP grants remained the same. The SSI (federal) share of the grants *increased* by $21 per month for individuals and $31 per month for couples because a 5.4 percent federal COLA was applied to the SSI amount. However, the SSP share of the grants *decreased* by $21 per month for individuals and $31 per month for couples.

Under current assumptions about growth of the CPI, suspension of the state COLA as an annual cost-control strategy would reduce SSP grants for most *individuals* to the minimum required by federal law — $156.70 — as of January 1, 1995. SSP grants for most *couples* would reach the federal minimum — $396.60 — on January 1, 1998.

Budget Proposes to Suspend Statutory COLA

The budget proposes legislation to suspend the 5.49 percent state COLA for SSI/SSP grants in 1991-92. The Department of Social Services estimates that this will result in budget-year General Fund savings of $168 million. As noted in the foregoing discussion, suspension of the state COLA is one way that the Legislature can reduce SSP grant levels in order to control SSI/SSP costs. The budget indicates that the proposed elimination of the state COLA is in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 4 displays SSI/SSP maximum monthly grants for 1991, for 1992 with no state COLA (the budget proposal), and for 1992 with a state COLA of 5.49 percent. As the table shows, if legislation is enacted to waive the state COLA, total SSI/SSP grants would remain the same. The federal SSI COLA that will take effect on January 1, 1992 would be offset by SSP grant reductions. If, however, legislation is not enacted to waive the state COLA, grants to SSI/SSP recipients would be $34 to $39 higher in 1992 than in 1991 (unless the COLA is reduced pursuant to Chapter 458).

DEPARTMENT OF SOCIAL SERVICES

Refugee Cash Assistance Programs

Item 5180-131 from the Federal Trust Fund — Budget p. HW 171

Requested 1991-92	$29,288,000
Estimated 1990-91	26,739,000
Actual 1989-90	32,847,000
Requested increase $2,549,000 (+9.5 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 $29.3 million in federal funds in 1991-92 for cash assistance to time-eligible refugees through the Refugee Cash Assistance (RCA) Program. This is an increase of $2.5 million, or 9.5 percent, above estimated current-year expenditures. The $2.5 million increase is the result of (1) $1.7 million proposed for a cost-of-living adjustment (COLA) for RCA grants and (2) $800,000 proposed for anticipated caseload growth.

RCA recipient grant levels are the same as AFDC grants levels. As we discuss in our analysis of Item 5180-101-001, the budget proposes to reduce AFDC Maximum Aid Payments by 8.8 percent and to suspend the statutory COLA for AFDC. The amounts proposed in this item do not reflect either the 8.8 percent reduction or the suspension of the COLA. We anticipate that the department will correct these inconsistencies in the May revision.

DEPARTMENT OF SOCIAL SERVICES

County Administration of Welfare Programs

Item 5180-141 from the General Fund and the Federal Trust Fund — Budget p. HW 171

Requested 1991-92	$998,975,000
Estimated 1990-91	864,608,000
Actual 1989-90	666,071,000
Requested increase $134,367,000 (+15.5 percent)	
Total recommended reduction	None
Recommendation pending	998,975,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County administration	General	$224,236,000
5180-141-890—County administration	Federal	771,259,000
Chapter 465, Statutes of 1990	General	1,586,000
Control Section 23.50—Local assistance	State Legalization Impact Assistance Grant	1,894,000
Total		$998,975,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS — *Analysis page*

1. County Administration Budget. Withhold recommendation on $999 million ($226 million General Fund, $773 million federal funds) pending review of revised estimates in May. — 800

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 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.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of $226 million from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1991-92. This is an increase of $26 million, or 13.2 percent, over estimated current-year General Fund expenditures for this purpose. The $226 million includes $5.3 million to fund increased General Fund costs resulting from the state's share of the ongoing costs of the estimated 5.7 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1990-91.*

Table 1
Department of Social Services
County Welfare Department Administration
1989-90 through 1991-92
(in thousands)

	Actual 1989-90				*Estimated 1990-91*				*Proposed 1991-92*			
Program	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
AFDC administration	$128,004	$209,168	$125,949	$563,121	$144,741	$235,586	$157,930	$538,257	$170,945	$271,752	$168,751	$611,448
Nonassistance food stamps	38,844	141,841	41,091	221,777	45,824	192,853	50,839	289,516	52,810	211,719	54,841	319,370
San Diego food stamp cash out [a]	—	6,952	—	6,952	—	66,920	—	66,920	—	93,523	—	93,523
Child support enforcement	—	118,226	57,729	175,955	700	154,136	76,361	231,197	1,769	179,477	84,543	265,789
Special adult programs	2,843	—	—	2,843	2,301	—	74	2,375	2,382	—	—	2,382
Refugee cash assistance	—	7,163	—	7,163	—	5,384	—	5,384	—	5,557	—	5,557
Adoption assistance	488	269	—	757	422	610	12	1,044	796	349	21	1,166
Staff development	2,830	9,326	3,288	15,444	3,618	7,628	3,828	15,074	4,026	8,274	4,026	16,326
Transitional child care	59	58	—	117	1,915	1,970	—	3,885	2,503	2,502	—	5,005
Unallocated reduction	—	—	—	—	—	—	—	—	−9,409	—	—	−9,409
Totals	$173,068	$493,003 [b]	$228,057	$894,129 [b]	$199,521	$665,087 [b]	$289,044	$1,153,652 [b]	$225,822	$773,153 [b]	$312,182	$1,311,157 [b]

[a] Amounts shown are to provide cash grants in lieu of food stamps 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 23.5.

Similarly, counties will pay for any COLAs granted to county employees in 1991-92 using county and federal funds. The state will fund its share of the ongoing costs resulting from COLAs granted in 1991-92 starting in *1992-93.*

The budget proposes an unallocated reduction of $9.4 million. This reduction is included in the proposed budget for this item in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The $9.4 million corresponds to 4 percent of the General Fund expenditures proposed for county administration of welfare programs in 1991-92.

The budget proposes total expenditures of $1.3 billion for county administration of welfare programs during 1991-92, as shown in Table 1. This is an increase of $158 million, or 13.7 percent, over estimated current-year expenditures.

Table 2 shows the budget adjustments that account for the net $158 million (all funds) increase in county administration expenditures proposed for 1990-91. The baseline adjustments proposed in the budget are as follows:

- An $87 million ($28 million General Fund) increase due to (1) projected caseload growth in the various welfare programs administered by the counties and (2) increased costs per worker, resulting primarily from the COLAs that counties provided their employees in 1989-90 and 1990-91.
- A $27 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 $21 million ($305,000 General Fund) increase for a variety of administrative initiatives in the Child Support Enforcement Program, which are required by existing federal and/or state law. The largest single initiative is the implementation of time standards required by the Federal Support Act of 1988 ($8.7 million federal and county funds, no General Fund).
- A $7 million ($1.8 million General Fund) increase due to (1) the expansion of the existing early fraud detection program to all counties as required by Ch 465/90 (AB 2454, Royce) and (2) the expansion of an existing asset match program to include additional categories of assets as required by Ch 139/90 (SB 1174, Royce).
- A $5 million ($1.2 million General Fund) savings due to the settlement of several court cases in the current year.
- A $1.3 million ($918,000 General Fund *savings*) increase in expenditures to implement the Statewide Automated Welfare System to additional counties.

In addition to these baseline adjustments, the budget includes several policy proposals. We discuss two of these proposals below. The other three proposals — (1) a $16 million ($3.9 million General Fund) reduction due to the proposal to eliminate the AFDC-Homeless Assist-

County Administration of Welfare Programs—Continued

ance Program, (2) a $953,000 ($119,000 General Fund) increase in county staff costs due to administrative hearings anticipated to result from proposed legislation to disqualify AFDC recipients who commit intentional program violations, and (3) a $503,000 ($252,000 General Fund) savings due to the proposed elimination of the state-only AFDC-U Program — are discussed in our analysis of the AFDC budget (please see Item 5180-101).

Table 2
Department of Social Services
County Administration of Welfare Programs
Proposed 1991-92 Budget Changes
All Funds
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (revised)	$199,521	$1,153,652
Adjustments to ongoing costs or savings:		
Baseline adjustments		
Increased basic program costs	$28,352	$86,974
San Diego County food stamp cash out	—	26,603
Child support administrative initiatives	305	20,609
Expansion of fraud detection programs	1,821	7,010
Court cases	−1,200	−4,988
Statewide Automated Welfare System	−918	1,279
Other	393	1,024
Subtotals, baseline adjustments	($28,753)	($138,511)
Policy proposals		
Restoration of 1990 Budget Act reduction	$11,000	$43,964
Elimination of the AFDC Homeless Assistance Program	−3,910	−16,011
Unallocated reduction	−9,409	−9,409
Implementation of AFDC disqualification policy	119	953
Elimination of the state-only AFDC-Unemployed Parent Program	−252	−503
Subtotals, policy proposals	(−$2,452)	($18,994)
1991-92 expenditures (proposed)	$225,822	$1,311,157
Change from 1990-91 estimated expenditures:		
Amount	$26,301	$157,505
Percent	13.2%	13.7%

ANALYSIS AND RECOMMENDATIONS

Estimates Will be Updated in May

We withhold recommendation on $999 million ($226 million General Fund and $773 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 1991-92 are based on 1990-91 budgeted costs updated to reflect the department's caseload estimates for 1991-92. In May, the department will present revised estimates of county costs based on *actual* county costs in 1990-91. 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 1991-92.

Moreover, as we indicate in our analysis of the AFDC budget (please see Item 5180-101), we believe that the department has substantially underestimated the AFDC caseload. Based on our higher AFDC caseload projection, we estimate that County Administration of Welfare Program costs could be as much as $11 million higher in the budget year than the department's estimate.

The budget proposes to restore to the base budget for county administration $11 million from the General Fund that the Legislature eliminated from the 1990 Budget Bill. The Legislature made this reduction in recognition of a long-term pattern of underexpenditure by the counties. We believe that this underexpenditure occurred because some counties have had difficulty providing their 25 percent match for state and federal funds due to their own fiscal problems. The department has provided no justification for the restoration. Specifically, the department has provided no information that would suggest that counties will be able to match all of the state and federal funds proposed in the budget. Thus, it is unknown why the reduction in the base budget should be restored.

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 1991-92 expenditures. Therefore, we withhold recommendation on the amount requested for county administration of welfare programs pending review of the May estimate.

DEPARTMENT OF SOCIAL SERVICES

Social Services Programs

Item 5180-151 from the General Fund and the Federal Trust Fund — Budget p. HW 172

Requested 1991-92	$1,568,560,000
Estimated 1990-91	1,441,634,000
Actual 1989-90	1,304,154,000
Requested increase $126,926,000 (+8.8 percent)	
Recommended reversion to the General Fund	947,000
Recommended increase (from the State Children's Trust Fund)	3,341,000
Recommendation pending	727,553,000

Social Services Programs—Continued

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social services programs—local assistance	General	$890,836,000
5180-151-890—Social services programs—local assistance	Federal	673,203,000
Reimbursements	—	3,235,000
Welfare and Institutions Code Section 18969—Appropriation	Children's Trust	1,286,000
Total		$1,568,560,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Act. Recommend that the Legislature add an item to the Budget Bill to revert, as of June 30, 1991, $947,000 remaining from Item 5180-155-001 of the 1989 Budget Act.

8. Independent Adoptions. Recommend enactment of legislation to require counties to establish independent adoptions fees that reflect their actual costs, adjust these fees on a periodic basis, and report on costs and revenues. 826

9. ***Office of Child Abuse Prevention — State Children's Trust Fund. Recommend appropriation of the unexpended balance of $3.3 million in the State Children's Trust Fund in order to increase the availability of treatment services for abused and neglected children and their families.*** We further recommend the adoption of Budget Bill language that would require that these funds be used to purchase services from nonprofit organizations or public institutions of higher education, consistent with the provisions of current law that govern the expenditure of State Children's Trust Fund monies. 827

MAJOR ISSUES

☑ Funding for the Child Welfare Services Program in 1991-92 will fall short of the amount necessary to fund the program's mandates by $54 million ($38 million General Fund).

☑ The budget proposes a $24 million increase in federal funds to support case management and administrative services provided by county probation departments to wards in foster care.

☑ The budget proposes $160 million *less* for the GAIN Program than the amount needed to serve total anticipated caseloads in all counties.

☑ The budget proposes legislation to increase the fee that county adoption agencies may charge prospective adoptive parents under the Independent Adoptions Program.

☑ The budget proposes an unallocated General Fund reduction of $21 million that could be distributed across all social services programs except IHSS.

Social Services Programs—Continued

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, (2) County Services Block Grant (CSBG), (3) In-Home Supportive Services (IHSS), (4) 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.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $1.6 billion in expenditures from state funds ($891 million General Fund and $1.3 million State Children's Trust Fund), federal funds ($673 million), and reimbursements ($3.2 million), to support social services programs in 1991-92. In addition, the budget anticipates that counties will spend $97 million from county funds for these programs. Thus, the budget anticipates that spending for social services programs in 1991-92 will total $1.7 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 Programs
Expenditures from All Funds
1989-90 through 1991-92 [a]
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Child welfare services	$457,505	$472,357	$552,582	$80,225	17.0%
County services block grant	84,086	86,907	92,690	5,783	6.7
In-home supportive services	609,298	676,306	746,810	70,504	10.4
Maternity home care	1,870	1,904	2,614	710	37.3
Access assistance for deaf	3,442	3,442	3,442	—	—
Employment services [b]	182,853	227,200	209,100	−18,100	−8.0
Adoptions	30,021	30,229	30,279	50	0.2
Refugee assistance	20,296	39,769	37,500	−2,269	−5.7
Child abuse prevention	23,222	11,830	11,536	−294	−2.5
Unallocated reduction	—	—	−20,600	−20,600	— [c]
Totals	$1,412,593	$1,549,944	$1,665,953	$116,009	7.5%

Funding Sources					
General Fund	*$760,284*	*$788,039*	*$890,836*	*$102,797*	*13.0%*
Federal Trust Fund	*540,386*	*649,350*	*673,203*	*23,853*	*3.7*
County funds	*108,439*	*108,310*	*97,393*	*−10,917*	*−10.1*
State Children's Trust Fund	*749*	*1,010*	*1,286*	*276*	*27.3*
Reimbursements	*2,735*	*3,235*	*3,235*	—	—

[a] Includes actual 1989-90 and anticipated 1990-91 and 1991-92 county expenditures.
[b] Excludes General Fund expenditures for GAIN from Control Section 22 and funds for GAIN appropriated in other Budget Bill items. Table 5 in our analysis of the GAIN Program in this item displays all the funds appropriated in the Budget Bill for the GAIN Program.
[c] Not a meaningful number.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services programs in 1991-92 represents an increase of $116 million, or 7.5 percent, above estimated current-year expenditures. This proposed increase consists of (1) a General Fund increase of $103 million, or 13 percent, (2) a federal fund increase of $24 million, or 3.7 percent, (3) a decrease in county funds of $11 million, or 10 percent, and (4) a State Children's Trust Fund increase of $276,000, or 27 percent. Table 2 also shows the major changes proposed for social services programs. These major changes are addressed in the program-by-program analysis that follows.

Unallocated General Fund Reduction

The Governor's Budget includes an unallocated trigger-related reduction of $21 million for social services programs. This reduction is included in the proposed budget for this item in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The $21 million corresponds to 4 percent of the non-IHSS General Fund expenditures proposed for social services programs in 1991-92. At the time we prepared this analysis, the department had not indicated how it plans to allocate the reduction among the various social services programs in this item.

The extent of this reduction and how it is to be allocated among programs in this item are issues that the Legislature must consider in light of its policy and fiscal priorities. Under existing law, however, it is clear that the Legislature must fully fund the IHSS Program for all increases in caseload and hours of service. IHSS expenditures, therefore, cannot be reduced. The budget proposes legislation to cap IHSS expenditures at the level of the annual Budget Act appropriation. Enactment of this legislation would allow the Legislature to allocate a share of the $21 million reduction to IHSS, or impose an IHSS reduction in addition to the $21 million.

Some or all of the other social services programs with a General Fund component — including Child Welfare Services, Greater Avenues for Independence (GAIN), the County Services Block Grant, Community

Social Services Programs—Continued

Care Licensing, Adoptions Assistance, Licensed Maternity Home Care, and Child Abuse Prevention — could share in any funding reduction for this item. As we note below, the proposed funding for GAIN and the Child Welfare Services Program, disregarding the potential effects of the unallocated reduction, falls short of the amount necessary to fully support these programs.

Table 2
Department of Social Services
Proposed 1991-92 Budget Changes
Social Services Programs
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (revised)	$788,039	$1,549,944
1991-92 adjustments		
Child Welfare Services (CWS):		
Baseline adjustments		
Caseload growth reflected in the budget	$31,387	$41,353
Additional caseload and cost growth, not reflected in the budget	38,156	54,077
Independent Living Program increase	—	4,750
Prior-year COLA	18,321	6,691
Other	−669	−52
Program adjustments		
Proposed service level reduction	−38,156	−54,077
Increased federal funds support for services provided to wards in foster care	—	24,000
Augmentation for Los Angeles County	3,483	3,483
Subtotals, CWS	($52,522)	($80,225)
County services block grant	$5,783	$5,783
In-home supportive services (IHSS):		
Increased caseload and average hours of service	$62,763	$68,369
Settlement of *WRO v. McMahon* court case	2,135	2,135
Subtotals, IHSS	($64,898)	($70,504)
Maternity care	$710	$710
Greater Avenues for Independence Program [a]	−550	−18,100
Adoptions	34	50
Refugee programs	—	−2,269
Child abuse prevention	—	−294
Unallocated General Fund reduction	−20,600	−20,600
1991-92 expenditures (proposed)	$890,836	$1,665,953
Change from 1990-91:		
Amount	$102,797	$116,009
Percent	13.0%	7.5%

[a] Excludes General Fund expenditures for GAIN from Control Section 22 and other items of the Budget Bill.

ANALYSIS AND RECOMMENDATIONS

CHILD WELFARE SERVICES

The Child Welfare Services Program provides services to abused and neglected children and children in foster care and their families. The program has four separate elements:

- *The Emergency Response Program* requires counties to provide immediate social worker response to allegations of child abuse and neglect.
- *The Family Maintenance Program* requires counties to provide ongoing services to children (and their families) who have been identified through the ER Program as victims, or potential victims, of abuse or neglect.
- *The Family Reunification Program* requires counties to provide services to children in foster care who have been temporarily removed from their families because of abuse or neglect.
- *The Permanent Placement Program* requires counties to provide case management and placement services to children in foster care who cannot be safely returned to their families.

Proposed Expenditures

The budget proposes expenditures of $553 million ($313 million General Fund, $176 million federal funds, and $64 million county funds) for the Child Welfare Services Program in 1991-92. This amount does *not* include the effect of the unallocated trigger-related reduction included in this item. We discuss the potential effects of the trigger separately, above. The total General Fund request shown here represents an increase of $80 million, or 17 percent, above estimated 1990-91 expenditures. As Table 2 shows, the significant changes that account for the increase are as follows:

- A $31 million General Fund ($41 million total funds) increase to fund an estimated 8.2 percent increase in the basic child welfare services caseload.
- A $38 million General Fund ($54 million total funds) increase that is not reflected in the budget, which would be necessary to fully fund the Child Welfare Services Program's mandates based on the department's current budgeting methodology. The department proposes not to fund these costs because it advises that recent regulatory changes will reduce caseloads and service requirements, thereby allowing counties to operate the program at less cost. However, as we discuss below, the department has not provided an estimate of the extent to which the new regulations will reduce the program's requirements sufficiently to offset the effects of the funding shortfall.
- A $4.7 million increase ($2.1 million federal funds, $2.7 million county funds) due to an anticipated increase in the amount of federal Independent Living Program funds that will be available to California in 1991-92. The DSS advises that the increased federal funds require a match, which the budget anticipates will be provided by the counties participating in the Independent Living Program.
- An $18 million General Fund increase ($6.7 million net total funds) to fund the state's share of the cost-of-living adjustments (COLAs) that counties granted their workers in 1990-91.
- A $24 million increase in federal funds to support case management and administrative services provided by county probation departments to wards in foster care.

Social Services Programs—Continued

- A $3.5 million General Fund augmentation to support enhanced child welfare services in Los Angeles County.

Proposed Funding for the Child Welfare Services Program in 1991-92 Will Be Insufficient to Support the Program's Mandates

We recommend that the Department of Social Services evaluate various options for reducing the mandates in the Child Welfare Services Program and their potential effect on clients and report its findings to the Legislature by April 1, 1991.

Background. Beginning in 1985, the Legislature adopted a caseload-driven approach to budgeting the costs of the Child Welfare Services Program. As a result, the state budget for the program in the last several years has been based on the following factors:

- ***Caseload Estimate.*** The DSS estimates the number of children and families statewide that will need child welfare services in the coming year, usually based on two- or three-year trends in the program's actual caseloads.
- ***Cases-per-Worker Standards.*** The DSS uses cases-per-worker standards for the purposes of budgeting for each of the four components of the Child Welfare Services Program. These standards, which were developed in 1984 in conjunction with the County Welfare Directors Association, are intended to reflect the number of cases that the average social worker should be able to handle, given the full range of social worker activities mandated by state and federal law. The department applies the standards to its caseload estimate to develop its estimate of the number of social workers that the counties will need each year.
- ***Staff and Overhead Costs.*** Once the department has estimated the number of social workers that will be needed to handle the anticipated caseload in the coming year, it uses the statewide average cost of a social worker (which, in 1990-91 is estimated to be $81,000, consisting of $46,000 for the worker's salary and benefits and $35,000 for administrative overhead) to develop its estimate of staff and overhead costs.
- ***Direct Costs.*** Finally the budget includes funds intended to be used to cover "direct costs." These costs include social worker standby overtime pay and the costs of services such as emergency shelter care, in-home caretakers, and homemaker demonstrators.

The approach outlined above was used to budget for the Child Welfare Services Program through 1989-90. In fact, the Legislature used this approach in developing the 1990 Budget Bill. However, Governor Deukmejian, citing the state's fiscal crisis, vetoed $55 million, or 10 percent from the $529 million appropriated by the Legislature in the 1990 Budget Bill, as follows:

- A $38 million ($27 million General Fund) reduction that corresponded to the amount that would have been necessary to fund

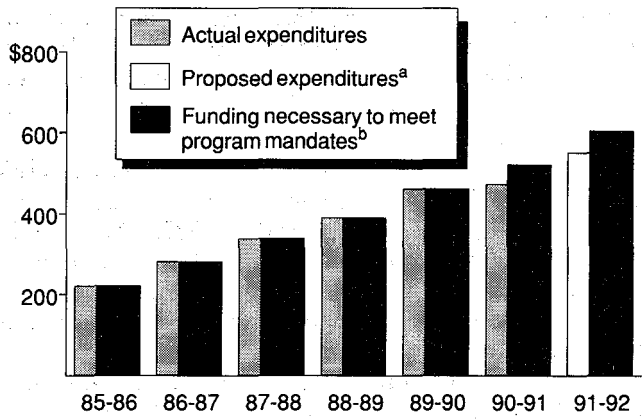
caseload growth in the family maintenance, family reunification and permanent placement components of the program under the department's budgeting methodology.

- A $17 million General Fund reduction, which corresponded to the DSS' estimate of the state's share of the portion of county staff costs that was attributable to the COLAs that counties granted in 1989-90.

Funding Reduction Taken in 1990-91 Will Create an Ongoing Shortfall for Counties. Chart 1 compares expenditures for the Child Welfare Services Program in the previous five years to the amount that would be required to fully fund the program's requirements, based on the

Chart 1

Child Welfare Services Program
Funding Level Necessary To Meet Program Mandates
Compared To Actual And Proposed Expenditures
1985-86 through 1991-92 (in millions)



[a] Does not include the unallocated trigger-related reduction.
[b] Estimate based on cases-per- worker budgeting standards and DSS caseload estimates.

department's cases-per-worker budgeting standards and caseload estimates. As the chart shows, funding for the program was sufficient to support program requirements from 1985-86 — the first year the department used the budgeting standards — to 1989-90.

The chart also compares estimated expenditures to the amounts that would be necessary to fund the program using the department's budgeting methodology in the current and the budget years. The chart shows that as a result of the current-year funding reduction, funding for the program in 1990-91 is less than the amount that would be required to meet the program's requirements. Specifically, we estimate that funding for the program in 1990-91 will fall short of the amount necessary to meet the program's requirements by $50 million, or 9.6 percent. (This amount

Social Services Programs—Continued

differs from the amount vetoed from the 1990 Budget Act by $5 million, because the department has reestimated the costs of the COLAs counties granted in 1989-90, based on more recent cost data.)

As the chart shows, the gap between proposed expenditures and the amount that would be necessary to meet program requirements will continue in 1991-92. Specifically, we estimate that the funding for the Child Welfare Services Program in 1991-92 will be $54 million, or 8.9 percent less than what would be necessary to operate the program based on the service levels that counties are mandated to provide. It is important to note that this gap will, in fact, be larger than the amount shown in the chart, if the Child Welfare Services Program is affected by the unallocated trigger-related reduction proposed in this item. Specifically, support for the Child Welfare Services Program could be reduced by as much as $21 million in 1991-92, depending on how the unallocated reduction is distributed across social services programs in this item. If this occurred, counties would face a $75 million, or 12 percent shortfall in 1991-92.

Deciding What Level of Service Will Be Provided to Abused and Neglected Children Is a Major Policy Decision. In our view, the major issue facing the Legislature with respect to the Child Welfare Services Program is deciding what level of service to provide to abused and neglected children in 1991-92 and in future years. Specifically, the Legislature has two options:

1. Permanently reducing the level of services provided to children.

2. Providing the same level of service that has been available to children since the program was restructured in 1982. This would require a return to the funding approach that the Legislature used in the 1990 Budget Bill and throughout most of the 1980s. This approach is to fund the program based on the DSS' current caseload estimates and social worker budgeting standards.

As we discuss in our report, *Child Abuse and Neglect in California: A Review of the Child Welfare Services Program* (LAO Report No. 91-1), there are also some ways to increase the efficiency of the program and thus mitigate the effects of the funding shortfall. However, our analysis indicates that it will not be possible for counties to absorb the effects of the funding shortfall solely, or even primarily, through efficiency measures. Thus, the two options presented above involve difficult trade-offs. On the one hand, the state's limited fiscal resources may make it difficult to return to the level of service that was available throughout most of the 1980s by restoring $38 million in General Fund support to the program in 1991-92. On the other hand, reducing the level of service to clients in the program is likely to reduce the program's effectiveness. Clearly, the Legislature will have to base its decision on the service level for the Child Welfare Services Program on its overall fiscal and policy priorities for this and other state programs.

Implementing a Reduction in Service Levels Will Require State-Level Changes in Program Mandates. If the state does not provide the

funding that would be required by the cases-per-worker budgeting standards in 1991-92 or in future years, counties will face an ongoing shortfall. This would mean that counties would not have enough staff to perform all of the program's statutory and regulatory mandates. As we discuss in our report, counties have two options for accommodating a shortfall in this program:

- Hire additional social workers with county-only funds, which in turn, would be reimbursable through the state mandate reimbursement process.
- Reduce services below mandated levels.

In our view, neither of these approaches is desirable in the long term since each would lead to disparities in service levels among counties and undercut the Legislature's ability to implement its own fiscal and policy priorities. Thus, if a reduction in service levels in this program is the chosen option in 1991-92, we believe that statutory and/or regulatory changes should be implemented at the state level, rather than leaving these decisions to individual counties. For this approach to be effective, it would be necessary to ensure that the program reductions are adequate to allow the counties to perform the remaining mandates within the staffing levels funded in the budget.

The Department's Emergency Regulations Do Not Constitute an Acceptable Plan for Ongoing Service Reductions. In October 1990, the DSS promulgated emergency regulations that reduced services to clients in the Child Welfare Services Program in order to (1) assist counties in dealing with the immediate effects of the funding reduction and (2) eliminate the gap between available funds and program requirements in 1990-91 and in future years. The department's regulations require counties to screen out more abuse reports on the basis of a telephone assessment (the effect of which is to reduce the number of investigations of alleged abuse and neglect) and to reduce the frequency with which county social workers are required to visit their clients. We have two concerns with the department's emergency regulations:

1. ***At the Time This Analysis was Prepared, the Department Had Not Demonstrated That the Emergency Regulations Would Reduce Service Levels Enough to Eliminate the Gap Between the Funding in the Budget and the Amount That Would Be Necessary to Support the Program's Requirements. Specifically, the department had not:***

- Demonstrated that the two major changes incorporated in the regulations would reduce county workloads by enough to cover the effects of the funding reduction in 1990-91 or 1991-92.
- Made any change to its cases-per-social worker budgeting standards or its caseload estimates to reflect the new regulations.

2. ***The Regulatory Changes Constitute a Significant Reduction in Service That Should Be Reviewed by the Legislature Before it Becomes Permanent.*** We do not believe that the department's regulations constitute the only, or even the most desirable way to implement service reductions in the program. In our view, the Legislature has four major

Social Services Programs—Continued

options, including the two options incorporated in the department's emergency regulations, for reducing the mandates of the Child Welfare Services Program:

- Increasing the use of telephone screening of child abuse referrals.
- Reducing face-to-face contact between social workers and clients.
- Eliminating voluntary family maintenance services.
- Shortening the length of time that families are permitted to receive services.

We discuss these options in more detail in our report. In our opinion, the Legislature would need to implement some combination of the above options in order to effect an ongoing reduction in services. However, each of these options represents a fundamental change in the operation of the program that would potentially reduce its effectiveness. In order to evaluate these options, the Legislature will need further information about the effect of each option on the delivery of services, the fiscal effect of each option, how each option would affect the department's cases-per-worker budgeting standards and its caseload estimates, and what statutory and/or regulatory changes would be necessary to implement each option. Therefore, we recommend that the DSS report to the Legislature by April 1, 1991 on its evaluation of options for effecting ongoing reductions in service levels in the Child Welfare Services Program, and that, at a minimum, the report include (1) the effect of each option on the delivery of services, (2) a detailed estimate of the fiscal effects of each option, (3) an estimate of how each option would affect the department's cases-per-worker budgeting standards and caseload estimates, and (4) the department's proposal for the statutory and regulatory changes that would be necessary to implement each option.

Budget Proposes a $3.5 Million General Fund Augmentation to Enhance Child Welfare Services in Los Angeles County

We recommend the deletion of proposed Budget Bill language that would require that $3.5 million appropriated in this item be used to augment Los Angeles County's child welfare services allocation, because the proposal would result in funding inequities between Los Angeles County and the rest of the state. (Delete Provision 8 of Item 5180-151-001.)

Background. In October 1989, the DSS undertook a study to verify the child welfare services caseloads that Los Angeles County reports to the department, as a result of growing concern about the accuracy of these reports. Specifically, the department undertook the study as a result of significant fluctuations in the family reunification and permanent placement caseloads that Los Angeles County reported to the DSS and discrepancies between the caseloads reported to the DSS and the caseloads the county maintained on its own automated information system.

The department's study consisted of a case file review of 4,040, or approximately 10 percent, of the cases Los Angeles County had reported

to the department in June 1989 in order to determine the proportion of these cases that would be countable under current law as child welfare services cases. The department assigned 20 staff to review cases in the county. Each case file was read by two different state case reviewers. In addition, the DSS requested that an auditor from the county's Department of Children's Services (DCS) read each file and the state's findings with respect to the case in order to give the county the opportunity to rebut the DSS' findings.

The results of the DSS' case-count study reveal that Los Angeles County has overreported 17 percent of its child welfare services cases to the DSS. The state determined that these cases should not have been reported to the DSS, for at least one of the following reasons:

- County staff could not locate the case file.
- The case was a duplicate of another open case.
- The child was ineligible for services because, for example, the child was over 18 years of age.
- The case had been open for longer than current law permits.
- The case had been closed prior to the month of the case file review and no services were being provided to the child.

Recognizing that the DSS' case-count study might reveal that Los Angeles had overreported cases to the DSS, the Legislature adopted language in the 1990 Budget Act that required the DSS to reduce the county's allocation based on the findings of the department's case-count study. As a result of this language, in November 1990 the DSS advised the county that its allocation would be reduced by $6.5 million in 1990-91. This reduction consisted of (1) a $12.7 million General Fund *decrease*, primarily due to the elimination of funding for overreported cases, and (2) a $6.1 million federal funds *increase*, primarily as a result of the study findings that indicated that more cases were eligible for federal funding than had previously been counted. However, the department now advises that it intends to return an additional $3.5 million to Los Angeles County in the current year, in order to provide the county with additional support while it develops a corrective action plan for its Child Welfare Services Program. We discuss this corrective action plan in more detail below.

Budget Proposes to Augment Los Angeles County's Allocation Beyond What the County's Caseload Would Justify. The budget proposes to continue to augment Los Angeles County's allocation by $3.5 million from the General Fund in 1991-92. This augmentation would partially offset the reduction in the county's allocation that would result from updating the caseload data to reflect the results of the department's case-county study findings. The budget also proposes language, to be developed jointly by the administration and the Legislature, that would link the $3.5 million General Fund enhancement to specific performance criteria.

We have two concerns with this proposal. First, we do not believe that the county will need additional funds for the development of its corrective action plan in the budget year since the plan is due to the state

Social Services Programs—Continued

on July 1, 1991. Second, the proposal to augment Los Angeles County's allocation would create funding disparities between the county and the rest of the state, regardless of the overall level of funding ultimately provided to the Child Welfare Services Program in 1991-92. As we discuss above, at the funding level proposed in the budget, *all* counties in California will face a significant funding shortfall in the Child Welfare Services Program in 1991-92. For this reason, we recommend deletion of the proposed Budget Bill language requiring the department to separately allocate $3.5 million of the amount proposed in this item to Los Angeles County. The effect of this recommendation will be to allocate the $3.5 million to *all* counties, including Los Angeles County, thereby helping to offset the effect of the statewide funding shortfall.

Legislative Oversight: Implementation of Corrective Actions in Los Angeles County

We recommend the adoption of supplemental report language in order to ensure continued oversight of corrective actions in Los Angeles County.

Background. The Legislature adopted language in the 1990 Budget Act that was intended to improve the performance of Los Angeles County's Child Welfare Services Program. The Legislature adopted this language as a result of concerns regarding the county's ability to comply with the provisions of law that govern the operation of the Child Welfare Services Program. This language required that:

- The DSS by August 1, 1990 determine whether the county was substantially out of compliance with the provisions of law that govern the operation of the Child Welfare Services Program.
- The county submit a corrective action plan to the department no later than October 1, 1990 if the department determined that the county was not in compliance with current law.
- If the county had not submitted a plan by October 1, 1990 and/or if it had not made substantial progress in correcting the problems identified by the department, the department begin proceedings to take the county's Child Welfare Services Program into temporary receivership until the county had improved its performance.

The Department Determined That the County Was Out of Compliance With the Laws Governing the Operation of the Child Welfare Services Program. Pursuant to the provisions of the Budget Act, the department notified the county on August 1, 1990 that it was substantially out of compliance with the laws and regulations governing the operation of the Child Welfare Services Program. Specifically, the department found that the county was out of compliance with 26 areas of current law. These areas of noncompliance fall into five general categories:

- Not responding to reports of child abuse and neglect within mandated time frames.
- Not according parents of abused or neglected children their legal rights.

- Not offering services to the child and the family.
- Not assessing the service needs of children and families in the program.
- Not maintaining up-to-date case records of program clients.

The department's findings were based on its case-count study. In its notice of noncompliance, the department stated that in a substantial number of cases that were reviewed during the course of the case-count study there was no documentation that the above requirements had been met.

The County's Corrective Action Plan Did Not Meet the Requirements Set Forth in the 1990 Budget Act. The county submitted its corrective action plan to the DSS on October 1, 1990. This corrective action plan dealt with only 10 of the 26 areas of noncompliance identified by the department. According to both the county and the department, this was because both parties felt that the county did not have enough time to develop a corrective action plan for all of the deficiencies identified by the department in the two-month period between the date the county received the notice of noncompliance and the date that the county's corrective action plan was due to the state. Thus, the department agreed to receive an initial corrective action plan on 10 of the noncompliance issues, pending the receipt of a more detailed corrective action plan that dealt with the remaining 16 issues.

After reviewing the county's corrective action plan, the department notified the county that it would grant only temporary, conditional approval of the plan. Specifically, the department notified the county that its corrective action plan did not meet the requirements set forth in the 1990 Budget Act because it did not identify what remedial actions the county would need to take in order to improve its performance.

As a result of these findings, the department established the following process for bringing the county into compliance:

- Staggered delivery dates for receiving and reviewing information on each of the compliance issues. Specifically, the DSS established an extended set of time frames for the county to submit information on how it intended to achieve compliance in each of the 26 areas of noncompliance, culminating with the delivery of a final corrective action plan by July 1, 1991. The department intends to review information on each area at the time it is submitted, in order to ensure that the county is making adequate progress in developing the corrective action plan.
- Periodic compliance reviews of the county between October 1990 and July 1991. Specifically, the department advises that it intends to conduct three compliance reviews of the county in order to monitor the extent to which the county's performance improves over the next year. The department conducted its first compliance review in November 1990 with the second to occur in the spring and the final review to occur in July 1991. The department is using the same methodology to conduct the reviews in Los Angeles County as it uses in compliance reviews of other counties.

Social Services Programs—Continued

- Based on a review of the final corrective action plan and the findings from the periodic compliance reviews over the course of the current year, the department will issue its final determination on the county's performance by September 1, 1991. Under current law, the department can either grant approval of the county's corrective action plan, request further revisions to the plan, or, if the department determines that the county continues to be substantially out of compliance, it can begin proceedings to assume direct administration of the county's Child Welfare Services Program until the county's performance improves.

The Department's Assessment of the County's Corrective Action Plan and the Additional Steps Necessary to Meet the Requirements Set Forth in the 1990 Budget Act Seem Reasonable. Our review of the county's preliminary corrective action plan and the department's proposal for improving the county's performance indicate that the department's actions are reasonable. We agree with the department's assessment that the corrective action plan submitted by the county in October 1990 is a preliminary document, which acknowledges the problems identified by the department in its notice of noncompliance and some of the barriers to compliance that the county has experienced, but which does not specify how the county will correct its problems.

Based on our conversations with both county and state staff we believe that the county is making an effort to resolve its compliance problems in all 26 areas and improve its performance. The changes that would be necessary to bring the county into compliance with current law, however, will take more time to implement than the original time frames set forth in the 1990 Budget Act. For these reasons, we believe it was reasonable for the department to establish an extended time period to monitor county compliance and to allow the county additional time to adequately address the program's problems.

In order to ensure continued legislative oversight of this issue in 1991-92, we recommend that the Legislature adopt the following supplemental report language:

> The County of Los Angeles shall submit a corrective action plan regarding the operation of its Child Welfare Services Program to the Department of Social Services by July 1, 1991. The county's corrective action plan shall detail how the county intends to address each of the 26 problem areas that the department identified in its notice of noncompliance that was submitted to the county on August 1, 1990. Based on (1) the information submitted in the county's corrective action plan and (2) the results of the department's compliance monitoring, the department shall determine by September 1, 1991 whether the county has made substantial progress in correcting the areas of noncompliance that were identified by the department and report its findings to the Legislature.

The Budget Anticipates that Counties Will Match Federal Independent Living Program Funds

The Independent Living Program provides training for adolescents in foster care over the age of 15 that is designed to teach these children the

skills they will need to become self sufficient once they are emancipated from foster care at the age of 18.

The budget includes $9.7 million in federal funds to support the county-operated independent living programs in 1991-92, which is $2.1 million, or 27 percent, above the level of support in 1990-91. The department advises that recent changes in federal law require that any additional federal funds that California receives above the amount of Independent Living Program funds received by the state in 1989-90 must be matched with 50 percent state or local funds. According to the department, California received $7 million in Independent Living Program funds in 1989-90. Therefore, a total of $2.7 million in federal Independent Living Program funds would require a 50 percent match in the budget year. The budget anticipates that counties will provide $2.7 million to meet the matching requirement.

At the time this analysis was prepared, the department had not finalized plans for how these additional federal Independent Living Program funds would be allocated to counties, nor had the department identified the extent to which counties might be able to provide the matching funds proposed in the budget. We expect that the department will have more detailed information about how this proposal will be implemented at the time of the May revision.

Budget Proposes to Claim Increased Federal Funds Support for Wards of the Court Who are Placed in Foster Care

We find that the department's proposal to increase federal support for wards of the court lacks detailed information that would allow the Legislature to fully evaluate its fiscal effect and feasibility. Therefore, we recommend that the DSS report to the Legislature during budget hearings on (1) its specific plans for implementing the proposal and (2) its revised fiscal estimate of the proposal.

The budget proposes a $24 million increase in federal foster care funds for the case management and administrative activities performed by county probation departments on behalf of federally eligible wards in foster care. In addition, the budget proposes a $25 million federal funds increase in foster care grant costs and a corresponding reduction in General Fund support. This proposal assumes that the state will be able to claim federal eligibility for 50 percent of the wards in foster care. Currently, the department estimates that approximately 32 percent of the wards in foster care participate in the federal foster care program. We find that the department's proposal lacks detailed information that would allow the Legislature to fully evaluate its fiscal effect and feasibility. Therefore, we recommend that the DSS report to the Legislature during budget hearings on (1) its specific plans for implementing the proposal and (2) its revised fiscal estimate of the proposal. We discuss the proposal in further detail in our analysis of the AFDC budget (please see Item 5180-101-001).

Social Services Programs—Continued

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 the State Supplementary Program for the Aged, Blind, and Disabled (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 $747 million for the IHSS Program in 1991-92. This is an increase of $71 million, or 10 percent, above estimated current-year expenditures. Two significant changes account for this increase:

- A $68 million increase to fund an estimated 6.8 percent increase in caseload and a 2.8 percent increase in average hours of service per case.
- A $2.1 million increase to make payments to claimants in the *WRO v. Woods* case.

Table 3 displays IHSS Program expenditures, by funding source for the past, current, and budget years. The table shows that most of the proposed expenditure increase will be supported by the General Fund. General Fund support for IHSS is projected to increase by $65 million, or 20 percent. This is because it is estimated that little additional federal funds will be available to support the program in 1991-92. The table shows that federal Title XX funds will increase by $5.6 million, or 1.7 percent. County expenditures 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
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Funding Sources					
General Fund	$273,032	$331,528	$396,426	$64,898	19.6%
Federal funds	317,045	325,521	331,127	5,606	1.7
County funds	19,221	19,257	19,257	—	—
Totals	$609,298	$676,306	$746,810	$70,504	10.4%

General Fund Deficiency of $14 Million in 1990-91

The budget anticipates that General Fund expenditures for IHSS during 1990-91 will exceed the amount appropriated by $14 million, or 4.3 percent. The projected deficiency primarily results from the department's November 1990 estimate that the IHSS caseload will grow much more rapidly than expected in the current year. Under existing law, the state must fund IHSS deficiencies. As we discuss below, our analysis indicates that the department has overestimated caseload growth in the IP mode for the current year. As a result, the department may have overestimated the 1990-91 deficiency by up to $5.5 million. Moreover, further complications in the *Miller v. Woods* case may delay until 1991-92 payments of up to $6.7 million budgeted in the current year.

Estimates Will Be Updated in May

We withhold recommendation on $727 million ($396 million General Fund and $331 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 the May revision: (1) potential overestimation of caseload, (2) further delays in settling Miller v. Woods, and (3) the statutory adjustment of IHSS maximum service awards.

The proposed expenditures for IHSS are based on program trends through June 1990. The department will present revised estimates in May, which will be based on program costs through February 1991. When updating its estimate based on additional data, we believe that the department should also address the issues we discuss below. We therefore withhold recommendation on $727 million proposed for support of the IHSS Program, pending receipt of the department's revised estimates in May.

1. ***Caseload May Be Overbudgeted.*** Table 4 displays the average monthly IHSS caseload by service delivery type for the past, current, and budget years, as estimated by the DSS. The budget anticipates an average annual increase in the IP caseload of 8.7 percent between 1989-90 and 1991-92. On average, however, the actual number of recipients in the IP mode increased by 8.3 percent between the first six months of 1989-90 and the same period in 1990-91. If this reduced growth rate of 8.3 percent

Social Services Programs—Continued

holds constant through the budget year, the 1991-92 General Fund cost of IHSS would be about $6 million less than proposed.

Table 4
Department of Social Services
In-Home Supportive Services
Average Monthly Caseload
by Provider Type
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	*Est.[a] 1990-91*	*Prop.[a] 1991-92*	*Percent Change 1989-90 to 1990-91*	*Percent Change 1990-91 to 1991-92*
Service provider types					
Individual providers	128,700	140,800	152,000	9.4%	8.0%
Contract agencies	13,900	13,000	12,300	−6.5	−5.4
County welfare staff	1,000	1,000	1,000	—	—
Totals	143,600	154,800	165,300	7.8%	6.8%

[a] Caseload estimated by Department of Social Services in November 1990 for the 1991-92 Governor's Budget.

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 budget assumes that the department will make half of the remaining *Miller v. Woods* payments in the current year. The department, however, has not reached an agreement with the plaintiffs' attorneys concerning the mailing and processing of notices to more than 113,000 additional potential claimants. Consequently, a substantial portion of the $6.7 million in claims that the budget assumes will be paid in the current year may actually be paid in 1991-92.

3. ***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, 1991, 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, 1991 (simultaneous with the change in the basis of the limit). The effect of this change will be to increase the maximum monthly IHSS grant in 1991-92. This increase, in turn, will increase the maximum number of hours that a social worker can award IHSS recipients, because the average cost per hour of service for most recipients is not expected to change. Consequently, recipients who are currently at or near the maximum number of hours but have unmet need for additional hours will receive more hours of service in 1991-92 than they would have received without the statutory adjustment. The department estimates that this will result in increased General Fund costs of $4.7 million in 1991-92. The budget, however, does not propose funds to cover this cost.

Proposed Legislation Would Increase Legislature's Fiscal Flexibility

We find that the administration's proposed legislation would restore Legislature's flexibility to limit IHSS expenditures in light of other program and fiscal priorities.

The Governor's Budget Summary indicates that the administration will propose legislation to cap IHSS expenditures at the annual Budget Act appropriation for the program. Under existing law — Chapter 1438 — the Legislature annually must fund any deficiency that may occur in the IHSS Program.

The proposed legislation is not yet available for review. According to the budget summary, however, it would permit counties to reduce services to recipients on a priority basis, if expenditures are anticipated to exceed the annual appropriation. In this respect, the legislation apparently would be similar in effect to Ch 69/81 (SB 633, Garamendi), which was successful in reducing IHSS expenditure growth in the early 1980s. Chapter 69 capped IHSS expenditures at the Budget Act appropriation and permitted counties to make the following program reductions, in the following priority order, to stay within their annual IHSS budget allocations:

- Reduce the frequency of nonessential services.
- Eliminate nonessential services.
- Terminate or deny eligibility to individuals requiring only domestic services.
- Terminate or deny eligibility to persons who would not require institutionalization in the absence of services.
- Reduce, on a per capita basis, the cost of services authorized.

To the extent that the proposed legislation is similar to Chapter 69, it would restore the Legislature's flexibility to limit the level of IHSS funding to the amount included in the annual Budget Act. The Legislature already has this flexibility in regard to the other major social services programs in this item, Child Welfare Services and GAIN.

Reappropriation (Item 5180-490)

We recommend approval.

The budget proposes to reappropriate up to $115,000 of the General Fund amount appropriated in the 1990 Budget Act for the Social Services Programs, for the purpose of implementing court-ordered judgments in the In-Home Supportive Services Program in 1991–92. A similar provision was included in the 1990 Budget Act.

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 $224 million ($101 million General Fund, $120 million federal funds, and

Social Services Programs—Continued

$2.7 million reimbursements) for the GAIN Program in 1991-92. 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, of the 1991 Budget Bill.

Overview of the GAIN Budget Request

Table 5 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.

Expenditures. Table 5 shows that the budget proposes $329 million in expenditures for the GAIN Program in 1991-92, which represents a decrease of $33 million, or 9.2 percent, below estimated current-year expenditures for the program.

Funds Appropriated for GAIN. Table 5 shows that $224 million, or 68 percent, of the $329 million proposed for the program represents funds that would be specifically appropriated for the GAIN Program. The proposed $101 million General Fund appropriation accounts for 45 percent of this total. The proposed General Fund appropriation is $3.9 million, or 3.7 percent less than estimated current-year expenditures.

Redirected Funds. As shown in the table, the budget assumes that $105 million in funds proposed for existing programs will be available to provide services to GAIN participants. The $105 million that is expected to be redirected for GAIN participants is $12 million, or 10 percent, less than the amount the department estimates will be spent from these sources in the current year. Most of this decrease is due to reductions in spending for (1) adult education ($6.4 million) and (2) Job Training Partnership Act (JTPA) training activities ($3.5 million).

Type of Service Provided

While Table 5 breaks out GAIN expenditures by program component, Table 6 shows how the $329 million proposed for GAIN would be distributed among expenditure categories. Table 6 shows that over one-half of the funds (59 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 $48 million, or 14 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, $76 million, or 23 percent of total costs, is for *administrative costs*, which consist primarily of county costs to administer the GAIN Program.

Table 5
Department of Social Services
GAIN Program
Proposed Expenditures and Funding Sources
1990-91 and 1991-92
(dollars in thousands)

	1990-91 Estimated	1991-92 Proposed	Change from 1990-91 Amount	Change from 1990-91 Percent
Expenditures by Component				
Registration, orientation, and appraisal	$28,324	$25,052	−$3,272	−11.6%
Education	161,246	135,462	−25,784	−16.0
Job search	29,921	26,880	−3,042	−10.2
Assessment	12,866	11,279	−1,587	−12.3
Training (including job development and placement)	94,536	84,700	−9,835	−10.4
Long-term PREP	1,394	1,555	161	11.5
JOBS legislation — Ch 1568/90	16,656	29,097	12,441	74.7
Child care licensing and administration [a]	11,679	10,082	−1,597	−13.7
Evaluation	153	153	—	—
County administration and Employment Development Department Support	935	935	—	—
Court cases	5,000	4,200	−800	−16.0
Totals	$362,711	$329,396	−$33,315	−9.2%
Funding Sources				
Funds appropriated for GAIN:				
General Fund				
Department of Social Services [b]	$86,709	$86,158	−$551	−0.6%
State Department of Education	7,200	7,200	—	—
Department of Finance (Control Section 22)	10,900	7,600	−3,300	−30.3
Subtotals, General Fund	($104,809)	($100,958)	(−$3,851)	(−3.7%)
Federal funds [b]	$137,818	$120,272	−$17,546	−12.7%
Reimbursements	2,735	2,735	—	—
Totals, funds appropriated for GAIN	$245,362	$223,965	−$21,397	−8.7%
Funds redirected for GAIN:				
General Fund				
Average daily attendance-based funds	$40,500	$33,500	−$7,000	−17.3%
Adult education	(23,300)	(16,900)	(−6,400)	(−27.5)
Regional occupation centers and programs	(1,000)	(1,000)	(—)	(—)
Community Colleges	(16,200)	(15,600)	(−600)	(−3.7)
Cooperative agencies resources for education	400	500	100	25.0
Job agent/service center	400	400	—	—
Subtotals, General Fund	($41,300)	($34,400)	(−$6,900)	(−16.7%)
Employment Training Fund	$600	$600	—	—
Federal funds				
Job Training Partnership Act	$45,100	$41,600	−$3,500	−7.8%
Training	(34,900)	(31,400)	(−3,500)	(−10.0)
Education	(10,200)	(10,200)	(—)	(—)
Job service	4,500	4,500	—	—
Community services block grant	1,600	1,600	—	—
Vocational education block grant	8,000	8,000	—	—
Refugee social services	15,300	13,700	−1,600	−10.5
PELL Grants	1,000	1,000	—	—
Subtotals, federal funds	($75,500)	($70,400)	(−$5,100)	(−6.8%)
Total funds redirected for GAIN	$117,400	$105,400	−$12,000	−10.2%
Grand totals, all funding sources [c]	$362,762	$329,365	−$33,397	−9.2%

[a] Includes funds for child care administration that were distributed among the components in previous years.

[b] Includes funds appropriated for GAIN in Items 5180-141 (County Administration of Welfare Programs) and 5180-161 (Community Care Licensing) in both years; and Item 5180-158 (Los Angeles County GAIN Program) in 1990-91.

[c] Figures do not add to expenditure totals due to rounding.

Social Services Programs—Continued

Table 6
Department of Social Services
GAIN Expenditures by Category
1991-92
(dollars in millions)

	Proposed 1991-92	*Percent of Total*
Program Costs		
Orientation, testing, and appraisal	$29.8	9.0%
Education	77.4	23.5
Job club/search	16.8	5.1
Assessment	1.7	0.5
Training and vocational education	52.0	15.8
Teen parent	13.8	4.2
Self-initiated program extensions	2.6	0.8
Long-term PREP [a]	—	—
Subtotals, program costs	($194.1)	(58.9%)
Supportive Services		
Child care	$33.6	10.2%
Transportation	11.7	3.6
Ancillary expenses [b]	2.3	0.7
Subtotals, supportive services	($47.6)	(14.4%)
Administration	$76.2	23.2%
Other	11.5	3.5
Total expenditures	$329.4	100.0%

[a] Supportive services and administrative costs for long-term PREP total $1.6 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.

Proposed GAIN Funding Level Is Below Full Funding for Anticipated Caseloads

The department estimates that the $329 million proposed for the GAIN Program in 1991-92 is $159 million, or 33 percent, *less* than the amount that would be needed ($488 million) to pay for services for the entire anticipated caseloads in all counties. Table 7 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 47 percent *relative to the full funding estimate.*

The amount that will actually be provided for GAIN in 1991-92 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.

Table 7
Department of Social Services
GAIN Program in 1991-92
Proposed Expenditures and Funding Sources
Full Funding Versus Budget Proposal
(dollars in millions)

	1991-92 Full Funding	*1991-92 Proposed*	*Change From Full Funding*	
			Amount	*Percent*
Expenditures by Component				
Registration, orientation, and appraisal	$48	$25	−$23	−47.9%
Education	206	135	−71	−34.5
Job search	50	27	−23	−45.9
Assessment	17	11	−6	−35.3
Training (including job development and placement)	116	85	−31	−26.8
Long-term PREP	2	2	—	—
JOBS legislation — Ch 1568/90	29	29	—	—
Child care licensing and administration	15	10	−5	−33.1
Court cases	4	4	—	—
All other	1	—	—	—
Totals	$488	$329	−$159	−32.6%
Funding Sources				
Funds appropriated for GAIN:				
General Fund	$188	$101	−$87	−46.3%
Federal funds	179	120	−59	−33.0
Reimbursements	3	3	—	—
Totals, funds appropriated for GAIN	$370	$224	−$146	−39.5%
Funds redirected for GAIN:				
General Fund	$43	$34	$9	20.9%
Employment Training Fund	1	1	—	—
Federal funds	75	70	5	6.7
Totals, funds redirected for GAIN	$119	$105	$14	13.3%
Grand totals, all funding sources [a]	$489	$329	−$160	−32.7%
Yearly Participants	*397,173*	*211,793*	*−185,380*	*−46.7%*

[a] Figures do not add to expenditures due to rounding.

Current-Year Federal Funds Available to GAIN Overstated

The department uses a computer model to project the flow of GAIN participants through the GAIN Program and to determine the number of participants that can be served by available funds. In developing its mid-year estimate of expenditures for the GAIN Program in 1990-91, the department inadvertently overestimated the amount of federal funds that would be available by about $20 million. Similarly, the department indicates that its estimate of the federal funds available for GAIN in 1991-92 overstates the funds actually available by about $2 million. We anticipate that the department will correct this error at the time of its May estimate.

Excess Funds Appropriated by the Budget Act of 1989 Should Revert

We recommend that the Legislature add an item to the Budget Bill to revert, as of June 30, 1991, $947,000 appropriated by the Budget Act of 1989.

Social Services Programs—Continued

The Budget Act of 1989 appropriated $7.9 million ($4.9 million General Fund) in Item 5180-155-001 for the Los Angeles County GAIN Program. This item was established in the Budget Bill prior to notification from the federal government that the state would receive 50 percent federal funding for the Job Opportunities and Basic Skills (JOBS) Program.

Federal notification of 50 percent federal funding for JOBS came late in the budget deliberations. The Legislature adjusted the main GAIN appropriation to reflect these increased federal funds. Inadvertently, the Los Angeles County GAIN funding item (Item 5180-155-001) was not adjusted. Under authority of Section 28.00, Budget Act of 1989, the department in a letter dated January 8, 1991, proposes to increase federal fund expenditures in Item 5180-155-890 of the Budget Act of 1989 by $947,000. This increase in federal funding allows the state to reduce General Fund support by the same amount.

This means that $947,000 from the General Fund was unexpended at the end of 1989-90. Therefore, we recommend that the Legislature add an item to the Budget Bill to revert these funds to the General Fund for use in 1991-92. This would make $947,000 in General Fund monies available for the Legislature's use in achieving its priorities.

The following Budget Bill language is consistent with this recommendation:

5180-490—Reversion, Department of Social Services. Notwithstanding any other provision of law, as of June 30, 1991, the unexpended balance of the appropriation made for the GAIN Program in Item 5180-155-001 by the Budget Act of 1989, shall revert to the General Fund on the effective date of this act.

ADOPTIONS

The Proposed Increase of the Independent Adoptions Fee Has Merit

We recommend enactment of legislation to require counties to increase their independent adoptions fees to reflect actual costs and adjust the fees on a periodic basis. We further recommend that the legislation require counties to report annually on their independent adoptions costs and fee revenues.

Background. The budget proposes legislation to raise from $500 to $1,896 the fee that the state's district adoptions offices may charge prospective adoptive parents under the Independent Adoptions Program and to authorize *county* adoptions agencies to increase their fees. (Please see Item 5180-001-001 for a discussion of the state fee issue.) Independent adoptions services are provided by the state's district adoptions offices and county adoptions agencies. Currently, five counties provide independent adoptions services — Alameda, Los Angeles, San Bernardino, San Diego, and Shasta. The state provides adoptions services in the remaining 53 counties. For 1991-92, the DSS estimates that county agencies will provide these services for about 1,470 children.

Counties receive General Fund support for independent adoptions through the local assistance budget. For 1991-92, the DSS anticipates that counties will receive about $1.2 million in local assistance funding for this program.

Under current law, counties are authorized to charge a $500 fee to prospective adoptive parents. Counties retain all of the revenues generated by these fees and must apply them toward their existing Independent Adoptions Programs.

Proposed Fee Increase Has Merit. Our analysis indicates that the proposal to increase the independent adoptions fee has merit since the adoptive parents who pay the fee are the primary beneficiaries of independent adoptions services. However, as we indicate in our analysis of the fee issue in the department's support budget, the proposed fee amount substantially understates the department's costs for providing independent adoptions services. Consequently, it probably is also not reflective of the counties' actual costs for providing independent adoptions services. To ensure that each county charges a fee reflective of its actual costs, each county would need to develop its own fee. The fee would also have to be periodically updated to reflect changes in county costs. Therefore, we recommend enactment of legislation requiring county adoptions agencies that provide independent adoptions services to charge a fee based on their actual costs of providing the service and to update the fee periodically. It is important to note that, as with the state fee, prospective adoptive parents using county agencies would have the fee waived or reduced if it presented a financial barrier to the adoption.

Increased County Fees Would Reduce Need for General Fund Support. To the extent that county Independent Adoptions Programs increase their fees, their need for General Fund support in the future would be reduced. In order to ensure that the Legislature can accurately reflect the availability of fee revenues in the future, we recommend that the fee legislation require counties to report their independent adoptions costs and fee revenues to the DSS annually.

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 and through the continuous appropriation of funds from the State Children's Trust Fund.

Unexpended Balance in the State Children's Trust Fund Could Be Used to Increase Treatment Services for Child Welfare Services Clients

We recommend that the Legislature appropriate the unexpended balance in the State Children's Trust Fund in order to increase the availability of treatment services for abused and neglected children and their families. We further recommend the adoption of Budget Bill language that would require that these funds be used to purchase services from nonprofit organizations or public institutions of higher education, consistent with the provisions of current law that govern the expenditure of State Children's Trust Fund monies.

Background. The State Children's Trust Fund (SCTF) was established by Ch 1399/82 (AB 2994, Imbrecht) in order to fund research on child

Social Services Programs—Continued

abuse and neglect, innovative child abuse prevention and treatment programs that are operated by nonprofit organizations or public institutions of higher education, and programs to increase public awareness of child abuse. The SCTF is supported by a surcharge on birth certificates, donations from private sources, and taxpayer donations through a checkoff on California State Income Tax forms. The OCAP selects projects to fund with the SCTF by issuing requests for proposals. In 1991-92, the department estimates that SCTF expenditures for research, innovative treatment programs, and public awareness campaigns will total $1.3 million.

Excess Balance in the SCTF Could Be Used to Increase Treatment Services for Abused and Neglected Children and Their Families in 1991-92. The budget shows that the SCTF will have a year-end balance in 1990-91 of over $3.3 million. This balance is expected to grow slightly, to $3.4 million, by the end of 1991-92. The department currently has not developed proposals for how to spend these funds.

In our report, *Child Abuse and Neglect in California: A Review of the Child Welfare Services Program* (LAO Report No. 91-1), we found that there is a significant shortage of treatment services for abused and neglected children and their families. Specifically, we found that counties spend less than 4 percent of their child welfare services funds to purchase treatment and support services for clients and that publicly funded community treatment resources, such as drug treatment and mental health services, are frequently in short supply. As a result, the county's child welfare services social workers are the *only* providers of treatment and support services to over half of all the families in the program, even though (1) social workers frequently visit clients less than once per month, (2) social workers are not trained to provide some types of treatment services such as drug treatment, and (3) it is typically more expensive to provide the service through a social worker than it would be to purchase these services in the community. The shortage of treatment and support services has likely contributed to the program's performance problems, such as the increasing number of children who are placed in foster care, and the program's increasing recidivism rate, which we discuss in more detail in the report.

We believe that providing more services could improve the effectiveness of the program in two ways: (1) by increasing the likelihood that clients will successfully complete a treatment program and (2) by helping the juvenile courts to make more timely decisions about families who receive child welfare services. For these reasons, we recommend that the Legislature add a Budget Bill item to appropriate the unexpended balance in the SCTF for allocation to counties to purchase innovative treatment services from nonprofit agencies or public institutions of higher education. This approach is consistent with the provisions of current law that govern the use of these funds. The following language, to be included in the new item, is consistent with this recommendation:

Funds appropriated by this item are in lieu of funds that would otherwise be appropriated pursuant to Section 18969 of the Welfare and Institutions Code. The Department of Social Services shall allocate the funds appropriated in this item to counties in order to increase the availability of treatment services to children and families in the Child Welfare Services Program. Funds appropriated in this item shall only be used to purchase treatment services from nonprofit organizations or institutions of higher education.

DEPARTMENT OF SOCIAL SERVICES

Community Care Licensing

Item 5180-161 from the General Fund and the Federal Trust Fund — Budget p. HW 175

Requested 1991-92	$11,288,000
Estimated 1990-91	11,866,000
Actual 1989-90	14,823,000
Requested decrease $578,000 (−4.9 percent)	
Total recommended reduction	700,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Local assistance	General	$8,445,000
5180-161-890—Local assistance	Federal	2,843,000
Total		$11,288,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS — *Analysis page*

1. ***Family Day Care Home Fee. Reduce Item 5180-161-001 by $700,000.*** Recommend enactment of legislation to institute an annual $50 family day care home licensing fee. Further, recommend a reduction of $700,000 from the General Fund to reflect the availability of fee revenues to support a portion of county licensing costs. 830

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 six children. Family day care homes are licensed to provide day care services for up to 12 children in the provider's own home.

Community Care Licensing—Continued

MAJOR ISSUES

☑ The budget proposes legislation to establish an annual $50 family day care home licensing fee.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations totaling $11,288,000 ($8,445,000 General Fund and $2,843,000 federal funds) to reimburse counties for licensing activities in 1991-92. This is a decrease of $578,000, or 4.9 percent, as compared with estimated current-year expenditures. The decrease is due primarily to a decrease in foster family home and family day care home caseloads.

The Budget Proposes to Establish an Annual Licensing Fee for Family Day Care Homes

We recommend the enactment of legislation to authorize counties to institute an annual $50 family day care home licensing fee. In addition, we recommend a reduction of $700,000 from the General Fund to reflect the availability of fee revenues to support a portion of county licensing costs.

The budget proposes legislation to establish an annual $50 fee for family day care homes licensed by counties. The budget proposes $2.8 million for support of this licensing activity. (Please see Item 5180-001-001 for a discussion of the budget proposal to establish a $50 fee for homes licensed by state district offices.) The Department of Social Services (DSS) estimates that this fee would generate $700,000 in revenues for counties in 1991-92, although the budget does *not* reduce the amount proposed for local assistance to reflect the availability of this additional revenue.

Family day care homes provide child care in the licensee's home on less than a 24-hour per day basis. They have a licensed capacity of 6 or fewer children, or with an assistant, a maximum of 12 children. Currently 25 county welfare departments are under contract with the DSS to license the family day care home licensing function. For 1991-92, the DSS estimates that counties will license about 13,900 such homes.

Licensing is a requirement of doing business in California and it is therefore reasonable to expect the licensee to pay for at least part of the costs of the licensing program. Moreover, we believe that a $50 annual fee should not cause economic hardship to the licensee. On this basis, we recommend approval of the annual $50 fee for family day care homes. We further recommend a reduction of $700,000 General Fund to reflect the availability of fee revenues to counties to support a portion of their licensing costs.