for the second half of 1988-89, and (c) sets a definite schedule for repayment of the General Fund start-up loan.

In addition, we recommend that the board report at budget hearings on (1) the reasons for its failure to implement the laboratory certification program required by Ch 1520/85 and (2) the steps it is taking to ensure that the program is implemented in 1988-89 and is fully self-supporting.

Health and Safety Program Overbudgeted

We recommend a General Fund reduction of $100,000 in the amount requested for a health and safety program for board employees, because the amount is doublebudgeted. (Reduce Item 3940-001-001 by $100,000.)

The budget requests an increase of $725,000 to pay the full cost of implementing a worker health and safety program for board employees. The increase would be funded from the General Fund ($606,000), and various other funds ($119,000). In the current year, the budget includes $100,000 from the General Fund for the board to begin partial implementation of the program.

The worker health and safety program proposed for 1988-89 would include all of the state and regional boards' employees that may be exposed to toxic or hazardous substances in the course of their work. The program consists of (1) monitoring employees' medical condition, (2) training employees in hazard recognition, evaluation and control, (3) providing protective equipment, and (4) monitoring the workplace to measure employee exposure to hazardous substances. Approximately 400 employees would be covered under the program.

The board's current-year budget already includes $100,000 from the General Fund for the worker health and safety program, and this amount is carried forward into the proposed 1988-89 budget. Our review indicates, however, that the board's request does not recognize these funds. Accordingly, we recommend a reduction of $100,000 from the General Fund because the amount has been doublebudgeted.

Health and Welfare Agency

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES

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

Requested 1988-89	$4,667,000
Estimated 1987-88	4,727,000
Actual 1986-87	3,983,000
Requested decrease (excluding amount for salary increases) $60,000 (−1.3 percent)	
Total recommended reduction	None

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

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal	$4,667,000
4110-001-001—Area Boards on Developmental Disabilities	Reimbursements	(2,299,000)

GENERAL PROGRAM STATEMENT

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

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

The state council and area boards have 50 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $4,667,000 from federal funds for support of the state council and area boards in 1988-89. This is a reduction of $60,000, or 1.3 percent, below estimated current-year expenditures. This reduction, however, is somewhat misleading. During the current year, the state council and area boards carried forward and expended $107,000 in federal funds from earlier years on a one-time basis. The carry-over funds, which were used for community program development, will not be available in the budget year. If these carry-over funds are deducted from current-year expenditures, the level of funding proposed in the budget for 1988-89 is $47,000, or 1 percent, above the amount appropriated in the Budget Act for the current year.

The budget proposes a total of 51.1 personnel-years for these programs in 1988-89. This represents an increase of 1.1 personnel-years from the current year. 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
1986-87 through 1988-89
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
State council	12.0	12.5	12.3	$734	$860	$1,046	21.6%
Program development	—	—	—	1,211	1,739	1,322	−23.9
Area boards	38.4	37.5	38.8	2,038	2,128	2,299	8.0
Totals	50.4	50.0	51.1	$3,983	$4,727	$4,667	−1.3%

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget contains three specific proposals:

- Augmentation of $64,000 for 1.8 limited-term positions to reflect the potential increase in area board workload resulting from a change in the way in which Program Development Fund monies are allocated and administered at the local level.
- Augmentation of $145,000 for contracts to perform one-time evaluations of the statewide system of services for the developmentally disabled and the impact of the community placement plan on clients and families.
- Redirection of $23,000 from operating expense categories and an augmentation of $4,000 in order to support increased honoraria, out-of-state travel, and equipment purchases.

To accommodate the augmentation requests within the limited federal grant, the budget proposes to reduce funds allocated to program development start-up grants. In all, the reduction in program development funding is $417,000, or 24 percent. The actual reduction will probably be less than this amount because it is likely that additional federal funds will become available during 1988-89 for program development as a result of increases in the federal grant and the identification of additional carry-over funds. The effect of reducing program start-up grants would be to reduce the availability of new services for clients. Because actual service delivery lags behind start-up funding by about one year, the impact of the reduction would be delayed until 1989-90. The services affected include residential care, day services, and transportation.

Health and Welfare Agency
EMERGENCY MEDICAL SERVICES AUTHORITY

Item 4120 from the General Fund and federal funds — Budget p. HW 5

Requested 1988-89	$5,244,000
Estimated 1987-88	4,366,000
Actual 1986-87	3,364,000

Requested increase (excluding amount for salary increases) $878,000 (+20.1 percent)

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4120-001-001—Support	General	$942,000
4120-001-890—Support	Federal	233,000
4120-101-001—Local assistance	General	2,557,000
4120-101-890—Local assistance	Federal	1,512,000
Total		$5,244,000

GENERAL PROGRAM STATEMENT

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

The authority is also responsible for (1) planning and managing medical response to disasters, (2) administering contracts that provide General Fund support for the operating costs of certain rural EMS agencies, (3) administering the portion of the federal preventive health services block grant allocated for the development of regional EMS systems, (4) developing regulations and reviewing local plans to implement trauma care systems, and (5) designating and monitoring regional poison control centers.

The authority has 18 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $3,499,000 from the General Fund for support of the authority's programs in 1988-89. This is an increase of $875,000, or 33 percent, above estimated current-year expenditures. The increase is due primarily to full-year funding for the regional poison control center program, which began January 1, 1988.

The proposed appropriation from federal funds is $1,745,000, which is an increase of $3,000, or 0.2 percent, above estimated current-year expenditures.

The budget proposes to continue the authority's staffing at 18 personnel-years in 1988-89.

The budget appears reasonable. Therefore, we recommend approval.

Health and Welfare Agency
HEALTH AND WELFARE AGENCY DATA CENTER

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

Requested 1988-89	$58,028,000
Estimated 1987-88	51,670,000
Actual 1986-87	48,058,000
Requested increase (excluding amount for salary increases) $6,358,000 (+12.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The HWDC has 210.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $58,028,000 from the Health and Welfare Agency Data Center Revolving Fund to support the data center's operations in 1988-89. This is an increase of $6,358,000, or 12 percent, above estimated current-year expenditures. The increase is primarily due to (1) payment for equipment purchased in 1987-88 ($1.9 million) and (2) proposed new equipment ($3.6 million).

Our analysis indicates that the amount requested is reasonable.

Health and Welfare Agency
OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

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

Requested 1988-89	$28,673,000
Estimated 1987-88	26,500,000
Actual 1986-87	25,735,000
Requested increase (excluding amount for salary increases) $2,173,000 (+8.2 percent)	
Total recommended reduction	None

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4140-001-001—Support	General	$1,810,000
4140-001-121—Support	Hospital Building Account, Architecture Public Building	15,641,000
4140-001-143—Support	California Health Data and Planning	6,346,000
4140-101-001—Local assistance	General	2,880,000
Health and Safety Code 436.26	Health Facility Construction Loan Insurance	701,000
Ch 1307/87	Health Facility Construction Loan Insurance	1,180,000
Reimbursements	—	115,000
Total		$28,673,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Senior Care Study. Increase Item 4140-001-001 by $225,000 and reduce Item 4140-001-143 by $225,000.*** Recommend shift of funds to reflect appropriate funding source. 444

GENERAL PROGRAM STATEMENT

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

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

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

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

4. ***Facilities Development.*** The office reviews plans for, and performs site inspections of, health facilities construction projects to assure that they conform with federal, state, and local building requirements, including seismic safety requirements, and reviews health facility applications for construction loan insurance.

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

The office has 263.1 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Expenditures for support of the office from all funds are proposed at $28,673,000 in 1988-89. This is an increase of $2,173,000, or 8.2 percent, above estimated current-year expenditures. The budget proposes appropriations of $4,690,000 from the General Fund to support the OSHPD in

1988-89. This is an increase of $15,000, or 0.3 percent, above estimated current-year General Fund expenditures.

Table 1 displays the office's personnel-years, program expenditures, and funding sources for the prior, current, and budget years.

Table 1
Office of Statewide Health Planning and Development
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Health projects and analysis	13.4	8.6	12.4	$1,144	$925	$1,180	27.6%
Certificate of need	3.9	—	—	535	—	—	—
Demonstration projects	2.3	7.8	9.6	122	489	735	50.3
Health professions development	12.4	12.4	12.4	3,747	4,343	5,272	21.4
Facilities development and financing	109.4	129.0	132.7	14,866	16,406	16,342	−0.4
Uncompensated care	2.6	—	—	148	—	—	—
Health facilities data	59.1	60.2	62.0	5,037	4,223	5,029	19.1
Administration—undistributed	45.6	45.1	45.1	136	114	115	0.9
Totals	248.7	263.1	274.2	$25,735	$26,500	$28,673	8.2%
Funding sources							
General Fund				*$3,578*	*$4,675*	*$4,690*	*0.3%*
Hospital Building Account, Architecture Public Building Fund				*14,117*	*15,696*	*15,641*	*−0.4*
California Health Data and Planning Fund				*6,496*	*5,285*	*6,346*	*20.1*
Health Facilities Construction Loan Insurance Fund				*749*	*730*	*1,881*	*157.7*
Federal funds				*378*	—	—	—
Reimbursements				*417*	*114*	*115*	*0.9*

The increase in total expenditures from all sources is due primarily to (1) a one-time appropriation of $1.2 million for the Minority Health Professions Foundation (Ch 1307/87), (2) $225,000 for a study on senior access to health care, (3) $227,000 for additional workload relating to demonstration projects, and (4) $499,000 for enhancements to data collection from hospitals and long-term care facilities.

The budget proposes a total of 274.2 personnel-years for 1988-89, an increase of 11.1 personnel-years from the current-year level. The increase reflects staffing augmentations for the senior health care study, demonstration projects, the data collection enhancements, and additional clerical support for seismic safety plan reviews.

Table 2 identifies the major budget changes proposed for 1988-89.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Table 2
Office of Statewide Health Planning and Development
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$4,402	$26,000
Adjustments, 1987-88:		
1. Retirement contribution reduction	−1	−22
2. Employee compensation adjustment	20	248
3. Carry-over appropriation for Family Physician Training program	254	254
4. Minority Health Professions Foundation (Ch 1307/87)	—	20
1987-88 expenditures (revised)	$4,675	$26,500
Baseline adjustments, 1988-89:		
1. Pro-rata adjustment	—	−220
2. Employee compensation adjustment	25	219
3. Price increase	17	255
4. One-time cost reductions:		
a. Expiration of seismic safety limited-term positions	—	−1,173
b. Expiration of project closeout limited-term positions	—	−120
c. Minority Health Professions Foundation	—	−20
d. Family Physician Training program	−254	−254
5. Carry-over appropriation for Minority Health Professions Foundation	—	1,180
Program change proposals:		
1. Demonstration projects	227	227
2. Study on senior access to health care (Ch 809/87)	—	225
3. Permanently establish seismic safety positions	—	1,230
4. Extend project closeout limited-term positions	—	125
5. Uniform accounting and reporting systems review	—	300
6. Increase on-site audits	—	134
7. Increase on-site discharge data verification and consultation	—	65
1988-89 expenditures (proposed)	$4,690	$28,673
Change from 1987-88 (revised):		
Amount	$15	$2,173
Percent	0.3%	8.2%

ANALYSIS AND RECOMMENDATIONS

Inappropriate Funding Source for Senior Study

We recommend that the Legislature (1) increase the General Fund appropriation for state operations by $225,000 and (2) reduce the California Health Data and Planning Fund appropriation by $225,000 to reflect appropriate funding for a study on seniors' access to health care. (Increase Item 4140-001-001 and reduce Item 4140-001-143.)

The budget proposes $225,000 from the California Health Data and Planning Fund (HDPF) to conduct a needs assessment study required by Ch 809/87 (AB 519) on the availability of dental, vision, and hearing care services to low-income seniors. When the Legislature passed AB 519, the bill contained a General Fund appropriation of $225,000 to cover the costs of the study. The Governor deleted the appropriation and directed the OSHPD to use resources from the HDPF to conduct the study.

Revenues to the HDPF come from fees assessed to health facilities. Existing law authorizes the office to use these revenues for the data collection and reporting purposes established in Health and Safety Code Parts 1.5 and 1.8. If fee revenues exceed the amount needed to support these activities, the office is required to reduce the fee assessments in subsequent years.

We are concerned about the use of the HDPF, instead of the General Fund, for the study required by Ch 809/87. Our review of the budget proposal indicates that:

- The study is not part of the data collection and reporting requirements in Health and Safety Code Parts 1.5 and 1.8 for which HDPF appropriation is authorized.
- Use of the HDPF for this study would establish a precedent whereby the OSHPD could, without statutory authority, increase the health care industry's fee assessment in order to fund numerous studies that may be only peripherally related to the Legislature's intent for the use of the fund.

We therefore recommend a change in the proposed funding for this study by (1) increasing the General Fund appropriation for state operations by $225,000 and (2) reducing the California Health Data and Planning Fund appropriation by $225,000.

Office Improves Timeliness

Two of the major responsibilities of the office are to (1) conduct seismic safety plan reviews and (2) regularly submit a number of reports on health planning and manpower to the Legislature. In the *Analysis of the 1987-88 Budget Bill,* we noted that the office had unacceptable turnaround times for plan reviews and had a number of reports that were up to three years overdue. We are pleased to report that the office has both reduced its plan review turnaround times to an average of less than eight weeks and substantially improved the timeliness of its submission of reports. We commend the office's efforts in these areas.

Health and Welfare Agency
CALIFORNIA DEPARTMENT OF AGING

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

Requested 1988-89	$131,340,000
Estimated 1987-88	131,113,000
Actual 1986-87	128,264,000
Requested increase (excluding amount for salary increases) $227,000 (+0.2 percent)	
Total recommended reduction	None
Recommendation pending	1,112,000

CALIFORNIA DEPARTMENT OF AGING—Continued

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4170-001-001—Support	General	$4,733,000
4170-001-890—Support	Federal	2,793,000
4170-101-001—Local assistance	General	31,607,000
4170-101-890—Local assistance	Federal	77,781,000
Chapter 1626, Statutes of 1984	General	89,000
Reimbursements	—	14,337,000
Total		$131,340,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. We recommend that the Legislature adopt supplemental report language requiring the department to develop a plan by December 1, 1988 for enhancing the nutrition productivity of the Area Agencies on Aging. 449
2. We withhold recommendation on $1.1 million for expansion of the Health Insurance Counseling and Advocacy Program pending receipt of the required report regarding the effectiveness of the program. 453

GENERAL PROGRAM STATEMENT

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

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

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

The department has 142 personnel-years in the current-year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $131 million for the CDA in 1988-89. This includes $36 million from the General Fund, $81 million in federal funds, and $14 million in reimbursements. Total expenditures proposed for 1988-89 are $227,000 higher than estimated current-year expenditures. Virtually all local assistance funding for OAA programs have been "straight-lined" into the budget year. This is because federal appropriation levels for these programs have remained relatively stable during federal fiscal year (FFY) 1987 and 1988.

The budget proposes $36 million from the General Fund for support of CDA's activities in 1988-89. This is a decrease of $718,000, or 1.9 percent, from estimated current-year expenditures. The proposed General Fund amount includes $4.7 million for support of the department and $32 million for local assistance. Table 1 presents a summary of the department's funding and expenditures for the prior, current, and budget years.

Table 1
California Department of Aging
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	Actual 1986-87	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
State administration	$8,252	$9,417	$9,292	−1.3%
Older Americans Act (OAA) programs				
Local assistance:				
Congregate meals	$40,903	$44,468	$44,468	—
Home-delivered meals	19,046	16,317	16,317	—
Employment services	4,746	4,995	4,995	—
Social services	27,914	24,486	24,336	−0.6%
Ombudsman	1,081	2,449	2,449	—
Special projects	2,146	2,746	3,796	38.2
Subtotals, OAA	($95,836)	($95,461)	($96,361)	(0.9%)
Long-Term Care programs				
Local assistance:				
MSSP	$18,464	$20,602	$20,927	1.6%
Linkages/Alzheimers/Respite	4,223	4,761	4,760	—
Adult Day Health Care	1,489	872	—	—[a]
Subtotals, long-term care programs	($24,176)	($26,235)	($25,687)	(−2.1%)
Totals, all expenditures	$128,264	$131,113	$131,340	0.2%
Funding Sources				
General Fund	*$36,254*	*$37,147*	*$36,429*	*−1.9%*
Federal funds	*81,583*	*80,517*	*80,574*	*0.1*
Reimbursements	*10,427*	*13,449*	*14,337*	*6.6*

[a] Not a meaningful figure.

Table 2 identifies, by funding source, the significant changes in expenditure levels proposed for 1988-89. As the table shows, the major changes proposed in the budget are (1) an increase of $1.1 million for expansion of the Health Insurance Counseling and Advocacy Program (HICAP), (2) an increase of $507,000 for the MSSP caseload, and (3) a reduction of $1.1 million to reflect the elimination of one-time expenditures.

CALIFORNIA DEPARTMENT OF AGING—Continued

Table 2
California Department of Aging
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (revised)	$37,147	$131,113
Cost adjustments		
Employee compensation adjustments	$58	$111
Price increase	35	64
Pro rata reduction	—	−26
ADHC cost increase	23	23
Subtotals, cost adjustments	($116)	($172)
Workload adjustments		
Alzheimers disease task force reduction	−$15	−$15
Elimination of one-time federal funds	—	−199
Elimination of other one-time funding	−1,123	419
Expiration of limited-term positions	−64	−64
Subtotals, workload adjustments	(−$945)	(−$1,212)
Program change proposals		
Proposed new positions	$27	$307
Elimination of triple "A" advisory council of California funding	—	−75
Golden State Senior Discount program transfer	72	36
Management Information System transfer	−125	−250
Senior Service Credit program	65	65
Respite Care program	72	72
HICAP expansion	—	1,112
Subtotals, program change proposals	($111)	($1,267)
1988-89 expenditures (proposed)	$36,429	$131,340
Change from 1987-88:		
Amount	−$718	$227
Percent	−1.9%	0.2%

Table 3 presents a summary of personnel-years for the department in the prior, current, and budget years. The increase in personnel-years for administration is due to proposed staff increases in the Directorate, the Budget and Accounting Sections, and the Aging Services Division of the CDA. The increase for long-term care programs reflects proposed staff increases for the ADHC, MSSP, HICAP expansion, and the transfer of the Golden State Senior Discount Program from the Department of Consumer Affairs to CDA.

Table 3
California Department of Aging
Personnel-Years
1986-87 through 1988-89

Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Administration	79.8	81.8	89.2	9.0%
Older Americans Act	20.0	26.4	26.4	—
Long-Term Care	32.6	33.8	37.1	9.8
Totals	132.4	142.0	152.7	7.5%

ANALYSIS AND RECOMMENDATIONS

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

- ***Linkages Program ($4.2 Million).*** The department proposes to continue funding for the Linkages program in 1988-89. This pilot program, which was initiated in 1984, is currently scheduled to sunset July 1, 1988. The Linkages program provides referral and case management services to frail elderly and functionally impaired adults to avoid premature institutionalization. The department is sponsoring a bill—AB 1616—to extend the sunset date of the program until December 31, 1989. The department indicates that it needs the additional data that will result from the extension of the pilot in order to complete an evaluation of the cost-effectiveness of the program.
- ***MSSP ($507,000).*** The department proposes to increase funding for the MSSP in 1988-89 in order to cover the full-year costs of the current-year caseload increase from 5,400 to 6,000 persons.
- ***Respite Care ($60,000).*** The department proposes to continue funding of the Respite Care Services Projects and the Respite Care Registry in 1988-89. These programs are scheduled to sunset June 30, 1988. The department advises that it will sponsor legislation to extend the sunset dates of both projects to June 31, 1990. The department is required to report to the Legislature on the effectiveness of the Respite Care Registry by March 1, 1988 and the Services Project by July 1, 1988.

NUTRITION PROGRAMS

We recommend that the Legislature adopt supplemental report language requiring the department to develop a plan for enhancing the AAAs' nutrition productivity and thereby increasing the number of meals served within available resources.

The CDA provides federal OAA funds to local AAAs for support of senior nutrition programs. The primary objective of the nutrition programs is to provide low-cost, nutritionally sound meals to older Californians. Meals are either served in a social setting at congregate nutrition centers or delivered to the homebound.

Congregate Meals. Congregate nutrition sites serve a minimum of 100 meals to seniors five or more days a week. Persons 60 years of age or older and their spouses, regardless of age, are eligible to participate in congregate nutrition programs. Handicapped individuals and volunteers who prepare and serve meals are also eligible. During 1986-87, 186 providers served 12.7 million congregate meals to 216,200 eligible seniors at 1,030 sites throughout the state. The department indicates that its 1987-88 contracts call for the AAAs to serve approximately 13.1 million congregate meals to 226,687 seniors.

Home-Delivered Meals. Home-delivered meals are provided to persons 60 years of age or older who are homebound as a result of illness or disability. Providers of home-delivered meals assess potential meal recipients and verify their eligibility for the program. During 1986-87, 167 providers delivered 6.6 million meals to 47,700 eligible seniors in their homes. The department estimates that approximately 6.7 million home-delivered meals will be provided to 51,100 seniors during 1987-88.

Funding for Nutrition Programs. The budget proposes $63 million ($13 million General Fund and $50 million federal funds) to support

CALIFORNIA DEPARTMENT OF AGING—Continued

nutrition programs in 1988-89. This includes $46 million for congregate nutrition programs and $17 million for home-delivered meals programs. This is an increase of $31,000 over estimated current-year expenditures. Actual expenditures for each program may vary to the extent that local AAAs elect to transfer funds between the programs or to the federally funded senior social services programs. The OAA allows up to 30 percent of the funds to be transferred between the congregate and home-delivered meals programs. State law limits the amount of funds that may be transferred from nutrition programs to social service programs to 5 percent.

Department Has Not Followed Through on Federal Productivity Initiative

In 1982, the federal Administration on Aging (AOA) implemented a "productivity initiative" in order to assess the performance of state nutrition programs regarding the number of meals served to seniors. Specifically, the AOA measured each state's productivity by dividing the number of meals served by the amount of federal Title IIIC funds allotted to the state for nutrition programs. This ratio showed that California had a productivity factor of .51—indicating that the average AAA in the state served 51 meals for every $100 of federal Title IIIC funds.

In response to the federal productivity initiative, the department began providing information and technical assistance to the local AAAs, particularly those having low productivity levels, regarding strategies for increasing productivity. The department emphasized strategies designed to increase the cost efficiency of food service and program management such as group purchasing of food, use of USDA surplus commodities, and increased use of volunteers.

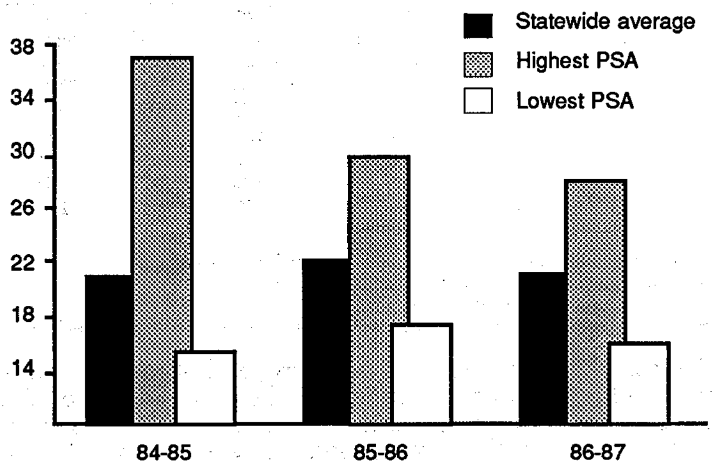
Since the implementation of the federal productivity initiative in 1983-84 and 1984-85, the department has not continued to monitor the productivity of the local AAAs or to provide assistance to help low productivity AAAs improve their productivity. The department has, instead, continued to assess the performance of the AAAs with regards to various quality and safety standards. As a result, the department is unable to indicate (1) whether productivity levels among the local AAAs has changed and (2) what types of management strategies are needed in order to maintain or increase productivity levels in the future.

Productivity Varies Widely Among AAAs

In order to address these questions, we used data provided by the department to measure the productivity of each of the 33 AAAs in the state during 1984-85, 1985-86, and 1986-87. Rather than estimating productivity based solely on federal funds, however, we examined productivity on the basis of *all* funding sources. We believe this is a better measure to use for comparing the productivity of the AAAs because AAAs receive funds for nutrition programs from a variety of sources, including the state General Fund and local governments. Chart 1 displays the results of this analysis.

Chart 1

Productivity of Local Senior Nutrition Programs Meals Served Per $100 of Program Expenditure[a] 1984-85 through 1986-87



[a] Program expenditures are adjusted for inflation using the California Consumer Price Index Component for meals purchased away from home.

The chart shows the statewide average productivity level and the highest and lowest productivity levels among the 33 AAAs for 1984-85 through 1986-87. The statewide average productivity was 21 meals served for each $100 of total program expenditures during 1984-85. This figure increased to 22 meals per $100 in 1985-86 and declined to 21 meals in 1986-87. Chart 1 also shows that productivity ranged from a high of 37 meals per $100 in the most productive AAA during 1984-85 to a low of 16 meals in the least productive AAA. Over the three-year period, the variation among the AAAs decreased somewhat as a result of reductions in the productivity of the most productive AAAs. Despite this decline in the productivity of the most productive AAAs, however, the range in productivity remains substantial. The highest productivity AAA was able to serve nearly twice as many meals per dollar as the lowest productivity AAA during 1986-87.

Factors Associated With Productivity Differences

Table 4 displays the costs per meal of six sample AAAs during 1986-87. The table also breaks out meal costs into three categories: food costs (the costs of raw food and meal preparation), program management costs (the costs of administrative staff and overhead costs), and other costs (the costs of nutritional education, counseling, and food delivery costs).

CALIFORNIA DEPARTMENT OF AGING—Continued

Table 4
Area Agencies on Aging
Meal Costs of Sample Group
1986-87

AAA	*Productivity (Meals Served per $100 of Expenditures)*	*Total Cost of Meal* [a]	*Meal Cost by Category* *Food Costs* [b]	*Management Costs* [c]	*Other Costs* [d]
11	28	$3.55	$2.92	$0.33	$0.30
20	27	5.28	3.94	0.62	0.72
22	25	4.16	3.51	0.16	0.49
18	18	5.62	4.26	1.11	0.25
5	17	5.70	3.62	1.85	0.23
3	17	6.08	4.33	1.22	0.52

[a] Represents combined average cost of a congregate and home-delivered meal.
[b] Includes the costs of raw food and meal preparation and service.
[c] Includes program support and overhead costs.
[d] Includes the costs of nutrition education and counseling and the delivery costs of home-delivered meals.

Table 5 shows food, program management, and other costs per meal as a percentage of total costs per meal for the sample group. The table indicates that program management costs represent a larger percentage of total costs per meal in the lower productivity AAAs (which serve 18 or fewer meals per $100) than in the higher productivity AAAs (which serve 25 or more meals per $100). As a result, a smaller share of the budget of the lower productivity AAAs is available to pay for food and meal preparation and service.

Table 5
High and Low Productivity AAA's Percentage of Total Meal Costs, by Category
1986-87

AAA	*Food Costs*	*Program Management Costs*	*Other Costs*
High Productivity:			
11	82.4%	9.3%	8.3%
20	74.5	11.8	13.7
22	84.6	3.8	11.7
Low Productivity:			
18	75.8	19.7	4.5
5	63.5	32.5	4.0
3	71.3	20.1	8.6

The department indicates that there may be several reasons for the differences in costs shown in Tables 4 and 5. For example, one factor that may affect meal costs is the type of kitchen system that is used to prepare meals. One of the high productivity AAAs uses a large central kitchen, for example, and has relatively low overhead costs. Another factor that may affect home-delivered meal costs is the size of the delivery area. An AAA serving a larger area would likely incur higher transportation costs than one serving a smaller area. The AAAs may also differ in their reliance on volunteers as opposed to paid staff. Those which use more volunteer staff would tend to incur lower personnel costs than would AAAs that rely heavily on paid staff.

Obviously, there are many factors that influence the productivity of the AAAs. Some of these factors, such as geographic differences and regional variations in personnel and food costs, may not be within the ability of the AAAs to control. Other factors, however, such as the staffing level, organizational structure, food purchasing practices, and recruitment of volunteers, *may* be susceptible to improvement at the local level. In fact, some of these are the very factors that the department identified when it implemented its federal fund productivity enhancement program in 1983-84 and 1984-85.

Increased Productivity Could Offset Demand

It is difficult to accurately determine how many older Californians who need meals are not receiving them. Based on figures provided by the department, however, we estimate that there was an unmet need of approximately 1.3 million home-delivered meals in 1986-87. We also estimate that an additional one million meals could have been served in 1986-87 if, in that year, the 16 AAAs whose productivity levels were below the statewide productivity level increased their productivity to the statewide average. Thus, raising the productivity levels of the low-productivity AAAs would provide a substantial number of meals to offset demand for senior nutrition program services in the state.

We therefore recommend the adoption of supplemental report language requiring the department to develop a plan by December 1, 1988 for improving the nutrition productivity levels of the AAAs. In order to ensure that the Legislature has an opportunity to review the plan, we further recommend that the department provide the proposed plan to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1988. The following supplemental report language is consistent with this recommendation:

> The department shall develop a plan for improving the nutrition productivity levels of the local AAAs. The plan should (1) establish productivity goals for each AAA for 1988-89 and describe how the goals may be achieved, (2) identify the management strategies that would reduce food service and program management costs in low productivity AAAs, and (3) provide for monitoring of the productivity levels of the AAAs on an ongoing basis. The plan should also include a description of the potential barriers to increasing productivity in AAAs and the effects of implementing this plan on the quality of service. The department shall submit the plan to the chairpersons of the fiscal committees of each house and the Joint Legislative Budget Committee prior to implementing the plan, and not later than December 1, 1988.

Evaluation of HICAP Is Pending

We withhold recommendation on $1.1 million for expansion of the Health Insurance Counseling and Advocacy Program pending receipt of the required report regarding the effectiveness of the program.

The budget proposes to expand the Health Insurance Counseling and Advocacy Program (HICAP) from 51 to 58 counties and to increase state staff for the program by two positions. This expansion will increase costs by $1.1 million in 1988-89. In the current year, the program is funded through reimbursements from the Department of Insurance (Insurance Fund). The costs of the program total $1.5 million in 1987-88.

The HICAP was established by Ch 1464/84. The purpose of the program is to assist older persons in understanding the health insurance

CALIFORNIA DEPARTMENT OF AGING—Continued

coverage provided under the federal Medicare program and coverage offered by private insurance companies. Currently the department contracts with 23 HICAP contractors, serving 51 counties, to provide (1) community education programs that explain Medicare policies and private health insurance programs, (2) informal advocacy with regard to Medicare and other health insurance benefit claims, and (3) legal representation with respect to Medicare appeals and related health insurance problems. In addition, the department is mandated to serve as a clearinghouse for information and materials relating to Medicare and other health insurance programs.

The *Supplemental Report Language on the 1987 Budget Act,* required the department to submit information regarding (1) the cost savings/cost avoidance realized by the state and Medicare beneficiaries as a result of the program and (2) an evaluation of how the HICAP contractors have met performance criteria established by the department. The report was due by January 1, 1988. The department advises that the report will not be complete until March 1, 1988. Without this information, we are not able to determine whether an expansion of the program is warranted. Consequently, we withhold recommendation on $1.1 million for expansion of the Health Insurance Counseling and Advocacy Program pending receipt of the required report regarding the effectiveness of the program. (We also discuss this issue in our analysis of the Department of Insurance budget—please see Item 2290.)

Health and Welfare Agency
COMMISSION ON AGING

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

Requested 1988-89	$780,000
Estimated 1987-88	921,000
Actual 1986-87	849,000
Requested decrease (excluding amount for salary increases) $141,000 (−15.3 percent)	
Total recommended reduction	None

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4180-001-001—Support	General	$242,000
4180-001-890—Support	Federal	213,000
4180-001-983—Support	California Seniors	325,000
Total		$780,000

GENERAL PROGRAM STATEMENT

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

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

The commission has 8.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the expenditure of $780,000 ($242,000 General Fund, $213,000 federal funds, and $325,000 from the California Seniors Fund (CSF)) to support the CCA in 1988-89. This is a reduction of $141,000, or 15 percent, from estimated current-year expenditures. Table 1 displays CCA funding for the prior, current, and budget years.

Table 1
Commission on Aging
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Commission	$435	$446	$455	2.0%
Senior Legislature	414	475	325	−31.6
Totals	$849	$921	$780	−15.3%
Funding Sources				
General Fund	*$228*	*$237*	*$242*	*2.1%*
Federal funds	*207*	*209*	*213*	*2.0*
California Seniors Fund	*414*	*475*	*325*	*−31.6*

The table shows that total proposed expenditures are $141,000, or 15 percent, less than estimated current-year expenditures. This decrease is due to a reduction in budgeted expenditures from the CSF for support of senior programs. Based on revenues to the CSF over the last three years, however, it is likely that revenues to the fund for 1988-89 will be greater than the $325,000 anticipated in the budget. Assuming 1988-89 revenues are comparable to revenues reported in the current year, the commission would receive $475,000 from the fund in 1988-89—$150,000 more than is proposed in the budget.

Under state law, any revenues to the CSF in excess of the $325,000 allocated to the Senior Legislature must be used by the commission to provide services to seniors through contracts with the CDA. The commission advises that it will use the $150,000 in excess current-year CSF revenues for one-time contracts with the CDA. In 1986-87, the commission used $108,000 in excess CSF revenues to provide emergency monitoring and telemetry equipment to isolated seniors living in six rural areas of the state.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

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

Requested 1988-89	$143,863,000
Estimated 1987-88	143,995,000
Actual 1986-87	117,819,000
Requested decrease (excluding amount for salary increases) $132,000 (−0.1 percent)	
Total recommended decrease	None

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4200-001-001—Support	General	$7,355,000
4200-001-139—Support	Drinking Driver Program Licensing Trust	597,000
4200-001-243—Support	Methadone Program Licensing Trust	405,000
4200-001-816—Support	Audit Repayment Trust	144,000
4200-001-890—Support	Federal	6,263,000
4200-101-001—Local assistance	General	71,795,000
4200-101-890—Local assistance	Federal	51,908,000
Reimbursements	—	5,396,000
Total		$143,863,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Audit Repayment Trust Fund. Recommend that the department advise the Legislature of its best estimate of the year-end balance in the Audit Repayment Trust Fund. Further recommend the adoption of Budget Bill language requiring that General Fund support be offset by the unexpended balance in this fund. 458
2. Expenditures For the Prevention of AIDS Among Intravenous Drug Abusers. Recommend: 459
   a. The Legislature require the department to allocate $5 million in federal funds for AIDS prevention among intravenous drug abusers, consistent with the priorities reflected in the 1987 Budget Act. 460
   b. Prior to budget hearings, the department advise the Legislature how it will allocate the $5 million to counties for preventing AIDS among intravenous drug abusers. 460
   c. The department advise the Legislature how it will ensure that these funds are spent effectively and for their intended purpose. 462
   d. The department and the Department of Health Services, Office of AIDS, advise the Legislature how they plan to coordinate the use of their funds to prevent the spread of AIDS among intravenous drug abusers. 462

GENERAL PROGRAM STATEMENT

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

The department has 179.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $144 million from all funds for alcohol and drug programs in 1988-89. This includes $79 million from the General Fund; $58 million from federal funds; $1.1 million from the Drinking Driver, Audit Repayment Trust, and Methadone Program Licensing Trust Funds; and $5.4 million in reimbursements. Total expenditures proposed for 1988-89 are $132,000 less than estimated total expenditures in the current year, as shown in Table 1.

Table 1
Department of Alcohol and Drug Programs
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	Personnel-Years			*Expenditures*			*Percent Change*
Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*From 1987-88*
Alcohol—local assistance	—	—	—	$49,325	$57,669	$57,831	−0.3%
Drugs—local assistance	—	—	—	57,594	71,783	70,452	−1.9
Subtotals, local assistance	(—)	(—)	(—)	($106,919)	($129,452)	($128,283)	(−0.9%)
Administration—state operations	78.7	86.0	81.2	$4,254	$5,198	$5,406	4.0%
Alcohol—state operations	38.9	50.2	51.5	3,105	3,857	4,330	12.3
Drugs—state operations	39.3	43.1	45.4	3,541	5,488	5,844	6.5
Subtotals, state operations	(156.9)	(179.3)	(178.1)	($10,900)	($14,543)	($15,580)	(7.1%)
Totals	156.9	179.3	178.1	$117,819	$143,995	$143,863	−0.1%
Funding Sources							
General Fund				*$78,652*	*$79,028*	*$79,150*	*0.2%*
Federal funds				*34,224*	*58,730*	*58,171*	*−0.1*
Drinking Driver Program Licensing Trust Fund				*224*	*366*	*597*	*63.1*
Methadone Program Licensing Trust Fund				*335*	*339*	*405*	*19.5*
Audit Repayment Trust Fund				*238*	—	*144*	[a]
Reimbursements				*4,146*	*5,532*	*5,396*	*−2.5*

[a] Not a meaningful figure.

The budget proposes an appropriation of $79 million from the General Fund for DADP in 1988-89. This is an increase of $122,000 over estimated current-year expenditures. This increase reflects adjustments in salaries, benefits, and prices for state operations. The proposed General Fund appropriation of $79.2 million includes $7.4 million for support of the department and $71.8 million for local assistance.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1988-89. The major increases proposed in the budget are (1) $1 million increase in federal funding available under the Drug Free Schools and Communities block grant, (2) an increase of $250,000 from the Drinking Driver Program Licensing

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Trust Fund to evaluate the effectiveness of the new 30-Month Drinking Driver program, as required by Ch 1041/87 (SB 1365), and (3) an increase of $100,000 from the Audit Repayment Trust Fund to pay for audit appeals. These increases are offset by reductions of (1) $843,000 in the Alcohol, Drug Abuse, and Mental Health Services block grant, because the federal Anti-Drug Abuse Act authorized a 6 percent increase in this grant in the current year but not the budget year and (2) $770,000 in the Emergency Substance Abuse block grant, because the total amount of this grant was reduced in this federal fiscal year.

Table 2
Department of Alcohol and Drug Programs
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Other Funds*	*Total*
1987-88 expenditures (revised)	$79,028	$58,730	$6,237	$143,995
Proposed Changes				
Cost adjustments:				
Employee compensation	$83	$37	$14	$134
Price increase	39	15	9	63
Workload adjustments:				
Increase drinking driver program	—	—	250	250
Increase methadone program	—	—	53	53
Audit appeals contract	—	—	100	100
Program changes:				
Terminate youth coordination project	—	—	−83	−83
Alcohol, Drug Abuse, and Mental Health Services block grant reduction	—	−843	—	−843
Drug Free Schools and Communities block grant increase	—	1,000	—	1,000
High Risk Youth block grant	—	3	—	3
Emergency Substance Abuse block grant reduction	—	−770	—	−770
Termination of corrections parolee project	—	—	−88	−88
Drinking driver program reduction	—	—	−29	−29
Other changes	—	−1	79	78
1988-89 expenditures (proposed)	$79,150	$58,171	$6,542	$143,863
Change from 1987-88:				
Amount	$122	−$559	$305	−$132
Percent	0.2%	−1.0%	4.9%	−0.1%

ANALYSIS AND RECOMMENDATIONS

Audit Repayment Trust Fund Could Offset General Fund Costs

We recommend that prior to budget hearings, the department provide the Legislature with an estimate of the unexpended balance in the Audit Repayment Trust Fund. We further recommend the adoption of Budget Bill language requiring that General Fund support be offset by the unexpended balance in the Audit Repayment Trust Fund.

The Audit Repayment Trust Fund was established by Ch 1328/84 and Ch 1329/84. State funds collected as a result of audits of local drug and alcohol program contractors are deposited in this fund and can only be withdrawn when appropriated by the Legislature.

The budget proposes to use $144,000 from the Audit Repayment Trust Fund to contract for audit appeals hearings and to make final payments on the purchase of word processing equipment for central office administration. The department does not anticipate using any money from this fund in the current year.

The budget anticipates that the year-end balance in this fund will be $1.3 million in the current year and $1.4 million in the budget year. However, the department advises that it is unsure to what extent these balances will be realized because $850,000 of the total balance shown in the budget is the result of audit findings that have not yet been through the appeals process. After the appeals process, the amounts deposited into this fund may be considerably less than the $1.4 million now shown in the budget. The department is currently unable to estimate the amount of money it expects to receive after audit appeals are resolved. We therefore recommend that prior to budget hearings, the department provide the Legislature with an estimate of the unexpended balance in the Audit Repayment Trust Fund.

Since any balance remaining in this fund could be used to offset General Fund costs, we further recommend the adoption of Budget Bill language that would transfer the unexpended balance available in the fund at the end of the year to offset General Fund support for the department in the budget year. The following Budget Bill provisions are consistent with this recommendation:

For inclusion in Item 4200-001-816:

The unexpended balance remaining in the Audit Repayment Trust Fund as of June 30, 1989 is hereby appropriated in augmentation of the amounts scheduled in this item for transfer to Item 4200-001-001.

For inclusion in Item 4200-001-001:

The amount of the appropriation in this item shall be reduced by the amount of any funds transferred from Item 4200-001-816.

DADP's ROLE IN PREVENTING AIDS AMONG INTRAVENOUS DRUG ABUSERS NEEDS IMPROVEMENT

Studies show that the AIDS virus is spreading more quickly among intravenous drug abusers than among any other group in California. Although the Office of AIDS within the Department of Health Services (DHS) has primary responsibility for coordinating services to prevent the spread of AIDS, the Department of Alcohol and Drug Programs (DADP) shares this responsibility as it relates to intravenous drug abusers.

In the 1987 Budget Act, the Legislature expanded the DADP's role in preventing the spread of AIDS among intravenous drug abusers. Specifically, the 1987 Budget Act allocated $5 million of the $18.1 million that California received in federal Emergency Substance Abuse block grant funds for 1987-88 to reduce the spread of AIDS among intravenous drug abusers. The remaining $13.1 million was divided equally between alcohol and drug programs for the counties to use according to their own priorities within these program areas.

The Budget Act required the department to allocate the $5 million in federal funds to county drug programs to increase the treatment of intravenous drug abusers. Providing treatment to intravenous drug abusers can help prevent the spread of AIDS in two ways. First, to the extent that the treatment results in a reduction or even a cessation of drug abuse, exposure to contaminated needles will be reduced. Second, even for those abusers who do not substantially reduce their drug abuse,

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

the treatment can provide a good setting for training the abuser in how to reduce the risk of contracting AIDS.

Department's Proposal for AIDS-Related Expenditures is Inconsistent with the Legislature's Intent for Use of the Funds

We recommend that the Legislature require the department to allocate $5 million in federal funds for AIDS prevention among intravenous drug abusers, consistent with the priorities reflected in the 1987 Budget Act.

The budget anticipates that California will receive $17.3 million in federal Emergency Substance Abuse block grant funds in 1988-89, a reduction of 4.2 percent from the current year. Instead of allocating the first $5 million of these federal funds specifically for the purpose of preventing the spread of AIDS among intravenous drug abusers—the way the funds were allocated in the 1987 Budget Act—the budget proposes to allocate only $3.5 million for this purpose. The remaining $13.8 million would be evenly divided between county drug and alcohol programs. We have no reason to believe that the Legislature has changed its priorities, as reflected in the 1987 Budget Act, with respect to the use of these funds for AIDS prevention. We therefore recommend that the Legislature instruct the department to redirect a total of $1.5 million—$750,000 in federal funds proposed for alcohol programs and $750,000 in federal funds proposed for other drug programs—in order to provide the full $5 million allocation to prevent AIDS among intravenous drug abusers.

The Department Should Develop an Allocation Formula for Federal Funds

We recommend that prior to budget hearings, the department advise the Legislature how it will allocate the funds made available for preventing AIDS among intravenous drug abusers.

The 1987 Budget Act specified the allocation formula that the department would use in allocating the $5 million in federal Emergency Substance Abuse block grants discussed above. Specifically, the Budget Act required the department to allocate 80 percent of the $5 million to the 20 counties with the largest number of AIDS cases based on their reported intravenous drug abusers in treatment and the remaining 20 percent based on counties' "needs for addressing the AIDS epidemic."

The budget proposes to allow the department substantial discretion in allocating these funds in 1988-89. The department advises that it is currently developing an alternative formula for allocating these funds. At the time this analysis was prepared, however, the department had not proposed a specific formula.

We believe that an allocation formula for these funds should reflect the relative need among counties for additional intravenous drug treatment. This is because a formula which best estimates the relative need for additional treatment helps to ensure that funds will be used most effectively—that is, where they are needed most. Our analysis indicates that there are at least four general approaches for estimating the relative needs of the various county drug programs for these funds.

- ***Status Quo: Formula Based on AIDS Cases and Intravenous Drug Abusers in Treatment.*** In the current year, the department allocated 80 percent of the AIDS-related funds to the 20 counties with the largest number of reported AIDS cases. This part of the allocation was based on each of the 20 county's relative number of intravenous drug abusers in treatment. The department allocated the remaining 20 percent of AIDS-related funds to the remaining 38 counties based upon their number of reported AIDS cases. This type of formula has two drawbacks. First, the use of data reflecting the number of intravenous drug abusers in treatment favors those counties which have historically received or devoted the most *funding* to intravenous drug treatment. It does not, however, address the *need* for additional treatment services. Second, targeting funds to counties based on the number of reported AIDS cases does not necessarily address the problem of intravenous drug abusers at risk of contracting the disease. This is because most of the existing AIDS cases are among homosexual men, and the distribution of these cases is not necessarily in proportion to the distribution of intravenous drug abusers.

- ***Waiting Lists.*** Another possible method for allocating funds would be to base the formula on a survey of waiting lists for intravenous drug treatment. Based on our discussions with county staff, however, we believe that surveys of waiting lists do not provide an accurate measure of the relative magnitude of the needs of the various counties because (1) some programs do not keep waiting lists, (2) many programs that do keep them do not update them, and (3) it is likely that intravenous drug abusers seeking treatment are on waiting lists for multiple programs at any one time.
- ***Surveys of Drug Program Administrators' Estimates of Unmet Need.*** A third possible method for allocating AIDS-related funds would be to base the allocation on a survey of local drug program administrators as to their best estimates of the need for additional intravenous drug treatment in their communities. In the past, such surveys have been conducted by the California Association of Drug Program Administrators to determine the additional need for drug treatment, and the department has used these surveys to support its requests for additional drug treatment funds. The advantage of this method would be that it would allocate the funds based on the estimates of those closest to, and therefore most familiar with the problem. However, there are two potential disadvantages to this approach. First, this type of survey is, by nature, subjective. Second, such a survey has never been conducted specifically for intravenous drug treatment programs, and it may be administratively difficult for the department to complete such a survey in sufficient time to allocate the funds.
- ***Formula Based on Estimated Needs.*** Since 1985-86, the department has allocated part of its Alcohol, Drug Abuse, and Mental Health block grant funds to counties based upon a formula which estimates the extent of a county's intravenous drug abusing population. This formula, known as the "Touche/Ross" formula, would result in counties receiving funds based 50 percent upon their total population, 30 percent upon their population in poverty, 10 percent upon their minority population, and 10 percent upon the number of drug arrests. This formula was developed in 1983 by the firm of Touche Ross and Company under contract with the department. The formula is based on research which showed that the number of

intravenous drug abusers in a county is closely related to the size of the population in the county, as well as the size of the minority and poor populations, and the number of drug arrests in the county. The problem with this type of formula is that it only estimates counties' intravenous drug abuse problems indirectly by assuming a relationship between intravenous drug abuse and population, poverty, race and drug arrests.

None of the above allocation formulas is perfect. Because there are a variety of reasonable approaches, we recommend that the department weigh each formula's merits and report to the Legislature prior to budget hearings on which method it will use to allocate the $5 million in federal funds to counties.

Department Should Ensure That Funds Are Spent Effectively

We recommend that prior to budget hearings, the department advise the Legislature how it intends to ensure that AIDS-related expenditures are being spent effectively and for their intended purpose.

Because all of the possible methods for allocating AIDS-related funds can only approximate the relative need for additional treatment, we believe it is important that the department develop methods to ensure that county drug programs are able to effectively absorb these additional funds for their intended use—increasing treatment. One way to ensure that funds are being effectively used to address the need for additional treatment in a county is to ensure that funds that are allocated to counties are used only for treatment and that treatment is provided at a reasonable cost.

At the time this analysis was prepared, the department was in the process of auditing counties to determine how they are spending AIDS-related funds in the current year. We recommend that the department advise the Legislature of the results of its audits. In addition, we believe that the department should develop procedures to ensure that counties plan to spend these funds in the budget year to increase treatment programs at reasonable cost. Therefore, we recommend that the department report to the Legislature prior to budget hearings on alternatives for ensuring that funds for AIDS prevention are spent effectively and as they were intended in the budget year.

Lack of Coordination Impedes Effective Planning

We recommend that the Department of Alcohol and Drug Programs and the Department of Health Services, Office of AIDS, advise the Legislature how they plan to coordinate the use of their funds to prevent the spread of AIDS among intravenous drug abusers.

In addition to the funds proposed through the DADP for prevention of AIDS among intravenous drug abusers, the budget also proposes to make funds available through the Office of AIDS within the Department of Health Services to various contractors for this purpose. The two departments advise us that *generally,* the Office of AIDS is responsible for funding education and prevention programs for intravenous drug abusers, while the DADP is responsible for expanding the supply of treatment. The Office of AIDS estimates it will allocate approximately $2.5 million in the current year and approximately $3.6 million in the budget year for education and prevention programs specifically targeted towards intravenous drug abusers. Intravenous drug abusers may also be served through pilot treatment programs and various anonymous and confidential testing programs. The Office of AIDS does not keep information about the extent to which intravenous drug abusers are served by these programs.

Our review indicates that there is currently little coordination between the Office of AIDS and the DADP. For example, last year the departments informed the Legislature during budget hearings that they would sign a detailed Memorandum of Understanding in the near future to ensure coordination. However, as of January 1988 no such memorandum had been finalized. Moreover, the departments do not work together on identifying needs or making funding decisions, nor are they informed of efforts to coordinate at the county level. For example, the Office of AIDS could not tell us how the county drug programs (that receive funds from DADP) interact with the Office of AIDS' intravenous drug abuser education and prevention contractors.

Because of the urgency of the problem, we believe that the two departments should be doing more to ensure that the funds available for intravenous drug abusers are being spent as effectively as possible. Therefore, we recommend that the Office of AIDS and the DADP report, prior to budget hearings, on their plan to coordinate the use of funds for intravenous drug abusers. This plan should specify the responsibilities of each department, how they will work together on funding decisions, and how they can help to maximize the use of their funds at the county level.

Health and Welfare Agency

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE

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

Requested 1988-89	$237,000
Estimated 1987-88	217,000
Actual 1986-87	213,000
Requested increase (excluding amount for salary increases) $20,000 (+9.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

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

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $237,000 from the General Fund for the committee's support during 1988-89. This amount is $20,000, or 9.2 percent, more than estimated current-year expenditures. The increase is due to (1) a proposed $10,000 increase in operating expenses and equipment and (2) a proposed $10,000 increase in personnel costs. The budget also proposes to increase the committee's staffing to 3.5 personnel-years in 1988-89—an increase of 0.2 personnel-years.

Health and Welfare Agency

DEPARTMENT OF HEALTH SERVICES

Item 4260 from the General Fund and various funds — Budget p. HW 38

Requested 1988-89	$8,059,512,000
Estimated 1987-88	7,522,955,000
Actual 1986-87	6,901,433,000
Requested increase (excluding amount for salary increases) $536,557,000 (+7.1 percent)	
Total recommended reduction	717,000
Recommendation pending	6,140,206,000

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4260-001-001—Support	General	$151,838,000
4260-001-014—Support	Hazardous Waste Control	9,614,000
4260-001-044—Support	Motor Vehicle	330,000
4260-001-129—Support	Water Device Certification	37,000
4260-001-137—Support	Vital Records Improvement Project	4,703,000
4260-001-203—Support	Genetic Disease Testing	23,089,000
4260-001-335—Support	Sanitarian Registration	128,000
4260-001-434—Support	Air Toxics Inventory and Assessment	114,000
4260-001-455—Support	Hazardous Substance	1,287,000
4260-001-478—Support	Mosquitoborne Disease Surveillance	8,000
4260-001-710—Support	Hazardous Substance Cleanup	2,545,000
4260-001-890—Support	Federal	98,104,000
4260-001-900—Support	Local Health Capital Expenditure	160,000
4260-005-890—Support	Federal	259,506,000
4260-011-014—Support—toxics	Hazardous Waste Control	34,669,000
4260-011-428—Support—toxics	Hazardous Waste Management Planning	2,833,000
4260-011-455—Support—toxics	Hazardous Substance	7,585,000
4260-011-710—Support—toxics	Hazardous Substance Cleanup	18,673,000

4260-011-890—Support—toxics	Federal	6,125,000
4260-012-710—Support—toxics	Hazardous Substance Cleanup	7,500,000
4260-015-014—Support—toxics	Hazardous Waste Control	400,000
4260-020-455—Support—toxics	Hazardous Substance	2,753,000
4260-021-890—Support—toxics	Federal	21,000,000
4260-101-001—Medi-Cal local assistance	General	2,938,666,000
4260-101-890—Medi-Cal local assistance	Federal	3,070,123,000
4260-105-001—Medi-Cal abortions	General	12,858,000
4260-106-001—Medi-Cal cost-of-living adjustments (COLAs)	General	12,836,000
4260-106-890—Medi-Cal COLAs	Federal	12,836,000
4260-111-001—Public health local assistance	General	1,172,367,000
4260-111-036—Public health local assistance	Special Account for Capital Outlay	4,800,000
4260-111-137—Public health local assistance	Vital Records Improvement Project	520,000
4260-111-890—Public health local assistance	Federal	23,460,000
4260-116-001—Public health COLAs	General	24,287,000
Health and Safety Code Section 25330.5	Hazardous Site Operations and Maintenance	56,000
Welfare and Institutions Code Section 16707	County Health Services	2,450,000
Ch 376/84	Superfund Bond Trust	5,732,000
Ch 1247/86	Water Device Certification (General Fund loan)	63,000
Ch 1439/85	Hazardous Substance Cleanup	23,473,000
Ch 41/87	Hazardous Waste Management Planning	150,000
Ch 1177/87	General	73,000
Ch 1282/87	General	99,000
Ch 1316/87	AIDS Vaccine Research and Development	83,000
Proposed bond funds	Hazardous Substance Cleanup	8,693,000
Prior-year balance available	General	1,734,000
Prior-year balance available	Federal	1,734,000
Reimbursements		88,266,000
Family repayments		1,152,000
Total		$8,059,512,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Department Support

1. Salary Savings. Recommend that during budget hearings, the department and the Department of Finance report on the reasons for, and the effects of, the increase in the salary savings rate proposed for 1988-89. 473
2. Fee Adjustments. Recommend the Legislature amend the Budget Bill to correct amounts contained in proposed language establishing various departmental fees. (General Fund revenue increase—$778,000.) 475

Licensing and Certification

3. ***Licensing and Certification Funding Ratios. Increase Item 4260-001-001 by $1,072,000 and Reduce Item 4260-001-890 by $1,072,000.*** Recommend adjustments in funding in order to fully fund the General Fund's share of licensing and certification costs. 476

DEPARTMENT OF HEALTH SERVICES—Continued

4. ***Surveyor Overbudgeting. Reduce Item 4260-001-001 by $764,000 and Item 4260-001-890 by $195,000.*** Recommend that the Legislature delete 20.5 positions and make funding adjustments to correct overbudgeting of licensing and certification surveyor positions. 479
5. ***Interdepartmental Contracts. Reduce Item 4260-001-001 by $58,000 and Item 4260-001-890 by $35,000.*** Recommend reductions to correct technical errors. 480

Public Health

6. Funding Estimates. Recommend that as part of the May revision, the administration reconcile inconsistencies in county health program funding related to immigration reform. 489
7. Community-Based Perinatal Services Funds. Recommend that the department report prior to budget hearings on a plan to better target funding for perinatal services to high-risk areas. 491
8. Services for Black Women. Recommend that prior to budget hearings, the department submit a plan for better serving black women through the Community-Based Perinatal Services program. 492
9. Drug Abuse Among Pregnant Women. Recommend that the department report prior to budget hearings on what it is doing to address the problem of drug abuse among pregnant women. 495
10. Perinatal Regionalization Program. Recommend that the Legislature adopt Budget Bill language directing the department to redirect funding for the Perinatal Regionalization program to other programs designed to address the needs of high-risk pregnant women. 495
11. Medi-Cal Comprehensive Perinatal Services Program. Recommend that prior to budget hearings, the department report on its plan to implement the Comprehensive Perinatal Services program. 497
12. ***Federal Maternal and Child Health Block Grant. Augment Item 4260-111-890 by $4 million.*** Recommend that the Legislature augment the Maternal and Child Health (MCH) budget by $4 million in federal MCH block grant funds. 499
13. Legislative Directive Regarding Fees. Recommend that prior to budget hearings, the department provide specified information regarding fees for the Neural Tube Defects and Newborn Screening programs. 500
14. California Children's Services. Recommend that in its May revision, the administration reconcile inconsistent estimates of the impact of the federal Immigration Reform and Control Act on California Children's Services program expenditures. 501
15. California Children's Services Program Response to Legislative Requests. Recommend that the administration provide, prior to budget hearings, (a) a work plan for each of its overdue projects and (b) its plan for ensuring compliance with future legislative requests. 502

16. ***Alternative Test Site Caseload. Reduce Item 4260-111-001 by $1 million and Item 4260-001-001 by $69,000.*** Recommend deletion of funds requested for additional tests at alternative test sites because workload projections appear to be too high. 506
17. County Testing Programs. Recommend that the department report prior to budget hearings on reasons for differences in county ATS programs, and whether differences are a result of problems with access to testing for high-risk populations. 507
18. Budgeting Practices for AIDS Testing. Recommend that prior to budget hearings, the department submit information on the budget for AIDS-related laboratory testing. 508
19. Homeless Proposal. Recommend that prior to budget hearings, the department submit a plan regarding its pilot project for homeless persons with AIDS and AIDS-related complex. 511
20. ***Special Studies Funds. Reduce Item 4260-111-001 by $125,000.*** Recommend deletion of funds budgeted for special studies because the Office of AIDS has no plans to use the funds. 512
21. Pediatric AIDS Funds. Recommend that the department report prior to budget hearings on its plans to spend funds budgeted for pediatric AIDS. 512
22. San Francisco General Hospital AIDS Research Center. Withhold recommendation on $4.8 million from the Special Account for Capital Outlay proposed for the final construction phase of the center pending receipt of additional information regarding the proposal. 513
23. Laboratory Certification Fees. Recommend enactment of legislation requiring the department to adopt regulations that increase fees for hazardous materials laboratory certification to cover program costs. 514
24. Laboratory Space. Withhold recommendation on $3.1 million and 32.5 positions requested for expanding the hazardous materials laboratory, pending decisions on where the additional positions will be located and when the new space will be available. 514
25. ***Site Mitigation Activities. Reduce Item 4260-001-014 by $577,000 and Increase Item 4260-001-710 by $577,000.*** Recommend reduction of funds in the Hazardous Waste Control Account and corresponding increase in bond funds, in order to use the appropriate funding source for site mitigation activities. 515
26. Drinking Water Standards. Recommend the department report prior to budget hearings on the performance and future resource needs of its drinking water standards program. 516
27. ***Shellfish Monitoring. Reduce Item 4260-001-001 by $508,000 and Increase Reimbursements by $508,000.*** Recommend reduction from the General Fund and a corresponding increase in reimbursements from the Fish and Game Preservation Fund in order to use the appropriate funding source for the shellfish monitoring program. 517

DEPARTMENT OF HEALTH SERVICES—Continued

28. Nuclear Response Proposals. Recommend that the administration submit prior to budget hearings information related to the planning and implementation of the final two phases of the state nuclear response plan. 518
29. Cancer Registry Program Expansion. Withhold recommendation on $1.4 million proposed for expansion of the cancer registry program because the administration failed to provide the information necessary to evaluate the proposal in a timely manner. 519
30. Vaccine Purchase. Recommend that the administration provide, prior to budget hearings, an explanation of how it proposes to obtain $333,000 for vaccine purchases from Older Americans Act funds. 520

Toxic Substances Control

31. Hazardous Waste Control Account (HWCA). Recommend that prior to budget hearings, the division report on its plan for addressing the current-year shortfall and potential future-year shortfalls. 523
32. ***Training Request. Reduce Item 4260-011-014 by $248,000 and Item 4260-011-710 by $152,000.*** Recommend deletion of funds requested for employee training because the need for funding has not been substantiated. 524
33. Technical Support Contract. Withhold recommendation on $300,000 in contract funds pending receipt of justification for the request. 524
34. ***Emergency Response and Chemical Information Program. Reduce Item 4260-011-455 by $178,000.*** Recommend deletion of funds requested for federally mandated program because the budget proposes to fund the program with fee revenue rather than state funds. 525
35. ***Treatment Standards Program. Reduce Item 4260-011-014 by $147,000.*** Recommend a reduction of 2.5 positions and $147,000 requested for evaluation of treatment standards because the request is premature. 525
36. Federally Funded Positions. Recommend adoption of Budget Bill language prohibiting the division from redirecting 64.5 federally funded positions to other activities. 525
37. ***Hazardous Waste Planning Program. Reduce Item 4260-011-014 by $444,000.*** Recommend reduction of funds in the Hazardous Waste Planning program to eliminate overbudgeting. 526
38. Funding Delayed for Site Mitigation. Recommend that the division report at budget hearings on how it intends to support site characterization and mitigation costs in light of the fact that new bond funds will not be available before November 1988. 527
39. Bond Expenditures for Site Mitigation. Withhold recommendation on $21,218,000 requested for site mitigation, pending receipt of overdue reports concerning proposed bond act expenditures. 528
40. Responsible-Party Collections Program. Withhold recommendation on $222,000 and four positions requested to 529

recover costs from responsible parties, pending review of specified information concerning implementation of the cost recovery program.

41. Cost Analysis of Site Mitigation Task Orders. Recommend the division provide prior to budget hearings (a) its justification for conducting a cost analysis on only 3 percent of site mitigation task orders and (b) additional information on the proposed cost analysis program. 530
42. Underground Tank Program. Withhold recommendation on \$7.5 million requested, pending receipt of specified information. 531

Medi-Cal

43. Medi-Cal Estimates. Withhold recommendation on funds requested for local assistance, pending review of the May revision of expenditure estimates. 535
44. Unfunded 1988-89 Medi-Cal Program Costs. Recommend that in its May revision of expenditure estimates, the department (a) incorporate estimates of costs resulting from long-term care cost-of-living adjustments (COLAs) and the minimum wage increase and (b) document the basis for the savings estimate associated with its insurance recoveries proposal. 540
45. Immigration-Related Proposals. Withhold recommendation on funds proposed for immigration-related changes pending legislative action on the administration's implementation proposal. Further recommend that in the May revision the administration address problems identified in its funding estimates. 541
46. Explanation of Fiscal Intermediary Costs. Recommend that the department develop an improved format to explain and display fiscal intermediary costs in future Medi-Cal estimates. 550
47. Data on Fiscal Intermediary Performance. Recommend that the Legislature adopt supplemental report language requiring the department to report on how the transition to the new fiscal intermediary is proceeding. 551
48. ***Managed Care Proposal. Reduce Item 4260-001-001 by \$1,151,000 and Item 4260-001-890 by \$151,000.*** Recommend deletion of \$1,302,000 (\$1,151,000 General Fund) and 10 positions for development of an organized health care delivery system in San Diego County because the proposal is premature. Withhold recommendation on funds for primary care case management (PCCM) and modified PCCM proposals pending receipt of information. 556

DEPARTMENT OF HEALTH SERVICES—Continued

Department of Health Services
Table of Contents

GENERAL PROGRAM STATEMENT

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

The department has 4,548.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $8.1 billion from all funds for support of Department of Health Services programs in 1988-89, which is an increase of $537 million, or 7.1 percent, above estimated current-year expenditures.

Table 1 shows the proposed budget, by program category, for 1988-89 and the two previous years.

Table 1
Department of Health Services
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

Expenditures	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change From 1987-88 Amount*	*Change From 1987-88 Percent*
State operations					
Support—excluding toxics	$245,633	$296,186	$304,569	$8,383	2.8%
Support—toxics	42,706	123,884	139,642	15,758	12.7
Subtotals	($288,339)	($420,070)	($444,211)	($24,141)	(5.7%)
Special projects	166,764	215,142	264,206	49,064	22.8
Public health local assistance	1,133,651	1,186,611	1,229,036	42,425	3.6
Medi-Cal local assistance	5,312,679	5,701,132	6,122,059	420,927	7.4
Totals	$6,901,433	$7,522,955	$8,059,512	$536,557	7.1%
Funding sources					
General Fund	*$3,812,523*	*$4,120,976*	*$4,314,758*	*$193,782*	*4.7%*
Federal funds	*2,979,314*	*3,199,114*	*3,492,888*	*293,774*	*9.2*
Hazardous Substance Cleanup	*8,922*	*54,993*	*60,884*	*5,891*	*10.7*
Hazardous Substance Cleanup (prior-year adjustment)	*−23,934*	—	—	—	—
Hazardous Substance Account	*17,495*	*14,816*	*16,625*	*1,809*	*12.2*
Hazardous Waste Control Account	*27,083*	*34,160*	*44,683*	*10,523*	*30.8*
Genetic Disease Testing Fund	*20,235*	*22,943*	*23,089*	*146*	*0.6*
County Health Services	*2,450*	*2,450*	*2,450*	—	—
Local Health Capital Expenditure Account	*15*	*146*	*160*	*14*	*9.6*
Reimbursements	*49,173*	*51,714*	*88,266*	*36,552*	*70.7*
Other funds	*8,157*	*21,643*	*15,709*	*−5,934*	*−27.4*

The largest budget change proposed for 1988-89 is an increase of $284.1 million ($143.2 million General Fund) for Medi-Cal caseload and cost adjustments.

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes expenditures for department support—excluding toxics—of $304.6 million (all funds) in 1988-89. These expenditures account for 3.8 percent of the department's budget. The Toxic Substances Control Division has its own budget item, and support for that division is discussed separately. (Please see Section 4.)

The department proposes 3,988.2 personnel-years in the budget year (excluding those assigned to toxics and special projects), an increase of 193.4 personnel-years above the number authorized for the current year. Table 2 shows the expenditures and personnel-years proposed for department support by major program category.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 2
Department of Health Services Support—Excluding Toxics
Expenditures and Personnel-Years—All Funds
1986-87 through 1988-89
(dollars in thousands)

Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change From 1987-88 Amount*	*Change From 1987-88 Percent*
Expenditures					
Public health	$104,094	$135,394	$127,010	−$8,384	−6.2%
Medical assistance	59,332	63,380	69,131	5,751	9.1
Licensing and certification	19,169	22,423	31,370	8,947	39.9
Audits and investigations	17,180	18,823	19,819	996	5.3
Administration and Director's office	45,858	58,502	60,227	1,725	2.9
Subtotals	($245,633)	($298,522)	($307,557)	($9,035)	(3.0%)
Distributed departmental services (toxics)	—	−2,336	−2,988	−652	27.9
Totals	$245,633	$296,186	$304,569	$8,383	2.8%
Personnel-years					
Public health	1,269.6	1,380.1	1,456.4	76.3	5.5%
Medical assistance	945.8	1,013.5	1,032.7	19.2	1.9
Licensing and certification	227.6	289.5	385.2	95.7	33.1
Audits and investigations	352.9	359.0	361.7	2.7	0.8
Administration and Director's office	728.1	752.7	752.2	−0.5	−0.1
Totals	3,524.0	3,794.8	3,988.2	193.4	5.1%

Table 3 identifies the main components of the changes proposed in the department's support budget for 1988-89, excluding toxics and special projects. The request for 1988-89 is $8.4 million, or 2.8 percent, above estimated 1987-88 expenditures.

Table 3
Department of Health Services Support
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$132,146	$270,898
Adjustments, 1987-88		
1. Toxics transfer	—	−866
2. Chaptered legislation	10,736	15,989
3. Other adjustments		
a. Retirement reduction	−252	−411
b. AIDS (Section 15, 1987 Budget Act)	400	400
c. Proposition 65 (Section 23, 1987 Budget Act)	2,027	4,801
d. Allocation for employee compensation	1,880	3,310
e. Prior-year balance available, 1986 Budget Act	1,360	1,741
f. Increased federal fund authority for Licensing and Certification	—	2,295
g. Miscellaneous budget revisions	—	365
h. Distributed departmental services (toxics)	—	−2,336
1987-88 expenditures (revised)	($148,297)	($296,186)
1. Baseline adjustments		
a. Back out chaptered legislation	−10,736	−15,989
b. Back out prior-year balance	−1,360	−1,741

c. Back out 1987-88 budget revisions	—	–365
d. Expiration of limited-term positions	–558	–1,659
e. Full-year effect of 1987-88 costs	545	1,159
f. Price increase	1,312	2,392
g. One-time adjustments	–1,178	–1,569
h. AIDS vaccine research and development	—	–2,999
i. Small water systems	–1,472	–1,472
j. Health care options	–214	–428
k. Marketing mailers	—	75
l. Partial-year adjustment	–67	–160
m. Pro-rata adjustment	—	93
n. Parent locator services	—	10
o. Income Eligibility Verification System	—	47
p. Adjust distributed services (toxics)	—	–652
2. Miscellaneous adjustments		
a. Allocation for employee compensation	1,570	2,804
b. Salary savings adjustment	1,000	2,160
c. Federal funds to match 1 percent General Fund reduction	—	–686
d. Overhead/equipment fund shift	–143	318
3. Budget change proposals (including chaptered legislation)		
a. Public health	6,779	13,202
b. Medical assistance	2,919	5,556
c. Licensing and certification	4,922	7,504
d. Audits and investigations	–26	22
e. Administration and Director's office	420	761
1988-89 expenditures (proposed)	$152,010	$304,569
Change from 1987-88 expenditures (revised)		
Amount	$3,713	$8,383
Percent	2.5%	2.8%

Positions Will Have to be Kept Vacant

We recommend that during budget hearings, the department and the Department of Finance report on the reasons for, and the effects of, the department's 1988-89 salary savings proposal.

The budget proposes $2.2 million ($1 million General Fund) to reduce the department's salary savings rate. The department's salary savings rate is 9.6 percent in the current year. Without any adjustments, the department reports that its salary savings rate would rise to 11.4 percent in 1988-89 as a result of (1) the administration's failure to fund merit salary adjustments and (2) hiring new positions above the minimum step, particularly in scientific and technical classifications. The funding increase proposed in the budget allows the department to operate at a 10.3 percent salary savings rate.

The term "salary savings" refers to personal services costs for authorized positions that are not incurred. "Natural" salary savings can arise for two reasons. First, the cost of salaries and benefits may be "saved" because authorized positions are vacant, due to unintended delays in filling vacated or new positions and delays in implementing new programs. Second, salary savings may result when positions are filled with personnel who are paid lower salaries than their predecessors received. Salary savings can also be forced. This occurs when an agency must hold authorized positions vacant in order to achieve a budgetary target.

Requirements are Artificially High. Our analysis indicates that the department's current salary savings requirements are artificially high and

DEPARTMENT OF HEALTH SERVICES—Continued

that the savings have to be forced. To meet the current year's 9.6 percent salary savings rate, in fact, the department reports that it has been required to delay filling vacant and new positions. Among the positions not filled during the first half of 1987-88 are new positions budgeted for the Office of AIDS, implementation of Proposition 65, and Licensing and Certification Division inspections of long-term health care facilities. In addition to these areas, the department indicates that it has also been required to keep positions vacant in other parts of the department, resulting in backlogs and the reduction of auditing and other oversight activities.

Additional evidence that the department's salary savings are forced comes from looking at salary savings rates of other departments. Table 4 shows that other departments of state government have salary savings rates varying from 4.1 to 8.5 percent, which are well below the 10.3 percent that is proposed for the Department of Health Services in 1988-89.

Table 4
Department of Health Services
Salary Savings Rates Budgeted
For Various Departments
1988-89

Department	*Salary Savings Rate*
Finance	4.1%
Employment Development	4.5
Education	5.1
Rehabilitation	6.0
Justice	6.1
Mental Health	7.1
Social Services	7.2
General Services	8.5

The Department's Budget-Year Strategy. Table 5 shows how the department plans to distribute salary savings among its major programs to achieve its salary savings goal. As Table 5 indicates, the salary savings rate is expected to increase in 9 of 15 program categories in 1988-89. Increases are especially large in the Medi-Cal policy, family health, and laboratories divisions.

Comments. The purpose of the salary savings adjustment is to avoid overbudgeting, not to artificially reduce expenditures and personnel-year counts. Consequently, we believe the salary savings amount should be based on the best available estimate of natural salary savings.

We have no basis for determining what the natural salary savings rate is for the department. This rate will tend to vary over time as personnel system requirements change, as the department requires more staff with particular technical expertise, as private-sector jobs become easier or more difficult to obtain, as state salaries become more or less competitive. The department's natural salary savings rate, however, appears to be lower than the current and proposed salary savings requirements.

The department's salary savings requirements have resulted in delays in implementing Proposition 65 and new programs in the Office of AIDS during the current year. It has also resulted in delays in filling positions that perform licensing and certification reviews of health facilities. It is

Table 5
Department of Health Services
Estimated Salary Savings Rate
By Division
1987-88 and 1988-89

Program	*Est. 1987-88*	*Prop. 1988-89*
Administration	2.1%	4.0%
Director's Office	14.1	4.9
Medi-Cal Reprocurement project	29.0	6.3
Office of AIDS	16.2	9.1
Family health	6.5	9.4
Office of Health Systems Financing	8.5	9.9
Licensing and certification	10.4	10.1
Environmental health	9.1	10.8
Rural and community health	10.2	11.2
Fiscal intermediary management	13.8	11.8
Medi-Cal policy	6.5	12.0
Medi-Cal operations	11.1	12.2
Audits and investigations	13.3	12.3
Laboratories	10.3	12.4
Preventive medical services	11.0	12.6
Totals	9.6%	10.3%

likely that the salary savings rate proposed for 1988-89 will have similar or greater effects. A 1 percent reduction in the department's salary savings rate would require an augmentation of $1.5 million ($750,000 General Fund).

Due to the likely adverse impact the salary savings rate proposal will have on the ability of the department to operate its programs, we recommend that the Departments of Health Services and Finance explain during budget hearings (1) the reasons for increasing the department's salary savings rate in 1988-89, (2) how the DHS proposes to implement the plan without adversely affecting new programs such as Proposition 65 and AIDS, and high-priority program expansion such as in licensing and certification, (3) the specific reasons why the administration has selected certain programs for larger salary savings, and (4) the effect on the various programs of requiring them to meet such high salary savings levels.

Fee Adjustments Should Reflect Budget Proposal

We recommend that the Legislature amend the Budget Bill to correct amounts contained in proposed language establishing various departmental fees. (General Fund revenue increase of $778,000.)

Under current law, annual licensing fees for hospitals and long-term care facilities and fee adjustments for other types of health facilities licenses, laboratory licenses, and various public health programs are set in the Budget Act based on formulas specified in statute. The 1988 Budget Bill includes language for this purpose.

Our analysis indicates that the fees and fee adjustments proposed in the Budget Bill are incorrect because they are based on the budget for the current year. We calculated the fees and fee adjustments based on the 1988-89 budget, as required by statute. Table 6 displays the proposed fees/fee adjustments and our recommendations.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 6
Department of Health Services
Fees and Fee Adjustments
1988 Budget Bill and Analyst's Recommendations

Fee	*1988 Budget Bill*	*Analyst's Recommendation*
Hospitals	$16.99	$18.55
Long-term care facilities	$79.01	$83.64
Various health facilities (Health and Safety Code Section 115(a))	31.9%	45.6% (effective 7/1/88 [a])
Biomedical laboratory (Health and Safety Code Section 116(a))	5.9%	5.0%
Public health (Health and Safety Code Sections 113(a) and 114(a))	4.3% plus 0.56% for each 1% increase in salaries and wages	1.9% plus 0.51% for each 1% increase in salaries and wages

[a] Chapter 561, Statutes of 1987, revised the effective date for these fees.

We recommend that the Legislature amend the Budget Bill to reflect these revised amounts. We will advise the Legislature if any additional changes are needed as a result of legislative actions on the budget.

The effect of this recommendation is to increase General Fund revenue by at least $778,000 in 1988-89.

2. LICENSING AND CERTIFICATION

The Licensing and Certification program develops, implements, and enforces state standards to promote quality health care in over 5,000 hospitals, clinics, long-term care facilities, home health agencies, and adult day health centers. In addition, the program performs certification reviews for the federal government at facilities that seek to qualify for Title XVIII (Medicare) or Title XIX (Medi-Cal) funding. Program activities related to Medicare certifications are 100 percent federally funded. Activities related to Medi-Cal certifications are approximately 67 percent federally funded. Activities related solely to licensing are funded 100 percent from the General Fund. Health facility licensing fees are assessed to reimburse the General Fund costs of the division.

The budget proposes expenditures of $34.8 million ($18.5 million General Fund) for support of the Licensing and Certification program (including administrative overhead) in 1988-89. This is an increase of $8.6 million, or 34 percent, above estimated current-year expenditures.

The division has 289.5 personnel-years in the current year. The budget proposes an increase of 95.7 personnel-years, or 33 percent, in the budget year.

Funding Ratios Incorrect

We recommend an increase of $1,072,000 from the General Fund and a reduction of $1,072,000 in federal funds to fully fund the General Fund's share of this program's costs. (Increase Item 4260-001-001 and reduce Item 4260-001-890.)

Our analysis indicates that the level of General Fund support proposed for the Licensing and Certification Division is substantially below what is needed to operate the program. To correctly fund the division's budget requires an increase of $1,072,000 from the General Fund with a corresponding reduction in federal funds.

Current-Year Funding Problems. In our review of the proposed budget for 1987-88, we identified problems in funding of the Licensing and Certification Division. Specifically, recent data on claiming for federal funds indicated that the proportion of the division's costs that was being charged to the federal government was lower than anticipated in the budget. To avoid program reductions that would result from funding imbalances, the Legislature augmented General Fund support of the division and reduced federal support. As a result of the Legislature's actions, the budget as signed included $3.1 million more from the General Fund than was originally proposed and assumed that the funding ratios for the division would be 58 percent General Fund and 42 percent federal funds.

However, in connection with approving additional funds for licensing and certification, the Governor imposed an unallocated General Fund reduction of $2.3 million on the department as a whole. The department then allocated this department-wide reduction entirely to the Licensing and Certification Division. (To keep the division's total budget the same as originally planned, the department plans to request a $2.3 million increase in the division's federal spending authority during the current year through the Section 28 process.) Consistent with these changes, the budget reflects funding ratios of 49 percent General Fund and 51 percent federal funds in the current year.

The department indicates that it allocated the General Fund reduction entirely to the division because the division planned to make changes in its claiming for federal funds that would reduce its need for General Fund support. Based on our review of claiming reports, however, the actual increase in the division's claiming for federal funds has not been substantial enough to make up the entire $2.3 million General Fund reduction. Specifically, our analysis indicates that the division is currently claiming federal funds for 48 percent of its program costs. The department was not able to identify any additional measures that would increase the claiming for federal funds above this level.

Consequently, if the division's overall expenditures were to remain at the estimated levels, the division would have a General Fund shortfall of approximately $1.1 million in the current year. The department indicates, however, that the division's overall expenditures will be lower than estimated because delays in filling new positions, coupled with vacancies in existing positions, have resulted in the division achieving salary savings above the budgeted level. If the division's current rates of expenditures and federal claiming continue, the General Fund shortfall in the current year is likely to be only $500,000.

Budget Year. The baseline budget for 1988-89 is based on continuing the funding ratios assumed in the current year. (New proposals are funded differently depending on the proposal.) Based on current claiming patterns, these funding ratios do not reflect the actual General Fund requirements for operating the program. We estimate that the General Fund amount needed for operating this program is $1,072,000 higher than provided in the budget.

Again, the department has not been able to identify any additional measures that would increase the claiming for federal funds enough to avoid this General Fund shortfall.

DEPARTMENT OF HEALTH SERVICES—Continued

We recommend providing the correct funding level for this program based on two major considerations. First, failure to fully fund the General Fund share of the costs of this program could require the department to (1) reduce existing licensing and certification activities, (2) delay filling new positions requested in the budget year for the division, (3) reduce other department activities to free-up General Fund monies for licensing and certification, or (4) incur a General Fund deficiency.

Second, failure to fully fund the General Fund share of the costs of this program could jeopardize General Fund fee revenues in subsequent years. This is because health facilities are assessed a licensing fee that is intended to recoup the General Fund costs of the program, and calculation of the fee levels is based on the midyear projections of General Fund costs for the program. To the extent that the General Fund costs are underestimated at midyear based on an inaccurate budget, the license fees will not be sufficient to recoup the actual General Fund costs of the program.

Therefore, consistent with the Legislature's action last year to fully fund the General Fund's share of this program's cost, we recommend an increase of $1,072,000 from the General Fund and a decrease of the same amount in federal funds.

Department Enforcement of "Patient Dumping" Legislation

We recommend approval.

The budget proposes $1.7 million ($782,000 General Fund) and 22 positions to implement legislation regarding inappropriate transfers of emergency room patients, or "patient dumping" (Ch 1240/87 and Ch 1225/87). "Patient dumping" occurs when a hospital emergency room refuses to treat a patient because of the patient's inability to pay for services and transfers the patient to another hospital for treatment. If a patient is not stabilized prior to transfer, his or her condition can be seriously threatened.

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

The 22 positions would investigate the complaints that will result either from notifications by hospital personnel or from the signs in the emergency rooms. The proposal is based on the following assumptions regarding workload:

- One out of every 10,000 emergency room visits will result in a complaint that an inappropriate patient transfer occurred. This would result in 710 additional complaints a year.
- Patient transfer complaints will take twice as long for the department to investigate as other complaints because there will always be at least two hospitals involved.
- Patient transfer complaints will have to be investigated by doctors, rather than by nurses, because the relevant issues will be related to determining appropriate medical judgment.

- The federal Office of the Inspector General (OIG), which is responsible for enforcement of similar federal legislation, will provide federal funds at the same level as the federal Health Care Financing Administration currently provides for hospital complaints.
- Posting of signs in emergency rooms will not result in a significant number of complaints that are unrelated to patient transfers.

The actual costs associated with this legislation may be significantly different than anticipated by the department. For example, this legislation and early enforcement efforts may provide a sufficient deterrent to hospitals that the number of patient dumping complaints would be much smaller than assumed. On the other hand, patient dumping complaints may be so complex that the department's estimate understates the amount of time required for investigation. It will be impossible to validate the proposal's workload assumptions until the enforcement program is implemented.

While the department's assumptions cannot be validated yet, they seem to be a reasonable place to start. Furthermore, the department is currently in the second year of a three-year staffing increase resulting from a recently completed workload study. If the department has overestimated the need for surveyors to enforce this legislation, the surveyors can be used to meet other workload needs. During the third year of the staffing increase, the department should have some experience with enforcement of this legislation so that appropriate adjustments can be made at that time.

Because the department's assumptions seem reasonable, we recommend approval.

Surveyors Overbudgeted

We recommend that the Legislature delete $959,000 ($764,000 General Fund) and 20.5 positions to correct overbudgeting for licensing and certification surveyor positions. (Reduce Item 4260-001-001 by $764,000 and Item 4260-001-890 by $195,000.)

The budget proposes $4,011,000 ($2,351,000 General Fund) and 71 positions to implement the second phase of a three-year program to increase the division's staff in line with a workload study completed in March 1987. The department's proposed staffing increases are consistent with its workload study. Accordingly, we recommend approval.

We identified two technical problems with the department's proposal, however. First, the department has included 20.5 positions of the 71 positions in its budget twice. These 20.5 positions are existing limited-term positions that expire at the end of the current year. The budget proposes to add the 20.5 positions and associated funds on a permanent basis. However, a technical error was made in the adjustments for expiring limited-term positions, and the positions and funding were never deleted. Consequently, the positions are double-funded.

Second, the funding ratio for the proposal is incorrect. The proposal is funded with 29 percent federal funds. The division is currently receiving federal funds for 48 percent of its costs for surveys. Consequently, the General Fund amount is too high and the federal funds amount is too low.

To correct the double-funding and to make funding ratios consistent with current claiming for federal funds, we recommend a reduction of $959,000 ($764,000 General Fund).

DEPARTMENT OF HEALTH SERVICES—Continued

Interdepartmental Contracts Overbudgeted

We recommend a reduction of $93,000 ($58,000 General Fund) to correct technical errors in budgeting interdepartmental contracts. (Reduce Item 4260-001-001 by $58,000 and Item 4260-001-890 by $35,000.)

We identified two problems with budgeting for interdepartmental contracts.

Attorney General. The budget proposes an increase of $1.3 million (General Fund) to the department's contract with the Attorney General for legal services relating to citations issued to health facilities. Part of this increase is to provide additional attorney and paralegal time for backlogged cases. The Attorney General's Office has conducted a time study and developed a workload standard for handling citations referred by the department. However, the increase requested to handle backlogged cases does not correspond to the standard. In order to reflect the correct application of the workload standard, we recommend that the Legislature reduce the department's budget by $46,000 (General Fund).

State Fire Marshal. The budget proposes an increase of $118,000 ($28,000 General Fund) to the department's contract with the State Fire Marshal (SFM) for life and safety inspections of health facilities. However, the SFM's budget proposed an increase in reimbursements from the DHS of only $71,000. Because neither the SFM nor the department has justified the higher level of reimbursement, we recommend that the Legislature reduce the department's contract item by $47,000 ($12,000 General Fund).

3. PUBLIC HEALTH

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

1. The *Rural and Community Health Division* (a) distributes funds appropriated by AB 8 (Ch 282/79) to local health agencies, (b) distributes funds to counties for care of medically indigent persons, (c) administers the Rural Health, Primary Care, Indian Health, and Farmworker Health programs, and (d) administers subvention programs and provides technical assistance in funding matters to local health departments.

2. The *Family Health Services Division* addresses the special needs of women and children through the Family Planning, Genetically Handicapped Persons', Maternal and Child Health (MCH), California Children's Services, Genetic Disease, and Child Health and Disability Prevention programs.

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

4. The *Preventive Medical Services Division* is responsible for (a) preventing and controlling infectious and chronic disease, (b) conducting epidemiological studies, including examining the health effects of toxics in the environment and the workplace, and (c) identifying unmet public health needs.

5. The *Laboratory Services Division* maintains two state laboratories that provide assistance to state programs which require specialized

laboratory services. In addition, the division regulates other public and private biomedical laboratories to ensure the provision of high-quality services within the state.

6. The *Environmental Health Division* operates programs to protect public health by controlling food, drugs, water supplies, vectors, noise, and unnecessary exposure to ionizing radiation.

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

Budget Proposal

Department Support. The budget proposes $140.3 million for department support attributable to public health programs in 1988-89. (This amount excludes funding for special projects.) The requested amount is $8 million, or 5.4 percent, less than estimated current-year expenditures for department support. Table 7 displays staffing and operating support for each public health program in the current and budget years.

Table 7
Department of Health Services
Public Health Support
Budget Summary—All Funds
1986-87 through 1988-89
(dollars in thousands)

	Personnel-Years				*Expenditures*			
Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Rural and community health	201.5	206.8	204.3	−1.2%	$12,560	$17,798	$17,832	0.2%
Family health services	210.6	211.3	206.1	−2.5	21,868	23,154	22,887	−1.2
AIDS	36.9	67.5	95.9	42.1	4,379	17,911	5,625	−68.6
Preventive medical services	174.9	201.6	213.7	6.0	22,446	27,983	31,685	13.2
Environmental health	268.7	312.1	319.9	2.5	20,351	26,189	22,930	−12.4
Laboratory services	377.0	380.8	416.5	9.4	33,999	35,241	39,307	11.5
Subtotals	(1,269.6)	(1,380.1)	(1,456.4)	(5.5%)	($115,603)	($148,276)	($140,266)	(−5.4%)
Special projects	238.1	401.2	493.5	23.0	162,856	215,142	264,206	22.8
Totals	1,507.7	1,781.3	1,949.9	9.5%	$278,459	$363,418	$404,472	11.3%

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

- Implement and expand support for research, education, treatment, and testing programs within the Office of AIDS ($1.7 million General Fund).
- Expand implementation of the statewide cancer reporting system as required by Ch 841/85 ($1.5 million General Fund).
- Expand the Birth Defects Monitoring program as required by Ch 1197/87 ($1.4 million General Fund).
- Increase laboratory support for the Toxic Substances Control Division ($3 million Hazardous Waste Control Account).
- Increase epidemiological and risk assessment support for the Toxic Substances Control Division ($2 million Hazardous Waste Control Account).

The major reductions in department support reflect:

DEPARTMENT OF HEALTH SERVICES—Continued

- Elimination of funds available in the current year as a result of chaptered legislation ($15.6 million all funds). For the most part, these funds are AIDS-related, including funds for anonymous testing (Ch 23/85) and AIDS vaccine research and clinical trials (Ch 1462/86 and Ch 1463/86).
- Elimination of a one-time appropriation for water quality testing of small domestic water systems ($1.5 million General Fund).

Table 8 details the budget changes proposed for each public health program in 1988-89.

Table 8
Department of Health Services
Public Health Support
Proposed 1988-89 Budget Changes
(dollars in thousands)

	Positions	*General Fund*	*All Funds*
1987-88 expenditures (Budget Act)	1,489.2	$80,775	$126,458
Adjustments, 1987-88:			
Family health			
Early intervention	1.0	—	26
One-time federal funds for malpractice insurance in clinics	—	—	306
Office of AIDS			
Section 15.00, AIDS	7.0	400	400
Review and approval of drugs for AIDS	—	—	−500
Reappropriation, San Francisco General Hospital	—	1,360	1,360
Preventive medical services			
Section 23.00, Proposition 65	18.0	1,136	1,328
Environmental health			
Section 23.00, Proposition 65	13.5	554	554
Review and approval of drugs for AIDS	4.0	—	417
Nuclear emergency response	2.5	—	102
Low-level radioactive waste	—	—	75
Laboratories			
Section 23.00, Proposition 65	8.5	144	543
Reappropriation related to facility lease	—	—	381
Chaptered legislation	—	10,192	15,587
Administrative adjustments	3.0	945	1,239
1987-88 expenditures (revised)	(1,546.7)	($95,506)	($148,276)
Adjustments, 1988-89:			
Family health			
Newborn screening program enhancement	1.0	—	—
Early intervention	—	—	36
Delete one-time federal funds for malpractice insurance	—	—	−306
Infant death causes	—	−100	−100
Office of AIDS			
AIDS equipment augmentation	—	−70	−70
AIDS vaccine research and development	—	—	−2,999
Conversion of limited-term to permanent positions	3.0	489	489
AIDS Medi-Cal waiver	8.0	291	605
Special studies (AIDS)	10.0	575	575
Anonymous testing	1.0	69	69
Confidential testing	1.0	69	69
Education and prevention	6.0	323	323
AIDS cost of care study	—	−200	−200
Delete reappropriation	—	−1,360	−1,360

Preventive medical services			
Statewide cancer reporting system	—	1,448	1,448
Influenza and pneumococcal vaccine	—	—	333
Birth defects monitoring	—	1,353	1,353
Air toxic hot spots	2.0	—	109
Epidemiological/risk assessment support of toxics	16.5	—	1,949
Pneumococcal vaccine pilot program	—	−152	−152
Environmental health			
Low-level radioactive waste	4.0	—	165
Shellfish monitoring	3.0	237	237
Radiation materials and machine control	7.0	281	281
Nuclear emergency response	—	—	97
Imported processed food survey	4.0	160	160
Review and approval of drugs for AIDS	—	420	85
Small water systems	—	−1,472	−1,472
Toxic art supplies	—	−2	−2
Laboratories			
Shellfish monitoring	2.0	108	108
Contaminant survey imported processed food	5.5	337	337
AIDS special laboratory studies	7.0	598	598
Lab services for State Water Resources Control Board	4.0	—	167
Lab services for Toxic Substances Control Division	32.5	—	2,971
Analytical services one-time equipment	—	—	−80
Indoor air asbestos	—	−400	−400
Delete reappropriation	—	—	−381
Miscellaneous adjustments	0.5	−59	−187
Back out chaptered legislation	—	−10,192	−15,587
Administrative adjustments	−7.5	1,503	2,720
1988-89 expenditures (proposed)	1,657.2	$89,760	$140,264
Change from 1987-88 (revised)			
Amount	110.5	−$5,746	−$8,012
Percent	7.1%	−6.0%	−5.4%

Local Assistance. The budget proposes $1.2 billion (all funds) in local assistance for public health services in 1988-89. This represents an increase of $42.4 million, or 3.6 percent, above estimated current-year expenditures. Table 9 presents local assistance expenditures, by program, for 1986-87 through 1988-89.

The changes proposed for local assistance are primarily due to:

- A statutory cost-of-living adjustment for the County Health Services (AB 8) program ($24.3 million).
- Caseload cost and population adjustments for various programs ($17.1 million from the General Fund).

Table 10 reflects proposed budget changes affecting local assistance expenditures in 1988-89.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 9
Department of Health Services
Public Health Local Assistance
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

	Fund	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change from 1987-88 Amount*	*Percent*
A. Family health						
1. Family planning	General	$34,155	$34,155	$34,155	—	—
2. Maternal and child health	All	30,070	30,725	30,177	−$548	−1.8%
3. Genetically handicapped persons	All	7,114	7,641	8,352	711	9.3
4. California children's services	All	56,653	60,879	65,294	4,415	7.3
5. Child health and disability prevention	General	15,262	19,207	21,215	2,008	10.5
6. Genetic disease prevention	General	1,662	1,679	1,679	—	—
Subtotals	All	($144,916)	($154,286)	($160,872)	($6,586)	(4.3%)
B. Rural and community health						
1. Primary health care	General	$9,567	$9,458	$9,355	−$103	−1.1%
2. County health services	All	962,345	972,018	1,006,410	34,392	3.5
3. Vital records improvement project	All	—	520	520	—	—
Subtotals	All	($971,912)	($981,996)	($1,016,285)	($34,289)	(3.5%)
C. AIDS	All	9,177	41,313	42,897	1,584	3.8
D. Preventive medical services	General	7,646	9,016	8,982	−34	−0.4
Totals	All	$1,133,651	$1,186,611	$1,229,036	$42,425	3.6%
Funding sources						
General Fund		*$1,106,999*	*$1,151,001*	*$1,196,654*	*$45,653*	*4.0%*
Federal funds		*23,460*	*31,644*	*23,460*	*−8,184*	*−25.9*
Family repayments		*742*	*996*	*1,152*	*156*	*15.7*
County Health Services Fund		*2,450*	*2,450*	*2,450*	—	—
Special Account for Capital Outlay		—	—	*4,800*	*4,800*	[a]
Vital Records Improvement		—	*520*	*520*	—	—

[a] Not a meaningful figure.

Table 10
Department of Health Services
Public Health Local Assistance
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$1,135,452	$1,162,632
Baseline adjustments, 1987-88:		
1. Mono County (Ch 1367/86)	103	103
2. Section 15.00, Budget Act (AIDS)	14,900	14,900
3. One-time federal funds for AZT	—	7,636
4. One-time federal funds for MCH block grant	—	548
5. Increased level of family repayments:		
a. California Children's Services program	—	150
b. Genetically Handicapped Persons' program	—	96
Subtotals	($15,003)	($23,433)
Caseload adjustments:		
1. California Children's Services program	214	214
2. Genetically Handicapped Persons' program	101	101
3. Child Health and Disability Prevention program	−567	−567
4. County Medical Services program	798	798
Subtotals	($546)	($546)
1987-88 expenditures (revised)	$1,151,001	$1,186,611

Baseline adjustments, 1988-89:		
1. Delete one-time federal AZT funding	—	−7,636
2. Reduce funds for San Francisco General Hospital AIDS research center	−5,700	−5,700
3. Delete one-time federal MCH block grant	—	−548
4. Increase anticipated family repayments:		
a. California Children's Services program	—	150
b. Genetically Handicapped Persons' program	—	6
5. Delete one-time augmentation for pneumococcal vaccine	−141	−141
6. Delete Mono County funds	103	103
Subtotals	(−$5,944)	(−$13,972)
Caseload cost and population adjustments:		
1. California Children's Services program	4,265	4,265
2. Genetically Handicapped Persons' program	705	705
3. Child Health and Disability Prevention program	2,008	2,008
4. County Medical Services program	8,790	8,790
5. AB 8 local government relief	1,315	1,315
Subtotals	($17,083)	($17,083)
Cost-of-living adjustment:		
AB 8 local government relief	24,287	24,287
Program change proposals:		
1. Special studies (AIDS)	799	799
2. Anonymous testing (AIDS)	2,615	2,615
3. Confidential testing (AIDS)	2,000	2,000
4. Education and prevention (AIDS)	3,985	3,985
5. Homeless shelter (AIDS)	721	721
6. San Francisco General Hospital AIDS research center	—	4,800
7. Immunization assistance	107	107
Subtotals	($10,227)	($15,027)
1988-89 expenditures (proposed)	$1,196,654	$1,229,036
Change from 1987-88 (revised)		
Amount	$45,653	$42,425
Percent	4.0%	3.6%

A. RURAL AND COMMUNITY HEALTH

Immigration Reform and County Health Services

The Immigration Reform and Control Act (IRCA) of 1986 established a program to allow undocumented aliens who have lived in the United States for a long period of time to become legal residents. (Please see our discussion of issues related to the IRCA in Part Three of *The 1988-89 Budget: Perspectives and Issues.*)

The IRCA and related legislation, the Omnibus Budget Reconciliation Act (OBRA) of 1986, contain three provisions having a major effect on county health services. First, under the IRCA, legalized aliens are eligible for Medi-Cal benefits. Second, the OBRA makes undocumented aliens eligible for emergency services through the Medi-Cal program. These Medi-Cal changes will reduce county costs to the extent counties currently serve these aliens. (Please see our discussion of the effect of immigration reform on Medi-Cal, part 5 of this analysis.) Finally, the IRCA appropriated State Legalization Impact Assistance Grant (SLIAG) funds for a four-year period to assist state and local governments in paying for health, welfare, and education costs associated with aliens legalized under the IRCA.

The administration proposes in Section 23.5 of the Budget Bill to allocate $67.6 million of SLIAG funds in 1988-89 to counties to pay for health care services to legalized aliens through county medically indigent

DEPARTMENT OF HEALTH SERVICES—Continued

services programs (MISPs). According to the department, the dollar amount proposed in the budget is based on its estimates of county costs for providing services to legalized aliens.

Under the budget proposal, SLIAG funds for county MISPs would be known as Legalized Indigent Medical Assistance (LIMA) funds. Under requirements of federal law, counties must serve legalized aliens as they serve other individuals eligible for their MISPs. However, for funding purposes, the DHS will treat LIMA as a separate program. This is because the existing MISP allocation formula is not appropriate for the LIMA funds and federal law requires more detailed tracking of expenditures than is currently required in county MISPs.

How the administration ultimately decides to implement the LIMA program will have implications for state and county funding relationships and service levels related to indigent health care services. Because of this, the Legislature may want to provide some direction to the administration in implementing this program. Below we raise three issues that we believe are of importance to the Legislature in deciding how it wants to allocate SLIAG funds.

1. *How will counties be affected by Medi-Cal changes?* The IRCA and OBRA impose restrictions on the type of benefits that legalized and undocumented aliens may receive under Medi-Cal. However, the state has the option of providing a full scope of Medi-Cal benefits to these individuals if it funds them using 100 percent state funds. In its proposal to implement the IRCA and OBRA mandates, the administration proposes to provide federally mandated services plus limited additional services through the Medi-Cal program. Counties would continue providing services that are not covered by Medi-Cal—specifically, nonemergency/nonpregnancy services for legalized aliens who are adults in families with dependent children and undocumented aliens.

The Legislature's decisions regarding Medi-Cal coverage of aliens will have a major effect on the level of funding counties need to provide services to aliens.

2. *Will counties be able to track services to legalized aliens?* Due to federal requirements, counties must be able to track services provided and costs attributable to legalized aliens in order to claim LIMA funds. After an initial allocation based on estimated numbers of legalized aliens, the DHS plans to allocate funds to counties based on monthly reports that would include documentation of legalized aliens served, services provided, and costs of providing services.

The 15 counties participating in the MISP data system will be able to slightly modify their systems to enable reporting to the DHS. These counties should have no problems tracking services and costs provided to them. Counties that do not participate in the MISP data system may have difficulties creating these tracking systems, particularly those with large numbers of legalized aliens utilizing services in county hospitals. These counties include Los Angeles, San Francisco, and Santa Clara.

Difficulties with tracking may result in federal audit exceptions. Counties will bear the costs of these audit exceptions. Audit exceptions may result in two problems. First, it may mean that LIMA funds had been misallocated because certain counties had received a larger portion of the LIMA funds than warranted. Thus, other counties would have been shortchanged. Second, if the audit exceptions are severe enough, they may force counties to reduce service levels thereby resulting in problems with access to health services.

The DHS does not appear to be planning any monitoring of county expenditures of LIMA funds. In light of the potential tracking problems, some state monitoring could minimize the two problems noted above.

3. *To what extent should counties be permitted to use SLIAG funds to supplant existing county funding for health care services?* Many counties have been providing services to undocumented persons all along. As some of these persons become legalized, counties may be able to pay for the services they provide with LIMA funds and Medi-Cal reimbursements, thereby freeing up county funds for other purposes. The counties' ability to supplant their existing funding of health services is limited to some extent due to matching requirements associated with state programs. The Legislature may wish to impose additional limits on counties' ability to supplant by requiring full or partial "maintenance of effort" as a condition of receiving LIMA funds. In deciding whether to impose such a requirement, the Legislature will have to make a difficult trade-off. This is because although in many counties there appear to be unmet needs for health services, counties are also under a fiscal "squeeze" to provide existing services (please see our discussion of the health services "safety net" in Part Three of *The 1988-89 Budget: Perspectives and Issues*).

We examined available data to determine to what extent counties would be able to use LIMA funds for supplanting county resources in light of existing state matching requirements. We conclude that it may be technically possible for counties to use a large portion of their SLIAG funds in this manner. Our analysis of this issue follows.

Counties Could Use SLIAG Funds to Support Existing Expenditures. County costs for indigent health care services are funded through the County Health Services (AB 8) program and the state MISP. Counties must match the state AB 8 funds in order to receive their total state funding allocation for AB 8 and MISP. Counties may budget a smaller matching amount if they are able to demonstrate efficiencies in their health services systems. Most counties, however, more than meet their matching requirements under AB 8. In fact, in 1987-88 counties report that they will "overmatch" their AB 8 requirements by about $190 million.

Because of AB 8 and MISP matching and funding requirements, counties will only have the ability to supplant up to the amount of their AB 8 overmatch. Any reductions in county spending after this point result in losses of state funding. Consequently, if the $67.6 million in LIMA funds were distributed exactly as the county overmatch were distributed, then counties would be able to use the LIMA funds to reduce their overmatch from $190 million to $122.3 million. Thus, under this scenario, counties would not be required to increase spending on health services to retain state funding.

However, the pattern of AB 8 overmatch is different from the distribution of legalized aliens and LIMA funds among counties. Table 11 compares estimated AB 8 county overmatch in 1987-88 and LIMA allocations for 1988-89. It shows the extent to which counties with the largest numbers of legalized aliens will have the ability to supplant county funds versus providing new services. The information in Table 11 is largely hypothetical, because the IRCA will cause a number of simultaneous changes in counties, which are difficult to account for. We

DEPARTMENT OF HEALTH SERVICES—Continued

used the following specific assumptions in developing these numbers:

- County estimates of expenditures in 1987-88 are reasonable predictors of actual expenditures in 1988-89.
- The actual LIMA allocations will be similar to the estimated allocations.
- Counties would provide more services rather than holding efficiency hearings or sacrificing state revenues.
- Counties will not need to expand their services in order to claim LIMA funds. In other words, counties are already providing services to aliens who become legalized. This assumption is not necessarily appropriate for all counties.
- New Medi-Cal revenues resulting from the IRCA and OBRA changes will not have a significant net effect on county costs.

Table 11
Department of Health Services
Estimated County Overmatch Under AB 8 and Allocations of Legalized Indigent Medical Assistance (LIMA) Funds
Selected Counties
(dollars in thousands)

		LIMA Allocations		
Counties With Over 5,000 Legalized Aliens	*Budgeted AB 8 Overmatch 1987-88*	*Estimated 1988-89*	*Available to Supplant County Funds*	*Not Available to Supplant County Funds*
Alameda	$16,364	$1,003	$1,003	—
Contra Costa	5,113	379	379	—
Fresno	−2,643	1,056	—	$1,056
Kern	8,132	660	660	—
Los Angeles	39,899	43,438	39,899	3,539
Monterey	2,081	1,056	1,056	—
Orange	3,752	5,215	3,752	1,463
Riverside	730	781	730	51
Sacramento	761	511	511	—
San Bernardino	5,033	1,199	1,199	—
San Diego	20,415	3,301	3,301	—
San Francisco	44,388	1,447	1,447	—
San Joaquin	2,289	377	377	—
San Mateo	6,943	681	681	—
Santa Barbara	NA	462	NA	NA
Santa Clara	9,908	1,716	1,716	—
Solano	NA	426	NA	NA
Tulare	2,412	594	594	—
Ventura	6,924	705	705	—
Totals	$172,501	$65,008	$58,011	$6,109

Table 11 shows that, based on these assumptions, counties may be able to supplant their overmatch significantly in 1988-89, rather than increasing expenditures. In our example, counties could supplant about one-third of their entire AB 8 county overmatch, or about $58 million. Only four counties would have to increase expenditures an aggregate of $6 million.

Funding Estimates Inconsistent

We recommend that as part of the May revision, the administration reconcile inconsistencies in funding of county health programs.

We have identified two problems with the estimates of costs related to legalized aliens. First, the administration's estimate of expenditures for nonemergency/nonpregnancy services provided to legalized aliens through county MISPs is inconsistent with the estimate it prepared in conjunction with projecting Medi-Cal costs. In preparing its Medi-Cal estimates, the administration projected that nonemergency/nonpregnancy services would cost $78 million in 1988-89. In preparing its estimates of MISP funding needs, however, it assumed counties would need only $7 million in SLIAG funds for this purpose. It is not clear why the administration believes that counties could provide the same services to IRCA aliens for less than 10 percent of the Medi-Cal costs. (It is also not clear whether the $7 million is included as part of the SLIAG funds actually proposed for allocation to counties.)

Second, the budget contains two different estimates for the costs of providing services to legalized aliens through the County Medical Services program (CMSP), which is the state-operated MISP for counties with populations under 300,000 that wish to participate. The estimates provided by the department cite costs of $6.2 million in 1988-89, to be funded by SLIAG reimbursements of a similar amount. However, Section 23.5 of the Budget Bill, which allocates SLIAG funds, proposes only $4.9 million for this purpose. The administration has not provided justification for either of these estimates.

We recommend that as part of the May revision, the administration reconcile these conflicting estimates.

B. FAMILY HEALTH SERVICES

Maternal and Child Health Branch

The Department of Health Services (DHS) administers several programs related to maternal and child health (MCH) through its MCH Branch and through the branch's contracts, numbering around 200, with local health providers, hospitals, and universities. Other programs related to maternal and child health are administered by other units in the DHS and also by the Department of Developmental Services and the Department of Education.

The budget proposes $30 million for local assistance and $3.5 million for support in 1988-89 for MCH Branch programs. This is virtually the same amount available to the branch in the current year, except that current-year expenditures include one-time-only federal funds totaling $548,000 in local assistance and $337,000 in support. Table 12 shows for each MCH Branch program the 1988-89 proposed local assistance budget and the estimated number of women or children served.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 12
Department of Health Services
Maternal and Child Health (MCH) Branch Services
1988-89
(dollars in thousands)

Local Assistance Programs	*Funding 1988–89*	*Projected Number of Contractors*	*Program Purpose*	*Estimated Size of Target Population*	*Number of Women or Children Served*	*Legislative Mandate*
Direct services						
Community-Based Perinatal Services (CBPS) program	$13,344	69	Provide comprehensive services for pregnant low-income women	48,000	31,000	Ch 1112/82
High-Risk Infant Follow-Up (HRIF) program	$2,065	15	Provide case management services for infants meeting specified high-risk criteria	40,000	5,200	Ch 396/81
Demonstration projects and research						
Diabetes in Pregnancy project	927	8	Develop guidelines for care of pregnant diabetic women	18,000	1,200	Health and Safety Code Section 300 et. seq.
Adolescent Family Life project	4,910	29	Provide case management services for pregnant adolescents and adolescent parents	157,000 to 250,000	4,400	Health and Safety Code Section 300 et. seq., 1985 Budget Act
Prematurity Prevention project	1,122	6	Identify factors linked to premature birth and develop guidelines for prevention	29,000	1,700	Health and Safety Code Section 300 et. seq.
Data management projects	1,002	4	Various projects; for example, one contractor is linking census data and birth data to identify areas with high needs	NA	NA	Health and Safety Code Section 300 et. seq.
County and regional coordination						
County allocation	1,942	48	Fund local MCH directors to coordinate perinatal services for low-income women	NA	NA	Health and Safety Code Section 300 et. seq.

County perinatal programs	599	48	Support general county MCH activities including perinatal services	NA	NA	Health and Safety Code Section 300 et. seq.
Medi-Cal Comprehensive Perinatal Services (CPS) program implementation	500	48	Support counties to recruit and screen physicians to provide comprehensive services to pregnant Medi-Cal recipients	110,000	6,800	Ch 1404/84
Perinatal Regionalization program	1,605	13	Work with providers on a regional basis to ensure that high-risk pregnant women are referred to the appropriate level of care	NA	NA	Ch 331/79
Infant Dispatch program	233	2	Locate bedspace for, and facilitate transport of, critically ill newborns	NA	NA	Ch 207/79
Special projects	1,928	3	Various projects; for example, one contractor provides dental services to children	NA	NA	Health and Safety Code Section 300 et. seq.
Total............	$30,177					
Funding sources						
General Fund.......	*$12,006*					
Federal funds.......	*$18,171*					

As shown in Table 12, the MCH Branch supports three categories of activities at the local level: (1) direct services, (2) demonstration projects and research, and (3) county and regional coordination. The branch has broad latitude in determining how to spend its funds. Generally, the MCH Branch's direct services programs and its demonstration projects target for service women who are at risk of suffering a poor pregnancy outcome and infants who are born disabled or who likely will become disabled or will die. Women with one or more of the following characteristics are more likely to suffer a poor pregnancy outcome than other women: under 17 or over 34 years of age, black, low-income, unmarried, diabetic, or low level of education. In addition, women who receive late or no prenatal care and women with certain medical conditions, such as high blood pressure, are at high risk.

In the following sections, we identify ways in which the MCH Branch could improve its effectiveness and efficiency.

The MCH Branch Could Better Target its Community-Based Perinatal Services Funds

We recommend that the DHS report to the fiscal committees prior to budget hearings on a plan to better target its funding for perinatal services to high-risk low-income women.

The budget proposes expenditures of $13.3 million ($2.5 million General Fund) for the Community-Based Perinatal Services (CBPS)

DEPARTMENT OF HEALTH SERVICES—Continued

program. This is slightly less than current-year expenditures, due to the expenditure of $500,000 in one-time-only federal funds in the current year. The CBPS program is the largest activity funded by the MCH Branch, constituting 44 percent of its total budget.

Through this program, the MCH Branch contracts with 69 county and community health facilities in 44 counties to provide comprehensive perinatal services to low-income pregnant women. Comprehensive perinatal services are medical, nutrition, health education, and psychosocial services provided during pregnancy and the postpartum period. These services are similar to the services provided for Medi-Cal-eligible women in the Comprehensive Perinatal Services program.

The program's target population are women whose family income is under 200 percent of the poverty level and who are not eligible for Medi-Cal. The DHS estimates that it provides perinatal services to about 31,000, or 65 percent, of the 48,000 target population.

Our review of this program indicates that the department could target these funds more effectively by using its data on county populations in making its funding decisions.

The DHS has developed a methodology for determining which counties are at highest risk for having poor birth outcomes. This methodology incorporates (1) the total number of births, (2) the infant and neonatal death rates, (3) the percent of women receiving no prenatal care, (4) the percent of teenage and age 35 and older mothers, and (5) the percent of low birthweight infants. The methodology appears reasonable for determining relative risk among counties.

Although the MCH Branch could use this formula to target its funds to reach populations at highest risk, it has not done so. To a large extent, the branch has funded the same contractors it has since the program began in 1982, adding new contractors only when new funds were available. Although the branch has loosely used risk factors as criteria for its funding decisions, it is funding some contractors in counties at relatively low risk, while leaving relatively higher-risk counties unfunded. Specifically, the MCH Branch is funding 10 counties in the lower-risk categories for poor birth outcomes (such as Santa Barbara and Sonoma), while it has left 11 counties in the higher-risk categories unfunded (such as San Joaquin and Shasta). The department informs us that part of the reason some higher-risk counties go unfunded is because no providers in those areas responded adequately to its request for proposals (RFP). The DHS has not attempted to seek out or assist providers in those areas.

The MCH Branch is currently developing a new RFP. It has not yet determined how it will evaluate the responses and distribute the funds available. In order to better utilize the available CBPS funds, we recommend that the DHS report to the fiscal committees prior to budget hearings on how it plans to target funds to communities in greatest need. This plan should include, but not be limited to, (1) a timeline for issuing a new RFP and (2) a plan for assisting providers in higher-risk areas to prepare acceptable proposals.

The MCH Branch Could Do More To Improve the Health of Black Women and Infants

We recommend that prior to budget hearings, the department submit to the fiscal committees a plan for better serving black women through

the Community-Based Perinatal Services program.

Both nationwide and in California, black women and infants fare poorly when compared to their white and Hispanic counterparts on various health indicators.

Table 13 shows that in 1986, 13 percent of black newborns were born at low birthweights (less than five pounds). This rate is over twice the rate found among white or Hispanic newborns (5.2 percent) and over twice the rate set by the federal government as a goal for states to meet by 1990 (5 percent).

Table 13
Department of Health Services
Maternal and Child Health Indicators
By Ethnic/Racial Groups
1986

Ethnic/Racial Group	*Live Births*	*Percent of Total*	*Percent Not Beginning Prenatal Care in the First Trimester* [a]	*Percent Low Birthweight*	*Infant Death Rate* [b]
White	235,848	48.9%	15.8%	5.2%	8.6
Black	41,327	8.9	31.1	12.9	18.6
Hispanic	156,422	32.5	35.1	5.2	7.5
Other and not stated	48,308	10.0	21.7	6.0	6.0
Totals	481,905	100.0%	24.2%	6.0%	8.9

[a] The department indicates that data on Hispanic women who do not receive early care or who receive no care may be overstated due to problems in maintaining complete and accurate health records on undocumented women.

[b] The infant death rate is the number of infant deaths occurring within one year of birth, per 1,000 live births.

Infants born at low birthweights are more likely to die or be ill than are their counterparts of normal weight. For example, two-thirds of all infants who die in their first year of life are born at low birthweights. In addition, most of the infants admitted to neonatal intensive care units (NICUs) are born at low birthweights. The cost of care in these units ranges between $15,000 and $60,000 per infant.

Because of the difference in birthweights, it is not surprising that the infant death rate for black infants was 18.6 deaths per 1,000 live births in 1986 compared with a rate of 8.6 deaths per 1,000 live births for white infants and 7.5 for Hispanic infants. Since 1970 the infant death rate has decreased both among whites and blacks. However, it has decreased more rapidly among whites, and the difference between whites and blacks has generally been rising since that time. In 1986 the gap was the greatest it has been since 1970. Black women also died from causes related to pregnancy at rates twice those for white women.

The reasons for the higher rates of morbidity and mortality among black women and infants are unknown. Studies show that when groups of black women and groups of white women are matched by age, level of education, and other factors, black women and their infants still have higher rates of low birthweight and infant mortality.

How Well Is the Community-Based Perinatal Services Program Currently Serving Women of Different Ethnic and Racial Groups?

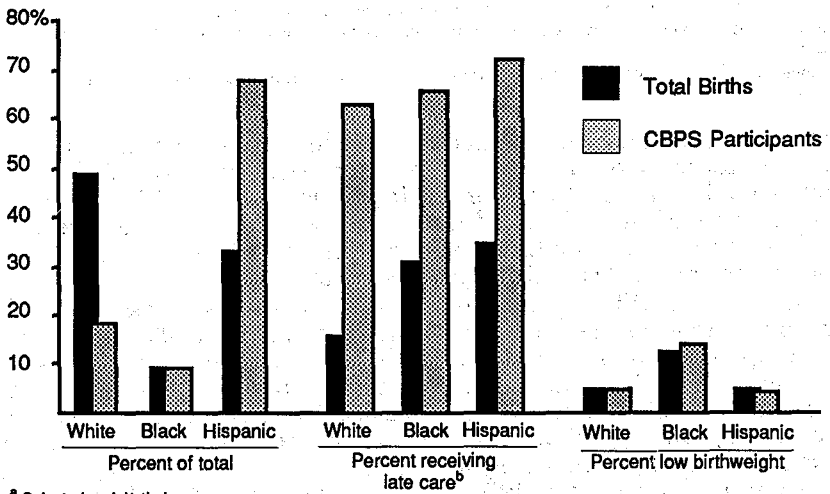
DEPARTMENT OF HEALTH SERVICES—Continued

Chart 1 compares, by racial group, women served in the CBPS program to women statewide in terms of prenatal care and birthweight outcomes. This figure illustrates several interesting points:

- The CBPS program serves a disproportionately high number of Hispanic women, while it serves blacks in proportion to their statewide births.
- In general, women served in the CBPS program begin prenatal care much later than women in the general population. Seventy percent of the CBPS participants begin care after the first trimester compared to 24 percent of women statewide who receive late or no prenatal care. Hispanic women begin care later than whites and blacks in both the CBPS and the general populations.
- Despite beginning care later, white and Hispanic CBPS participants appear to have as good or better birth outcomes than their counterparts in the general population. Blacks in the CBPS program, however, appear to have worse outcomes than their counterparts in the general population. Women who begin care *latest*—Hispanic women—have the *best* birth outcomes.

Chart 1

Prenatal Care and Birth Outcomes Community-Based Perinatal Services (CBPS) Program Participants Compared to All Births[a] 1986-87



[a] Selected racial/ethnic groups.
[b] Includes "no care" for total births.

We believe that the MCH Branch could better serve black women, given their extremely problematic birth outcomes. This could take two forms: first, serving a higher proportion of black women in the CBPS program and, second, attempting to get them in earlier for care.

We recommend that the MCH Branch report to the fiscal committees prior to budget hearings on how it plans to improve its services to black women and infants in the CBPS program. This information should include how it will target its resources to black women and assist its community-based providers to provide more outreach to black women.

The MCH Branch Could Better Serve Drug-Abusing Pregnant Women

We recommend that the department report to the fiscal committees prior to budget hearings on what it is doing to address the problem of drug abuse among pregnant women.

A recent MCH Branch survey of urban hospitals showed that between 2 percent and 5 percent of all deliveries are to drug-addicted mothers and that between 10 percent and 25 percent of all infants placed in neonatal intensive care units were born to women who abused drugs during pregnancy.

In our visits to providers, they stated that drug abuse among pregnant women appears to be increasing. Providers also said that providing health care to drug-abusing women poses special problems because these women are reluctant to seek care for fear that they will be reported to the police.

The MCH Branch has done little to identify the extent of or address problems related to substance abuse. For example, many Community-Based Perinatal Services (CBPS) providers we visited indicated that they have little experience or training in identifying drug abuse problems and assisting women to halt the use of drugs during pregnancy. One way the MCH Branch could attempt to address the problem of drug abuse during pregnancy would be to provide training for CBPS providers. Another way would be to use research and demonstration funds to test ways to most appropriately provide services to this population.

Because we believe the branch could do a better job of addressing this problem, we recommend that the DHS, in consultation with the Department of Alcohol and Drug Programs, report to the fiscal committees prior to budget hearings on what it is doing to address problems related to drug abuse among pregnant women. This plan should include, but need not be limited to, (1) strategies for training CBPS providers in identifying and assisting pregnant drug abusers and (2) plans to use research and demonstration funds to find ways to better address this population's problems.

Funds for the Perinatal Regionalization Program Should Be Redirected to Other MCH Programs

We recommend that the Legislature adopt Budget Bill language directing the DHS to redirect funding for the Perinatal Regionalization program to other programs designed to address the needs of high-risk pregnant women.

Chapter 331, Statutes of 1979, required the department to fund regional organizations to coordinate services for high-risk pregnant women and infants, on a regional basis. In response to this broad mandate, the department established the Perinatal Regionalization program and divided the state into 18 areas. Under this program, each region has an advisory council and staff who work under the direction of the council. The staff assist hospitals, physicians, and private clinics in establishing referral and transport procedures to ensure that pregnant women receive the appropriate type and level of care in the most cost-effective manner possible.

DEPARTMENT OF HEALTH SERVICES—Continued

The budget proposes $1.6 million ($259,000 General Fund) in 1988-89 to fund 11 of the 18 perinatal regions and subregions. The other seven programs have never received funding.

Our review indicates that funding the Perinatal Regionalization program may not be the best way to improve birth outcomes for high-risk women.

Regionalization Funding Does Not Affect Birth Outcomes. Through the 1970s, the Robert Wood Johnson Foundation (RWJF) funded a national perinatal regionalization demonstration program with goals and objectives similar to California's Perinatal Regionalization program. The RWJF analyzed birth outcomes in the areas it funded over time, and compared those areas to areas without funding. The research yielded several interesting findings:

- Between 1970 and 1979, neonatal mortality rates (infant deaths within 28 days of birth) declined dramatically. These declines were due almost exclusively to increased survival of high-risk infants.
- The decline in neonatal mortality was accompanied by service utilization changes that may have resulted from efforts to establish regional referral systems. For example, more low birthweight babies were born at tertiary (highly specialized) care centers.
- RWJF funding did not make a difference in birth outcomes; both funded and unfunded regions experienced the same improvements in birth outcomes. This is probably because providers in unfunded areas were able to establish appropriate referral patterns without additional funds.

The RWJF report suggests that regionalization program funds could be spent more effectively in a program where the objective is to improve low birthweight.

Performance Data Not Available for California's Program. The department was not able to provide us with any information about the California Perinatal Regionalization program's success in improving birth outcomes. The program's current stated goal is to prevent adverse birth outcomes by developing a fully integrated network connecting all perinatal services providers. However, the program is still identified with secondary and tertiary care hospitals. These hospitals, which are highly specialized, would tend to affect the outcomes for high-risk infants, as opposed to preventing low birthweights. Based on our review, we have no reason to believe the RWJF's findings do not apply to California.

Regionalization Appears To Duplicate Other Programs. The MCH Branch funds at least two other projects that appear to duplicate to some extent the regionalization program:

- ***County Allocations.*** The state funds counties to provide coordination of perinatal services through its county MCH directors. If the goal of both the regionalization program and the county MCH directors is to coordinate services, it is not clear why the state should be funding both of these activities.
- ***Infant Dispatch.*** The state funds two dispatch centers, one in northern and one in southern California, that locate and refer high-risk women and critically ill newborns to neonatal intensive care unit beds. Because most of the regionalization projects also

develop and monitor transport agreements, it is not clear why the MCH Branch should be funding both projects to perform this activity.

In summary, we question whether the state should be funding this program because the RWJF study suggests that regionalization is a poor use of state funds, and the department could not provide us with any further information about the program's success. If the state no longer funded perinatal regions, the state, counties, and other local providers would need to perform certain regional activities, such as the Diabetes in Pregnancy program. Alternatively, providers within the regions may want to increase their in-kind support of the regions in order to continue these activities.

For the reasons stated above, we recommend that the Legislature adopt Budget Bill language directing the DHS to redirect the Perinatal Regionalization program funds to other programs designed to reduce low birthweight or improve birth outcomes among high-risk women. Specifically, we recommend that the Legislature add the following language to Items 4260-111-001 and 4260-111-890:

The department shall redirect funds from this item for the Perinatal Regionalization program to other MCH programs designed to reduce low birthweight or improve birth outcomes among high-risk women.

The Department Does Not Have a Plan for Implementing the Medi-Cal Comprehensive Perinatal Services Program

We recommend that prior to budget hearings, the DHS report to the fiscal committees on its plans to implement the Comprehensive Perinatal Services program, including applying for federal funds through the Medi-Cal program.

Chapter 1404, Statutes of 1984 (AB 3021), expanded the scope of Medi-Cal perinatal services by providing additional reimbursement to physicians and other health care professionals for case management, nutrition counseling, and other ancillary services. The expanded scope of services is called the Comprehensive Perinatal Services (CPS) program. Under the program, providers may receive additional reimbursement only if they enter into agreements with the department. Chapter 1404 permits counties to participate in program implementation to the extent funds are available.

The 1988-89 budget for Medi-Cal includes $1,902,000 ($951,000 General Fund) for health benefits under the CPS program. This amount will fund services to 7,480 women. This is 10 percent greater than the number of women estimated to be served in 1987-88.

The branch was not able to identify what level of resources would be devoted to administering the CPS program in 1988-89. In the current year, it is implementing the program at the state and county levels as follows:

- ***State Administration.*** The DHS informs us it has approximately 13 personnel-years devoted to implementation of AB 3021. All of these staff have been redirected from other activities. At the time this analysis was prepared, three new positions—one permanent and two limited-term—included in the 1987 Budget Act specifically for CPS implementation—had not been filled.
- ***County Administration.*** Since 1985-86, the Budget Act annually has provided $500,000 from the General Fund to counties for implemen-

tation of the CPS program. Some counties use additional funds from their county allocations (county allocations will total $1.9 million from the General Fund in 1987-88) to augment their CPS administration funds. The DHS does not know the extent to which counties use these additional funds for CPS administration.

Our review indicates that the department may not be able to implement the CPS program successfully, because it has not clarified program implementation responsibilities. For example:

- *CPS Applications.* The department has not identified permanent staff who will review and approve applications by providers wishing to participate in the program. This is likely to result in delays with certifying providers.
- *County Administration.* The department has not identified what the county role in implementing the CPS should be, nor has it identified permanent state staff who will review county administration of the program. If counties are not actively seeking provider participation, it could mean that provider participation will be lower than it would otherwise be.

Federal Funds May Be Available. Because services provided under the CPS program are funded by the Medi-Cal program, federal financial participation is available for administration of the program. However, the department has not claimed federal funds for any portion of the state or county administration of the program. This is because in order for the state to claim federal funds, the state must be able to track specific expenditures at the state and local levels.

Our analysis indicates that implementation of CPS is similar to the Child Health and Disability Prevention (CHDP) program, where the counties are responsible for, among other things:

- Developing outreach and education programs for beneficiaries.
- Identifying and providing outreach to providers.
- Training providers to bill correctly and assisting them with billing problems.
- Developing memoranda of understanding with county welfare departments.

The federal government reimburses the CHDP program up to 75 percent of the cost of salaries, travel, and training of certain medical personnel who work on the program. In addition, the federal government reimburses the CHDP program for 50 percent of the cost of clerical salaries and supplies. In aggregate, the CHDP program receives federal reimbursement for approximately 63 percent of the funds it spends for administrative activities associated with its Medi-Cal-eligible caseload. The CPS program would be eligible for a similar amount.

In order to obtain federal funds, the department would need to amend the Medicaid State Plan and its Cost Allocation Plan, which are submitted to, and approved by, the federal government. In addition, the state and counties would need to make routine changes to their cost-accounting systems.

Because proper administration is important to the program's success, we recommend that the department, prior to budget hearings, submit a plan to the fiscal committees for implementing the CPS program. The plan should:

- Specifically define the state and county roles in implementing the CPS program and estimate the level of resources needed to perform their respective duties.
- Include a timetable for obtaining federal financial participation for state and county costs of administering the CPS program.

Federal MCH Block Grant Roll-Over Could Be Spent for Additional Maternal and Child Health Services

We recommend that the Legislature augment the MCH budget in 1988-89 by $4 million in federal MCH block grant funds (Item 4260-111-890).

Since 1981, California has received a block grant from the federal government to support maternal and child health services. Table 14 details funds available and expenditures in 1987-88 and 1988-89. In 1988-89 the DHS estimates that the federal government will make available to the state $23.4 million. Of that amount, the DHS proposes to spend approximately $1.6 million (7 percent) on support, $4.7 million (20 percent) for the California Children's Services (CCS) program, and $18 million (73 percent) for a variety of direct services and research through the MCH Branch. The bulk of the federal block grant funds in the MCH Branch are used to support services provided in the Community-Based Perinatal Services program.

Table 14 also shows that the DHS has been carrying over a large portion of the block grant. In the beginning of the current year, the DHS had available $6 million in federal funds carried over from 1986-87. At the end of the current year, the DHS proposes to carry over to 1988-89 $5 million, or 21 percent of the award received. At the end of 1988-89, the DHS proposes to carry over $4 million, or 17 percent of the estimated award.

Table 14
Department of Health Services
Federal Maternal and Child Health Block Grant
Funds Available and Expenditures
1987-88 and 1988-89
(dollars in thousands)

	Est. 1987-88	*Prop. 1988-89*	*Change from 1987-88 Amount*	*Percent*
Funds available				
Carry-over from prior fiscal year	$6,086	$5,064	–$1,022	–16.8%
Block grant award	24,269 [a]	23,415 [a]	–854	–3.5
Total available	$30,355	$28,479	–$1,876	–6.2%
Expenditures				
Support	$1,868	$1,581	–$287	–15.4%
Local assistance				
MCH programs	18,719	18,171	–548	–2.9
California Children's Services	4,704	4,704	—	—
Total expenditures	$25,291	$24,456	–$835	–3.3%
Carry-over to next fiscal year	$5,064	$4,023	–$1,041	–20.6%

[a] Based on one quarter of the prior-year grant award and three quarters of the current-year grant award.

Table 12 shows the size of the target population compared to the population served for the CBPS program, as well as other programs within the MCH Branch. The difference between these two figures is considered the unmet need for services. Our review indicates that the DHS could address unmet needs for perinatal services in the current and budget years by spending a larger portion of the federal MCH block grant funds available. For example, if the MCH Branch spent an additional $4 million in 1988-89 through the CBPS program, it could purchase perinatal services for an additional 6,600 women. This is almost 40 percent of the department's estimated unmet need for that program.

Because the department could address unmet needs for MCH services if it spent more federal funds, we recommend that the Legislature augment its 1988-89 budget by $4 million in additional federal MCH block grant funds.

Other Family Health Issues

Budget Does Not Include Funds To Implement Sickle Cell Program

Chapter 818, Statutes of 1987, requires the department to (1) report to the Legislature by January 30, 1988 on its findings and recommendations regarding the implementation of a program for testing newborns for biotinidase deficiency (a vitamin B deficiency possibly causing mental retardation) and hereditary hemoglobinopathies (blood disorders) and (2) implement a program for testing newborns for sickle cell anemia by July 1, 1988.

As of February 1, 1988, the department had not submitted the report. The budget does not include any funds for implementing the sickle cell program during 1988-89. The department indicates that it will submit the report and propose funding adjustments to establish this program during the next several months.

Department Cannot Document Compliance With Legislative Directive Regarding Fees

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

Neural tube defects (NTDs) are severe birth defects that are frequently responsible for fetal death, infant death, and serious disabilities. The NTD screening program attempts to detect these and other severe defects, such as Down's syndrome. The program also provides counseling for affected pregnant women and their families. The screening program has been in effect since April 1986.

The NTD program is financed through the Genetic Disease Testing Fund (GDTF). Women receiving the test must pay a $40 fee, which is deposited into the fund. Medi-Cal pays for testing of eligible women. The Newborn Screening program, which tests newborns for certain treatable diseases, is financed in a similar manner from the fund. Table 15 shows the revenues and expenditures of the GDTF by program for the current and budget years. Although the expenditures are higher than the revenues in both years, the fund has been solvent due to the availability of interest earnings and funds rolled over from 1985-86.

Table 15
Department of Health Services
Genetic Disease Testing Program
Revenues and Expenditures
1987-88 and 1988-89
(dollars in thousands)

Program	*Revenues*	*Expenditures*	*Difference*
1987-88			
Neural tube defects	$9,557	$11,585	−$2,028
Newborn screening	11,640	11,358	282
Totals	$21,197	$22,943	−$1,746
1988-89			
Neural tube defects	$10,535	$11,735	−$1,200
Newborn screening	12,230	11,354	876
Totals	$22,765	$23,089	−$324

The table indicates, however, that only the NTD program is operating at a deficit. The budget projects a $2 million deficit for the program in 1987-88 and a $1.2 million deficit in the budget year. The reduction in the deficit is due to (1) increases in the number of tests performed and (2) an assumption that fees will increase from $40 to $49 on February 1, 1988. In contrast, the Newborn Screening program shows a surplus of $282,000 in the current year and $876,000 in 1988-89. In effect, the Newborn Screening program is subsidizing the NTD program in the budget year.

Our analysis indicates that the NTD program is likely to have a greater deficit than the budget anticipates. This is because the fee increase upon which the budget is based did not go into effect on February 1 as anticipated. The department could not provide a revised implementation date for the new fees.

This deficit would probably not have an effect on program operation because, due to interest earnings and large carry-overs, the fund had a surplus of $4.1 million at the beginning of the current year. However, the delay in revising fees indicates another problem: the department has been unable to document that it has complied with a legislative directive in the 1987 Budget Act (there was a similar directive in the 1986 Budget Act as well) that it establish fees for both the NTD and the Newborn Screening programs that are sufficient to cover the variable costs reasonably attributable to each participant. The purpose of this language was to assure that fees are more closely aligned with program costs.

The department's current fee proposal would address the alignment issue to some degree. The department could not provide any documentation, however, that its proposed fee structure would comply with the specific requirements of the Budget Act language.

Due to these problems, we recommend that prior to budget hearings, the department provide:

- A timetable and work plan for revising fees as directed in the 1987 Budget Act.
- Data on the fixed cost of each program and the variable cost of each type of test.
- Data on the effect of the fee revision delay on the program's budget.

California Children's Services

We recommend that in its May revision of the budget, the administration reconcile inconsistent estimates of the impact of the federal

DEPARTMENT OF HEALTH SERVICES—Continued

Immigration Reform and Control Act on California Children's Services expenditures.

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

The budget estimates expenditures for CCS local assistance at $60.9 million in the current year. In 1988-89 the budget estimates total expenditures for CCS local assistance at $65.3 million, an increase of $4.4 million, or 7.2 percent, over estimated expenditure levels in the current year. This increase is due to rising service costs and increased utilization.

We have identified inconsistencies in the assumptions contained in the budget regarding the effect of implementation of the Immigration Reform and Control Act on CCS. The Immigration Reform and Control Act (IRCA) of 1986 established a program to allow undocumented aliens who have lived in the United States for a long period of time to become legal residents. (Please see our discussion of issues related to the IRCA in Part Three of *The 1988-89 Budget: Perspectives and Issues.)* The IRCA and related legislation, the Omnibus Budget Reconciliation Act (OBRA) of 1986, affect CCS by (1) expanding eligibility for Medi-Cal services to aliens and (2) making available State Legalization Impact Assistance Grant (SLIAG) funds for a four-year period to assist state and local governments in paying for health, welfare, and education costs associated with aliens legalized under the IRCA.

The department estimates that it will incur expenditures of $1.6 million during 1987-88 and $2.5 million during 1988-89 related to providing services to children receiving legalized status. It indicates that it will receive SLIAG funds sufficient to support these costs. However, the budget reflects SLIAG expenditures for CCS of $1.1 million in the current year and proposes an appropriation (in Section 23.5 of the Budget Bill) of $1.7 million in 1988-89, a difference of $500,000 and $800,000, respectively. The department was unable to reconcile the difference between estimated expenditures and SLIAG allocations.

We recommend that the administration reconcile this inconsistency in its May revision.

California Children's Services Program Slow To Respond to Legislative Requests

We recommend that the administration provide the fiscal committees, prior to budget hearings, (1) a work plan for each of its three overdue projects and (2) its plan for ensuring that it complies with future legislative requests in a timely manner.

The Legislature, through the annual Budget Act and the supplemental reports of the Budget Act, has directed the administration to submit reports and develop regulations related to the operation of the CCS program. Our analysis indicates that the administration has a history of being slow to respond to legislative requests regarding this program. Following are three recent examples of delays in legislatively required projects.

1. ***Regulations Have Been Over Six Years in the Making.*** The *Supplemental Report of the 1981 Budget Act* required the department to

adopt regulations in lieu of the "program letters" under which it currently operates. The purpose of this requirement was to prevent the department from imposing arbitrary program reductions. In addition, the Office of Administrative Law ruled during 1987 that these program letters were "underground regulations" and required the department to formally adopt regulations. The department reports that it is currently working on the regulations. However, it was unable to provide a timeline for adopting them.

2. ***Assets Report 10 Months Overdue.*** The 1985 Budget Act required the department to (a) develop a method for including assets when determining a family's financial eligibility and repayment obligation, (b) submit a plan for a pilot project to test this method by December 1, 1985, (c) implement the pilot project by February 1, 1986, and (d) provide the department's final evaluation and recommendations regarding the pilot by April 1, 1987. The department has completed the pilot. At the time this analysis was prepared, the department indicated that the report had been undergoing departmental review for several months. The department was unable to estimate, however, when it will submit the report.

3. ***Medical Therapy Report Not Initiated.*** The *Supplemental Report of the 1987 Budget Act* required the Health and Welfare Agency to report by January 1, 1988 on the cost, benefits, and feasibility of billing private insurance and Medi-Cal for medical therapy services provided in schools. At the time we prepared this analysis, neither the agency nor the department had initiated any work on the report.

The Legislature imposed these requirements to assure consistent program implementation and to obtain information regarding outside funding sources for services provided by the program. Delays impede achievement of these goals. We recommend that the administration provide the fiscal committees, prior to budget hearings, (1) a time frame and work plan for each of its three overdue projects and (2) its plan for ensuring that it complies with future legislative requests in a timely manner.

C. OFFICE OF AIDS

AIDS is an extremely serious public health problem. As of January 1988, almost 12,000 Californians have been diagnosed with the disease, and almost 7,000 have died. This is 5,000, or 70 percent, more diagnosed cases than had been diagnosed one year ago—January 1987. The number of AIDS cases will continue to grow. Over half of those diagnosed with the disease have died, and there is no vaccine or cure. While the disease is currently concentrated in specific groups and geographic areas, it is likely to become more pervasive throughout the general population.

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

- ***To contract for and monitor information and education programs.*** Currently, the OA contracts with 40 public and private nonprofit entities in order to disseminate information about the disease to different population groups.
- ***To contract for and conduct a variety of pilot projects.*** These pilot projects are designed to (1) determine the costs and effectiveness of a variety of treatment alternatives and different types of prevention and education programs and (2) determine the costs of medical care for AIDS.

DEPARTMENT OF HEALTH SERVICES—Continued

- *To contract with counties, other local health jurisdictions, and some private nonprofit clinics to test for the AIDS virus.*
- *To survey and analyze the spread of the epidemic in California.*
- *To provide technical assistance to counties and other local health jurisdictions in the field.*
- *To coordinate the activities of different state agencies concerned with AIDS.* Besides the OA, the state departments most actively involved with the AIDS epidemic are the State Department of Education (SDE), the Department of Alcohol and Drug Programs (DADP), the California Department of Corrections (CDC), and the Department of Mental Health (DMH).
- *To promote AIDS vaccine research and development.*

The Budget Proposal

The budget proposes expenditures of $48.5 million, excluding federal special projects, in 1988-89 for the Office of AIDS. This is a decrease of $10.7 million, or 18 percent, below estimated spending levels in the current year. Table 16 displays expenditures from all funds in the past, current, and budget years.

The $10.7 million decrease is due to the net effect of a variety of changes. The major changes are:

- A reduction of $9.5 million in funds available in the current year for vaccine research and clinical trials.
- A reduction of $7.6 million in one-time-only federal funds available in the current year for AZT.
- A reduction of $2.3 million in support for the San Francisco General Hospital AIDS research center.
- An additional $4 million for education and prevention projects.
- An increase of $2 million for confidential testing in community-based clinics.
- An increase of $1.7 million for OA administration.

Table 16
Department of Health Services
Office of AIDS
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

	Actual	Est.	Prop.	Change from 1987-88	
Program	*1986-87*	*1987-88*	*1988-89*	*Amount*	*Percent*
Support					
Administration	$2,280	$3,913	$5,625	$1,712	43.8%
Minority treatment and counseling	600	—	—	—	—
San Francisco General Hospital research center	140	1,360	—	−1,360	−100.0
Chaptered legislation					
Ch 23/85 (AB 488)—alternative test sites	901	3,037 [a]	—	−3,037	−100.0
Ch 767/85 (SB 1251)—various projects	450	60	—	−60	−100.0
Ch 1462/86 (AB 2404)—vaccine research grants	—	3,491	—	−3,491	−100.0
Ch 1463/86 (AB 4250)—vaccine clinical trials	8	6,050	—	−6,050	−100.0
Subtotals	($4,379)	($17,911)	($5,625)	(−$12,286)	(−68.6%)

Local assistance					
Information and education contracts....	$4,247	$11,643	$15,628	$3,985	34.2%
Minority treatment and counseling [b]....	—	600	—	−600	−100.0
Home health, attendant, and hospice projects........	1,500	4,094	4,774	680	16.6
Skilled nursing facility project [c].........	630	730	650	−80	−11.0
Cost-of-care study.........................	200	—	—	—	—
Epidemiological surveillance					
Block grants to counties..............	2,200	4,988	4,988	—	—
Research and statistics................	400	400	1,199	799	199.8
Special studies...........................	—	125	125	—	—
Alternative test sites.....................	—	3,797	6,412	2,615	68.9
Confidential testing......................	—	500	2,500	2,000	400.0
Homeless shelter pilot project...........	—	—	721	721	[d]
California children's services............	—	1,100	1,100	—	—
San Francisco General Hospital research center................................	—	5,700	4,800	−900	−15.8
AZT (federal funds).....................	—	7,636	—	−7,636	−100.0
Subtotals..............................	($9,177)	($41,313)	($42,897)	($1,584)	(3.8%)
Totals, excluding special projects.....	$13,556	$59,224	$48,522	−$10,702	−18.1%
Federally funded special projects					
Surveillance and associated epidemiological surveillance....................	$476	$1,300	$2,000	$700	53.8%
Health education and risk reduction (information and education).............	352	7,500	24,500	17,000	226.7
Alternative test sites.....................	1,124	1,000	8,000	7,000	700.0
Subtotals, special projects.............	($1,952)	($9,800)	($34,500)	($24,700)	(252.0%)
Totals, all funds........................	$15,508	$69,024	$83,022	$13,998	20.3%
Funding sources					
General Fund.............................	*$13,548*	*$48,097*	*$43,408*	*−$4,689*	*−9.7%*
Federal funds............................	*1,952*	*17,436*	*34,814*	*17,378*	*99.7*
AIDS Vaccine Resource and Development Fund..................................	*8*	*3,491*	—	*−3,491*	*−100.0*
Special Account for Capital Outlay.......	—	—	*4,800*	*4,800*	[d]

[a] Of this amount, $1,311,000 is for tests provided in 1987-88. The remaining funds are for tests provided in 1986-87.

[b] In 1988-89, funds for the minority treatment and counseling project are folded into the home health, attendant, and hospice projects.

[c] $100,000 in 1986-87 and $80,000 in 1988-89 are for home health, attendant, and hospice projects.

[d] Not a meaningful figure.

In addition, the budget details $34.5 million in federal special project funds. This is an increase of $24.7 million, or 252 percent, over current-year federal expenditures. Because of the uncertainty of the level of AIDS funding that will be available in the federal fiscal year beginning on October 1, 1988, the DHS informs us that it is not able to estimate the amount that will actually be available in the budget year.

The Administration Does Not Have a Plan for Controlling AIDS Among IV Drug Users

Currently, public health experts believe that the AIDS virus is spreading more rapidly among IV drug abusers (IVDAs) than among any other risk group. Unfortunately, these individuals are among the most difficult to reach through education and prevention programs because they generally are socially isolated and have a variety of other health and social

DEPARTMENT OF HEALTH SERVICES—Continued

problems. Because of this, it takes a concentrated approach to most effectively control the spread of the disease in this population. Despite this need, our review indicates that the OA and the Department of Alcohol and Drug Programs (DADP) are not addressing their joint responsibilities for curtailing the spread of the epidemic in this population. For our analysis concerning this issue, please see Item 4200.

Alternative Test Site Caseload is Leveling Off

We recommend that the Legislature delete $1,069,000 ($1 million from Item 4260-111-001 and $69,000 from Item 4260-001-001) requested from the General Fund for additional tests at alternative test sites because the workload projections appear to be too high.

Chapter 23, Statutes of 1985 (AB 488), established the Alternative Test Site (ATS) program so that people who suspect that they may be infected with the AIDS virus can receive blood tests for antibodies to the virus at locations other than blood banks or plasma centers. The act appropriated $5 million from the General Fund to augment one-time federal funds that were available for the program. The funds from Ch 23/85 will be depleted during the current year.

The OA contracts with 31 counties to operate ATS programs. The OA reimburses the counties a maximum of $44 and an average of $41 per person to cover their costs of providing (1) initial laboratory tests and (2) pre- and post-test counseling. The state Viral and Rickettsial Disease Laboratory (VRDL) provides additional (confirmatory) testing for the program.

In 1988-89 the department proposes a total of $6,412,000 from the General Fund for county ATS programs to provide an average of approximately 13,000 tests per month. This is an increase of 2,000 tests per month. The proposed funding level is about $1 million, or 18 percent, higher than estimated current-year costs.

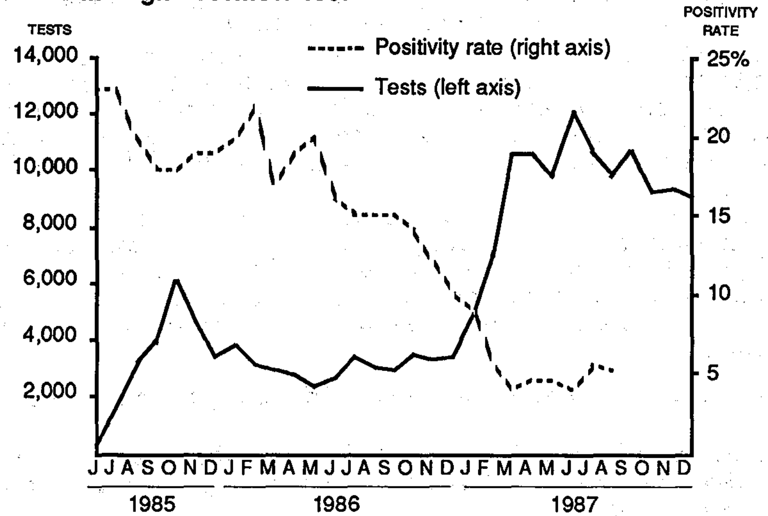
Chart 2 depicts the number of tests performed each month in the ATS program. From the beginning of the program until January 1987, the test sites performed an average of about 3,000 tests per month. At that time, the number of tests performed per month began to shoot up, peaking at almost 12,000 in August 1987. Since August, however, the actual number of tests per month at testing sites has dropped. The OA estimates that during the last three months of 1987, monthly workload dropped below 10,000 tests per month.

This more recent utilization information leads us to believe that in 1988-89 the OA will not need funds above those budgeted for the current-year workload of about 11,000 tests per month. Moreover, new funds available for confidential testing may divert some individuals from the alternative test sites to community-based clinics. For the budget year, the department is requesting an additional $2 million for 50,000 confidential tests performed at community-based clinics. Presumably, some individuals will be tested in these clinics rather than at alternative test sites.

For these reasons, we recommend the deletion of $1,069,000 requested from the General Fund for additional testing at alternative test sites.

Chart 2

Testing at Alternative Test Sites
Number of Tests Per Month and Positivity Rate
June 1985 through December 1987[a]



[a] Estimated for September 1987 through December 1987.

Possible Access Problems in County Testing Programs

We recommend that the department report prior to budget hearings on the reasons for differences in county ATS programs, and whether these differences are the result of problems with access to testing for high-risk populations.

In general, county ATS programs are similar in that they provide anonymous blood tests and pre- and post-test counseling. However, counties have discretion in deciding how many test sites to maintain, how many days and hours each site is open for testing, and how to operate the testing program. How a county administers its program may have an effect on access to tests. For example, individuals may be discouraged from taking the test by limitations on locations and hours, and waiting times for appointments.

Although the ATS program was designed originally to divert individuals at high risk of being infected from blood banks, our review indicates that the program has changed to one that serves individuals who are at very low risk of being infected. Chart 2 indicates that as the number of individuals tested has grown, the percent of persons testing positive (the positivity rate) has declined dramatically. However, counties vary significantly in terms of the number of tests performed in relation to their total population and in the positivity rate of the tested population. For example:

- *Proportion of Population Tested.* From June 1985 to September 1987, San Diego County, with 8 percent of the state's population, accounted for 11 percent of the tests performed. In contrast, Los Angeles County, with 31 percent of the state's population, accounted

DEPARTMENT OF HEALTH SERVICES—Continued

for 21 percent of the total tests performed. The proportion of tests provided in Los Angeles County is lower than expected, based on the percent of AIDS cases that have been diagnosed in that county.

- ***Rates of Positivity.*** Among the counties providing more than 200 tests in September 1987, the positivity rate ranged from 2.3 percent in Kern to a high of 10 percent in Los Angeles.

These data may indicate differences—and problems—in access to testing that result from differences in county administrative procedures. The department was not able to explain the variations. It does not analyze ATS data in order to determine if there are differences among counties, why the differences occur, and what the differences imply about access.

Because these differences may indicate problems in access due to county administrative procedures, we recommend that the department report prior to budget hearings about the differences in county ATS programs, why they occur, and what steps it will take to determine whether counties are providing adequate access to testing for high-risk individuals.

Budgeting Practices for State-Supported AIDS Testing Need a Complete Overhaul

We recommend that prior to budget hearings, the department submit to the fiscal committees information on the budget for AIDS-related laboratory testing.

As part of its AIDS-related activities, the state Viral and Rickettsial Disease Laboratory (VRDL) provides laboratory support for a number of programs that test for AIDS virus infection. In 1988-89 both the OA and the VRDL budgets propose additional funds for the VRDL. Specifically:

- The VRDL proposes an increase of approximately $255,000 and five positions. In total, the VRDL would have approximately $560,000 and 11 positions to perform AIDS-related testing in 1988-89. This amount does not include staff who support VRDL research, such as its virus isolation studies.
- The OA requests an additional $217,000 and three positions to support testing by the VRDL. Of this amount, $117,000 and three positions will support state epidemiological studies. The remaining $100,000 would be used to purchase laboratory slips and other supplies to support confidential testing.

We are unable to evaluate any of these requests for AIDS-related testing in the VRDL. This is because the two budget proposals are inconsistent in (1) their estimates of how many tests will be performed, (2) their estimates of how many tests will require VRDL support, (3) their workload standards for testing, and (4) the way the tests have been reimbursed or accounted for within the OA and the VRDL budgets.

Below we present (1) a review of the different testing programs, (2) the VRDL's involvement in each, (3) the way they are funded and budgeted at the state level, and (4) some additional detail on the problems that result from the current procedures for planning and budgeting.

State-Supported AIDS Antibody Testing. An AIDS antibody test is actually a series of tests. If the initial test, called an ELISA test, is positive, it is followed by confirmatory tests, including at least one repeat ELISA test and—if the repeat ELISA test is positive—a Western Blot (WB) or Immunofluorescent Assay (IFA). The VRDL most often performs confirmatory testing but may perform the initial test as well. The VRDL's responsibilities also include quality assurance of tests performed by local laboratories.

Specifically, the OA's and VRDL's involvement in testing is as follows:

- ***Alternative Test Sites.*** In this program, the OA reimburses counties for providing anonymous testing. The OA projects that approximately 156,000 individuals will be tested through this program in 1988-89. The OA reimburses counties an average of $41 per person if the counties provide only the initial testing and $44 if the counties provide both initial and confirmatory tests. For the most part, the VRDL performs the confirmatory tests using funds in its budget. The VRDL estimates it will provide 8,000 confirmatory tests in 1988-89 for the ATS program. This is about the same level of support the VRDL estimates it will provide in the current year.
- ***Confidential Testing.*** In this program, the OA reimburses community-based clinics to provide confidential testing. The OA proposes to fund 50,000 of these tests in 1988-89, an increase of 49,500 over the number of tests funded in the current year. The OA proposes to reimburse community clinics $35 per person. This reimbursement rate would cover the costs of both initial and confirmatory tests. The budget contains $2 million from the General Fund for this purpose. It is not clear whether the VRDL will be providing confirmatory testing for clinics. The OA proposal contains $100,000 for laboratory slips and other laboratory support that would be needed by the VRDL to perform these tests. However, neither the OA nor the VRDL requested any staff to actually perform confirmatory tests for this program. There is no mechanism in place for the clinics to reimburse the state laboratory for these tests.
- ***County Epidemiological Studies.*** County health departments perform tests in conjunction with epidemiological studies. The VRDL performs initial testing for some counties and confirmatory testing for most counties. In 1988-89 the VRDL estimates that it will perform approximately 53,000 tests for counties, an increase of 18,000 from the current year. There is no mechanism in place for counties to reimburse the state laboratory for these tests.
- ***State Epidemiological Studies.*** The OA initiates a variety of epidemiological studies that require VRDL laboratory support. The VRDL estimates that it will perform 4,500 such tests in the current year. It proposes to expand these tests by as many as 40,500 in 1988-89. The VRDL budget does not include any support for testing related to state epidemiological studies, however. The OA budget includes $117,000 for three public health microbiologists who will be working at the laboratory to perform these tests.

Confusion Abounds in AIDS-Related Testing Proposals. Some specific examples of the confusion and conflict reflected in the budget for AIDS laboratory testing are as follows:

- ***The budget does not include any funds for increased VRDL support of anonymous testing.*** The number of tests provided in the ATS program has risen from an average of 3,000 per month prior to

DEPARTMENT OF HEALTH SERVICES—Continued

January 1987 to 10,000 per month in the current year. Although the Legislature approved two positions and $110,000 for the VRDL in the current year, the funds were never added due to a budgeting error. The VRDL cannot tell us how it absorbed this workload. It is not requesting any new funds or staff for this program in 1988-89.

- ***The budget does not propose staff to handle the laboratory workload associated with increased confidential testing.*** The OA budget requests an augmentation to pay for 49,500 tests through community-based clinics. The budget proposes funds for materials but does not propose staff to support increased confirmatory testing workload in the lab. Neither the OA nor the VRDL could estimate what this increased workload will be.
- ***The VRDL cannot justify its estimate of increased testing related to county epidemiological studies.*** The VRDL's budget proposes staff to perform 17,000 new tests resulting from county epidemiological testing. This is inconsistent with its estimate that counties will request 18,000 tests. Moreover, the department could not explain the basis for either estimate. Counties are not receiving more funds from the state to do these tests; and with the OA funding more tests through community-based clinics and more tests through its own epidemiological studies, we believe it is unlikely that the counties will increase their testing efforts by this amount.
- ***It does not make sense for the OA to request positions in its budget to work in the VRDL.*** The OA is requesting three positions in its budget for AIDS testing, while the VRDL is requesting an additional five positions in its budget to perform similar duties.
- ***The OA and the VRDL have inconsistent workload standards for VRDL support of testing programs.*** The OA budget requests three new positions in the VRDL to support testing related to state epidemiological studies. This request is based on a workload standard of approximately 15,000 tests per year per position. In its request for testing in support of county epidemiological studies, the VRDL proposes staff based on a workload of approximately 6,500 ELISA tests per year per position and 1,375 WB/IFA tests per year per position.
- ***The OA is proposing inconsistent reimbursement policies for its different testing programs.*** The OA proposes to reimburse community-based clinics $35 for the costs of initial and confirmatory testing, while it proposes to reimburse county alternative test sites an average of $41 for the initial test and $44 for the initial and confirmatory tests combined. The OA could not explain the reasons for this discrepancy in levels of reimbursement.

Because of these conflicts, we recommend that the department reconcile these problems and report to the fiscal committees regarding the budget for AIDS-related laboratory testing. The report should include:

- Estimates of the number of tests to be performed in both the current and budget years in each of the programs needing testing support.
- Estimates of the number of initial and confirmatory tests the VRDL will perform in both the current and budget years for each of these programs.

- Costs to the VRDL to perform these tests, based on consistent workload standards.
- A plan for reimbursing county ATS programs and clinics for testing that involves (1) consistent reimbursement rates and (2) consistent budgeting for confirmatory tests. For example, the OA could reimburse county ATS programs and community clinics at rates that reflect initial testing costs only. The VRDL would then budget for the costs of confirmatory testing in its own budget. Alternatively, the OA could include confirmatory testing as a component of its rates, and the VRDL could develop a mechanism for obtaining reimbursements when it performs confirmatory tests.
- A plan for budgeting for VRDL support of AIDS-related testing programs on a consistent basis. We believe it makes sense for the VRDL to budget for its own positions and supplies based on OA estimates of the number of tests that will be performed, rather than the OA budgeting for positions and supplies for the laboratory in its own budget.

Homeless Proposal Needs Structure

We recommend that prior to budget hearings, the department submit a plan to the fiscal committees regarding its pilot project for homeless persons with AIDS and AIDS-Related Complex.

The budget proposes $721,000 from the General Fund in order to initiate a pilot project for homeless persons with AIDS and AIDS-Related Complex (ARC). The department proposes to fund two projects, one in the Bay area and one in Los Angeles, and a study that would evaluate the project's effectiveness.

Studies have shown that there are many homeless persons with AIDS and ARC in these two urban areas and that homeless individuals are at much higher risk of having AIDS or ARC than are persons who are not homeless. At the time we prepared this analysis, however, the OA was not able to provide us with any details about how its proposed program would be implemented. We believe these details are important for the Legislature to review because (1) there are a variety of possible approaches for such a project, (2) the approach selected may affect the OA's ability to spend the funds in the budget year, and (3) there are other funds available for homeless projects through the department of Housing and Community Development (HCD) and other agencies that the OA should take into account in planning its approach.

In order to determine its approach, we believe the OA needs to consider the following specific issues:

What is the target population? The projects will require a different approach and different types and levels of resources depending on the type of population served. For example, the projects could target persons who have lost their homes as a result of their illness, or, alternatively, persons who would be homeless whether or not they had AIDS or ARC. The latter population is likely to be much poorer and to have a variety of medical and social problems, such as drug abuse. These individuals are likely to be difficult to reach and to educate, yet be at much higher risk for spreading the virus.

Another targeting issue concerns the level of illness. If the individuals targeted are relatively healthy, they could live in hotels or smaller congregate housing. If they are less healthy, they would need the level of

DEPARTMENT OF HEALTH SERVICES—Continued

services provided by intermediate care facilities (ICFs) or skilled nursing facilities (SNFs).

Will the project fund separate facilities or will it provide rental subsidies? If it supports separate facilities, would they be new or existing programs? Either of the populations described above could use separate facilities or rental subsidies. However, if the OA chooses to fund facilities, there are a number of issues to consider. For example, a number of homeless projects have received funding and have had difficulty spending their funds due to problems finding a location and obtaining the necessary zoning permits. Delays in obtaining appropriate permits and licenses would compound these problems.

Supporting expansion of existing projects may be the best way to ensure expenditure of funds in the budget year. There are several facilities throughout the state that serve persons with AIDS or ARC who might otherwise be homeless.

How will the OA project interact with other programs to serve the homeless population? There are various state programs serving homeless persons. In addition, the federal government recently provided approximately $56 million to California for programs that serve the homeless. Approximately $1.5 million of this amount is available for permanent housing and supportive services for the "handicapped," and approximately $19 million is available for emergency shelter programs. The OA should work with the HCD and local agencies that provide services to the homeless to minimize service duplication and maximize the project's effectiveness. (For further discussion of programs for the homeless, please see Part Three of *The 1988-89 Budget: Perspectives and Issues.*)

In order to facilitate legislative review of this proposal, we recommend that the department consider these issues and report prior to budget hearings on its plans to spend the homeless pilot project funds.

No Spending Plan For Special Studies Funds

We recommend that the Legislature delete $125,000 from the General Fund budgeted for special studies because the OA has no plans to use the funds (Item 4260-111-001).

The budget includes $125,000 for special AIDS-related projects. This is the same amount included in the current-year budget. In addition, the budget proposes an augmentation of $1.4 million ($575,000 in support and $800,000 in local assistance) for special studies.

In its proposal for the current-year funding, the department indicated that the $125,000 would be used for special studies subject to legislative approval. The department advises that it now has no plans to use these funds in either the current or budget years.

Because the department does not have a spending plan for these funds, we recommend that the Legislature delete the $125,000 from the OA budget.

Pediatric AIDS Funds Unspent

We recommend that the department report to the fiscal committees prior to budget hearings on its plans to spend the funds budgeted for pediatric AIDS.

The 1987 Budget Act contains $1.1 million for the California Children's Services (CCS) program to fund the health care costs of HIV-infected infants and children. Budget Act language also required the DHS to ensure that HIV-infected children would be eligible for the CCS program. The budget proposes the same level of expenditure in 1988-89. For both years the funds appear in the OA's budget, even though the CCS program is responsible for spending them.

Currently, children who have been diagnosed with AIDS or AIDS-Related Complex (ARC) are eligible to receive CCS services. The department is not able to estimate how many children with AIDS or ARC are receiving these services. However, the department advises that it has asked counties to begin to collect this information.

As of January 1988, the CCS program had not determined how it would spend these funds in either the current or budget years. There are a number of options for using these funds. For example, the department could fund model treatment programs for children with AIDS or ARC. Alternatively, the department could fund follow-up services for children of infected mothers who have not yet become ill themselves.

We recommend that the OA and the CCS program inform the Legislature (1) what they plan to do with these funds in the current and budget years and (2) why the funds are budgeted within the OA's budget.

San Francisco General Hospital AIDS Research Center

We withhold recommendation on $4.8 million from the Special Account for Capital Outlay proposed for the San Francisco General Hospital AIDS Research Center pending receipt of additional information (Item 4260-111-036).

The budget proposes $4.8 million from the Special Account for Capital Outlay for the final construction phase of the San Francisco General Hospital AIDS research center. The budget reflects expenditures of $7,060,000 from the General Fund in the current year for this purpose—$5.7 million from the 1987 Budget Act and $1,360,000 reappropriated from the 1986 Budget Act.

The department has been unable to verify the construction cost because preliminary plans have not been developed. Therefore, we withhold recommendation on this proposal pending receipt of the preliminary plans and cost estimates.

Hiring of Health Education Consultants Is Slow

Through its education and prevention and various testing programs, the OA is responsible for contracting for and providing AIDS-related education to the general population, as well as to targeted risk groups such as homosexual men and IV drug abusers. To administer these programs, the OA uses a number of health education consultants (HECs) who for the most part have a master's level degree in health education.

In the current year, the OA has authorized 16 HECs—14 in its education and prevention unit and 2 in its anonymous testing unit. The budget proposes 2 more HEC positions, 1 in the education and prevention unit and one for its confidential testing program.

As of January 1988, the OA had not filled 6 of its 14 currently authorized HEC positions in the education and prevention unit. The OA advises that it is not able to fill these positions because there are very few HECs on state civil service lists. In order to fill these positions, the OA will have to (1) fill them temporarily with non-civil service employees, (2) fill the

DEPARTMENT OF HEALTH SERVICES—Continued

positions with a less specialized class of worker, or (3) schedule a civil service exam in order to expand the number of qualified persons eligible to fill these positions.

Each of these approaches has advantages and disadvantages. For example, the OA could fill these positions more quickly with less specialized employees, but they might lack the expertise necessary to do the job correctly. Similarly, it could wait to fill the positions with appropriately trained individuals until it scheduled a civil service exam, but this approach would take quite some time. Filling the positions with temporary workers may result in a lack of continuity.

The department has not determined which of these approaches it will choose.

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

Laboratory Certification Fees

We recommend the enactment of legislation requiring the Department of Health Services to adopt regulations that increase the fees for hazardous materials laboratory certification to cover program costs.

Chapter 1209, Statutes of 1982, requires any laboratory analysis of hazardous materials to be performed by a laboratory certified by the department as being competent and equipped to perform the analysis. Chapter 1209 set the fees for certification at $600 for the initial certification and $500 for annual renewals. All fee revenues are deposited in the Hazardous Waste Control Account. Existing law requires the department to adjust these fees each year based on budgeted increases in department-wide costs. As a result of these adjustments, the fees have been increased by 15 percent since 1982.

In the current year, the department estimates it will collect revenues of approximately $70,000 from fees and spend approximately $420,000 to certify laboratories. Thus the fee revenue covers only 16 percent of program costs. In addition, the budget requests $175,000 and three positions to expand the laboratory certification program. If this funding request is approved, the fee revenue would cover roughly 12 percent of the program costs.

Our analysis indicates that the fees should be increased to cover the full cost of the program. The department could provide no justification for the laboratory certification fees to continue to be significantly lower than the cost of operating the program. According to the department, these are large laboratories with gross revenues generally ranging from $5 million to $10 million annually. In addition, according to the department, the number of laboratories requesting certification is increasing, which would reduce the fee for each laboratory. Therefore, we recommend the enactment of legislation requiring the department to adopt regulations that increase the laboratory certification fees to cover the full cost of the certification program.

When Will There Be Enough Space For New Laboratory Positions?

We withhold recommendation on $3.1 million and 32.5 positions requested for expanding the hazardous materials laboratory, pending decisions on where the additional positions will be located and when the new space will be available.

The budget proposes $3,050,000 and 32.5 new positions to expand the hazardous materials laboratory and the laboratory accreditation program ($2,971,000 in public health units and $79,000 in the Administration Division). The hazardous materials laboratory supports the Toxic Substances Control Division. As the scope of the division's activities have increased over the last several years, so has the laboratory workload. The budget request would provide sufficient resources to meet the current level of laboratory support needed by the toxics division. Our analysis indicates that the workload justifies the need for the additional positions.

Space Problems. The department intends to place 28.5 of the new positions in Berkeley, where the main hazardous materials laboratory is located. The Berkeley laboratory, however, has no additional space for the new positions. Over the last few years, the department has been reviewing several options for expanding all of the department's laboratory space, including the hazardous materials laboratory. In November 1987, we reviewed the department's most recent lease proposal—for 28,000 square feet to accommodate 86 positions—and had several major concerns about the proposal. For example, we questioned:

- Why the department was proceeding to lease lab space without (1) considering the potential for a lease/purchase option and (2) providing a detailed explanation and fiscal estimate of all building modifications, as required by the *Supplemental Report of the 1986 Budget Act.*
- Why the per-square-foot costs were so high. The new space will cost $3.24 per square foot per month (including amortization of a $381,000 lump-sum payment) compared to $0.81 in the existing buildings.
- Why the department limited itself to a two-mile radius around the existing laboratory building when looking for additional space.

The department submitted its response to our concerns on January 27, 1988. Due to the department's delay in responding to our comments, we were unable to review the information in time for the analysis of this budget request. Until the laboratory's space problems are resolved, we cannot evaluate the department's budget proposal. This is because (1) the proposed new staff could not be hired until additional space is available and (2) the amount of rent funds needed may vary significantly depending on the location and price of the space obtained. As a result of these uncertainties, we withhold recommendation on $3.1 million requested for the hazardous materials laboratory.

Inappropriate Funding Source for Site Mitigation Activities

We recommend the Legislature (1) reduce Item 4260-001-014 (Hazardous Waste Control Account) by $577,000 and (2) increase Item 4260-001-710 (bond funds) by the same amount, in order to use the appropriate funding source for site mitigation activities.

The budget requests $5,039,000 from the Hazardous Waste Control Account (HWCA) to provide additional technical support for the Toxic Substances Control Division by increasing funding for (1) the laboratories ($3,050,000) and (2) epidemiological studies and risk assessment ($1,989,000).

Both budget requests would provide support for each program area of the toxics division, including the hazardous waste regulatory program, alternative technology development, and site mitigation. There are three main funding sources for these programs. The HWCA is the primary

DEPARTMENT OF HEALTH SERVICES—Continued

funding source for the hazardous waste regulatory program and alternative technology development. The Hazardous Substance Cleanup Fund (bond funds) and the Hazardous Substance Account (HSA) support the site mitigation program.

Although the proposed augmentations would support all program areas, the budget proposes to fund the augmentations entirely from the HWCA. Based on our review of the budget requests and current funding sources supporting these programs, we estimate that 29 percent ($577,000) of the epidemiological studies/risk assessment funding request and 27 percent ($824,000) of the laboratory funding request is for site mitigation activities. According to the department, all program expansion for site mitigation must be funded by bond funds because the HSA is fully committed to existing programs. Therefore, to use the appropriate funding source for epidemiological studies/risk assessment support of site mitigation activities, we recommend a reduction of $577,000 from Item 4260-001-014 and a corresponding increase in Item 4260-001-710. We will make a final recommendation on laboratory funding when we complete our analysis of the department's laboratory space proposal (see the previous issue).

Drinking Water Standards—Behind Schedule and Uncertain Future

We recommend the department report prior to budget hearings on the performance and future resource needs of its drinking water standards program.

Since 1985-86 the Public Water Supply Branch and the Hazard Evaluation Section have cooperated in the development of maximum contaminant levels (MCLs) for contaminants found in drinking water. The MCLs are enforceable treatment standards that the department imposes on water systems to ensure water quality. The 1985 Budget Act appropriated $4,008,000 from the General Fund for the department to develop 35 MCLs by the end of 1987-88. The majority of this funding ($3,452,000) was a one-time appropriation for contracts to provide toxicological and engineering assessments for the 35 chemicals. The remaining funding ($466,000) was for ongoing support of state personnel who (1) oversee contracts, (2) review the final risk assessments and technological feasibility studies, and (3) develop and adopt the regulatory standards.

Adoption of MCLs Significantly Behind Schedule. The department was scheduled to adopt approximately 10 MCLs each year from 1985-86 through the current year. As of February 1, 1988, not one MCL had been adopted or even released for public comment. According to the department, proposed regulations have been developed for 14 substances, but all have been held up in the administrative review process. For example, the regulatory package for dibromochloropropane (DBCP) has been under review for at least nine months. The department could not provide a schedule for public hearings on the proposed regulations. Considering the long internal delays in reviewing the regulations, it appears that public hearings for the majority of the 35 proposed MCLs will not occur until at least 1988-89.

Are There Sufficient Resources to Continue the MCL Program? Future program activities for the MCL program involve (1) adopting final regulations for the original 35 substances and (2) reviewing and adopting standards for additional substances. Continuing the program past 1987-88 presents a funding problem because the majority of the current funding comes from a one-time appropriation in 1985-86 that expires after the current year. Funding will continue for seven technical positions in the budget year.

The department indicates that these seven positions will be sufficient to complete work on the original 35 MCLs and develop additional standards. The additional standards would be significantly less costly to prepare because the department intends to rely on standards being developed by the federal Environmental Protection Agency (EPA).

Our analysis indicates, however, that this level of effort may not be sufficient because the federal standards may not meet California's needs. For example, (1) the federal program may not address substances that are of concern in California, (2) the state may want to adopt a more stringent standard when a substance is of more concern in California than the nation in general, and (3) the federal schedule for reviewing substances of greatest concern to California may not be fast enough.

The department has not been able to provide sufficient information to allow us to verify that the EPA program is addressing California's needs. For example, the department has not been able to provide (1) a list of chemicals to be addressed by the EPA and the EPA's schedule for addressing them and (2) a list of the highest-priority chemicals of concern to California for which standards are needed.

In order to facilitate legislative review of the performance and resource needs of the drinking water standards development program, we recommend the department report prior to budget hearings on (1) the reasons it has not met its commitment to adopt standards for 35 substances by the end of 1987-88, (2) its schedule for adopting the 35 standards, (3) the additional chemicals of concern to California for which standards are needed and the resources needed to adopt these standards, and (4) the EPA's schedule for addressing chemicals of concern to California.

Fishermen Should Pay For Shellfish Monitoring

We recommend a reduction of $508,000 from the General Fund (Item 4260-001-001) and a corresponding increase in reimbursements from the Fish and Game Preservation Fund in order to use the appropriate funding source for the shellfish monitoring program.

The budget requests $513,000 from the General Fund for the shellfish monitoring program. This is an increase of $357,000 over estimated current-year expenditures of $155,000. A portion of the program costs ($5,000) are offset by fees charged to commercial harvesters of shellfish. The shellfish monitoring program involves monitoring (1) water quality in areas where shellfish are commercially grown and (2) paralytic shellfish poisoning (PSP, or red tide) in order to prohibit sports harvesting of shellfish during periods when PSP levels are high.

Our analysis of the shellfish monitoring program indicates it is of primary benefit to fishermen and therefore should be funded by the Fish and Game Preservation Fund (FGPF) and not the General Fund. The FGPF receives revenues from fishing and hunting licenses and supports the majority of the Department of Fish and Game activities. We therefore recommend a reduction of $508,000 from the General Fund and a corresponding increase in reimbursements from the Department of Fish and Game (Item 3600) for this program.

DEPARTMENT OF HEALTH SERVICES—Continued

Administration's Nuclear Response Proposals Not Coordinated

We recommend that prior to budget hearings, the administration submit to the fiscal committees information related to the planning and implementation of the final two phases of the state nuclear response plan.

The budget proposes to augment expenditures in the Office of Emergency Services (OES) by $200,000 from the Nuclear Planning Assessment Special Account (NPASA) to implement Ch 450/87, which increased fees collected from nuclear power utilities in order to pay for completion of the final two components of the state's nuclear response plan. The OES budget proposes to use $60,000 of this amount for one position and related expenses. It proposes to use the remaining $140,000 to reimburse the DHS for Chapter 450 activities. The DHS budget reflects reimbursements of a different amount—$205,000—for this purpose.

The OES indicates that it intends to spend approximately $100,000 in the current year to implement Chapter 450. It intends to seek authorization for these expenditures through the Section 28 process. It indicates that it intends to use $80,000 of the $100,000 to reimburse the DHS. The DHS budget reflects reimbursements of $105,000 for Chapter 450 activities.

Background. The OES currently assesses fees on utilities operating nuclear power plants in order to fund costs related to developing the state and local emergency response plans required by the federal Nuclear Regulatory Commission (NRC). The NRC requires that state plans address three components: (1) evacuation or sheltering the population living in the fallout pattern, or plume (the plume phase), (2) evaluation of hazards resulting from contamination of food, livestock, and other ingestible products (the ingestion pathway phase), and (3) evaluation of environmental risks associated with reentry and occupation (the recovery phase). The OES and DHS have completed the plume phase of the required plan.

Chapter 450, Statutes of 1987, authorized the OES to increase the fees collected from nuclear power utilities in order to generate up to $200,000 annually to be used for development and maintenance of the ingestion pathway and recovery components of the plan. The measure specified that up to the entire amount of the increase may be used to support the DHS planning activities. The DHS indicates that it is the lead agency for these two last phases of planning.

Current-Year Activities. At the time this analysis was prepared, the OES had not yet determined the activities it would conduct with the funds it anticipates requesting in the current year. The DHS intends to use its current-year allocation to develop the ingestion pathway phase of the plan. Specifically, the funds would be used to (1) establish 2.5 positions to (a) develop the state plan and procedures, (b) coordinate state and local activities, and (c) train state and local agency personnel and (2) contract with the California State University System (CSUS) for production of training materials.

Budget-Year Activities. The position proposed by the OES would be responsible for implementation of the ingestion pathway phase of the state's plan. Specifically, the position would (1) develop the state plan and procedures, (2) coordinate state and local activities, and (3) train local agencies.

The DHS reports that its reimbursements from the OES would be used to develop the recovery component of the plan. Specifically, it would use the funds to (1) purchase equipment for monitoring the areas surrounding nuclear power facilities, (2) continue the 2.5 positions to (a) develop the state plan and procedures, (b) coordinate state and local activities, and (c) train state and local agency personnel, and (3) contract with the CSUS for production of training materials. In addition, the DHS staff would continue to coordinate with state and local agencies regarding implementation of the ingestion pathway component of the plan.

Contradictions and Duplication in Administration's Proposal. We found a substantial amount of conflict and/or duplication among the budgets and responsibilities proposed for the OES and DHS during both the current and budget years. The OES and the DHS were unable to resolve the following questions:

1. *How much does the administration intend to spend during the current and budget years?* The OES and DHS budgets contain conflicting assumptions regarding 1988-89 spending. The two agencies also appear to have different assumptions regarding spending in the current year.

2. *Who will develop the ingestion pathway phase of the state plan and by when?* The DHS reports that it will work with state and local agencies to develop this phase of the plan in the current year and implement it in 1988-89. However, the OES reports that it will develop the ingestion pathway phase of the plan during 1988-89.

3. *When will the recovery phase of the state plan be developed?* Because the OES and DHS are unable to agree on whether the ingestion pathway phase of the plan will be developed during the current or the budget years, we were unable to ascertain exactly when the recovery phase of the plan would be initiated and completed.

Our analysis indicates that the administration has failed to prepare a coordinated plan for completing the final two phases of the state's nuclear response plan. We therefore recommend that the administration submit to the fiscal committees, prior to budget hearings, (1) revised budgets that reconcile the discrepancies we have identified and (2) a work plan that delineates responsibilities of the two agencies involved and identifies a schedule for planning and implementing the final two phases of the state nuclear response plan.

Administration Fails to Provide Timely Information on Proposed Program Expansion

We withhold recommendation on $1.4 million from the General Fund proposed for the expansion of the cancer registry program because the administration did not provide the information necessary to evaluate the proposal in a timely manner.

The budget proposes a General Fund augmentation of $1,448,000 in order to expand the state's cancer registry. The department currently collects data on the incidence of cancer in 36 California counties containing approximately 80 percent of the population. The cancer registry is designed to track the incidence of cancers in order to determine whether environmental factors are causing them.

Chapter 841, Statutes of 1985 (AB 136), requires the department to expand the registry statewide with (1) all regional registries being

DEPARTMENT OF HEALTH SERVICES—Continued

initiated by July 1, 1988 and (2) the registry being fully operational by July 1, 1990. The 1988-89 budget reflects initial expansion to all 58 counties.

We were unable to complete our review of this budget proposal by the time this analysis was prepared because the administration did not submit information in a timely manner concerning the particulars of how the expansion will be implemented. Therefore, we withhold recommendation on $1,448,000 from the General Fund proposed for the expansion of the state's cancer registry.

Vaccine Purchase

We recommend that the department provide the fiscal committees, prior to budget hearings, an explanation of how it proposes to obtain $333,000 for vaccine purchases from Older Americans Act funds.

The budget proposes an augmentation of $440,000 ($107,000 from the General Fund and $333,000 from federal Older Americans Act funds) for the immunization program in order to purchase additional influenza vaccines for local distribution and permanently establish a program for distributing pneumococcal vaccine.

The immunization program purchases vaccines and distributes them to local health departments for administration to seniors and other individuals at high risk for influenza and pneumonia. The department estimates that it will distribute 525,000 doses of influenza vaccine during the current year. Influenza vaccines are given annually. The department has operated a pilot program for distributing pneumococcal vaccines during 1986-87 and 1987-88. These vaccines need only be given once in order to sustain protection from 23 out of the 80 different types of pneumonia. The department estimates that it will distribute 35,000 to 40,000 doses of pneumococcal vaccine during the current year.

The budget proposes an augmentation for these programs totaling $440,000. This amount consists of:

- A one-time augmentation of $105,000 to eliminate a "funding shortfall" that has accumulated in the influenza program as vaccine costs have increased by more than the Budget Act appropriation. As a result of the scheduling of the vaccine purchases, the program has been able to cover increased costs using funds from the next year's appropriation. This practice has resulted in an accumulated shortfall of $105,000.
- $160,000 for the influenza vaccine program to pay for cost increases and increase the number of doses purchased by 4.9 percent. The department indicates that the actual cost of purchasing the additional influenza vaccines may change.
- $175,000 to establish an ongoing program of providing pneumococcal vaccines to 55,000 individuals annually.

Our analysis indicates that the department's proposal to establish a pneumococcal vaccine program and support the influenza vaccine program is a worthwhile one. These vaccines offer a low-cost method of preventing serious and costly illnesses.

However, our analysis indicates that the department cannot support the program with $333,000 in Older Americans Act (OAA) funds as the budget proposes. Current federal law does not authorize the state to spend OAA funds in this manner. The federal government requires that all OAA funds be provided to local Area Agencies on Aging through the Department of Aging. The department could not explain how it would obtain these OAA funds.

We recommend that the department provide the fiscal committees, prior to budget hearings, an explanation of how it proposes to obtain $333,000 for vaccine purchases from Older Americans Act funds.

4. TOXIC SUBSTANCES CONTROL

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

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

Table 17
Department of Health Services
Toxic Substances Control Division
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

Programs	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change from 1987-88 Amount	Change from 1987-88 Percent
Hazardous Waste Management and Planning					
Hazardous Waste Control Account	$24,720	$29,736	$35,069	$5,333	17.9%
Hazardous Waste Management Planning Subaccount	4,850	2,145	2,983	838	39.1
Federal funds (support)	4,252	5,890	6,126	236	4.0
Subtotals	($33,822)	($37,771)	($44,178)	($6,407)	(17.0%)
Site Mitigation					
General Fund	$8,406	$5,700	—	−$5,700	−100.0%
Hazardous Substance Account	16,474	13,523	15,338	1,815	13.4
Hazardous Substance Cleanup Fund (bond funds)	6,551	52,390	58,339	5,949	11.4
Hazardous Substance Site Operations and Maintenance Account	809	2,765	56	−2,709	−98.0
Superfund Bond Trust Fund	1,278	1,004	732	−272	−27.1
Special Account for Capital Outlay	—	1,500	—	−1,500	−100.0
Federal funds (special projects)	3,208	9,231	20,999	11,768	127.5
Subtotals	($36,726)	($86,113)	($95,464)	($9,351)	(10.9%)
Totals	$70,548	$123,884	$139,642	$15,758	12.7%

The budget proposes expenditures of $139.6 million (all funds) for the toxics division in 1988-89. This is an increase of $15.8 million, or 13 percent, above estimated current-year expenditures. The increase consists primarily of (1) projected increases in spending from bond funds and federal funds for site mitigation and (2) increases in staff and contract support for various ongoing programs of the division.

The budget proposes a total of 959.7 positions for the division in 1988-89, which is an increase of 54 positions above the 1987-88 authorized staffing level. This increase reflects the budget's request for 62 new positions offset by a reduction of 8 positions funded by federal grants.

Table 18 displays the changes proposed in the toxics division budget for 1988-89.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 18
Department of Health Services
Toxic Substances Control Division
Proposed 1988-89 Budget Changes
(dollars in thousands)

	Positions	*Amount*	*Fund*[a]
1987-88 expenditures (Budget Act)	833.2	$64,099	Various
Baseline adjustments, 1987-88:			
1. Statutory appropriations		38,711	Various
2. Debt service for bond funds		6,004	Various
3. Intradepartmental transfer		866	Various
4. Miscellaneous personal services adjustments		539	Various
5. Federal funds for operations and maintenance of Stringfellow		2,765	HSOMA
6. Transfer federal funds from special projects	72.5	10,869	Federal
7. Unexplained adjustment		31	Various
1987-88 expenditures (revised)	905.7	$123,884	Various
Baseline adjustments, 1988-89:			
1. Full-year costs of positions added in 1987-88		$5,932	Various
2. Reduction for one-time equipment purchases		−448	Various
3. Operating expense and equipment adjustments		529	Various
4. Increase in responsible-party payments		1,811	HSA
5. Decrease in interest on General Fund loan		−400	HWCA
6. Decrease in debt service for bond funds		−272	Various
7. Increase in zone contract expenditures		1,195	HSCF
8. Increase in hazardous waste planning expenditures		394	HWMPS
9. Miscellaneous personal services adjustments		731	Various
10. Federal funds increase	−8.0	12,004	Federal
11. CALSTARS allocation		163	Various
12. One-time operations and maintenance for Stringfellow		−2,706	HSOMA
13. Elimination of statutory expenditures			
a. Ch 1428/85—cleanup of Stringfellow site		−5,000	General
b. Ch 1508/86—cleanup of ASARCO site		−700	General
c. Cleanup of ASARCO site		−1,500	SAFCO
d. Other statutory appropriations		−290	HWCA
Subtotals	(−8.0)	($11,443)	Various
Program change proposals:			
1. New statutory appropriations			
a. Hazardous waste research coordination	2.0	$158	HWCA
b. Land treatment units	1.0	40	HWCA
c. International hazardous waste shipments	1.0	54	HWCA
2. Increase administrative support staff	10.0	964	Various
3. Increase cost recovery support and accounting	20.0	892	Various
4. Increase treatment standards development staff	10.0	751	HWCA
5. Increase technical services staff	14.0	1,233	Various
6. Increase contracting staff	4.0	223	Various
Subtotals	(62.0)	($4,315)	Various
1988-89 expenditures (proposed)	959.7	$139,642	Various
Change from 1987-88 (revised):			
Amount	54.0	$15,758	
Percent	6.0%	12.7%	

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

A. HAZARDOUS WASTE MANAGEMENT

Once Again, the Hazardous Waste Control Account is in Trouble

We recommend that prior to budget hearings, the division report to the fiscal committees on (1) its current estimate of the Hazardous Waste Control Account (HWCA) revenue shortfall, (2) a plan for bringing revenues in line with expenditures in the current year, (3) the basis for assuming that collecting past-due fees will cover the facility fee shortfall, and (4) the division's recommendations for revising the HWCA fee structure to avoid future revenue problems.

The Hazardous Waste Control Account (HWCA) funds the state's hazardous waste management programs. The account is supported by fees assessed against (1) disposers of hazardous waste, (2) storage, treatment, and disposal facility operators, and (3) facilities that generate hazardous waste. Existing law (Ch 1506/86) requires 46 percent of the HWCA revenue to be derived from disposers of hazardous waste, 25 percent from facility operators, 25 percent from generators, and the remaining 4 percent from fines, penalties, and miscellaneous fee collections. These fees are collected by the Board of Equalization (BOE).

The division's authority for collecting these fees will sunset on June 30, 1988, unless legislation is enacted to extend this date or establish a new fee schedule. Chapter 1398, Statutes of 1987 (SB 1249), requires the division, by January 15, 1988, to make recommendations for the establishment of a permanent system for the imposition of fees to fund the hazardous waste regulatory program. At the time this analysis was prepared, the division had not completed its report.

Current-Year Revenue Shortfall. The budget estimates current-year HWCA expenditures of $35.9 million to support hazardous waste regulatory programs in five departments. Of this amount, $29.7 million is for the toxics division. HWCA revenues for the first six months of 1987-88, however, were far short of the amount needed to support the hazardous waste program. According to the division, the largest shortfall was from disposal fees. Actual disposal fee revenues were 26 percent below expected revenue. Revenue from the facility fees was 11 percent below expected revenue. Revenue data on the generator fees were not available at the time this analysis was prepared because these fees are paid annually and were not due until January 1, 1988. As a result of revenue shortfalls, the division projects that expenditures could exceed revenues by $6.6 million during 1987-88. This projection assumes that the revenue shortfall will remain at the same percent and that there will be no shortfall from the generator fees.

In each of the last several years, HWCA revenues have been insufficient to cover program expenditures. To increase revenues, the division has usually adopted emergency regulations to raise its fees. In 1986-87, however, the division chose not to adopt emergency regulations and instead obtained authorization in the 1987 Budget Act to borrow $10 million from the General Fund to cover deficits for the two-year period, 1985-86 and 1986-87. (This loan is scheduled to be repaid by the end of 1988-89.)

The administration has not determined how it will solve the fund deficit problem in the current year. It is considering issuing emergency regulations to increase the *disposal* fees. The administration does not expect to raise the *facility* fees because it anticipates that sufficient

DEPARTMENT OF HEALTH SERVICES—Continued

revenue will be available to cover the shortfall in this area through the collection of past-due fees.

Because of the importance of the hazardous waste regulatory activities, it is essential that the HWCA has sufficient revenues to support program costs. The revenue shortfall in the current year and the potential for future revenue shortfalls could significantly hamper the division's ability to accomplish the many mandated tasks necessary to regulate hazardous waste. Therefore, we recommend the division report prior to budget hearings on (1) its current estimate of the revenue shortfall and its basis for assuming that past-due fees will cover the revenue shortfall from the facility fees, (2) the division's plan for bringing current-year revenues in line with expenditures, and (3) the division's recommendations for revising the HWCA fee structure to avoid future revenue problems.

Training Request Not Justified

We recommend deletion of $400,000 requested for employee training because the need for the funding has not been substantiated. (Reduce Item 4260-011-014 by $248,000 and Item 4260-011-710 by $152,000.)

The budget requests $400,000 ($248,000 from the HWCA and $152,000 from bond funds) for contracts to supplement its employee training program in the areas of (1) health and safety, (2) management, and (3) technical program procedures. The $400,000 is in addition to $567,000 for training that the division has in its baseline budget. The division has not provided any information describing the training courses that will be offered nor explained why the existing training funds are not sufficient. Without information that describes the funding request and justifies the need for increased funding, we have no basis to evaluate the proposal. Accordingly, we recommend deletion of the $400,000 requested for employee training.

Technical Support Contract Needs Further Justification

We withhold recommendation on $300,000 in contract funds requested for air quality monitoring and technical support guidance manuals pending receipt of justification for the request.

The budget requests $300,000 ($117,000 from the HWCA and $183,000 from bond funds) for contracts to provide technical support of permitting and site mitigation activities. The division indicates that the funds would be used to contract with (1) the Air Resources Board (ARB) for assistance in analyzing the air quality impacts of hazardous waste facilities and sites and (2) the University of California (UC) or other consultants for research concerning the environmental fate and transport of heavy metals and organic chemicals in the vadose zone (the soil region above groundwater). The division intends to compile this research into guidance documents to assist regional staff in determining the appropriate cleanup levels at hazardous waste sites. The division has not determined how the $300,000 will be divided between the two contracts.

Our analysis indicates that there is some need for technical support in the areas of air quality monitoring and environmental fate and transport of chemicals. The division, however, cannot say how much each contract will be and what specific work will be accomplished. Without this information, we have no basis to recommend approval. Therefore, we withhold recommendation on $300,000 requested in contract funds pending the receipt of information that describes the funding level and specific work activities of each contract.

State Funds Not Needed for Federally Mandated Program

We recommend deletion of $178,000 requested for the emergency response and chemical information program mandated by federal law because the budget proposes to fund the program with fee revenue rather than state funds. (Reduce Item 4260-011-455 by $178,000.)

The budget requests $178,000 from the Hazardous Substance Account to support the requirements of federal Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA). Title III generally establishes the public's right to know about the use or release of certain toxic chemicals by regulated businesses and requires each state to develop an emergency response and chemical information program. The division intends to transfer the funds to the Office of Emergency Services (OES), which is the lead agency for the program.

In the budget, however, the OES proposes to fund the program through industry fees and not state funds (please see Item 0690). Accordingly, we recommend deletion of $178,000 from the Hazardous Substance Account.

Toxicology Positions Not Needed in Budget Year

We recommend a reduction of 2.5 positions and $147,000 requested for the evaluation of treatment standards because the request is premature. (Reduce Item 4260-011-014 by $147,000.)

Chapter 1509, Statutes of 1986 (SB 1500), requires the division to adopt treatment standards for the land disposal of hazardous waste by May 8, 1990. The division has eight positions dedicated to development of treatment standards in the current year. The budget proposes to augment this program by $751,000 and 10 positions from the HWCA. Five of the positions would review treatment technologies and develop treatment standards. The other five positions would develop procedures for assessing the health risks associated with treatment technologies.

Not All Risk Assessment Positions Needed. The division indicates that in the budget year, it intends to begin evaluating which methodologies should be used to assess health risks. It does not intend to begin preparing actual health risk assessments until 1989-90. This is because Chapter 1509 does not require this type of risk assessment during the initial process for adopting treatment standards.

Despite the division's plans to delay actual risk analyses, the budget requests 2.5 toxicology positions for this purpose. Based on the division's work schedule and requirements of Chapter 1509, we recommend deletion of 2.5 positions and $147,000 to eliminate unnecessary positions.

Additional Controls Needed for Federally Funded Positions

We recommend that the Legislature adopt Budget Bill language prohibiting the division from redirecting 64.5 federally funded positions to other activities.

The budget proposes to transfer 64.5 positions and $22.1 million in federal funds from the department's special projects budget to the division's program budget. The federal funds are for site mitigation and hazardous waste management activities administered by the division.

DEPARTMENT OF HEALTH SERVICES—Continued

The department generally budgets activities that are supported by irregular funding sources, such as short-term research and demonstration projects, in the special projects category of the budget. Generally, special project funds and positions have been budgeted in a separate category because (1) the activities are fully supported by outside funding sources, (2) the projects are separate and distinct from other departmental functions—and generally peripheral to the mission of the department—and (3) the amount of funds and positions is subject to wide variability depending on the needs of the outside funding agency.

Based on our review of the projects proposed for transfer, we believe that transferring the projects is appropriate because (1) the federal funds associated with the toxics division projects have become a more reliable funding source that supports a large portion of the division's work and (2) it provides a more realistic view of the division's total program. The transfer of the positions, however, significantly impairs legislative control of the budget. This is because the division could easily redirect positions in its support budget to state-funded activities if the federal funds do not become available as anticipated. In the past, the division has redirected positions without informing the Legislature. If the positions were in the special projects budget, they could not be filled unless federal funds are available to support them.

To ensure that the positions are used for the purposes for which they are budgeted, we recommend that the Legislature adopt the following Budget Bill language in Item 4260-011-014:

> The 64.5 positions transferred from special projects shall not be redirected to state-funded programs.

Hazardous Waste Planning Program Overbudgeted

We recommend a reduction of $444,000 in the Hazardous Waste Planning program to eliminate overbudgeting. (Reduce Item 4260-011-014.)

Chapters 1502 and 1504, Statutes of 1986, require the department to develop a state hazardous waste management plan and provide assistance to local agencies in their efforts to prepare regional hazardous waste management plans and facility siting procedures. The legislation also created the Hazardous Waste Management Planning Subaccount (HWMPS) and transferred $10 million into the subaccount from federal Outer Continental Shelf (8g) revenues to assist local agencies in developing their plans and to support division administrative costs. The funds can be expended only if appropriated by the Legislature.

Administrative Costs Overbudgeted. The 1987 Budget Act includes $1,283,000 for division administrative costs associated with the planning program ($395,000 from the HWMPS and $888,000 from the HWCA). The budget proposes essentially the same level of funding for 1988-89, except that it proposes to shift a portion of the funding for the program from the HWCA to the HWMPS. In making the funding shift, however, the division increased funding from the HWMPS but failed to make the corresponding decrease in HWCA funding. As a result, the HWCA is overbudgeted by $444,000. To eliminate overbudgeting, we recommend a reduction of $444,000 in Item 4260-011-014.

B. SITE MITIGATION

Lack of Funds Could Significantly Impair Program Operations

We recommend that the division report at budget hearings on how it intends to support site characterization and mitigation costs in light of the fact that no new bond funds will be available in 1988-89.

The administration is proposing a new hazardous waste cleanup bond measure in the amount of $200 million for the November 1988 ballot. The budget projects that $8.7 million of these funds will be encumbered in 1988-89, leaving $191.3 million for expenditure in later years.

Background. In 1984 the voters authorized $100 million in bond funding to clean up hazardous waste sites. Chapter 1439, Statutes of 1985 (AB 129), appropriated $87.8 million of these funds for characterizing sites (determining the type and extent of contamination) and mitigating (cleaning up) contamination at a site. The enactment of Chapter 1439 left a total of $12.2 million in bond funds available for appropriation through the budget process for administrative expenses associated with the bond program. The budget estimates that all of the $12.2 million in administrative funds and $57.1 million of the $87.8 million in site characterization/mitigation funds will be spent by the end of the current year, leaving $30.7 million available in 1988-89.

Budget Proposal. Table 19 presents the department's proposed site mitigation expenditures and the funds available to support them. It shows that the department proposes expenditures of $60.9 million in 1988-89, including $32.2 million for site characterization and mitigation contracts and $28.7 million for administrative activities. To fund administrative activities in 1988-89, the budget proposes to revert and reappropriate $28.7 million from the $30.7 million remaining from the funds allocated by Chapter 1439 for site characterization and mitigation.

Table 19
Department of Health Services
Site Mitigation Program
Availability of Bond Funds in 1988-89
(dollars in millions)

		Available Funds		
Site Mitigation Program	*Expenditures*	*Ch 1439/85*	*Reversion/ Reappropriation*	*Shortfall*
Site characterization and cleanup contracts	$32.2	$2.0	—	$30.2
Administration	28.7	—	$28.7	—
Site mitigation				
Toxics division	(18.6)	—	(18.6)	—
Other	(2.6)	—	(2.6)	—
Underground tank cleanup oversight	(7.5)	—	(7.5)	—
Totals	$60.9	$2.0	$28.7	$30.2

The budget document states that approximately $8.7 million will be needed from the proposed new bond measure to support site characterization and mitigation costs in 1988-89. Our analysis indicates, however, that only $2 million will remain from the Chapter 1439 appropriation, leaving $30.2 million in costs—94 percent of the $32.2 million proposed for site characterization and mitigation in 1988-89—that must be supported from the new bond funds.

Delays in the availability of the new bond funds could seriously impair the department's ability to operate the site mitigation program. First, the new bonds would not be approved until November under the administration's proposal. This would affect the division's ability to encumber funds in the July to November period.

Second, the new bonds would not actually be sold until 1989-90, potentially resulting in a cash-flow problem in 1988-89. Although a portion of encumbrances against the $30.2 million to be funded from the new bond funds would not be liquidated until after the bond sale, it is likely that some cash will be needed during 1988-89 to pay contractors.

We recommend that the division report at budget hearings on how it intends to operate this program in light of this funding problem.

Bond Expenditures for Site Mitigation

We withhold recommendation on $21,218,000 requested from the Hazardous Substance Cleanup Fund, pending receipt of overdue reports from the division.

The budget requests $21.2 million in bond funds for administration of the site mitigation program. We have several concerns related to the proposal for bond expenditures in 1988-89 and the division's past performance with respect to the site mitigation program. Specifically, these concerns include:

1. ***Division Fails to Provide Essential Information.*** State law directs the division to (a) submit an expenditure plan for the use of bond act funds as part of the Governor's Budget and (b) report by October 1 of each year specified information concerning site mitigation activities during the previous fiscal year. At the time this analysis was prepared, neither the expenditure plan nor the annual report had been released.

The expenditure plan serves as the basis for (a) the division's estimate and projections of the number of sites being cleaned up by the state and the date at which various site mitigation activities will be completed and (b) the division's request for state staff and expenses to operate the mitigation program. The annual report is useful as a "yardstick" for evaluating the division's past performance in meeting the Bond Expenditure Plan estimates. Without these two reports, the Legislature is missing information essential to the evaluation of (a) past program performance and (b) whether budgetary promises for the future are realistic.

2. ***Division Does Not Anticipate Meeting Current-Year Goals.*** As part of the Bond Expenditure Plan submitted in the spring of 1987, the division projected how much work it would accomplish in 1987-88 in each of the five stages of the site mitigation process, starting with remedial investigations and ending with remedial action implementation. The Governor's Budget for 1988-89 includes a progress report on the output expected in 1987-88 in the five stages of site mitigation. According to the 1988-89 budget, only 61 percent of the site mitigation work identified in last year's Bond Expenditure Plan will be completed by the end of the year. (In 1986-87 the division met even fewer deadlines and only completed 38 percent of its program goals.) Table 20 compares the proposed program goals with the estimated output for the current year and indicates the percentage of work the division estimates it will accomplish.

Table 20
Department of Health Services
Site Mitigation Program
Status of Meeting Program Goals for 1987-88

Program Activity	*Proposed Output*	*Estimated Output*	*Percent Accomplished*
Remedial investigations	94	64	68%
Feasibility studies	97	64	66
Remedial action plans	70	48	69
Remedial action designs	65	26	40
Remedial action implementations	39	22	56
Totals	365	224	61%

Legislature Needs More Information. The information contained in the Bond Expenditure Plan, which was due January 1988, and the annual report, which was due October 1987, is essential in order for the Legislature to evaluate the budget proposal. This information will also be important for evaluating the extent to which the budget represents realistic goals for the site mitigation program in 1988-89 in light of past performance. Until the reports are submitted and we are able to evaluate the budget proposals, we have no basis for recommending approval of the bond funds requested in the 1988 Budget Bill. We therefore withhold recommendation on $21.2 million requested from the Hazardous Substance Cleanup Fund for administration of the site mitigation program, pending receipt of the overdue reports.

More Information Needed on Responsible-Party Collections Program

We withhold recommendation on $222,000 and four positions requested to recover costs from responsible parties for site mitigation activities, pending review of specified information concerning the implementation of the cost recovery program.

The department requests 14 positions and $718,000 from the Hazardous Substance Cleanup Fund (bond funds) to implement a responsible-party collections program. The proposal is divided into two parts: cost accounting and cost recovery. Of the 14 positions, 10 positions are requested to implement a cost accounting system to track expenditures on a site-specific basis. These data would provide the basis for the amount of funds the department would try to recover from the responsible parties. The remaining 4 positions (3 technical staff and 1 lawyer) are requested to seek recovery of costs from responsible parties through negotiations or litigation.

Background. Under current law, responsible parties are liable for the costs of site cleanup and state oversight of hazardous waste site cleanup. Responsible parties can pay for state costs in advance or after the costs have been incurred. (Advance payments increase the availability of funds for cleanup at other sites, while post-expenditure recoveries decrease potential General Fund liabilities for bond repayments.) The Governor's Budget estimates revenues of $2.8 million in 1988-89 from advance payments. The budget does not estimate any revenue from post-expenditure recoveries.

Recognizing the importance of a collections program and the failure of the department to implement such a program, the Legislature, in the *Supplemental Report of the 1987 Budget Act,* directed the division to develop a plan to recover state costs from responsible parties. Specifical-

DEPARTMENT OF HEALTH SERVICES—Continued

ly, the plan was to achieve post-expenditure recoveries of $80 million by 1990-91 and significantly increase the annual level of advance payments. The plan was to include (1) the tasks to be performed by the collections program, (2) the proposed division of responsibility by unit, (3) an outline of the proposed policy that will implement the plan, and (4) an estimate of resources needed to implement the plan.

Legislature Lacks Information. The division submitted the cost recovery plan to the Legislature on January 22, 1988. After reviewing the plan and discussing the program with the division, we still have several basic questions regarding the implementation of the cost recovery portion of the budget proposal. Specifically, we have the following questions:

1. ***What is the Workload in the Budget Year?*** The division has not described its assumptions with respect to the number of sites that will be involved in advance versus post-expenditure collections and the number of sites that will be involved in litigation versus negotiated settlements. In addition, the department has not (a) developed guidelines for determining when administrative and technical staff should refer cases to attorneys to initiate a court action enforcing a payment and (b) whether it will initiate enforcement actions on a periodic basis or after the completion of the cleanup. This information is needed to determine the number and expertise of the staff to be hired. For example, if the majority of post-expenditure recoveries are handled as enforcement actions, the Department of Justice may need additional staff. The Department of Justice budget, however, does not include additional staff for this purpose.

2. ***What are the Projected Revenues From Cost Recovery?*** The department has not indicated whether its program will enable revenues from cost recoveries to meet the Legislature's goals of (a) $80 million in post-expenditure payments by 1990-91 and (b) significant increases in advance payments.

Without the information described above, we are unable to determine if the four positions requested for cost recovery are needed and have the appropriate mix of expertise. Therefore, we withhold recommendation on the four positions and $222,000 pending receipt and review of this information.

Cost Analysis of Site Mitigation Contracts Appears Insufficient

We recommend the division provide, prior to budget hearings, (1) its justification for conducting a cost analysis on only 3 percent of the task orders for the site mitigation program and (2) additional information on the proposed cost analysis program.

The budget requests four positions and $233,000 ($56,000 from the Hazardous Waste Control Account and $167,000 from bond funds) for contract procurement and cost analysis for the site mitigation and alternative technology programs. The positions would be divided evenly between procurement and cost analysis. The procurement positions would primarily be involved in writing, reviewing, and awarding requests for proposals. The cost analysis positions would review costs estimated by contractors to determine whether they are reasonable.

Background. A major portion of the division's contract activities involve site mitigation contracts that are handled using a "zone contract" system. In this system, each of the division's three regional offices have several zone contracts to supply site characterization and cleanup services for all the hazardous waste sites in that region. A zone contract does not contain specific work tasks. The division assigns specific work tasks by issuing task orders to the zone contractors. Usually, the only competitive bidding that occurs is during the zone contractor selection. If the division chooses not to accept a zone contractor's estimate of the costs of a task order, it has the authority to pursue an independent bidding process.

Cost Analysis of Contracts Appears Inadequate. The division's contracting procedures have been reviewed in recent years by the Auditor General's Office and by the department's internal audits unit. These reviews have criticized the division for its failure to review task order costs to determine if they are reasonable. Specifically, the internal audit report indicates that such reviews would reduce the likelihood of paying overstated costs to contractors.

To initiate the cost analysis program, the division redirected one position from the procurement unit for the current year. The division has already identified savings from this effort. In one case, when the division reviewed the costs in a task order and chose to obtain independent bids, it reduced its costs by $470,000.

In 1988-89, the division estimates that 1,355 task orders will be submitted for funding approval. Based on the division's workload standards, the two additional positions requested will be able to perform a cost analysis on only 3 percent of the task orders. Clearly reviewing *all* task orders with equal scrutiny would not be cost-beneficial. It is likely, however, that the level of staffing proposed will not permit review of all the large and more complex task orders that merit such reviews. If this is the case, the division may not be proposing enough staff for cost analysis.

As the site mitigation work moves into the remedial action implementation phase (actual cleanup), the task orders will involve higher dollar amounts, probably in the millions, than has been the case up to now. It therefore appears that cost analysis of task orders will become more important in the future. To ensure that the division is performing the appropriate level of cost analysis in order to minimize state costs, we recommend that the division provide prior to budget hearings (1) its justification for conducting a cost analysis on only 3 percent of the task orders, (2) information on the distribution of task orders by dollar amount and type, and (3) its criteria for determining which task orders to review in detail.

Information Needed to Evaluate the Underground Tank Program

We withhold recommendation on $7.5 million requested from the Hazardous Substance Cleanup Fund, pending receipt of specified information.

The budget requests $7.5 million from the Hazardous Substance Cleanup Fund (bond funds) for the underground tank cleanup program. This is the second and final year of a two-year pilot program to provide funding to local entities to oversee the cleanup of underground storage tanks. The program also received $7.5 million in the current year. The program is operated by the State Water Resources Control Board under an agreement with the department.

In our analysis of the board's budget (please see Item 3940), we withhold recommendation on the $7.5 million in reimbursements from

DEPARTMENT OF HEALTH SERVICES—Continued

the department pending receipt of specific information that describes how the program is being implemented and the basis for the funding request. We therefore also withhold recommendation on the $7.5 million requested from the Hazardous Substance Cleanup Fund.

5. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

The California Medical Assistance program (Medi-Cal) is a joint federal-state program initially authorized in 1966 under Title XIX of the federal Social Security Act. This program is intended to assure the provision of necessary health care services to public assistance recipients and to other individuals who cannot afford to pay for these services themselves.

The budget proposes Medi-Cal expenditures of $6.3 billion ($3 billion General Fund) in 1988-89, including $128.6 million ($49.4 million General Fund) for state administration. The total level of General Fund expenditures proposed for Medi-Cal in the budget year represents an increase of $154.6 million, or 5.4 percent, as compared with estimated expenditures in the current year.

Table 21 shows Medi-Cal expenditures for 1986-87 through 1988-89.

Table 21
Department of Health Services
Medi-Cal Program
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

Program	*Fund*	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Health care services	State	$2,504,631	$2,731,156	$2,875,957 [a]	5.3%
	All	5,134,912	5,496,283	5,901,932 [a]	7.4
County administration	State	58,767	71,148	76,586	7.6
	All	136,672	151,409	166,782	10.2
Claims processing	State	10,853	13,674	13,551	−0.9
	All	41,095	53,440	53,345	−0.2
Subtotals	State	$2,574,251	$2,815,978	$2,966,094	5.3%
	All	5,312,679	5,701,132	6,122,059	7.4
State administration	State	40,746	44,940	49,453	10.0
	All	111,143	118,536	128,628	8.5
Totals	State	$2,614,997	$2,860,918	$3,015,547	5.4%
	All	5,423,822	5,819,668	6,250,687	7.4

[a] Includes expenditures of $3.4 million ($1.7 million General Fund) from the current-year appropriation for hospitals serving a disproportionate share of low-income patients.

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.

Eligibles, Users, and Expenditures by Eligibility Category in 1988-89

Eligibles. Table 22 shows the average number of persons per month that were eligible for Medi-Cal in each eligibility category in 1986-87 and the number that the budget estimates will be eligible in 1987-88 and 1988-89. The table shows that an average of 3,147,400 persons will be eligible for Medi-Cal benefits each month during 1987-88. This is 52,900 individuals, or 1.7 percent, more than the average number of beneficiaries eligible in the current year.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 22
Department of Health Services
Average Monthly Medi-Cal Program Eligible Recipients
By Eligibility Category
1986-87 through 1988-89

	Actual 1986-87	*Est. 1987-88*	*Prop. 1988-89*	*Change from 1987-88 Amount*	*Change from 1987-88 Percent*
Categorically needy					
AFDC	1,845,600	1,879,500	1,906,000	26,500	1.4%
SSI/SSP	732,600	758,000	781,700	23,700	3.1
Medically needy					
Families	219,600	213,200	212,300	−900	−0.4
Aged, blind, or disabled	56,300	58,800	59,700	900	1.5
Long-term care	66,500	67,100	67,900	800	1.2
Medically indigent					
Children	102,000	102,100	103,000	900	0.9
Adults	7,800	8,200	8,500	300	3.7
Refugees and other	8,000	7,600	8,300	700	9.2
Totals	3,038,400	3,094,500	3,147,400	52,900	1.7%

Expenditures by Eligibility Category. Table 23 shows the percentages of eligibles and expenditures that each eligible group is anticipated to account for in 1987-88. It also shows average cost per eligible. As the table shows, families receiving AFDC grants constitute 61 percent of Medi-Cal eligibles and 27 percent of expenditures. The SSI/SSP recipients, on the other hand, make up 24 percent of the caseload and account for 37 percent of the expenditures. Long-term care residents account for only 2 percent of the caseload, yet they account for 19 percent of expenditures.

Table 23
Department of Health Services
Medi-Cal Expenditure Patterns by Eligibility Category[a]
1987-88

	Percent of Eligibles	*Percent of Expenditures*	*Cost Per Eligible*
Categorically needy			
AFDC	60.5%	27.0%	$782
SSI/SSP	24.4	36.9	2,652
Long-term care	2.2	18.8	15,277
Medically needy			
Families	6.9	7.3	1,874
Aged, blind, or disabled	1.9	5.1	4,773
Medically indigent			
Children	3.9	3.6	1,631
Adults	0.3	1.3	8,328
Totals	100.0%	100.0%	$1,755

[a] Excludes refugees and other.

Scope of Benefits

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

Federal law requires states participating in the Medicaid program to provide a core of basic services, including hospital inpatient and outpatient; skilled nursing; physician services; laboratory and X-ray; home health care; early and periodic screening, diagnosis, and treatment (EPSDT) for individuals under 21; family planning; and rural health clinics (as defined under Medicare). In addition, the federal government provides matching funds for 32 optional services. California provides 30 of these 32 optional benefits.

Estimates Will be Updated in May

We withhold recommendation on $6.1 billion ($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 1987. The department will present revised estimates in May, which will be based on program costs through February 1988. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1988-89 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 $113.6 Million in 1987-88

The budget anticipates that expenditures for Medi-Cal health services during 1987-88 will exceed available funds by $219.5 million ($113.6 million General Fund). According to the budget, $20 million of this amount (for the Los Angeles County audit settlement) will be funded by "proposed legislation," with the remainder to be funded through the annual deficiency bill. Table 24 shows the components of the deficiency.

The major elements of the current-year deficiency are:

- ***Veto Related to Program Restructuring Proposals ($35.3 Million General Fund).*** The administration built the current-year budget on the assumption that it could implement various "program restructuring" proposals to reduce Medi-Cal expenditures. The Legislature augmented the Budget Bill to make the reductions unnecessary. The Governor, however, vetoed the augmentation, stating that he continued to support the restructuring proposals. The department has not been able to implement the restructuring proposals because (1) it has not obtained legislation needed to implement many of the proposals and (2) it has dropped the "patterns of treatment" proposal, which accounted for $50 million ($25 million General Fund) of the anticipated savings, because the proposal was technically unworkable.
- ***Delay in Implementing 1986-87 Rate Reductions ($31.2 Million General Fund).*** In early 1987, the administration attempted to implement a 10 percent rate reduction affecting many Medi-Cal providers. State law authorizes such rate reductions under some circumstances when a Medi-Cal deficiency is projected. Providers

DEPARTMENT OF HEALTH SERVICES—Continued

Table 24

Department of Health Services
Medi-Cal Health Care Services
Proposed Budget Changes
1987-88 and 1988-89
(dollars in millions)

1987-88	*General Fund*	*All Funds*
Funds available, 1987 Budget Act		
1. Health benefits item	$2,599.8	$5,235.1
2. Refugee reimbursements	—	18.9
3. Rate increase item	4.9	9.9
4. Abortion item	12.9	12.9
Subtotals, 1987-88 expenditures (Budget Act)	($2,617.6)	($5,276.8)
Unfunded costs and other changes		
1. Restore funds related to program restructuring proposals	35.3	70.6
2. Delay in implementing 1986-87 rate reductions	31.2	62.3
3. Restore Los Angeles County audit settlement funds	20.0	20.0
4. Abortions	13.0	11.3
5. Increase in Medicare premiums	8.7	14.9
6. Immigration-related changes	3.8	12.3
7. Decreased payments by insurance carriers	4.4	8.8
8. Changes in caseload, utilization, and all other	−2.8	19.3
1987-88 expenditures (revised)	$2,731.2	$5,496.3
Projected deficiency	(−$113.6)	(−$219.5)
1988-89		
Caseload and cost adjustments		
1. Increase in eligibles	$31.8	$63.2
2. Increase in percent using services	58.3	115.4
3. Increases in cost per unit and units per user	53.1	105.5
Subtotals, baseline adjustments	($143.2)	($284.1)
Proposed program changes		
1. Immigration-related changes	$22.9	$112.9
2. Implementation of 10 percent rate reductions delayed from 1986-87	−31.2	−62.3
3. Program restructuring	−23.1	−46.3
4. Drug ingredient rate changes	−6.5	−12.9
5. Beneficiary cost-of-living adjustment (COLA)	9.7	19.4
6. Restrictions on abortions	−13.0	−11.3
7. Parental consent for abortions	0.9	2.7
8. Limit on visits to physicians	−4.6	−9.3
9. Discretionary provider rate increases	3.1	6.3
10. Statutory COLAs for providers	13.5	26.8
11. Institutions for mental diseases (IMDs)	−2.6	−12.3
12. IMD audit settlement	25.5	—
13. Case management for developmentally disabled (DD)	—	31.5
14. Federal waiver for placement of DD clients	—	13.2
15. Multipurpose senior services project	—	10.9
16. Delete augmentation for small and rural hospital outpatient services	−2.0	−4.0
17. All other changes	8.9	56.2
Subtotals, proposed program changes	($1.6)	($121.5)
1988-89 expenditures (proposed)	$2,876.0	$5,901.9
Change from 1987-88:		
Amount	$144.8	$405.6
Percent	5.3%	7.4%

obtained temporary restraining orders from the federal courts preventing implementation of the rate reductions during 1986-87. The 1987 Budget Act assumed that the department would win its court case and be permitted to retroactively impose the reductions. The department now indicates that the decision in the court case has been delayed and that, as a result, the rate reductions will not go into effect until 1988-89. Consequently, the Medi-Cal program is underfunded in the current year.

- ***Veto of Los Angeles County Audit Settlement Funds ($20 Million General Fund).*** The department signed an agreement in April 1987 with the County of Los Angeles to settle a series of Medi-Cal audits that covered program activities between 1972 and 1983. The agreement requires the state to pay $20 million plus interest payments of approximately $120,000 per month if the county is not paid by October 1987. The administration requested $20 million in the May 1987 revision of expenditures for this purpose. The Legislature approved the $20 million in the 1987 Budget Bill. The Governor, however, vetoed the funds, saying he was deferring payment because other expenditure needs took priority. The Governor's Budget now indicates that the audit settlement will be paid in 1987-88. According to the budget, this $20 million will be funded by "proposed legislation," not by the annual deficiency bill.
- ***Abortions ($13 Million General Fund).*** The Budget Act prohibits the Medi-Cal program from paying for abortions except under limited circumstances (in rape cases, for example). Substantially the same prohibition has been included in every Budget Act for the last several years. Each year the courts have ruled that the provision unconstitutionally limits access to abortions. As a consequence of the court's ruling, the program will pay $14.7 million more for abortions in 1987-88 than was provided for in the Budget Act and $3.4 million ($1.7 million General Fund) less for deliveries and infant care.
- ***Increase in Medicare Premiums ($8.7 Million General Fund).*** The 1987 Budget Act assumed that Medicare premiums made by the Medi-Cal program on behalf of Medicare-eligible beneficiaries would increase from $17.90 to $19.30 per month. The actual premium was $24.80, resulting in an unanticipated monthly increase of $5.50 per case.
- ***Immigration-Related Changes ($3.8 Million General Fund).*** The federal Immigration Reform and Control Act of 1986 (IRCA) and the federal Omnibus Budget Reconciliation Act of 1986 (OBRA) require states to provide coverage for certain medical services to aliens. The Governor's Budget assumes that enabling state legislation (SB 175) will be signed in February 1988 to implement the administration's proposal for implementing these federal changes.
- ***Decreased Recoveries From Insurance Carriers ($4.4 Million General Fund).*** The 1987 Budget Act assumed that enhanced department efforts to identify beneficiaries' health insurance coverage would reduce costs by $10.2 million ($5.1 million General Fund) in 1987-88. Due to problems in identifying coverage for dependents and delays in performing data matches, the department has reduced estimated savings in 1987-88 to $1.4 million ($700,000 General Fund).

DEPARTMENT OF HEALTH SERVICES—Continued

Proposed Changes for 1988-89

Table 24 also displays the changes proposed for the Medi-Cal program in 1988-89. The budget projects that Medi-Cal expenditures will increase by $405.6 million ($144.8 million General Fund). This represents a General Fund increase of 5.3 percent over estimated current-year expenditures. Table 24 groups these changes into two categories: (1) caseload and cost increases ($143.2 million General Fund) and (2) proposed program changes ($1.6 million General Fund).

The caseload and cost increases consist of (1) eligible beneficiaries ($31.8 million), (2) the percent of eligible beneficiaries using services ($58.3 million), and (3) the cost per unit of service and the number of units of service per user ($53.1 million).

The proposed program changes consist of the following items:

- ***Immigration-Related Changes ($22.9 Million General Fund).*** The budget assumes the Legislature will pass the administration's proposal (SB 175) for implementing federal immigration-related requirements. This proposal is discussed in more detail below.
- ***Implementation of 10 Percent Rate Reductions Delayed From 1986-87 (Savings of $31.2 Million General Fund).*** The budget assumes the department will win its court case in 1988-89 and be permitted to retroactively impose a 10 percent rate reduction on many providers. These reductions were originally proposed to be effective February through June 1987. They have been prohibited by the federal courts pending a full hearing on the matter.
- ***Program Restructuring (Savings of $23.1 Million General Fund).*** The budget assumes the department will be able to implement a package of cost reduction proposals. The individual proposals and the estimated General Fund savings in 1988-89 from each proposal are (1) increases in insurance recoveries resulting from a private contract—$10 million, (2) changes in procedures for establishing maximum allowable ingredient costs (MAICs) for drugs to permit more rapid issuance of regulations and better estimates of drug acquisition costs—$670,000, (3) quantity restrictions for sleeping pills—$50,000, (4) 15 percent reduction in laboratory services rates—$5.7 million, (5) additional copayments by Medi-Cal recipients—$2.5 million, and (6) increases in the share of cost for medically needy and medically indigent beneficiaries—$4.2 million. With two exceptions, the savings proposals would require passage of legislation. The insurance recovery contract has already been implemented by the department. The quantity limitations on sleeping pills can be done administratively.
- ***Drug Ingredient Rate Changes (Savings of $6.5 Million General Fund).*** The budget assumes that the department will take a number of actions that will reduce Medi-Cal reimbursements for drug ingredients. These rate reductions are in addition to the proposals listed under the program restructuring proposals. Specifically, the department will (1) establish additional MAICs to limit the costs of certain drugs—$1.1 million, (2) update the list of drugs (the formulary) that can be dispensed without prior authorization to add less expensive drugs that are alternatives to more expensive drugs which

will be removed—$1.6 million, and (3) implement federal regulations establishing maximum reimbursement rates for selected drugs—$3.7 million.

- ***Beneficiary COLA ($9.7 Million General Fund).*** The budget contains funds for a 5.2 percent increase for beneficiary COLAs as required by statute. The Commission on State Finance has, however, determined that the California Necessities Index has increased by only 4.7 percent. Consequently, the May revision needs to reduce funding for this item by approximately $2 million ($1 million General Fund).
- ***Restrictions on Abortions (Savings of $13 Million General Fund).*** The budget again includes a provision that would prohibit the use of Medi-Cal funds to pay for most abortions. The restrictions would (1) reduce projected General Fund expenditures for abortions from $27.5 million to $12.8 million and (2) increase by $3.4 million ($1.7 million General Fund) delivery and infant care costs for mothers who carry the baby to term in the absence of Medi-Cal abortion funding.
- ***Parental Consent for Abortions ($885,000 General Fund).*** The budget assumes that Ch 1237/87 (AB 2274), which requires parental consent for minors to receive an abortion, will reduce Medi-Cal costs for abortions and increase costs for deliveries and infant care. The department estimates that the parental consent requirement would have the effect of eliminating 9,062 Medi-Cal-funded abortions for minors. In addition, the program would pay for the delivery and infant care costs associated with 2,598 additional births. The courts have issued a temporary restraining order preventing implementation of this requirement until the case has been heard on its merits. Consequently, it is possible that these costs may be reduced or may not materialize at all.
- ***Limit on Visits to Physicians (Savings of $4.6 Million General Fund).*** The budget proposes to limit the number of visits a patient can make to a physician to six in a 90-day period. Physicians could, however, be reimbursed for additional visits if they submit documentation with their billing statements that shows the additional visits are medically necessary. The department plans to implement this proposal administratively in order to provide funds for the discretionary rate increases detailed below.
- ***Discretionary Provider Rate Increases ($3.1 Million General Fund).*** The budget proposes rate increases of 16 percent for maternity services provided by physicians; 11.8 percent for maternity services provided by clinics; 50 percent for portable X-ray transportation; and 10 percent for well-child examinations, children's comprehensive examinations, and home health services. In addition, the budget provides a $150 increase for maternity services provided by comprehensive perinatal service providers. To qualify for the additional $150 increase, a provider would have to (1) begin providing service in the first three months of the pregnancy and (2) provide perinatal service on at least nine different occasions. These rate increases are estimated to cost $6.3 million ($3.1 million General Fund) in 1988-89 and $9.2 million ($4.6 million General Fund) annually thereafter.

DEPARTMENT OF HEALTH SERVICES—Continued

- ***Statutory COLAs for Providers ($13.5 Million General Fund).*** The budget contains $10.9 million ($5.5 million General Fund) for a 7.1 percent increase for noncontract hospital inpatient services and $16 million ($8 million General Fund) for a 6.8 percent increase on drug ingredients.
- ***Institutions for Mental Diseases (IMDs) ($22.9 Million General Fund).*** Effective August 1987, 37 skilled nursing facilities (SNFs) with special treatment programs (STPs) for mentally disabled persons lost eligibility for Medi-Cal funding for patients between the ages of 22 and 64 as a result of being reclassified as IMDs pursuant to federal audits. Consequently, the Legislature transferred responsibility for paying for IMD services to these patients to the Department of Mental Health. The 1988-89 budget proposes three adjustments related to this change: (1) a reduction of $12.3 million ($6.1 million General Fund) to reflect full-year implementation of the transfer, (2) an augmentation of $3.5 million from the General Fund to reflect 100 percent state funding of IMD ancillary services, and (3) a one-time augmentation of $25.5 million from the General Fund in order to pay the federal audit settlement for past inappropriate claiming of federal funds for IMD services.
- ***Delete Augmentation for Small and Rural Hospital Outpatient Services (Savings of $2 Million General Fund).*** The 1987 Budget Act included $4 million ($2 million General Fund) for a rate increase to small and rural hospitals for outpatient services. This expenditure is required by Ch 1476/87. The department advises that 83 hospitals will receive grants ranging from $1,434 to $186,000, with a median grant level of $41,000 in the current year. This legislation does not increase outpatient rates for small and rural hospitals on a permanent basis, so the department has not incorporated this increase in its estimate of budget-year expenditures.

Unfunded 1988-89 Medi-Cal Program Costs

We recommend that in its May revision of expenditure estimates, the department (1) incorporate estimates of costs resulting from long-term care cost-of-living adjustments and the minimum wage increase and (2) document the basis for the savings estimate associated with its insurance recoveries proposal.

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

1. ***Long-Term Care Cost-of-Living Adjustments (COLAs).*** The budget does not contain funds for statutorily required COLAs for nursing homes, state hospitals, and other long-term care facilities. Long-term care COLAs are established based on audit data, which are not yet available. The Legislature augmented the 1987 Budget Bill by $74.4 million ($37.3 million General Fund) to recognize these costs. It is too early to determine if 1988-89 long-term care COLA expenditures will be in the same cost range.

2. ***Minimum Wage Increase.*** In December 1987, the California Industrial Welfare Commission increased the minimum wage from $3.35 to

$4.25 an hour, effective July 1, 1988. According to the department, the majority of staff employed by nursing homes earn less than $4.25 an hour. Under the current state plan, Medi-Cal rates must cover salary and benefit costs. The Medi-Cal budget, however, does not include funding for the minimum wage increase. We estimate that Medi-Cal expenditures for the higher minimum wage will be approximately $64 million ($32 million General Fund) in 1988-89 and $74 million ($37 million General Fund) annually thereafter.

3. ***Proposal for Increased Insurance Recoveries.*** The budget projects savings of $20 million ($10 million General Fund) resulting from the new contract to identify cases where insurance companies are liable for services received by Medi-Cal recipients. We believe that this estimate may be optimistic. The department could provide no analytical basis for estimated savings of this amount.

Immigration-Related Proposals

We withhold recommendation on $137.8 million ($28.9 million General Fund) proposed in the budget for immigration-related changes pending legislative action on the administration's proposal to implement two new federal laws. We further recommend that in the May revision the administration address the problems we identify in its estimates of funding needs.

The budget proposes a number of funding adjustments related to changes in Medi-Cal eligibility for aliens mandated by two federal laws enacted in 1986: the Immigration Reform and Control Act (IRCA) and the Omnibus Budget Reconciliation Act (OBRA). The budget assumes that the department's proposed legislation (SB 175) to implement the federal mandates, and make related changes, would have been enacted by the Legislature and would have become effective February 1, 1988. The budget also assumes that the Medi-Cal program will receive federal "State Legalization Impact Assistance Grant" (SLIAG) funds to offset a portion of the General Fund costs of the eligibility changes.

The budget reflects costs of $17.4 million ($4.3 million General Fund) in the current year and $137.8 million ($28.9 million General Fund) in 1988-89 related to these changes. The General Fund amounts reflected in the budget would be higher by $5.6 million in the current year and $47.3 million in 1988-89 if SLIAG funds were not available to offset a portion of General Fund costs.

Once the changes are fully phased in, the projected cost of the proposed eligibility changes is $173.5 million ($94.1 million General Fund) on an annual basis. This estimate of annual General Fund cost does not include any potential offsetting effect resulting from the availability of SLIAG funds.

Table 25 shows the specific budget adjustments in the current and budget years and the projected annual costs of the department's proposal. The annual costs are higher than 1988-89 costs primarily due to delays in processing of applications for legal status under the IRCA.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 25
Department of Health Services
Medi-Cal Program
Immigration-Related Changes
Annual Costs of Administration's Proposal
And Proposed Budget Adjustments
(dollars in thousands)

	1987-88		*1988-89*		*Annual Costs*	
	General Fund	*All Funds*	*General Fund*	*All Funds*	*General Fund*	*All Funds*
Health services						
Costs	$7,354	$12,333	$70,095	$125,262	$88,978	$163,029
SLIAG[a] reimbursements	−3,567	—	−43,405	—		
Net costs	$3,787	$12,333	$26,690	$125,262		
County administration						
Costs	$2,494	$4,988	$5,831	$11,663	$4,709	$9,418
SLIAG[a] reimbursements	−1,987	—	−3,741	—		
Net costs	$507	$4,988	$2,090	$11,663		
Fiscal intermediary						
Costs	$27	$106	$232	$921	$446	$1,055
SLIAG[a] reimbursements	−10	—	−124	—		
Net costs	$17	$106	$108	$921		
Totals						
Costs	$9,875	$17,428	$76,158	$137,846	$94,133	$173,502
SLIAG[a] reimbursements	−5,564	—	−47,270	—		
Net costs	$4,311	$17,428	$28,888	$137,846		

[a] State Legalization Impact Assistance Grant.

Below we discuss (1) current Medi-Cal procedures, (2) the federal changes, (3) the budget proposal, (4) the Legislature's options, (5) the costs for providing full benefits to aliens, (6) issues related to SLIAG funding, and (7) considerations in choosing a course of action.

Current Medi-Cal Procedures

Currently, aliens are generally not eligible for Medi-Cal unless they are legal residents. Some undocumented aliens, however, receive services through the "CA-6" process. In this process, undocumented aliens may receive services if they certify under penalty of perjury that they are not under a deportation order. The certifications (CA-6 forms) are sent to the federal Immigration and Naturalization Service (INS) for verification of the alien's status. Usually in these cases the INS determines that the alien is not a legal resident and Medi-Cal eligibility is discontinued after two or three months.

As a practical matter, the department reports that undocumented aliens are often unwilling to sign the CA-6 form because they fear that contact with the INS would lead to deportation. Consequently, this procedure is used primarily for high-cost services such as delivering a baby or hospital care following an accident. The procedure is used most frequently by county hospitals.

Federal Changes

The IRCA established a program to allow undocumented aliens who have lived in the United States for a long period of time to become legal residents. (Please see our discussion of issues related to the IRCA in Part Three of *The 1988-89 Budget: Perspectives and Issues.*) The IRCA provides that aliens receiving legal status are entitled to Medi-Cal coverage if they are otherwise eligible for Medi-Cal. Legalized aliens who are children (under age 19), aged, blind, or disabled are entitled to full benefits; others are entitled to emergency services, including labor and delivery, plus prenatal and postnatal care.

The OBRA extends Medi-Cal coverage to undocumented aliens and aliens with visas. These aliens are eligible only for emergency services, including the costs associated with labor and delivery.

Table 26 compares Medi-Cal benefits for citizens to benefits for aliens as required under the IRCA and OBRA.

Table 26
Department of Health Services
Medi-Cal Program
Benefits for Citizens Versus
Benefits for Aliens Required by the
Immigration Reform and Control Act and the
Omnibus Budget Reconciliation Act of 1986

	Citizens	*Legalized Aliens (IRCA Aliens)*	*Undocumented Aliens (OBRA Aliens)*
Children (under age 19)	Full scope	Full scope	Emergency care including labor and delivery
Aged, blind, and disabled	Full scope	Full scope	Emergency care including labor and delivery
Adults in families with children	Full scope	Emergency care including labor and delivery Prenatal and postnatal care	Emergency care including labor and delivery
Other adults	No benefits	No benefits	No benefits

At the time this analysis was prepared, the Legislature had not enacted any changes to state law to implement these mandates. No change is needed to allow aliens legalized under the IRCA to receive Medi-Cal because, as legal residents, state law entitles them to services. Some of these aliens are, in fact, receiving services. State law does not authorize the Medi-Cal program to restrict the scope of benefits, so these aliens are receiving the full scope of services. Any nonfederally mandated services are 100 percent state-funded.

The OBRA changes will go into effect on January 1, 1989 or when implementing state legislation goes into effect, whichever is sooner. Consequently, entitlement to Medi-Cal has not changed yet for undocumented aliens.

Budget Proposal

In its legislative proposal, SB 175, the department proposes to provide (1) the benefits mandated by federal law, plus (2) prenatal and postnatal services for undocumented aliens. Prenatal and postnatal services for undocumented aliens would be funded 100 percent from the General Fund. Table 27 shows the department's estimate of the caseload and annual costs resulting from its proposal. The estimates assume that 25 percent of eligible undocumented aliens will not apply for Medi-Cal due to fear of deportation.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 27
Department of Health Services
Medi-Cal Program
Annual Caseload and Costs
Under SB 175

Category	*Caseload*	*Cost Per Eligible*	*Cost (in thousands)*
Effect of federally mandated changes			
Legalized aliens (IRCA)			
1. Children	40,497	$1,786	$72,328
2. Aged, blind, and disabled	2,809	4,818	13,534
3. Adults in families with children			
a. Labor and delivery	10,852	1,529	16,593
b. Other emergency services	46,905	247	11,586
c. Prenatal and postnatal care	(10,852)	971	10,537
Undocumented aliens (OBRA)			
1. Labor and delivery	15,373	1,529	23,505
2. Other emergency services	152,202	247	37,594
Savings in current costs for services to aliens (CA-6 process)	−30,000	1,252	−37,575
County administration and fiscal intermediary	—	—	10,473
Subtotals	238,638		($158,575)
(General Fund)			(79,206)
Nonfederally mandated changes proposed in SB 175			
Undocumented aliens—prenatal and postnatal services (all General Fund)	(15,373)	971	14,927
Totals	238,638		$173,502
(General Fund)			($94,133)

Problems With Estimates. Our analysis indicates that these estimates are overstated in two ways. First, the cost per eligible for children should be reduced from $1,786 to $995. The department's figures assume the average alien child would cost the same as the average medically indigent child who requires a great deal of hospital care. There is no reason to assume that alien children will require such extensive care. Adjustment of the average cost per child to reflect a weighted average cost for different aid categories of children would reduce the costs shown on Table 27 for the minimum federal program by $32 million ($16 million General Fund).

Second, recent Department of Finance data indicate that the percentage of women among IRCA applicants is declining. Incorporating this trend into the estimates would reduce the estimated cost of deliveries and pregnancy-related services by approximately $12.5 million.

We recommend that in its May revision the department update its estimates to address these factors.

The Legislature's Options

The Legislature has three options in implementing the eligibility changes mandated by the IRCA and OBRA: (1) provide federally mandated coverage only, (2) provide federally mandated coverage plus additional selected benefits (the department's proposal is one possible configuration), and (3) provide full benefits to all aliens who meet

Medi-Cal eligibility criteria. Any benefits provided above the minimum federal level would be 100 percent state-funded.

What if the Legislature Does Not Act on This Issue? If the Legislature takes *no* action on this issue, the department believes it is likely that current state law will require it to provide full benefits to all aliens—the third option. Predicting the outcome if the Legislature takes no action is a complex legal issue that involves interactions between state and federal law. The department's conclusion is based essentially on the following reasoning:

- Federal law entitles all aliens who meet Medi-Cal eligibility requirements to receive Medi-Cal services.
- State law does not authorize the department to issue Medi-Cal cards for a limited range of services.
- Consequently, the state must provide a full scope of Medi-Cal services to all eligible aliens.

The next section describes the additional costs, above SB 175 costs, associated with option 3.

Costs for Extending Full Benefits to Medi-Cal-Eligible Aliens

Table 28 displays the additional annual costs, above SB 175 costs, for providing full benefits to Medi-Cal-eligible aliens. The estimates are based on the department's estimates of the annual costs for providing nonemergency/non-pregnancy-related benefits to Medi-Cal-eligible aliens who would not receive these benefits under SB 175. Table 28 presents a range of costs based on the level of deterrence due to fear of deportation. The "maximum deterrence" figures assume that (1) there would be no deterrence among legalized aliens because they are legal residents, (2) 30 percent of undocumented pregnant women would avoid care or find another way to pay for it rather than sign a Medi-Cal application, and (3) 90 percent of other undocumented aliens would avoid nonemergency care or find another way to pay for it rather than sign a Medi-Cal application.

Table 28

Department of Health Services
Medi-Cal Program
Additional Annual Costs, Above SB 175 Costs [a], for Providing Full Benefits to Medi-Cal-Eligible Aliens [b]
General Fund
(dollars in millions)

	Costs With No Deterrence	*Costs With Maximum Deterrence*
Legalized aliens (IRCA)		
Adults in families with children	$77.7	$77.7
Undocumented aliens (OBRA)		
Children	203.6	20.4
Aged, blind, and disabled	14.7	1.5
Adults in families with children	69.0	6.9
Totals	$365.0	$106.5

[a] As amended in Assembly January 13, 1988.

[b] Based on the department's estimates of costs for nonemergency, non-pregnancy-related services for Medi-Cal-eligible aliens who would not receive these services under SB 175.

DEPARTMENT OF HEALTH SERVICES—Continued

Comments on Estimates. As discussed earlier, the cost-per-eligible figure used as the basis for the costs for children's services should be reduced. The effect of this change is to reduce the no-deterrence costs by $90 million and the maximum-deterrence costs by $9 million.

We recommend that in its May revision, the department update its estimates to address this problem.

Changes in INS Procedures May Affect Deterrence. The department reports that the "CA-6" procedure currently deters many undocumented aliens from applying for Medi-Cal. Under this procedure (discussed earlier), undocumented aliens may receive Medi-Cal benefits temporarily if they sign a CA-6 form—which is forwarded to the INS—certifying that they are not under order of deportation. Changes in processing of these forms may reduce the deterrence effect, thereby moving the costs of providing full-scope services to undocumented aliens closer to the "no-deterrence" costs.

Specifically, the INS intends to discontinue processing CA-6 forms. (Under the new INS system, county eligibility workers will have access to the INS computer system to verify legal status of aliens who have INS identification numbers. The system cannot check the legal status for undocumented aliens, however, because they do not have INS numbers.) Under current state law, however, undocumented aliens may still receive benefits by signing a CA-6 form. If the INS no longer processes the CA-6 form, undocumented aliens could apply for Medi-Cal without fear that the INS will learn of their whereabouts. Moreover, the INS is prohibited by law from using information from sources like the Medi-Cal program to locate and deport aliens.

State Legalization Impact Assistance Grant Funding Issues

Congress has made SLIAG funding available to the states to help pay the additional cost of serving aliens legalized under the IRCA. Congress did not, however, make any special funding available for services to undocumented aliens as required under the OBRA.

The Governor's Budget contains conflicting assumptions about the amount of SLIAG funds that should be reserved for the Medi-Cal program. The Department of Health Services portion of the Governor's Budget indicates that the Medi-Cal program will receive $47.3 million in SLIAG funds in 1988-89 to pay for the state share of services for IRCA aliens. Section 23.50 of the 1988 Budget Bill, which appropriates the SLIAG funds, however, allocates only $26.9 million in SLIAG funds for the Medi-Cal program in 1988-89. The Department of Finance indicates that it reduced the Medi-Cal program's allocation of SLIAG funds because (1) it believes that many aliens will not apply for Medi-Cal due to fear of deportation even after they are legalized and (2) there have been unanticipated delays in INS processing of legalization applications. In contrast, the Medi-Cal estimates assume that legalized aliens will not fear deportation and will apply for Medi-Cal.

We recommend that in the May revision, the administration reconcile its SLIAG funding proposal with the Medi-Cal budget proposal.

Considerations in Choosing a Course of Action

The choice among the three basic Medi-Cal options is essentially a policy decision that rests on the Legislature's funding priorities. The

Legislature must determine how much emphasis it wishes to place on health care for aliens as opposed to other expenditure needs. Clearly a full scope of benefits for aliens will cost the General Fund significantly more than a limited scope of benefits.

For the next four to five years, it may be possible to pay for some state Medi-Cal costs with federal SLIAG funds. SLIAG funds, will, however, cover only the minimum federally mandated services for IRCA aliens. They will not cover services for OBRA aliens or any expansion of benefits beyond the minimum federally mandated level. Moreover, federal SLIAG funds will be available to the Medi-Cal program only to the extent that they are allocated to the Medi-Cal program. The more SLIAG funds consumed by the Medi-Cal program, the less SLIAG funds that will be available for other programs.

A final consideration in choosing a course of action is that the amount of funding for aliens supplied through the Medi-Cal program will affect county costs for providing health services. We discuss the interaction between Medi-Cal and funding for the Medically Indigent Services program earlier in this analysis.

B. COUNTY ADMINISTRATION

The budget proposes $166.8 million ($76.6 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 $493,000, or 0.7 percent, less than the amount appropriated for the current year. Table 29 shows the principal current-year changes. The anticipated surplus is primarily due to delays in the implementation of the Statewide Automated Welfare System (SAWS) and deletion of one of the elements of the Income Eligibility Verification System (IEVS). The General Fund savings in the SAWS and IEVS programs are largely offset by additional eligibility determination costs for SSI/SSP recipients who are affected by increases in Social Security payments, caretaker relatives of AFDC children who may be Medi-Cal-eligible, and aliens who are affected by federal immigration-related legislation. Although state costs for the current year are projected to decrease, costs from all funds, as shown in Table 29, are projected to increase by $3.5 million primarily due to the additional aliens who are served with federal reimbursements.

Budget Year. The proposed 1988-89 General Fund appropriation of $76.6 million for county administration represents an increase of $5.4 million, or 7.6 percent, over estimated current-year expenditures. The current estimates of county administrative costs for 1988-89 are, however, incomplete because the department has not yet attempted to estimate workload changes in the base budget. This will be done in the May revision when more data are available from which to estimate county welfare department workload. Table 29 shows that those 1988-89 increases result primarily from the following factors:

- ***Retroactive Salary Increases ($1.7 Million General Fund).*** The Medi-Cal budget proposes to fund a 3.9 percent retroactive salary increase for county welfare department employees. This is consistent with the Legislature's policy in recent years to fully fund—on a

DEPARTMENT OF HEALTH SERVICES—Continued

Table 29
Department of Health Services
Medi-Cal County Administration
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1987 Budget Act		
1. Eligibility item	$71,641	$147,490
2. Federal refugee reimbursements	—	417
Subtotals, 1987-88 expenditures (Budget Act)	($71,641)	($147,907)
Unanticipated 1987-88 changes		
1. Decreased Statewide Automated Welfare System costs	−548	−1,095
2. Decreased Income Eligibility Verification System costs	−524	−1,049
3. Increased workload from Social Security COLAs	163	327
4. Addition of caretaker relatives	190	379
5. Immigration-related changes	507	4,988
6. Other changes	−281	−48
1987-88 expenditures (estimated)	$71,148	$151,409
Projected surplus/deficiency (−)	($493)	(−$3,502)
1988-89 proposed changes		
1. Retroactive salary increases	1,682	3,363
2. Full-year cost of Income Eligibility Verification System	1,029	2,058
3. Immigration-related changes	1,583	6,675
4. Other changes	1,144	3,277
1988-89 expenditures (proposed)	$76,586	$166,782
Change from 1987-88 (estimated)		
Amount	$5,438	$15,373
Percent	7.6%	10.2%

retroactive basis—the actual salary increases that local officials provide to their welfare department employees. The department's estimate is inconsistent with the estimates used by the Department of Social Services (DSS), which also funds COLAs for county welfare department employees. The DSS projects a 4.7 percent increase will be needed based on changes in the Consumer Price Index (CPI). The actual percentage increase will not be known until the departments have completed their salary survey in the spring. The departments advise that they will update their budgets to reflect the actual increase in the May revision.

- ***Full-Year Costs of IEVS ($1 Million General Fund).*** The IEVS is a federally required computerized system used to verify that Medi-Cal applicants' and recipients' income and assets are accurately reported to county welfare departments. If the system identifies discrepancies between reported information and information maintained by a variety of state and federal departments, the welfare department must check on the case to see that the individual is actually eligible or has been paying the correct share of medical costs. The increased costs are due to full-year operation of the system.

Due to concerns regarding the costs and benefits of the IEVS, the Legislature adopted language in the 1987 Budget Act requiring the department to (1) test the cost/benefit ratio of pursuing discrepancies of various dollar amounts in order to determine how to make the IEVS produce savings in excess of its costs and (2) report to the

Legislature by December 15, 1987. As of January 28, 1988, the report had not been released. The department informs us that as a result of the report and ongoing department review of the IEVS, the May revision will probably contain substantial changes in the request for the IEVS.

- *Immigration-Related Changes ($1.3 Million General Fund).* The budget assumes that in early 1988, the Legislature will enact the administration's proposal (SB 175) for implementing federal mandates related to health care for aliens. Implementation of the federal acts will increase the number of eligibility determinations that county welfare departments conduct for alien applicants. Estimates of county administrative costs related to the federal changes could change substantially by the May revision depending on the provisions of any legislation enacted, additional data on the population of eligible aliens, and further refinement in the estimates.

C. MEDI-CAL CLAIMS PROCESSING

The Department of Health Services does not directly pay doctors, pharmacists, nursing homes, or other providers for the services they render. Instead, the department contracts with fiscal intermediaries for Medi-Cal fee-for-service claims processing. Currently, the department has processing contracts with Computer Sciences Corporation (CSC) and Electronic Data Systems (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 or, in the case of the Redwood Health Foundation and Delta Dental, by the health system itself.

The Current Year. The budget anticipates that claims processing costs for 1987-88 will be $53.4 million ($13.7 million General Fund), or 17 percent higher than the amount appropriated in the 1987 Budget Act. Table 30 shows that the largest part of the $7.9 million ($2 million General Fund) current-year deficiency is due to the phase-in of the new fiscal intermediary contractor.

The Budget Year. The budget proposes an appropriation of $53.3 million ($13.6 million General Fund) for fiscal intermediary services in 1988-89. This is a net decrease of $95,000 ($123,000 General Fund). Table 30 shows that this small change is primarily due to the net effect of eliminating one-time carry-over funding in the dental contract, phasing out of the CSC and Child Health and Disability Prevention (CHDP) contracts, and implementing the new fiscal intermediary contract.

New Contract Increases Fiscal Intermediary Costs

The department recently completed the process of rebidding the fiscal intermediary contract. A new contractor, Electronic Data Systems (EDS), will replace the existing contractor, Computer Sciences Corporation (CSC), beginning in April 1988. The new EDS contract is substantially more costly than the current CSC contract. At the time this analysis was prepared, we could not determine exactly how much more costly the contract will be. Several major factors seem to account for most of the increase. First, the bid price per claim line processed is substantially higher in the new contract than in the old contract. Second, the

DEPARTMENT OF HEALTH SERVICES—Continued

Table 30
Department of Health Services
Medi-Cal Claims Processing
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1987 Budget Act		
1. Fiscal intermediary item	$11,669	$45,456
2. Refugee reimbursements	—	122
Subtotals, 1987-88 expenditures (Budget Act)	($11,669)	($45,578)
Unanticipated 1987-88 changes		
1. Computer Sciences Corporation (CSC) contract	−620	−2,560
2. Electronic Data Systems (EDS) contract	2,474	9,821
3. Delta Dental contract	88	357
4. State Controller agreement	59	236
5. Child Health and Disability Prevention (CHDP) contract	4	8
1987-88 expenditures (estimated)	$13,674	$53,440
Projected deficiency	(−$2,005)	(−$7,862)
1988-89 proposed changes		
1. Phase-out of CSC and CHDP contracts	−$7,285	−$27,350
2. Implementation of EDS contract	7,907	30,471
3. Increase in State Controller contract	18	71
4. Elimination of Delta Dental carry-over	−701	−2,802
5. Other changes	−62	−485
1988-89 expenditures (proposed)	$13,551	$53,345
Change from 1987-88 (estimated)		
Amount	−$123	−$95
Percent	0.9%	0.2%

new contract makes a number of changes in order to improve the quality of services provided. These changes add to the fiscal intermediary's staffing costs. Third, the CHDP contract will become part of the new EDS contract rather than a freestanding claims processing contract. Fourth, the number of claims, particularly claims for aliens affected by the IRCA and OBRA, is increasing.

We will be working with the department to estimate the costs of the various factors that contribute to the increased cost of the new contract.

More Detailed Explanation of Costs Needed

We recommend that the department develop an improved format to explain and display fiscal intermediary costs in future Medi-Cal estimates.

The provisions of the new contract determine how much the state will pay for the various claims processing services it purchases. Cost variations are largely determined by increases and decreases in workload and various one-time expenditures. The provisions of the new contract that determine how much EDS will be paid for its services are complicated. Currently, the department's estimates do not present a clear picture of the relationship between specific contract provisions and the proposed appropriation for the budget year. For example, the estimate does not provide (1) the costs attributable to individual cost-reimbursable items such as the systems development group or provider relations staff or (2) the number of claim lines to be paid at each price identified in the contract.

The department's estimates of Medi-Cal costs are for the most part detailed, highly professional products that allow the Legislature and managers of the Medi-Cal program to understand, in fiscal terms, the effects of various changes and trends in the Medi-Cal program. Because we believe that the Legislature should be able to understand how estimates of fiscal intermediary operating costs are derived, we recommend that the department develop an improved format for explaining and displaying fiscal intermediary costs in future estimates.

Data on Fiscal Intermediary Performance Needed

We recommend that the Legislature adopt supplemental report language requiring the department to submit reports that address how the transition to the new fiscal intermediary is proceeding.

The department expects the transition to the new EDS contract to proceed without major problems for a number of reasons. First, the data processing software that will be used by EDS is basically the same as the software currently in use. Therefore, it will not be necessary to develop and debug a new and highly complex system as it was during the original transition to the CSC contract 10 years ago. Second, many of the CSC staff who process Medi-Cal claims will be employed by EDS thus providing for considerable continuity. In spite of these positive factors, it is possible that problems will develop in the transition from one fiscal intermediary to another. Experience with the original transition to CSC shows that transition problems are a subject of considerable legislative concern.

Because the Legislature needs to know how well the transition to the new fiscal intermediary is proceeding, we recommend that the Legislature require the department to submit periodic reports that provide (1) data summarizing the fiscal intermediary's performance record in relation to its contractual obligations and (2) narrative material describing significant performance problems. We recommend the following specific language:

> The department shall report to the Legislature on August 1, 1988, on December 1, 1988, and on April 1, 1989, on the implementation of the new fiscal intermediary contract. The report shall contain data summarizing the fiscal intermediary's performance record in relation to the performance criteria set forth in the contract. In addition, the reports shall contain narrative material describing significant performance problems.

D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $129 million ($49.2 million General Fund) in various departments for state administration of the Medi-Cal program in 1988-89. The General Fund amount represents an increase of $4.2 million, or 9.4 percent, above estimated expenditures in the current year. Table 31 displays Medi-Cal state administrative expenditures in 1987-88 and 1988-89.

The budget proposes to increase General Fund spending by the Department of Health Services by $4 million, or 11 percent, above estimated spending levels in the current year. This increase primarily reflects proposals to (1) implement drug utilization review required by Ch 1340/87, (2) implement a managed care proposal, (3) increase staff for work associated with reprocurement of the fiscal intermediary contract, and (4) increase field office staff due to increased treatment authorization request (TAR) workload.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 31
Department of Health Services
Medi-Cal Program
State Administration Expenditures[a]
1987-88 and 1988-89
(dollars in thousands)

	Estimated 1987-88		*Proposed 1988-89*		*Percent Change in General Fund*
	General Fund	*All Funds*	*General Fund*	*All Funds*	
Department of Health Services	$35,488	$99,101	$39,451	$108,634	11.2%
Department of Social Services	6,322	13,375	6,579	13,835	4.1
Department of Mental Health	601	1,203	793	1,587	31.9
California Medical Assistance Commission	893	1,787	929	1,823	4.0
Department of Aging	1,636	3,070	1,401	2,749	−14.4
Totals	$44,940	$118,536	$49,153	$128,628	9.4%

[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 1,562.4 positions in the Department of Health Services that can be attributed directly to the administration of the Medi-Cal program. This is 36.7 positions, or 2.4 percent, more than the number of authorized positions in 1987-88. The increase reflects the expiration of 26 limited-term positions and an increase of 62.7 permanent positions.

Table 32 shows the changes in Medi-Cal-related positions proposed for the budget year. It does not reflect positions in the department's administrative units (personnel, budgets, accounting, etc.) whose costs are distributed to the Medi-Cal program for funding purposes.

Table 32
Department of Health Services[a]
Medi-Cal Program
Proposed Positions
1988-89

Program	*Existing Positions*	*Limited-Term Positions*	*Proposed Changes*	*Proposed Positions*	*Percent Change*
Eligibility	106.9	—	2.0	108.9	1.9%
Benefits	40.9	—	4.0	44.9	9.8
Rate development	40.1	—	—	40.1	—
Contract operations	57.0	—	4.0	61.0	7.0
Utilization control	491.7	−5.5	11.0	497.2	1.1
Health recovery	233.8	−11.0	1.5	224.3	−4.1
Fiscal intermediary[b]	122.4	—	12.0	134.4	9.8
Medi-Cal reprocurement project	16.0	−8.0	6.0	14.0	−12.5
Program development[b]	21.1	—	22.0	43.1	104.3
Audits and investigations[b,c]	395.8	−1.5	0.2	394.5	−0.3
Totals	1,525.7	−26.0	62.7	1,562.4	2.4%

[a] Additional positions paid for by the Medi-Cal program are located in the divisional offices supervising the above programs and in the Administration Division.

[b] Includes divisional offices.

[c] This reflects 96 percent of the positions in the Audits and Investigations Division attributable to Medi-Cal program activities.

Managed Care Proposal

The budget proposes $2,024,000 ($1,519,000 General Fund) for 29 positions and related costs to expand the use of "managed care" delivery systems. In addition, the Medi-Cal health care services item contains $944,000 ($472,000 General Fund) to purchase health care services in managed care delivery systems.

In a "managed care" delivery system, participating health care providers receive the per-capita payments each month, whether or not the Medi-Cal recipient requires care that month. The capitation payment takes the place of the fee that is normally charged each time a Medi-Cal recipient is treated. The administration's stated objectives in making its managed care proposal are to:

- Guarantee beneficiary access to health care.
- Promote preventive, rather than curative, health care.
- Encourage providers, through financial incentives, to reduce excessive utilization and thereby control Medi-Cal costs.

The goal of the proposed program is to have one-third of the Medi-Cal population enrolled in managed care arrangements within five years.

The department's proposed program involves four different types of service delivery systems: (1) primary care case management, (2) modified primary care case management, (3) county-based health insuring organizations, and (4) an organized health care delivery system in San Diego County. The budget includes funds for three of these delivery systems (all except county-based health insuring organizations). Table 33 shows the funding included in the proposal for each of the three delivery systems.

Table 33
Department of Health Services
Medi-Cal Program
Managed Care Proposal
1988-89
(dollars in thousands)

	Support			Health Care Services	
	Positions	*General Fund*	*All Funds*	*General Fund*	*All Funds*
Primary care case management (PCCM)	16	$323	$633	$472	$944
Modified PCCM	3	45	89	—	—
Organized health care delivery system in San Diego County	10	1,151	1,302	—	—
Totals	29	$1,519	$2,024	$472	$944

The proposal does not include any projections of costs and savings in future years when the proposal is fully implemented.

Below we discuss each of the four delivery systems and our recommendations.

1. Primary Care Case Management (PCCM)

Under the PCCM model, the state contracts with physicians, physicians' groups, and clinics to manage care provided to beneficiaries

DEPARTMENT OF HEALTH SERVICES—Continued

enrolled in the PCCM. Generally, Medi-Cal recipients are free to enroll and disenroll from PCCMs. If, however, the department determines that there are enough qualified PCCM providers to furnish care to all Medi-Cal recipients in a locality, the department requires recipients in the locality to choose one PCCM provider.

The department has already implemented 14 PCCM contracts, with 10,000 enrollments, on a pilot basis. Under the budget proposal, the department would seek to implement 25 additional contracts with 20,000 enrollments by January 1989 and 25 additional contracts with 15,000 enrollments by January 1990.

According to the proposal, these contracts eventually will result in net savings to the state due to savings in health care services costs. The budget reflects net costs in the health care services item in 1988-89, however, because of the effect of "pipeline" costs. These costs occur on a one-time basis when beneficiaries transfer to a prepaid system from a fee-for-service system with billing lags averaging three months. Whenever such transfers occur, the state must pay for roughly 15 months of services in the initial 12-month period.

Specific Contract Provisions. Under PCCM contracts, the primary care physician is responsible for authorizing care that the recipient will receive from other care givers. The contracting PCCM physician is responsible for paying specialists and other providers to whom he has referred a patient. The capitation rate that the contracting PCCM physician receives is set at 95 percent of the estimated costs of providing these services under the fee-for-service delivery system. If case management keeps patient care costs below the 95 percent capitation rate, the physician keeps the unspent funds. If, on the other hand, services cost more than the amount the 95 percent capitation rate generates, the contracting PCCM physician pays the difference from his own funds, subject to a $10,000 limit per patient. Under the PCCM model, the Medi-Cal program will continue to directly reimburse for emergency, hospital, and other selected services on a fee-for-service basis. If year-end data indicate that hospital costs and certain other expenses have decreased, the net savings are split with the PCCM contractor who has controlled utilization.

The administration believes that additional physicians, physicians' groups, and clinics will join the PCCM program to increase their Medi-Cal incomes, avoid costs associated with preparing Medi-Cal claims, avoid dealing with the Medi-Cal prior authorization process, and have more freedom in planning overall patient care.

Federal Waivers. In order to expand its use of PCCMs, the department will need federal waivers. The department anticipates that the federal government will routinely extend its current two-year PCCM waiver for another two years at the end of the current year. As a part of extending the existing waiver, the department anticipates that the federal government will approve the program at an expanded level.

2. Modified Primary Care Case Management

The modified PCCM model is different from the PCCM model in that the capitated payment covers only the physician's office visits, not a broad spectrum of nonemergency medical care. Under the budget proposal, the department would seek to have 500 modified PCCM contracts in place by January 1991. These 500 contracts would have approximately 100,000 enrollees.

Specific Contract Provisions. Under the modified PCCM concept, the capitation rate would be set at 80 percent of the estimated costs of covered services, plus $4 for each office visit. Just as in the PCCM model, the physician authorizes services for PCCM patients. If, at the end of the year, the physician's case management efforts have reduced overall Medi-Cal costs below what they would otherwise be, the physician receives an additional payment. The department plans to share all savings equally with the physician up to the point that the Medi-Cal program is paying the physician his or her usual and customary charges for treatment of non-Medi-Cal patients.

Federal Waivers. The department must acquire federal waivers to proceed with implementation of the modified PCCM proposal. The department indicates that it may be possible to obtain the waivers as part of the waiver extension for PCCMs. If not, there will be a period of delay while the waiver application is under consideration.

3. County-Based Health Insuring Organizations

The administration proposes to contract with three county-based "health insuring organizations" (HIOs) in order to fund the health care needed by the county's Medi-Cal population. The HIOs would, in turn, arrange for needed health care by contracting with local health care providers, including county hospitals and clinics.

Currently, Santa Barbara and San Mateo Counties have HIOs. These were established under enabling legislation that permits these counties—plus Ventura and San Bernardino Counties—to enact local ordinances establishing local HIOs. These statutes generally give the Boards of Supervisors the authority to determine the composition of the governing boards of the HIO and make the county ultimately responsible for debts in the event of the HIO's termination.

Under the department's plan, contracts would be signed with a Ventura County HIO in January 1990 covering 40,000 enrollees, a San Bernardino County HIO in September 1991 with 135,000 enrollees, and an Orange County HIO in January 1992 with 115,000 enrollees.

The budget does not contain any staffing or seed money to develop HIOs in 1988-89. This is because the department needs a change in federal law to implement additional HIO contracts.

4. Organized Health Care Delivery System in San Diego County

The administration proposes to enroll all 160,000 Medi-Cal recipients in San Diego County in some form of managed care system by January 1991. These systems would include PCCMs, modified PCCMs, and prepaid health plans (PHPs), which provide comprehensive inpatient and outpatient care to their enrollees. When enough providers are available in the San Diego area, the department plans to require all Medi-Cal recipients in the area to enroll in one of the available plans.

This proposal is similar to the "Expanded Choice" proposal rejected by the Legislature in 1986. In this proposal, Medi-Cal recipients in San Diego County would have been required to join one of 10 PHPs serving the county's Medi-Cal population.

The budget for the current proposal consists of two parts. First, the budget includes $302,000 ($151,000 General Fund) to support 10 positions

DEPARTMENT OF HEALTH SERVICES—Continued

to get the project started and make necessary changes in the department's data processing system. Second, the budget includes $1 million (all General Fund) to reimburse providers for their initial costs of developing detailed proposals.

The department indicates that it does not intend to proceed with implementation of this proposal unless it first obtains authorizing legislation.

Analyst's Recommendations

We recommend deletion of $1,302,000 ($1,151,000 General Fund) and 10 positions for the development of an organized health care delivery system in San Diego County because the proposal is premature. We withhold recommendation on $1,666,000 ($849,000 General Fund) for primary care case management (PCCM) and modified PCCM pending receipt of information about these proposals. (Reduce Item 4260-001-001 by $1,151,000 and Item 4260-001-890 by $151,000.)

San Diego County Proposal. The department is sponsoring legislation to obtain specific authorization to move forward with its San Diego proposal. This decision is appropriate because the Legislature previously rejected the similar San Diego County Expanded Choice project. We believe it is premature to move forward with this project before this legislation is enacted. The funds to implement the proposal should be appropriated by the legislation that authorizes the project. For this reason, we recommend deletion of the $1,302,000 ($1,151,000 General Fund) for the San Diego proposal from the Budget Bill.

Primary Care Case Management Proposals. The department's PCCM and modified PCCM proposals may have merit from a fiscal perspective. The department supplied preliminary data indicating that the proposals could result in significant savings in a relatively short period. In addition, it is possible that Medi-Cal recipients could have improved access to care.

The preliminary data need additional analysis, however, before we could conclude that the PCCM and modified PCCM models should be expanded. Accordingly, we withhold recommendation pending submission of a thorough fiscal evaluation of the savings that can be anticipated from PCCMs and modified PCCMs. The fiscal evaluation should discuss reliability of data, assumptions, the mechanics of capitation, the sharing of savings, administrative costs of developing and monitoring the program, and other factors that would influence either costs or savings.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY

Item 4260-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 91

Requested 1988-89	$109,000
Recommended approval	109,000

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay

We recommend approval.

The budget includes $109,000 in Item 4260-301-036 from the Special Account for Capital Outlay for four minor capital outlay projects for the Department of Health Services. These projects range in cost from $8,000 to install shower facilities for female workers in the Infectious Disease Wing of the department's Berkeley laboratory to $55,000 to modify the fume hood exhaust system in the laboratory's South Wing.

DEPARTMENT OF HEALTH SERVICES—REVERSION

Item 4260-495 to the Hazardous Substance Cleanup Fund — Budget p. HW 38

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the reversion of $30.3 million to the Hazardous Substance Cleanup Fund pending receipt of further information from the department.

This item proposes to revert $30,340,000 in funds originally appropriated from the Hazardous Substance Cleanup Fund for site characterization and cleanup costs associated with hazardous waste sites. Items 4260-001-710, 4260-011-710, and 4260-012-710 in the Budget Bill propose to appropriate these reverted funds for the support of state administrative costs associated with hazardous waste site mitigation.

According to the Department of Finance, the amount of the reversion proposed in the Budget Bill is incorrect. To be consistent with the amount of funds appropriated for 1988-89, and to cover a portion of the funds appropriated in the current year, the reversion should be $29,115,000. The Department of Finance intends to propose this correction in a budget amendment letter.

We have several programmatic concerns regarding site mitigation expenditures. These concerns are discussed in our analysis of the Toxic Substances Control Division's site mitigation program in Item 4260. In that analysis, we withhold recommendation on all funds proposed for support of administrative costs of the site mitigation program, including the underground storage tank cleanup program, pending the receipt of additional information.

DEPARTMENT OF HEALTH SERVICES—REVERSION—Continued

We will make our recommendation to the Legislature on the proposed reversion at the time that we submit our recommendations regarding the budget for site mitigation.

Health and Welfare Agency
CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund and federal funds — Budget p. HW 91

Requested 1988-89	$1,858,000
Estimated 1987-88	1,808,000
Actual 1986-87	1,565,000
Requested increase (excluding amount for salary increases) $50,000 (+2.8 percent)	
Total recommended reduction	None

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4270-001-001—Support	General	$929,000
Reimbursements	Federal	929,000
Total		$1,858,000

GENERAL PROGRAM STATEMENT

The California Medical Assistance Commission (CMAC) was established by Ch 329/82 (AB 3480) to negotiate contracts with hospitals, county health systems, and health care plans for the delivery of health care services to Medi-Cal recipients. The commission reports to the Legislature twice each year on the status and cost-effectiveness of selective provider contracts. In addition, the commission's staff conduct special studies of health care issues. The commission has 25.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the expenditure of $1,858,000 ($929,000 from the General Fund and $929,000 in federal funds) for the support of the commission during 1988-89. This is an increase of $50,000, or 2.8 percent, above estimated current-year expenditures. This increase is due to the net effect of merit salary adjustments, the full-year effect of 1987-88 salary increases, a rent increase, and other minor adjustments.

Health and Welfare Agency
DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General Fund, the Developmental Disabilities Program Development Fund, and federal funds — Budget p. HW 92

Requested 1988-89	$982,939,000
Estimated 1987-88	911,182,000
Actual 1986-87	850,426,000
Requested increase (excluding amount for salary increases) $71,757,000 (+7.9 percent)	
Total recommended reduction	752,000
Recommendation pending	6,745,000

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-001-001—Support	General	$20,397,000
4300-001-172—Support	Developmental Disabilities Program Development	195,000
4300-001-890—Support	Federal	6,843,000
4300-101-001—Local assistance	General	418,203,000
4300-101-172—Local assistance	Developmental Disabilities Program Development	4,700,000
4300-111-001—Developmental centers	General	65,632,000
4300-111-890—Developmental centers	Federal	856,000
Reimbursements	—	466,113,000
Total		$982,939,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Early Intervention. Withhold recommendation on seven positions and $6.7 million in federal funds proposed for planning and development of early intervention services, pending additional information regarding the budget proposal and recommendations required by Ch 26/85. Also recommend that the Legislature adopt supplemental report language requiring the department to report on options for design and recommendations regarding third-year funding. 562
2. Expansion of the Alternative Residential Model. Recommend that the Legislature adopt supplemental report language requiring the department to maintain trend data on the effect of implementing the Alternative Residential Model on community placements from state developmental centers. 569
3. ***Case Management. Reduce Item 4300-101-001 by $22 Million; Increase Reimbursements by the Same Amount.*** Recommend General Fund reduction in regional center budget to reflect additional federal reimbursements available in 1988-89 to offset costs incurred in the current year. Withhold 572

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

recommendation on budget proposal related to Medi-Cal funding of case management services pending review of May revision of budget and workload estimates.

4. Impact of Minimum Wage Increase. Recommend that the department estimate the impact of the minimum wage increase on provider costs and provide a description of its estimating methodology in conjunction with the May revision of expenditure estimates. 576
5. ***Proposed Expansion of Regional Placement Pilot Program. Reduce Item 4300-101-001 by $752,000.*** Recommend deletion of funds proposed to expand a pilot program for regional placement of state developmental center clients because the proposal is premature. 578
6. ***Intermediate Care Facilities for the Developmentally Disabled-Nursing (ICF/DD-Ns). Reappropriate the unencumbered balance of $500,000 from Item 4300-101-172 of the 1986 Budget Act.*** Recommend reappropriation of Program Development Fund monies for expenditure on ICF/DD-N conversions. Further recommend that during budget hearings the administration explain the delay in adopting ICF/DD-N regulations and provide its work plan and schedule for their adoption. 579
7. Developmental Center Population and Medi-Cal Reimbursements. Recommend that in its May revision, the department incorporate the Medi-Cal cost-of-living adjustment estimate for long-term care assumed by the Department of Health Services in the Medi-Cal May revision. 581
8. Effect of Proposed Reduction in Salary Savings on Certification. Recommend that prior to budget hearings, the department provide the fiscal committees with information regarding how it plans to assure continued certification and accreditation for the state developmental centers. 582
9. Recurring Maintenance. Recommend that prior to budget hearings, the department provide additional information regarding its recurring maintenance and special repair proposals. Also recommend that the Legislature adopt Budget Bill language requiring that recurring maintenance funds be used for recurring maintenance. 584

GENERAL PROGRAM STATEMENT

The Department of Developmental Services (DDS) administers services in the community and in developmental centers for persons with developmental disabilities. The Lanterman Developmental Disabilities Services Act defines a developmental disability as a disability originating before a person's 18th birthday that is expected to continue indefinitely and that constitutes a substantial handicap. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism, neurologically handicapping conditions closely related to mental retardation, or mental impairment resulting from accidents that occur before age 18.

The department has 10,945 personnel-years in the current year to carry out the following programs.

1. The *Community Services program* develops, maintains, and coordinates services for developmentally disabled persons residing in the community. The program's activities are carried out primarily through 21 regional centers, which are operated statewide by private nonprofit corporations under contract with the department.

2. The *Developmental Centers program* provides services in 7 of the state's 11 developmental centers and hospitals. Agnews, Fairview, Lanterman, Porterville, Sonoma, and Stockton State Developmental Centers (SDCs) operate programs exclusively for the developmentally disabled, while Camarillo State Hospital/Developmental Center operates programs for both the developmentally disabled and the mentally disabled through an interagency agreement with the Department of Mental Health.

OVERVIEW OF THE BUDGET REQUEST

Expenditures from all funding sources are proposed at $982.9 million for support of the DDS in the budget year. This is an increase of $71.8 million, or 7.9 percent, above estimated current-year expenditures. The budget proposes appropriations of $504.2 million from the General Fund to support DDS programs in 1988-89. This is an increase of $29.1 million, or 6.1 percent, above estimated current-year expenditures.

The increase in total expenditures is due primarily to increases of $24.9 million for regional center caseload increases, $21.5 million for expansion of the Alternative Residential Model, $6.2 million for the full-year cost of 1987-88 employee compensation increases at the developmental centers, and $5.2 million for increases in developmental center staffing. These expenditure increases are offset by $26.3 million in new reimbursements from the Medi-Cal program.

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
1986-87 through 1988-89
(dollars in thousands)

Expenditures	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Department support	$19,628	$26,794	$28,383	5.9%
Regional centers and community program development	359,878	404,242	456,207	12.9
Developmental centers	470,920	480,146	498,349	3.8
Totals	$850,426	$911,182	$982,939	7.9%
Funding sources				
General Fund	*$437,476*	*$475,162*	*$504,232*	*6.1%*
Developmental Disabilities Program Development Fund	*3,867*	*4,414*	*4,895*	*10.9*
Federal funds	*853*	*4,476*	*7,699*	*72.0*
Reimbursements	*408,230*	*427,130*	*466,113*	*9.1*
Personnel-years				
Department support	389.0	389.6	400.2	2.7%
Developmental centers	10,941.6	10,555.4	10,754.7	1.9
Totals	11,330.6	10,945.0	11,154.9	1.9%

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

ANALYSIS AND RECOMMENDATIONS

I. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $20.4 million for support of the department in 1988-89. This is a decrease of $1.6 million, or 7.4 percent, below estimated current-year expenditures. This reduction, however, is misleading, because the department incurred one-time costs of $2.5 million during the current year. If these one-time costs are deducted from current-year expenditures, the amount of General Fund monies expended on department support increases by $855,000, or 4.4 percent.

Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $28.4 million, which is $1.6 million, or 5.9 percent, above estimated current-year expenditures.

Table 2 identifies the major changes in the department's support budget proposed for 1988-89.

Table 2
Department of Developmental Services
Department Support
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$20,200	$21,464
Adjustments, 1987-88:		
1. Retirement adjustment	−35	−36
2. Employee compensation	344	350
3. Early childhood intervention (PL 99-457)	—	3,544
4. Reimbursement adjustment	—	−40
5. Court settlements	1,512	1,512
1987-88 expenditures (revised)	$22,021	$26,794
Baseline adjustments, 1988-89:		
1. Price increase	86	86
2. Employee compensation	396	400
3. Reimbursement adjustment	—	8
4. Court settlements	−1,512	−1,512
5. Cost reporting system	−967	−967
Program change proposals:		
1. Early childhood intervention	—	3,201
2. Physician orders	105	105
3. Case management staff	268	268
1988-89 expenditures (proposed)	$20,397	$28,383
Change from 1987-88 (revised):		
Amount	−$1,624	$1,589
Percent	−7.4%	5.9%

Early Intervention Program Lacks Definition

We withhold recommendation on seven positions and $6.7 million from federal funds proposed for planning and development of early intervention services, pending additional information regarding the budget proposal and the recommendations of the Health and Welfare

Agency and the Superintendent of Public Instruction as required by Ch 26/85.

We also recommend that the Legislature adopt supplemental report language requiring the department to submit a report outlining the Legislature's options for designing the early intervention service system and the administration's recommendations regarding third-year funding.

The budget proposes $6,745,000 in federal funds received from the Early Intervention Services for Handicapped Infants program during 1988-89. The budget reflects expenditures of $3.5 million on this new program during the current year. (These expenditures were proposed pursuant to Section 28 of the 1987 Budget Act in a letter received by the Joint Legislative Budget Committee on December 28, 1987.)

Background. In 1986 the Congress enacted legislation (Public Law 99-457) that appropriated funds to encourage states to develop comprehensive systems for providing early intervention services for infants who manifest "developmental delays." Early intervention services are comprehensive services designed to address the specific physical, educational, and/or psychosocial needs of infants, toddlers, and their families. Federal law requires that state early intervention systems include specific program components, such as a comprehensive method for providing multi-disciplinary infant and family assessments and a "child-find" system to track and coordinate services provided to infants and their families. In addition, states must develop a definition of "developmental delay" for purposes of determining entitlement to services.

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

The federal government had required that all first-year grants be encumbered by September 30, 1988. However, a new federal law extends the deadline for encumbering these funds by one year, until September 30, 1989.

Related State Legislation. Chapter 26, Statutes of 1985, established an Interagency Task Force on Early Intervention, three local interagency demonstration projects, and an independent evaluation. The measure also (1) required the task force to submit final program and fiscal recommendations concerning early intervention programs to the Secretary of the Health and Welfare Agency and the Superintendent of Public Instruction by November 1, 1987 and (2) required the Secretary and the Superintendent to provide their recommendations to the policy and fiscal committees by January 1, 1988. The November report has been submitted as required. At the time this analysis was prepared, the second report had not been submitted.

Department's Proposal. The administration plans to use first- and second-year federal funds for planning and evaluation and indicates that its goal is to determine by the beginning of the third year whether it is in the state's interest to participate in a federally mandated program for

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

providing early intervention services.

Table 3 displays the federal requirements and the department's expenditure plan for the current and budget years.

Table 3
Early Intervention Services
Federal Requirements and Proposed State Activities
1987-88 and 1988-89
(dollars in thousands)

Federal Requirement	*Proposed State Activities*	*1987-88*	*1988-89*
Program components			
1. Interagency council	Establish council and 11 positions (7 in the department) to plan and implement program	$514	$1,042
2. (a) "Child-find system" to track and coordinate services for each child and (b) data collection system for federal reporting	Contract for feasibility study report on comprehensive system	$250 [a]	$1,000
3. Multi-disciplinary evaluations of services needed by infants and families within 30 days of referral	1. Contracts for	$2,380 [a]	$4,703
	(a) local planning and coordination	(1,863)	(2,377)
	(b) delivery of services	(517)	(2,326)
	2. Contracts for evaluation of current service system	250	—
4. Public awareness program that includes parent and provider groups	One-time contract for materials development	$150	—
5. Comprehensive system of personnel development	No specific proposal; council to address personnel system during 1988-89	—	—
6. Resource directory	No specific proposal	—	—
System requirements			
7. Eligibility requirements (state definition of "developmental delay")	Develop recommendations regarding definition	— [b]	— [b]
8. Financial responsibility guidelines applying to each agency paying for services to eligible population, including procedures to resolve disputes	Establish interagency agreements	— [b]	— [b]
9. Client safeguards including fair hearing process	No specific proposal	—	—
Totals		$3,544	$6,745

[a] Since submission of the budget, these program components have been delayed until 1988-89.

[b] These activities are addressed as responsibilities of state staff and are therefore reflected within the first program component.

Since the budget was submitted, implementation of three of the proposals for current-year spending totaling $2.6 million have been delayed until 1988-89, based on the recommendation of the chairperson of the Joint Legislative Budget Committee in response to the Section 28 letter. This recommendation was based on the following: (1) expenditure of the funds for these three proposals included numerous policy and fiscal implications that merited careful consideration by the Legislature in the budget review process and (2) the delay in implementing the proposals would have little, if any, effect on the proposed program because the department did not plan to spend the funds until 1988-89.

Program Proposals Lack Definition. Our ability to analyze the department's proposed early intervention services budget ($6.7 million proposed for 1988-89 plus $2.6 million delayed from the current year) was seriously hampered by the department's failure to provide sufficient details on the current-year proposals and any documentation at all for the budget-year proposals. The Legislature has also not received the recommendations on early intervention services required of the Health and Welfare Agency and the Superintendent of Public Instruction mandated by Ch 26/85.

Without this information, the Legislature will be unable to assess (1) what the department plans to accomplish and how realistic these plans may be, (2) to what extent the interagency council and the local planning and assessment activities will duplicate or build on the work of the task force and local demonstration projects established under Ch 26/85, and (3) to what extent the department's proposed work plan will result in a fully developed early intervention services plan meeting the federal requirements for third-year funding.

Due to these problems, and the department's need to construct a revised budget reflecting the delay in expenditure of current-year funds, we withhold recommendation on the seven positions and $6.7 million in federal funds proposed for planning and development of an early intervention service system pending receipt of (1) a revised budget for 1988-89, (2) a detailed explanation of how the funds will be used, (3) a work plan which documents that the department will meet proposed federal requirements for third-year funding, and (4) the recommendations of the Health and Welfare Agency and the Superintendent of Public Instruction for early intervention services.

Legislature Faces Significant Decisions Next Year. In order to obtain third-year funding, the Legislature must approve policy guidelines (presumably, by enacting legislation) that outline the comprehensive early intervention service system to be implemented beginning in the third year of federal funding.

Enactment of these policy guidelines and receipt of federal third-year funds obligates the state to implement its comprehensive service system according to federal guidelines. Based on current federal law, these services would be funded using *state* dollars after the federal start-up funds are exhausted in the fifth year. As a result, the decision to apply for third-year federal funding warrants careful analysis and consideration by the Legislature and the administration. Some of the policy decisions could have major fiscal implications; for example, the definition of "developmental delay" will determine which infants must be served under the program.

In order to ensure that the Legislature has the information it will need when it considers whether to apply for the third year of federal funding, we recommend that the Legislature adopt supplemental report language requiring submission of a report that identifies the state's options for designing the early intervention service system and provides the administration's recommendations regarding third-year funding. Specifically, we recommend adoption of the following language in Item 4300-001-001:

> The department shall report to the Legislature by January 1, 1989 on (1) the administration's recommended options for defining "develop-

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

mental delay," (2) the estimated cost of implementing the federally mandated program for early intervention services utilizing these definitions, (3) the administration's recommendation on whether or not to apply for third-year funding, and (4) a proposal for legislation to implement the administration's recommendations.

II. REGIONAL CENTERS AND COMMUNITY PROGRAM DEVELOPMENT

The budget proposes expenditures of $456.2 million for regional centers and community program development in 1988-89. This is an increase of $52 million, or 13 percent, above estimated current-year expenditures. Total expenditures, including the expenditures of SSI/SSP payments to residential care providers, are proposed at $579.8 million, which is an increase of $59.1 million, or 11 percent, above estimated current-year expenditures. The increase in expenditures is primarily due to increases

Table 4
Department of Developmental Services
Regional Centers and Community Program Development
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

Expenditures	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change From 1987-88 Amount*	*Change From 1987-88 Percent*
Regional centers operations					
Personal services	$83,996	$95,201	$109,061	$13,860	14.6%
Operating expenses	21,760	21,976	23,963	1,987	9.0
Subtotals	($105,756)	($117,177)	($133,024)	($15,847)	(13.5%)
Purchase of service					
Out-of-home care	$97,980	$107,932	$129,348	$21,416	19.8%
Day programs	59,969	79,128	86,156	7,028	8.9
Other	85,222	97,056	103,759	6,703	6.9
Subtotals	($243,171)	($284,116)	($319,263)	($35,147)	(12.4%)
Subtotals, regional centers	($348,927)	($401,293)	($452,287)	($50,994)	(12.7%)
Community program development					
Community placement	$7,617	($6,721) [a]	($5,784) [a]	(–$937) [a]	(–13.9%)
Program development	3,188	2,803	3,774	971	34.6
Cultural center	146	146	146	—	—
Subtotals, community development	($10,951)	($2,949)	($3,920)	($971)	(32.9%)
Subtotals	($359,878)	($404,242)	($456,207)	($51,965)	(12.9%)
SSI/SSP reimbursements	108,922	116,520	123,625	7,105	6.1
Totals	$468,800	$520,762	$579,832	$59,070	11.3%
Funding sources					
General Fund	*$404,998*	*$451,143*	*$475,070*	*$23,927*	*5.3%*
Regional centers	*354,894*	*398,709*	*418,203*	*19,494*	*4.9*
SSP [b]	*50,104*	*52,434*	*56,867*	*4,433*	*8.5*
Program Development Fund					
Parental fees	*3,693*	*4,223*	*4,700*	*477*	*11.3*
Federal reimbursements	*1,235*	*1,245*	*1,739*	*494*	*39.7*
Federal funds (SSI) [b]	*58,818*	*64,086*	*66,758*	*2,672*	*4.2*
Reimbursements	*56*	*65*	*31,565*	*31,500*	[c]

[a] These figures are incorporated in the regional center numbers.
[b] Assumes funding split of 46 percent General Fund/54 percent federal funds in 1986-87 and 1988-89, and 45 percent General Fund/55 percent federal funds in 1987-88.
[c] Not a meaningful figure.

of $24.9 million based on regional center caseload trends and $21.5 million proposed for expansion of the department's existing residential care rate pilot project.

Expenditures from the General Fund are proposed at $418.2 million, an increase of $19.5 million, or 4.9 percent, over estimated expenditures in the current year. The General Fund increase is significantly lower than the increase in all funds due to the anticipated receipt of $31.5 million in federal funds resulting from the implementation of regional center case management services as a Medi-Cal benefit.

Table 4 displays the components of regional centers and community program development expenditures for the prior, current, and budget years.

Table 5 shows the proposed changes to the budget for regional centers and community program development proposed in 1988-89.

Table 5
Department of Developmental Services
Regional Centers and Community Program Development
Proposed 1988-89 Budget Changes
(dollars in thousands)

		Program Development Fund (PDF)			
	General Fund	*Parental Fees*	*Federal Reimbursements*	*Other Reimbursements*	*All Funds*
1987-88 expenditures (Budget Act)	$398,709	$3,723	$1,245	$50	$403,727
Adjustments, 1987-88:					
1. Education	—	—	—	15	15
2. Intermediate care facilities/developmentally disabled-nursing conversions	—	500	—	—	500
1987-88 expenditures (revised)	$398,709	$4,223	$1,245	$65	$404,242
Baseline adjustments, 1988-89:					
1. PDF adjustment	—	477	494	—	971
2. Reductions in community placement	−1,689 [a]	—	—	—	−1,689 [a]
Program change proposals:					
1. Case management reimbursements	−26,328	—	—	31,500	5,172
2. Regional center caseload	24,901	—	—	—	24,901
3. Regional placement pilot	752 [a]	—	—	—	752 [a]
4. Expansion of alternative residential model	21,546	—	—	—	21,546
5. Day program rates	312 [a]	—	—	—	312 [a]
1988-89 expenditures (proposed)	$418,203	$4,700	$1,739	$31,565	$456,207
Change from 1987-88 (revised):					
Amount	$19,494	$477	$494	$31,515	$51,965
Percent	4.9%	11.3%	39.7%	[b]	12.9%

[a] In the department's budget, these numbers are incorporated in the regional center caseload numbers.
[b] Not a meaningful figure.

Client Characteristics

Developmentally disabled clients in the community and the state developmental centers (SDCs) have varying levels of disability and thus have many different service needs. As of January 1988, there were an

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 6
Department of Developmental Services Characteristics of Clients in the Community and The Developmental Centers[a] December 1987

	Percent of Community Clients	*Percent of Developmental Center Clients*
Retardation level:		
Profoundly retarded	8.7	71.6
Severely retarded	14.0	13.3
Moderate or mildly retarded	58.7	13.9
Not retarded	9.9	1.0
Unspecified	8.7	0.3
Behavior assessment:		
Severe behavior problem	5.6	34.6
Moderate or minimal	26.0	32.9
No behavior problem	68.5	32.5
Violence:		
Frequently violent	2.2	10.8
Often violent	10.7	28.6
Seldom violent	18.1	12.8
Never violent	69.0	45.4
Unknown	—	2.4
Understanding:		
Spoken words not understood	17.5	48.1
Few words understood	26.4	32.5
Conversation understood	56.1	19.4
Walking:		
Wheelchair or bedridden	18.8	35.9
Can walk	81.2	64.1
Eating:		
Must be fed	7.7	25.2
Needs help	18.2	37.9
Can feed self	73.3	36.5
Unknown	0.8	0.5
Visual impairment:		
Totally blind	2.2	6.5
Severe impairment	2.5	11.1
Moderate impairment	8.7	8.2
Normal, near normal	80.1	67.2
Unknown	6.3	6.9
Hearing impairment:		
Profound or severe loss	3.4	8.9
Moderate or mild loss	6.0	14.3
No loss or not diagnosed	84.9	73.4
Unknown	5.7	3.4
Toileting:		
Needs diapers	19.6	49.5
Needs help toileting	18.6	30.5
Independent	60.5	20.0
Unknown	1.3	—
Major medical problems:		
Two or more	6.2	52.6
One	14.0	19.2
None	79.8	28.2

[a] Totals may not add to 100 because of rounding.

estimated 88,547 clients in the regional center caseload. Of this number, 7.7 percent were developmental center clients, 62 percent resided at home or in an independent living arrangement, and 30 percent resided in a skilled nursing, intermediate care, or community care facility. Table 6 compares the characteristics of community care and SDC clients. Generally speaking, developmental center clients suffer from more severe disabilities than community care clients.

Regional Center Caseload

The budget proposal estimates that the midyear regional center caseload in 1988-89 will increase by 5,412, or 6.1 percent, above the estimated current-year level. The proposal estimates that the residential care caseload will increase by 362 clients, or 2 percent, above the estimated current-year caseload.

The caseload estimates will be revised by the department in May, when additional data on caseload trends become available. Table 7 shows the caseload change for 1984-85 through 1988-89.

Table 7
Regional Centers' Midyear Caseload
1984-85 through 1988-89

	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 (estimated)	88,547	6.5%	17,828	3.1%
1988-89 (proposed)	93,959	6.1%	18,190	2.0%

Expansion of the Alternative Residential Model

We recommend approval. We further recommend that the Legislature adopt supplemental report language requiring the department to maintain trend data on the effect of implementing the Alternative Residential Model on community placements from state developmental centers.

The budget proposes a General Fund augmentation of $21.5 million to expand the existing Alternative Residential Model (ARM) pilot project to additional areas and provide rate increases to residential care providers. Specifically, the budget proposes augmentations of (1) $10.5 million to increase rates for residential care providers that are currently participating in ARM or that convert to the ARM in 1988-89, (2) $9.9 million to increase rates by 5 percent for providers continuing to operate under the existing rate system, (3) $979,000 to implement the department's proposed quality assurance standards, and (4) $200,000 to compare the cost and effectiveness of nationally recognized quality assurance standards to those proposed by the department.

Background. Current law requires the department to set rates for residential care facilities based on the following factors: (1) the clients' basic living needs, (2) the amount of supervision provided to clients, and (3) administrative services and facility maintenance. The law requires

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

the department to adjust these rates annually to reflect increases in the cost of living and to redetermine the cost of basic living needs every three years. Any rate increases must be approved by the Legislature.

The department has identified several problems with the existing rate system: (1) rates for individual clients based on client classifications do not accurately reflect the amount of supervision clients need, (2) rates do not recognize certain costs such as night-shift staffing or the cost difference between owner-operated and staff-operated facilities, and (3) the current rate system does not precisely specify service requirements (in other words, there are no assurances that rate increases justified on the basis of fully funding a certain level of staff will actually result in staffing at the intended level).

The department prepared a proposal to restructure residential care rates and establish quality assurance standards in 1985. The Legislature adopted Budget Bill language authorizing the department to implement its proposal on a pilot basis in at least three regional centers. The department has sought expansion of the pilot through legislation over the last two years.

The Legislature enacted legislation in 1987 (AB 150) that appropriated $19.7 million to (1) increase rates to existing ARM providers in order to reflect cost increases between 1985-86 and 1987-88, (2) increase rates by 10 percent to all non-ARM providers except those receiving special or negotiated rates, (3) increase special and negotiated rates by 5 percent, and (4) implement the department's proposed quality assurance standards and require a study comparing the standards to those developed by a nationally recognized organization. The measure tied statewide implementation of the ARM to adoption of regulations containing the proposed standards. The Governor vetoed the bill.

Rate Proposal. The existing ARM pilot includes three regional centers and 1,759 clients. The department proposes to expand the pilot to include an additional 6,300 clients (approximately seven more regional centers) by January 1989.

Under the department's proposal, the ARM rate system has four client rate levels and two operator categories—owner- and staff-operated. The new levels are described as follows:

- ***Level 1.*** Clients in the "basic" level of care need minimal supervision. The department's proposal would not change the rate of payment or the classification system for "basic" clients.
- ***Levels 2 and 3.*** Currently, residential care facilities that care for developmentally disabled clients who are classified as "minimal," "moderate," or "intensive" receive rates that vary by client classification and size of the facility. The department proposes to replace the minimal, moderate, and intensive categories with "standard" (Level 2) and "additional care and training" (Level 3) classifications. In addition, the department proposes to eliminate variation in rates based on facility size, and instead substitute "owner-operated" and "staff-operated" as a basis for rate differentials.
- ***Level 4.*** This level is for clients with special or intensive needs. It replaces "special services" rates in the existing rate system. In this category, the department negotiates with providers on a client-specific basis to set rates and establish program standards in a contract that can be monitored.

Table 8 shows how current payments to facilities for minimal, moderate, and intensive clients vary by client classification and facility size. The rates shown in Table 8 reflect the 5 percent increases proposed by the department for facilities continuing to operate under the existing rate system. The department's funding request of $21.5 million includes $9.9 million for this 5 percent increase.

Table 8

Department of Developmental Services
Proposed Monthly Rates for Residential Care Facilities
Continuing Under the Existing Rate System
Effective July 1, 1988

Client Classification	*1-6 Beds*	*7-15 Beds*	*16-49 Beds*	*50+ Beds*
Minimal care	$690	$713	$782	$775
Moderate care	870	896	964	956
Intensive care	991	1,015	1,085	1,076

Table 9 shows how the rates for Level 2 and Level 3 clients vary under the ARM rate categories. The rates shown include the 1988-89 increases proposed by the department. On average, the 1988-89 ARM rates for Level 2 and Level 3 facilities would be 16 percent higher than 1987-88 ARM rates and 19 percent higher than 1988-89 non-ARM rates. (The rate increases for an individual facility converting from the existing rate system to ARM would be from 8 percent to 26 percent depending on how the facility is classified.) The 1988-89 ARM rates for negotiated-rate facilities would increase by an average of 14 percent over ARM rates paid in 1987-88. The department was unable to estimate the average increase resulting from conversion of current special services rates to the ARM. The department's funding request includes $10.5 million to (1) increase rates for existing ARM providers and (2) pay the increases in costs when non-ARM providers convert to the ARM system.

Table 9

Department of Developmental Services
Proposed Monthly Rates for
Residential Care Facilities Participating in
The Alternative Residential Model
Effective July 1, 1988

	Facility Type	
Client Classification	*Owner-Operated*	*Staff-Operated*
Level 2: Standard	$933	$1,084
Level 3: Additional care and training	1,214	1,410

Quality Assurance Proposal. The budget proposes an augmentation of $979,000 to implement the quality assurance components of the ARM in the regional centers affected by its expansion. This amount consists of (1) $518,000 for one-time orientation costs ($369,000 for providers and $149,000 for regional centers) and (2) $461,000 to monitor providers for adherence to the program standards. The department proposes to allocate these funds to regional centers on a per-client basis.

Department's Proposal Differs from AB 150. The department's proposal differs from the legislative proposal enacted in AB 150 in the following manner:

- It provides a 5 percent increase to non-ARM providers for clients in the minimal, moderate, and intensive categories, while AB 150 provided a 10 percent increase to these providers.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

- It does not have a timetable for statewide expansion of the ARM, while AB 150 (1) required statewide expansion by June 30, 1990 and (2) tied this expansion to the department's adoption of regulations containing the proposed quality assurance standards.

ARM Expansion Makes Sense. We believe that expanding the ARM pilot makes sense because it addresses problems that have been identified in connection with the existing rate system. Most notably, it establishes client care requirements that are readily measurable and enforceable. Such requirements are lacking in the current rate system. In site visits, both providers and regional centers praised the objective performance standards established in the project, as well as the higher rates.

Furthermore, preliminary data indicate that expansion of the ARM pilot may assist the Legislature achieve its goal of placing additional clients from the state developmental centers into community facilities. Specifically, data contained in the department's April 1987 report, *Alternative Residential Model: Report on the Pilot Project*, suggest that implementation of the ARM has resulted in an increase in the number of new community facilities being developed. The department reported that during its first calendar year of implementation, ARM areas showed a disproportionate level of facility growth—approximately three times the level that would otherwise be expected.

Accordingly, we recommend approval of the proposal.

Information on Facility Growth Needed for Community Placement Planning. The preliminary data presented by the department suggest that implementation of the ARM may have an effect on the rate of client placement from the developmental centers to the community. The department does not have any current plans to collect any additional data regarding facility growth trends.

Maintaining such data could be useful in developing future community placement plans and assessing the impact of community placement on the budget. Accordingly, we recommend that the Legislature adopt supplemental report language requiring the department to collect data regarding facility trends. We recommend the following specific language:

> The department shall maintain data regarding the effect of implementing the Alternative Residential Model on the rate of community placement from state developmental centers, including data on trends in the number of facilities serving clients with developmental disabilities.

Medi-Cal Case Management

We recommend a reduction of $22 million from the General Fund in the regional center budget to reflect additional federal reimbursements that will be available in 1988-89 to offset costs incurred in the current year. (Reduce Item 4300-101-001 by $22 million; increase reimbursements by the same amount.) We withhold recommendation on the budget proposals related to Medi-Cal funding of regional center case management services ($268,000 costs in Item 4300-001-001 and $26.3 million net savings in Item 4300-101-001) pending review of the revised budget and workload estimates to be provided in May.

The budget proposes an augmentation of $5.4 million from the General Fund for departmental and regional center staff to administer a system of billing Medi-Cal for regional center case management services. The budget assumes that billing Medi-Cal for case management services will result in the receipt of $31.5 million in additional federal funds, for a net savings of $26.1 million to the General Fund.

Background. Chapters 1384 and 1385, Statutes of 1987, (1) established case management services provided to developmentally disabled persons and other specified populations as a Medi-Cal benefit, contingent upon federal approval, (2) required the Department of Health Services to seek federal approval and promulgate emergency regulations, (3) stated legislative intent that the General Fund savings resulting from the availability of additional federal funds be redirected for expenditure in health and welfare programs, with at least 50 percent for services to the specified populations eligible for case management services, and (4) required the Health and Welfare Agency to report to the Legislature regarding its recommendations for improving services through expenditure of the General Fund savings.

The administration submitted its proposal to the federal government on December 31, 1987. In its submission, it proposes to define the target population as persons who have, or are suspected of having, developmental disabilities. It defines "case management" as services provided to assist individuals in gaining access to needed medical, social, educational, or other services.

The department proposes to bill Medi-Cal for (1) regional center services meeting these criteria and (2) regional center and departmental administrative costs associated with providing case management services. If the proposal is approved, federal funding will be available for qualifying services provided beginning in October 1987.

Budget Proposal. The budget proposes General Fund augmentations of $268,000 for six departmental positions and $5.1 million for 158.8 staff at the regional centers to administer the billing system and monitor compliance with federal regulations.

Of the six positions proposed for the department, four would collect data, coordinate department reviews, provide technical assistance to regional centers, and prepare reports required by the federal government. In addition, these staff would be responsible for developing and implementing a billing system that will entail (1) the regional centers submitting data to the department each month regarding Medi-Cal-eligible clients who receive case management services and (2) the department preparing a monthly invoice for submission to the Department of Health Services.

The other two positions would be responsible for expanding the number of client assessment service effectiveness (CASE) reviews conducted by the department in order to comply with a federal requirement that case reviews be conducted for 5 percent of the clients receiving case management services.

Forty-seven of the 158.8 new staff at the regional centers would coordinate revenue activities. Specifically, they would assist clients in applying for Medi-Cal eligibility, enter specified Medi-Cal data into the Uniform Fiscal System, and prepare reports and documentation that may be required. The department proposes to allocate these staff according to regional center size: large centers (more than 5,000 clients) would receive funds for three positions, medium centers (2,500 to 5,000 clients) would receive funds for two, and small centers (less than 2,500 clients) would receive funds for one position.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

The remaining 111.8 regional center staff would monitor community care providers' compliance with existing Title 17 regulations, which specify programmatic, health, and safety standards. (A portion of the clients eligible for the new case management funding reside in community care facilities.) The department indicates that regional centers currently do not monitor providers' compliance with these requirements. The department proposes to allocate these staff by granting each regional center an additional 7.7 staff hours per year for each client residing in a community care facility.

The department's proposal states that, in addition to these activities, it plans to conduct a utilization review and quality of care assessment program that will ensure departmental and regional center compliance with all applicable federal requirements. The department reports that the Department of Health Services will also conduct periodic audits of departmental and regional center compliance with state and federal requirements. The budget proposal does not address staffing needs for these activities or provide any details regarding how they will be administered.

The budget estimates that the administration will bill Medi-Cal for case management services provided to 45,000 clients, or 52 percent of the regional center caseload, every month. The department estimates that the monthly regional center costs associated with these services will amount to $112 per client, for a total monthly cost of approximately $5 million, or $60 million annually. The budget assumes that federal funding will offset $30 million, or 50 percent of these General Fund costs. The department assumes it will receive an additional $1.5 million in federal funds for its administrative costs, for a total General Fund savings of $31.5 million.

Budget Fails to Recognize $22 Million in Reimbursements to the General Fund. The department anticipates that during the budget year, it will be able to retroactively bill for services supplied during the current year. We estimate that $22 million in federal funds will become available in 1988-89 as a result of retroactive billing in addition to the $31.5 million in reimbursements reflected for budget-year activities. These retroactive funds are not proposed for expenditure in the Budget Bill. If they are not scheduled for expenditure by the Legislature, these additional federal funds would revert to the General Fund.

We believe that spending these funds on new programs would be unwise because they are one-time funds; creating new programs would result in an obligation for continued funding in later years. Accordingly, we recommend that the Legislature spend the funds to offset increasing costs in existing programs. Specifically, we recommend that the Legislature schedule these reimbursements in the regional center item to offset the costs of caseload growth. This results in a General Fund savings of $22 million.

More Information Needed. The department indicates that it will submit a revised proposal in the spring based on proposed federal regulations to be issued sometime during the next several months and additional data on estimated reimbursements. We withhold recommendation on the 1988-89 proposal pending the revised submission. In order to provide the Legislature with the information it needs to evaluate this proposal, we recommend that the administration address the following problems we have identified in its revised submission:

1. ***Medi-Cal Eligibility Assumptions.*** Because the department does not have ready access to actual counts of regional center clients eligible for Medi-Cal, it used theoretical assumptions to determine the number of clients who would be eligible for federal funding. Consequently, the estimate of federal funds available may be inaccurate. The department should prepare a more precise estimate for its May submission, preferably based on a sample of regional center cases.

2. ***Medi-Cal Billing Assumptions.*** The federal government may require the department to change its approach to billing for case management services. For example, the budget assumes that the department will be able to bill the Medi-Cal program for case management services based on a rate of $112 per client per month. However, the department reports that the federal government may instead require a fee-for-service billing methodology. Such a change could substantially affect (1) the amount of department and regional center staff required for administration and (2) the amount of federal funds received. The department should update its estimates of staff and reimbursements if the federal government requires it to change its approach.

3. ***Department Staff.*** Our ability to assess the department's request for staff was seriously impaired by the lack of duty statements for any of its proposed positions, timelines for completion of tasks associated with development of the billing system and other aspects of the program, or justification for performing detailed client service reviews instead of the more limited reviews required by the federal government. The Legislature needs significantly more detail to evaluate the department's proposal.

4. ***Federal Funding for Administration.*** The department's estimate reflects Medi-Cal funding for direct staffing costs, but not for overhead, although the department informs us that it intends to bill Medi-Cal for overhead. The department should provide revised estimates of reimbursements for administrative costs.

5. ***Justification for Regional Center Revenue Coordinators.*** The department was unable to document the need for 47 additional regional center staff requested for "coordinating revenue." The department reports that regional centers are already provided funds for staff who are responsible for the following duties, which the proposed positions also would perform: client intake, assisting clients in applying for Medi-Cal, and entering data into the Uniform Fiscal System. The department should explain why additional positions are needed.

6. ***Justification for 111.8 Regional Center Monitoring Positions.*** The budget proposal for 111.8 positions for regional centers assumes that regional centers do not provide *any* extra monitoring of clients who live in community care facilities compared to clients who live in their parents' homes, despite specific regulatory requirements for such additional monitoring that have been in effect for four years. The department should explain how it has allowed such a situation to develop and the relationship of the workload of the proposed new monitoring staff to (a) monitoring performed by community care licensing staff in counties and the state Department of Social Services and (b) the quality assurance component of the Alternative Residential Model.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

7. ***Reviews and Audits.*** The department was unable to provide any information regarding (a) the proposed utilization review and quality assurance activities, and their relationship to existing department functions, nor (b) financial audits proposed to be performed by the Department of Health Services. The budget proposes no additional staff for these activities.

Impact of Minimum Wage Increase Not Reflected

We recommend that the department estimate the impact of the minimum wage increase on provider costs and provide a description of its estimating methodology in conjunction with the May revision of expenditure estimates.

The budget does not include any additional costs resulting from the 90-cent increase in the minimum wage effective July 1, 1988.

The department informs us that in its May revision, it intends to propose provider rate adjustments to compensate providers for costs associated with the minimum wage increase. In cases where existing rates were calculated for a whole class of facilities based on explicit assumptions regarding per-hour wages, estimating the direct cost of the minimum wage increase will be relatively straightforward; although estimating the indirect effect of "compaction" (the indirect pressure to raise wages that are already higher than the new minimum wage) will be difficult. In cases where rates were calculated for each individual facility or where the assumptions regarding per-hour wages are not explicit, estimating the cost of the minimum wage increase will be more difficult.

The department has not been able to provide any preliminary estimates of the effect the minimum wage increase would have on the regional center client services budget. It was also unable to identify how it would estimate provider costs associated with the minimum wage increase for purposes of developing the rate adjustments to be provided in its May revision.

We recommend that the department provide cost estimates and a description of its estimating methodology in conjunction with the provider rate adjustments it proposes in the May revision. In its submission, we also recommend that the department address the issue of compaction.

Costs of Day Program Rate Increase Uncertain

Chapter 660, Statutes of 1984, required the department to (1) adopt regulations establishing program standards and rates based on allowable costs for activity centers by July 1, 1985 and adult development centers by July 1, 1986 and (2) develop a timetable for completion of regulations for all other types of day programs by July 1, 1985.

The department currently anticipates that the regulations for most day programs and associated rate adjustments will be effective in June 1989. Consistent with this schedule, the budget proposal includes $312,000 for one month's cost of paying providers according to the anticipated increase in day program rates. The department based its estimate of the amount needed for rate increases on the "actual allowable" costs that it identified in its *Day Program Rate/Cost Study* submitted to the Legislature in July 1987. The difference between current rates and the rates identified in the department study is $3.7 million on an annual basis.

The actual cost of the day program rate increase could be significantly different than the amount identified by the department for the following reasons:

- The department's final rates may differ significantly from the estimates used as the basis for the budget because it is preparing a new cost study in conjunction with its regulations.
- The final rates may be higher than anticipated in the budget if the regulations impose new program requirements that raise the cost of providing services. An estimate of these increased costs would be incorporated into the final rates.
- The department would incur significantly higher costs for day programs—in both the current and budget years—if it receives an unfavorable judgment in a court case that is currently pending. In this case, a provider organization brought suit against the department in order to require it to (1) promulgate day program regulations within 60 days and adopt them 90 days later, (2) cease using its rate procedure manual, and (3) pay providers based on their actual costs until such time that the department adopts its new regulations. The department reports that the court will rule on the validity of the rate procedure manual by the end of January and will rule on the suit by the end of March. The department was unable to estimate the fiscal impact of paying providers their actual costs due to the lack of reliable data. We believe, however, that an unfavorable ruling could substantially increase estimated current- and budget-year costs.

Community Program Development

The budget proposes expenditures of $9.7 million for community program development from various funds. Table 10 displays the programs that would be funded with the $9.7 million.

Table 10
Department of Developmental Services
Community Program Development
1988-89
(dollars in thousands)

		Program Development Fund		
Program	*General Fund*	*Parental Fees*	*Federal Reimbursements*	*All Funds*
State council projects	—	—	$1,739	$1,739
Department projects	—	$2,035	—	2,035
Place clients from developmental centers	$3,119 [a]	2,665 [a]	—	5,784 [a]
Cultural center	146	—	—	146
Totals	$3,265	$4,700	$1,739	$9,704

[a] These amounts are reflected in the regional center budget.

Current law requires the department to use funds from parental fees for projects developed in consultation with the State Council on Developmental Disabilities. This year, the department will award $3.8 million in Program Development Fund (PDF) funds to regional center/area boards for local projects no later than May 1, 1988. The department indicates that $3.3 million, or 85 percent, of these funds will be apportioned to regional centers/area boards on the basis of caseload for use on projects identified in local plans which meet state and federal priorities.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

The department indicates that the remaining $450,000 will be awarded locally, subject to statewide competition within five targeted areas: (1) services to clients having both mental and developmental diagnoses, (2) consumer advocacy, (3) development of foster care placements, (4) services to head trauma/brain-injured adults, and (5) services to clients having uncommon needs, such as Prader Willie syndrome, which is an eating disorder.

Proposed Expansion of Regional Placement Pilot Is Premature

We recommend deletion of $752,000 proposed to expand a pilot program for regional placement of state developmental center clients because the proposal is premature. (Reduce Item 4300-101-001 by $752,000.)

The budget proposes a General Fund augmentation of $752,000 to expand its current Regional Resource Development project (RRDP) currently operating at Sonoma State Developmental Center. In this pilot project, the SDC's clients are placed into the community through a regional approach involving the Sonoma SDC and a group of regional centers that cover surrounding areas.

Background. Currently, each regional center is responsible for planning the placement of its own clients residing at state developmental centers (SDCs). The department indicates that it developed the RRDP in response to two problems that it identified with its current community placement effort: (1) regional centers operating independently do not have enough of any one type of client to be able to convince providers to develop new programs to serve them and (2) provider training conducted by regional centers regarding new placements may be duplicative and does not involve SDC personnel.

The department initiated the RRDP during 1986-87 by establishing a regional planning team involving the Sonoma SDC and regional centers in surrounding areas to identify *at a regional level* both the resources and the appropriate provider training needed for placements. Four of the nine regional centers invited to participate worked with the Sonoma SDC in developing a regional community placement plan for implementation in 1987-88. The department reports that it will incur costs of $200,000 during the current year to continue this regional effort and implement the plan.

Proposal for Expansion. The budget requests an augmentation of $752,000 to continue this approach at Sonoma SDC and to expand this pilot to include Agnews, Porterville, and Fairview SDCs during 1988-89. Of these funds, $407,000 would go to the regional centers to be used to support 8.2 positions, thereby creating placement teams located at each of the four participating SDCs. The remaining $345,000 would be used to develop a training program for community care providers accepting the regional placements.

Proposal Is Premature. We commend the department for experimenting with alternative methods for achieving its community placement goals. Its proposal to expand the RRDP, however, appears to be premature. Our analysis of the expansion of the RRDP was seriously hampered because the department did not prepare a formal budget proposal outlining its request and subsequently failed to provide the basic information that is needed in order to review the proposal.

Specifically, at the time we prepared our analysis, the department was unable to provide (1) a detailed budget for the current year's project, (2) a detailed project budget for 1988-89, (3) any data or evaluation of the pilot's success in meeting its objective of increased community placements from the Sonoma SDC, (4) an explanation of the goals of the training program and how the proposal addresses the problems identified, (5) an explanation as to why training materials developed during the current-year pilot cannot be replicated for use within the proposed expansion, (6) an explanation as to why only four regional centers participated in the existing project and how nonparticipation may affect the proposed expansion, and (7) justification for expanding this pilot to include over half of the SDCs when the department has not conducted any evaluation of the existing pilot.

We support the department's goal of developing appropriate local resources and planning methods that will allow for the effective community placement of SDC clients. We also believe that the department's current regional pilot operating at the Sonoma SDC is a promising model as an alternative to the current method of community placement planning. However, the department has not justified the proposed expansion of its regional placement pilot. Accordingly, we recommend that the Legislature delete the proposed General Fund augmentation of $752,000.

Delays in Implementing New Licensure Category

We recommend that the Legislature reappropriate the unencumbered balance of a $500,000 appropriation from the Program Development Fund for expenditure on conversions of intermediate care facilities for the developmentally disabled-nursing (ICF/DD-Ns) in 1988-89. We further recommend that during budget hearings the administration explain the delay in adopting ICF/DD-N regulations and provide its work plan and a schedule for their adoption. (Reappropriate the unencumbered balance of $500,000 from Item 4300-101-172 of the 1986 Budget Act.)

The budget reflects expenditures of $500,000 from the Program Development Fund (PDF) in the current year to assist community care facilities (CCFs) in converting to licensure as ICF/DD-Ns. These funds were originally appropriated in the 1986 Budget Act. The budget assumes that the department will place 30 state developmental center (SDC) clients into ICF/DD-Ns during 1988-89.

Chapter 1496, Statutes of 1985, directed the Departments of Health Services (DHS) and Developmental Services (DDS) to develop and implement licensing and Medi-Cal regulations for a new health facility category known as ICF/DD-N. ICF/DD-Ns are residential facilities that provide nursing supervision and intermittent health care services for medically fragile persons. The development of this category is intended to assist the department in meeting its goal of placing SDC clients into the community.

The departments have experienced delays in developing and adopting these regulations. Originally, the regulations were scheduled for adoption in October 1986. Later they were rescheduled for adoption in late 1987. At the time this analysis was prepared, the DDS estimated that the regulations would be adopted in May 1988.

As a consequence of these delays in adopting ICF/DD-N regulations, we believe it is unlikely that the $500,000 from the PDF will be spent in

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

the current year. Accordingly, in order to extend the availability of these funds into 1988-89, we recommend that the Legislature reappropriate the unencumbered balance of the $500,000 in the 1988 Budget Bill.

We also recommend that during budget hearings the administration explain why the delay has occurred and provide its work plan and a schedule for adopting the regulations.

III. DEVELOPMENTAL CENTERS

The budget proposes expenditures of $498.3 million (all funds) for programs to serve state developmental center (SDC) clients in 1988-89. This is an increase of $18.2 million, or 3.8 percent, above estimated current-year expenditures. The proposed General Fund appropriation for the SDCs is $65.6 million, which is $11.2 million, or 21 percent, above estimated current-year expenditures. The primary reason for the increases is the full-year effect of 1987-88 employee compensation adjustments.

The budget projects an average population of 6,860 developmentally disabled clients in 1988-89 for the SDCs. This is 85 clients, or 1.3 percent, more than the current-year level. The average cost per client in 1988-89 is projected to be $66,299, an increase of $1,491, or 2.3 percent, above the cost per client in the current year. The budget proposes 10,755 personnel-years for developmental services programs.

Table 11 displays expenditures, funding sources, population, positions, and cost per client for developmental services programs.

Table 11
Department of Developmental Services
Developmental Centers Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Expenditures	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Developmental services programs	$428,251	$439,076	$454,811	3.6%
Mental health programs	42,669	41,070	43,538	6.0
Totals	$470,920	$480,146	$498,349	3.8%
Funding sources				
General Fund	*$64,180*	*$54,432*	*$65,632*	*20.6%*
Federal funds	*779*	*835*	*856*	*2.5*
Mental health reimbursements	*42,669*	*41,070*	*43,538*	*6.0*
Other reimbursements	*363,292*	*383,809*	*388,323*	*1.2*
Developmental services programs				
Average developmentally disabled population	6,805	6,775	6,860	1.3%
Personnel-years	10,941.6	10,555.4	10,754.7	1.9
Cost per client	$62.9	$64.8	$66.3	2.3

Table 12 shows the changes to the current-year budget proposed for 1988-89.

Table 12
Department of Developmental Services
Programs for the Developmentally Disabled
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$34,298	$468,450
Baseline adjustments, 1987-88:		
1. Retirement reduction	−719	−790
2. Reimbursement reduction	—	−109
3. Employee compensation	8,992	9,920
4. Unanticipated population increases	2,675	2,675
5. Unanticipated changes in Medi-Cal reimbursements	9,186	—
1987-88 expenditures (revised)	$54,432	$480,146
Baseline adjustments, 1988-89:		
1. Price increase	$1,568	$1,589
2. Retirement	5	5
3. Employee compensation	6,180	6,821
4. Physicians' orders	−105	−105
5. Reimbursement increase	—	205
6. Napa interagency agreement	−3,630	−3,630
7. Janitorial contract	−275	−275
Caseload and cost adjustments:		
1. Population changes (developmentally disabled)	5,168	5,168
2. Medi-Cal reimbursement adjustments	−4,407	—
3. Population changes (mentally disabled)	—	729
Program change proposals:		
1. Recurring maintenance	1,500	1,500
2. Salary savings	1,770	1,938
3. Coverage factor (developmentally disabled)	3,426	3,426
4. Coverage factor (mentally disabled)	—	832
1988–89 expenditures (proposed)	$65,632	$498,349
Change from 1987-88 (revised)		
Amount	$11,200	$18,203
Percent	20.6%	3.8%

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 estimate of current-year expenditures contained in the budget reflects a General Fund deficiency of $11.9 million consisting of (1) $2.7 million for unanticipated increases in the SDC population and (2) $9.2 million to cover an anticipated shortfall in reimbursements from the Medi-Cal program.

This deficiency results from three major factors: (1) the SDCs unexpectedly admitted 96 clients as a result of local facility closures, (2) the actual cost-of-living adjustments (COLAs) for Medi-Cal long-term care were less than anticipated in the budget, and (3) the methodology for estimating reimbursements resulting from Medi-Cal COLAs was not accurate.

The budget proposes a General Fund increase of $761,000 due to SDC population increases. This consists of an increase of $5.2 million due to population-related changes offset by a reduction of $4.4 million due to additional Medi-Cal reimbursements. This proposal is based on an SDC

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

population of 6,783 at the end of the current year and an increase of 154 clients during 1988-89. The proposal also includes adjustments for changes in client characteristics. The department indicates that it will revise the population estimates in May.

Our analysis indicates that the department's preliminary population estimates appear reasonable. The population figures used as the basis for the budget were developed primarily based on historical population trends. This is a change from recent years. From 1984-85 through 1987-88, the department based its population projections on assumptions associated with its Community Placement Plan, instead of actual population trends. Each year, we have questioned the assumptions as unrealistic. In addition, in a 1987 report to the Legislature, the Auditor General indicated that the department's success with community placements had leveled off and that the department's continued reliance on these goals was unrealistic. The change in approach responds to these criticisms.

Budget Fails to Reflect Medi-Cal Cost-of-Living Adjustments. The budget request assumes that there will be no Medi-Cal rate increases for long-term care in the budget year. This assumption is unlikely because long-term care facilities receive statutory COLAs based on cost studies. The department estimates that each 1 percent Medi-Cal COLA provided to long-term care facilities would offset $3.5 million in proposed General Fund support.

In our analysis of the Medi-Cal program's budget (please see Item 4260), we recommend that the Department of Health Services incorporate its projection of long-term care COLAs in its May revision expenditure estimates. Consistent with that recommendation, we recommend that the Department of Developmental Services incorporate the Medi-Cal estimate for long-term care COLAs in its May revision of expenditures.

Proposed Reduction in Salary Savings Will Not Facilitate Certification

We recommend that prior to budget hearings, the department provide the fiscal committees with information regarding how it plans to assure continued certification and accreditation for the state developmental centers.

The budget proposes an augmentation of $1.9 million ($1.8 million General Fund) to lower the proposed salary savings rate for most SDC staff from 6.6 percent to 6 percent. "Salary savings" is an amount deleted from the budget to reflect vacancies in authorized positions. The budget indicates that this lower salary savings rate would allow the department to fill 54.6 existing positions currently being held vacant. The department reports that it needs to fill these positions in order to prevent the loss of certification for federal Medi-Cal funding and accreditation by the Accreditation Council on Services for People With Developmental Disabilities (ACDD). Losing certification would jeopardize approximately $196 million in federal funds the state receives annually for services delivered by the SDCs. Losing accreditation is primarily a matter of professional prestige.

Certification and Accreditation Problems. The department supports its need for the proposed salary savings relief by citing recent certification and accreditation reviews that have identified problems in such areas as safety and sanitation, delivery of active treatment, use of chemical and physical restraints, and level of staffing. The department indicates that the proposed reduction in salary savings will result in improved care to clients and provide greater assurance that the SDCs will meet applicable standards and regulations.

Our review of various reports issued by the certifying and accrediting agencies confirms that the SDCs have major operating problems which warrant attention by the department. For example, the federal government found that the SDCs are significantly out of compliance with standards related to (1) the use of physical and chemical constraints and (2) delivery of active treatment programs. The federal reports cited staffing deficiencies as a major cause of these problems. In another example, the ACDD found that the Porterville SDC had not shown adequate improvement since a previous survey. The ACDD was particularly concerned that Porterville overuses chemical and physical restraints as behavioral management tools. It allowed Porterville to remain accredited for only a year pending another review.

These problems are likely to become more serious in 1988 due to the implementation of new, more stringent certification and accreditation standards.

Augmentation Will Not Solve Problem. Our analysis indicates that the salary savings proposal will not remedy these problems, for two reasons. First, the department was unable to document that staffing increases, alone, could bring about the necessary improvements. The department was not able to provide detailed plans for addressing the specific problems identified. For example, it could not provide (1) a plan for addressing problems cited in federal certification reviews or (2) a corrective action plan to ensure that Porterville retains its accredited status when the next ACDD review occurs.

Second, our analysis indicates that the proposed augmentation for salary savings relief will have *no effect on improving the department's provision of active treatment and appropriate behavioral restraints.* This is because the augmentation would not actually reduce the salary savings rate. Instead, it would prevent the salary savings rate from increasing. The department's current salary savings rate for most SDC staff is 6 percent. Without the augmentation, the department would be required to increase its salary savings rate to 6.6 percent in order to fund merit salary adjustments (MSAs) it must provide its staff.

Providing MSAs to staff is a legitimate departmental cost. Consequently, we recommend approval of the proposed augmentation. This augmentation will not permit the department to address any of the documented problems in SDC staffing and service provision that it identified in its budget request, however. Failure to correct these deficiencies could mean a loss of certification and/or accreditation, and a resultant loss in federal funds. We therefore recommend that prior to budget hearings, the department provide the fiscal committees with the following information: (1) a plan for (a) addressing problems identified in reports by federal and state agencies and the ACDD and (b) assuring the facilities meet the more stringent standards to be implemented in 1988, (2) a corrective action plan to assure that Porterville retains its accreditation, and (3) a report on the status of accreditation and certification reviews at other facilities.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Recurring Maintenance

We recommend that prior to budget hearings, the department provide the fiscal committees additional information regarding its recurring maintenance and special repair proposals. We also recommend that the Legislature adopt Budget Bill language requiring that recurring maintenance funds be used for recurring maintenance.

The budget proposes a General Fund augmentation of $1.5 million to establish a separate line item in the budget for "recurring maintenance" projects at state developmental centers (SDCs). The budget proposes to maintain expenditures for special repairs, where maintenance projects have traditionally been funded, at the current-year level of $3.8 million.

"Recurring maintenance" includes ongoing roof and road repair, tree trimming, exterior painting, and floor replacement. During the last several years, the department reports that it has used its special repair budget to fund projects required to (1) meet fire, life safety, and other licensing requirements and (2) comply with statewide priorities such as removal of polychlorinated biphenyls (PCBs). These projects have been funded at the expense of recurring maintenance projects. The department argues that continuing to defer these maintenance projects is short-sighted because it leads to greater costs later. For example, the life expectancy of a roof is shortened if it is not repaired regularly.

To support its budget request for the new recurring maintenance program, the department, in consultation with industry contractors and facility maintenance personnel, developed life expectancy/replacement schedules and costs for each of the five areas needing recurring maintenance. The department proposes to use these guidelines to apportion the proposed augmentation among the seven SDCs according to each facility's needs. For example, funds for painting will be distributed based on each facility's exterior square footage, assuming repainting every eight years. Funds for roof and road repair, tree trimming, and floor replacement will be distributed in a similar manner.

To support its $3.8 million budget request for special repairs, the department submitted specific proposals totaling $8.8 million, including $3.6 million in maintenance projects. The highest-priority special repair proposals—that is, the top $3.8 million—include $1.4 million in maintenance projects. Generally, the maintenance projects in the special repairs budget are not regularly scheduled maintenance tasks but represent a "backlog" due to the failure to perform these tasks on a regular basis. This is because the department generally defers maintenance projects in favor of required repairs.

We identified three problems with the department's proposal. First, the department was unable to explain differences between the proposed appropriation for recurring maintenance and the department's cost guidelines. For example, according to the department's proposed allocation formula, Agnews State Developmental Center should receive $105,000 for road repairs, while the department proposes to allocate it $53,000, or approximately 50 percent of this amount. In total, our analysis indicates that funding the recurring maintenance program developed by the department would require an annual appropriation of approximately $2.9 million, not the $1.5 million requested by the department.

Second, the department was unable to reconcile its recurring maintenance request with its special repairs request. The department was unable to identify exactly which of the $8.8 million in special repairs proposals would be funded and whether the maintenance projects included in the special repairs budget request would be funded from special repairs funds or by the new recurring maintenance program. If the new recurring maintenance funds are used for the backlog of projects identified in the special repairs budget rather than regularly scheduled maintenance, the program will not serve its intended purpose.

Third, although the department's proposal indicates that recurring maintenance would be a separate line item in order to ensure that the funds were spent only on recurring maintenance, the budget includes these funds within the "maintenance and rentals" line item. As a result, the department could divert these funds for expenditure on purposes other than recurring maintenance. If diversions occur, the program would not serve its intended purpose.

Our analysis and visits to the SDCs confirm the need for a regular maintenance program. To ensure that the program serves its intended purpose, however, the Legislature (1) needs additional documentation regarding the funding request and (2) should impose restrictions on the funds to prevent their diversion.

Specifically, we recommend that prior to budget hearings, the department provide the fiscal committees with the following specific information: (1) a reconciliation of the proposed augmentation and the maintenance needs projected by the department and (2) a list of the special repair projects the department proposes to fund with its special repairs appropriation of $3.8 million and its schedule for funding the backlog of maintenance projects identified in its special repairs request. We also recommend that the Legislature adopt Budget Bill language restricting the use of the $1.5 million requested for recurring maintenance. We recommend the following specific language:

> Of this item, $1.5 million shall be used for recurring maintenance and shall not be diverted to other purposes.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY

Items 4300-301 and 4300-490 from the General Fund, Special Account for Capital Outlay — Budget p. HW 106

Requested 1988-89	$13,392,000
Recommended approval	12,795,000
Recommended reduction	597,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Project Administration and Contingency. Reduce Item 4300-301-036 by $404,000.*** Recommend that the Legislature adopt a policy for all the department's major capital outlay — 587

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

projects limiting project administration and contingency to 20 percent of construction contract amounts, consistent with the limit set in the State Administrative Manual. (Future savings: $122,000).

2. ***Fire, Life Safety and Environmental Improvements—Units 20-23 and 26-29—Camarillo State Hospital. Reduce Item 4300-301-036(3) by $43,000. (Future savings: $1,663,000).*** Recommend a $43,000 reduction in preliminary plans and working drawings to reflect a lower construction cost based on recent construction bids on other remodeling work in this building. (Future savings: $1,663,000). 589
3. ***Personal Alarm Systems—Statewide, Phase II. Reduce Item 4300-301-036(7) by $150,000.*** Recommend that the Legislature delete $150,000 for excess equipment and approve funds for Phase II installation of alarm systems in the reduced amount of $1,650,000. 590
4. Reappropriation, Personal Alarm Systems—Statewide, Phase I. Recommend deletion of Item 4300-490 for reappropriation of Phase I funds because the department's schedule for completion of working drawings makes reappropriation unnecessary. Further, we recommend that, prior to budget hearings, the department report to the Legislature on the reasons for delays experienced in implementing Phase I. 590

ANALYSIS AND RECOMMENDATIONS

The budget includes $13.4 million in Item 4300-301-036 from the Special Account for Capital Outlay (SAFCO) for the Department of Developmental Services' capital outlay program. In addition, the budget requests the reappropriation of approximately $777,000 appropriated from SAFCO in the 1987 Budget Act for Phase I installation of personal alarm systems in 20 developmental center units statewide. Table 1 shows the amounts requested in Item 4300-301-036 and our recommendations.

Table 1
Department of Developmental Services
1988-89 Capital Outlay Program
Item 4300-301-036
(dollars in thousands)

Sub-Item	*Project Title*	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Estimated Future Cost*[b]
(1)	Minor projects	Statewide	pwc	$1,496	$1,496	—
(2)	Fire, life safety and environmental improvements - Units 18-19, 30-33	Camarillo	c	7,100	6,869	—
(3)	Fire, life safety and environmental improvements, Units 20-23, 26-29	Camarillo	pw	956	838	$10,793
(4)	Upgrade electrical distribution system.	Fairview	pwc	310	298	—
(5)	Water distribution system	Fairview	c	1,454	1,393	—
(6)	Laboratory remodel	Fairview	c	276	251	—
(7)	Personal alarm systems, phase II	Statewide	pwc	1,800	1,650	—
	Totals			$12,795	$12,795	$10,793

[a] Phase symbols indicate: p = preliminary plans; w = working drawings; and c = construction.
[b] Department estimates.

Minor Capital Outlay

We recommend approval.

The budget includes $1,496,000 in Item 4300-301-036(1) for 16 minor capital outlay projects ($200,000 or less per project) for the Department of Developmental Services. The proposed minor projects range from $12,000 to upgrade an emergency generator switch gear at Stockton Developmental Center to $200,000 to construct a commissary storage building at Porterville Developmental Center.

Excessive Amounts for Project Administration and Contingencies

We recommend that the Legislature, in considering the major capital outlay projects for the Department of Developmental Services, limit the amounts for project administration and construction contingency to 20 percent of estimated construction contract amounts, consistent with the limit set by the State Administrative Manual. Consistent with this recommendation, we recommend reducing Item 4300-301-036 by $404,000 (Future savings: $122,000).

The State Administrative Manual (SAM) generally limits the combined amount that may be budgeted for project administration and construction contingency on capital outlay projects to 18 percent of the construction contract amount in the case of new construction, and 20 percent in cases of remodeling or renovation. In the past, the Legislature generally has followed these guidelines in appropriating funds for capital outlay

Table 2
Department of Developmental Services
Capital Outlay Program
Amounts Allocated for Project Administration and Contingency
1988-89 and Estimated Future Costs
Item 4300-301-036
(dollars in thousands)

Sub-Item	*Program*	*Location*	*Construction Contract Amount*[a]	*Project Administration and Contingency*[b]	*1988–89 Amount in Excess of SAM Limit*[c]	*Future Amount in Excess of SAM Limit*
(2)	Fire, life safety and environmental improvements - Units 18-19, 30-33	Camarillo	$5,973	$1,426	$231	—
(3)	Fire, life safety and environmental improvements, Units 20-23, 26-29	Camarillo	9,282	2,053	75	$122
(4)	Upgrade electrical distribution system	Fairview	245	61	12	—
(5)	Water distribution system	Fairview	1,275	316	61	—
(6)	Laboratory remodel	Fairview	236	72	25	—
(7)	Personal alarm systems, phase II	Statewide	1,587	317	—	—
	Totals		$18,598	$4,245	$404	$122

[a] Department's estimate of amount needed (in budget year or future year) to award bid to construction contractor.

[b] Includes estimated amounts needed for architectural and engineering fees, construction inspection, construction management and contingency. Does not include asbestos consulting, agency retained items and hospital plan checking.

[c] State Administrative Manual (SAM) limit for project administration/contingency is 20 percent of construction contract.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

projects. Project administration includes such things as architectural and engineering fees, construction inspection, construction management and other consultant services. Contingencies are amounts set aside to pay additional construction contract costs that may arise due to unforeseeable circumstances during construction.

Table 2 shows that, based on SAM guidelines, the department has over-budgeted for project administration and contingencies for all but one of its major capital outlay projects in the budget. The total amount allocated by the department for project administration/contingency exceeds the 20 percent limit by $404,000 in the budget year.

The department has not justified the need to exceed the 20 percent limit established by SAM. We therefore recommend that the fiscal subcommittees adopt a policy to limit project administration and contingency for all major capital outlay projects in this item to 20 percent of construction contract amounts. We further recommend that the Legislature reduce Item 4300-301-036 by $404,000 as summarized in Table 2.

Major Projects for Which We Recommend Approval

We recommend approval of four major projects in Item 4300-301-036, except for the excess project administration/contingency.

Fire, Life Safety and Environmental Improvements—Units 18, 19, 30-33—Camarillo State Hospital. The budget includes $7.1 million for the construction phase of fire, life safety and environmental improvements to units 18, 19 and 30-33 at Camarillo State Hospital. Upon completion of the remodeling work, the units will be returned to their current use. Unit 33 will be used as a day treatment activity center and will be remodeled for fire/life safety compliance only. Units 18 and 19 will house 60 adolescents and units 30-32 will house 103 adults with acute psychiatric disorders.

Except for excess costs for project administration/contingency ($231,000), the project is consistent with the work previously approved by the Legislature. Thus, we recommend approval in the reduced amount of $6,869,000.

Electrical Distribution System Upgrade, Phase II—Fairview Developmental Center. The budget includes $310,000 for preliminary plans, working drawings and construction for the second phase of a project to upgrade the electrical distribution system at Fairview Developmental Center in Costa Mesa (Orange County). The Legislature appropriated a total of $333,000 in the 1984 and 1985 Budget Acts to upgrade the electrical distribution system at Fairview. While the Legislature was not previously advised that a second phase of the project would be needed, our analysis of the 1988-89 request indicates that the work is justified to correct a hazardous situation. According to the department, one of its maintenance employees has already been injured by an exploding oil fuse cutout. The work funded by the Legislature in the 1984 and 1985 Budget Acts addressed the first part of a series of recommendations for upgrading the system made in a 1981 consultant's report. The 1988-89 budget proposal would carry out the remaining recommendations. After that no further work on Fairview's electrical distribution system will be needed, according to the department.

This request also includes excess project administration/contingency costs ($12,000). We recommend approval in the reduced amount of $298,000.

New Water Distribution System—Fairview Developmental Center. The budget includes $1,454,000 in Item 4300-301-036(5) for the construction phase for a new water distribution system at Fairview. The Legislature appropriated $92,000 in the 1987 Budget Act for preliminary plans and working drawings for this project. This request also includes excess project administration/contingency costs ($61,000). We recommend approval in the reduced amount of $1,393,000.

Laboratory Remodel, Fairview Developmental Center. The budget includes $276,000 in Item 4300-301-036(6) for the construction phase of remodeling the laboratory in the R and T Building at Fairview Developmental Center. The Legislature appropriated $29,000 in the 1987 Budget Act for preliminary plans and working drawings for this project. Accounting for excess project administration/contingency costs ($25,000), we recommend approval in the reduced amount of $251,000.

Fire, Life Safety and Environmental Improvements, Units 20-23 and 26-29, Camarillo State Hospital

We recommend a $43,000 reduction in Item 4300-301-036(3) for preliminary plans and working drawings to reflect a lower construction cost based on recent bid experience for construction of another remodeling project in the same building. (Future savings: $1,663,000.)

The budget includes $956,000 for preliminary plans and working drawings for remodeling of Units 20-23 and 26-29 at Camarillo State Hospital. The department estimates future costs of $10.8 million. The project will provide fire/life safety compliance and other improvements for the living areas for 308 clients under intensive care. This project, as well as the other remodeling project proposed in the budget for Camarillo, is part of the ongoing capital improvements initiative to remodel the state hospitals in order to maintain accreditation and licensing standards.

The current project cost estimate for Units 20-23 and 26-29 is based largely on the working drawings and cost estimates for remodeling of Units 11-15, which was funded for construction in the 1987 Budget Act. This comparison is reasonable because Units 11-15 are virtually the same in terms of design and function as Units 20-23/26-29 and are, indeed, part of the same building. The budgeted construction costs per gross square foot for both projects are high relative to other state hospital remodeling projects—$94 per square foot in the case of Units 11-15 and $87 per square foot for Units 20-23/26-29. According to the department's construction management consultant, Units 20-23/26-29 have a somewhat lower square foot cost because basic costs, such as overhead costs of construction, are spread across a larger square foot area.

Recent Bids Reflect Lower Costs. The budget estimate for Units 20-23/26-29 should be revised based on the recent construction bid experience for Units 11-15. The state received four bids from construction contractors in January 1988 for remodeling of Units 11-15. Three of those bids were below the state's estimate of $5,117,000. The low bid was $4,269,000, or about $78 per square foot. This low bid should be a more accurate indication of the probable construction cost for Units 20-23/26-29 than the estimate on which the budget request is based. Adjusting this

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

cost for inflation between the bid date and the budget year and maintaining the same proportionate relationship between the two project cost estimates, the estimated square foot costs for Units 20-23 and 26-29 should be reduced to $73 per gross square foot. This would reduce the estimated future construction contract costs for Units 20-23/26-29 by $1,422,000. Moreover, the lower construction cost reduces the cost for project administration and contingency.

Thus, the estimated total project cost would be reduced from $11,749,000 to $9,846,000—a total savings of $1,903,000. This savings includes $75,000 for project administration/contingency costs in the budget year and $122,000 in future costs, which are already accounted for in our general recommendation regarding project administration/contingency costs in Item 4300-301-036. The balance of the savings consists of (1) $43,000 for preliminary plans and working drawings in the budget year, based on the lower construction cost and (2) $1,663,000 for future construction phase costs. Consequently, we recommend that the Legislature reduce Item 4300-301-036(3) by $43,000 and approve funds for preliminary plans and working drawings in the reduced amount of $838,000.

Personal Alarm Systems, Statewide, Phases I and II

We recommend that the Legislature reduce Item 4300-301-036(7) for Phase II installation of personal alarm systems by $150,000 to eliminate excess equipment.

We further recommend that the Legislature delete Item 4300-490 for the reappropriation of funds for Phase I of the project because the department's schedule for completion of working drawings makes reappropriation unnecessary. Finally, we recommend that, prior to budget hearings, the department report to the Legislature on the reasons for delays experienced in implementing Phase I.

The budget includes $1.8 million in Item 4300-301-036(7) for Phase II installation of personal alarm systems for staff in developmental centers statewide. The Legislature appropriated $871,000 from the Special Account for Capital Outlay in the 1987 Budget Act for Phase I that included installation of personal alarm systems in 20 high priority units statewide. Phase II involves the installation of the systems in an additional 53 units. The budget also requests reappropriation of approximately $777,000 for Phase I of the project.

Increased Costs for Phase II. When the Legislature approved funds for Phase I, it recognized the department's $1.5 million estimate for Phase II in supplemental report language. The budget requests $1.8 million. A more detailed estimate prepared by the department in December 1987 indicates a Phase II cost of $1.9 million—*27 percent* more than the cost given to the Legislature last year. Adjustment for inflation accounts for only a 3 percent increase. Most of the increase in project costs is due to the following: (1) $93,000 to install alarms at four additional housing units at Sonoma Developmental Center, (2) $21,000 for increased prices for "smart remote terminals" (SRTs), and (3) $275,000 for 26 additional SRTs.

The addition of four units at Sonoma Developmental Center to the project is needed because of the recent transfer of developmentally disabled clients from Napa State Hospital. The 22 percent increase in the estimated price of SRTs is based on a recent price quotation from the manufacturer of that equipment. The department, however, has not justified the addition of 26 SRTs. According to the consultant who prepared the 1986 alarm system study on which the proposed project is based, the original number of 14 SRTs for Phase II should be increased by only two SRTs to serve the developmental center units added at Sonoma.

In view of the above, we recommend that the department's December 1987 estimate ($1,904,000) be reduced by $254,000 to reflect installation of only two additional SRTs rather than 26. This results in a total project cost of $1,650,000 for Phase II. Consequently, we recommend that the Legislature reduce Item 4300-301-036(7) by $150,000 and approve funds for Phase II installation of personal alarm systems in the reduced amount of $1,650,000.

Delay in Implementing Phase I. According to the department, the reappropriation request (Item 4300-490) was included in the budget in case working drawings are not completed and the department is unable to secure approval to proceed to bid from the Department of Finance during the current year. Under the general provisions of the 1987 Budget Act, funds for construction are automatically reverted if the Department of Finance has not approved proceeding to bid by June 30, 1988. This approval requires completed working drawings. According to the *Supplemental Report of the 1987 Budget Act*, preliminary plans, working drawings *and installation* of the Phase I personal alarm systems are all to be accomplished in the current year. At the time this analysis was written, the department had not completed preliminary plans. In fact, the department did not have the project consultant who would be preparing the plans under contract. Thus, the department was essentially no further along with the personal alarm systems project in January 1988 than it was at the time funds were appropriated last July. In view of this situation, we recommend that the department report to the fiscal subcommittees at budget hearings on (1) why implementation of Phase I has been delayed, and (2) how that delay will affect implementation of Phase II.

Despite the delay experienced on Phase I, the department expects to have working drawings completed by June 1988. Given this schedule, the department should receive approval to proceed to bid in the current year and reappropriation of the construction funds is not needed. We therefore recommend that the Legislature delete Item 4300-490.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which defines the scope and cost elements of each of the projects approved under this item.

DEPARTMENT OF DEVELOPMENTAL SERVICES—REVERSION

Item 4300-495 to the General Fund — Budget p. HW 92

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a reversion to the General Fund of the unencumbered balance of funds appropriated by Ch 873/87 for a court settlement in the case of *Andrews v. State of California, et al.* The department indicates that the actual cost of the court settlement totaled $1,357,000, which is $41,000 less than the $1,398,000 appropriated by the Legislature for this purpose. Consequently, this item would result in reversion of $41,000 to the General Fund.

Health and Welfare Agency

DEPARTMENT OF MENTAL HEALTH

Item 4440 from the General Fund and various funds — Budget p. HW 107

Requested 1988-89	$1,091,933,000
Estimated 1987-88	1,038,539,000
Actual 1986-87	947,511,000
Requested increase (excluding amount for salary increases) $53,394,000 (+5.1 percent)	
Total recommended increase	4,279,000
Recommendation pending	97,276,000

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4440-001-001—Support	General	$25,580,000
4440-001-845—Support	Primary prevention	217,000
4440-001-890—Support	Federal	578,000
4440-011-001—State hospitals	General	321,815,000
4440-016-001—Conditional release	General	17,321,000
4440-101-001—Local assistance	General	491,418,000
4440-101-845—Local assistance	Primary prevention	738,000
4440-101-890—Local assistance	Federal	16,140,000
4440-111-001—Brain-damaged adults	General	4,357,000
4440-131-001—Special education pupils	General	15,116,000
4440-141-001—Institutions for mental diseases	General	50,845,000
Chapter 1271, Statutes of 1987	General	45,000
Reimbursements	—	147,763,000
Total		$1,091,933,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Conditional Release Program. Withhold recommendation on $1.3 million for the Sacramento direct services office, pending final review by the department of responses to its request for proposals.	596
2. ***Coverage Factor. Reduce Item 4440-011-001 by $245,000.*** Recommend reduction because the department has not adequately budgeted for salary savings.	599
3. ***AIDS Unit. Reduce Item 4440-011-001 by $1,191,000.*** Recommend reduction because the department has not adequately justified nor designed the unit to meet the different needs of affected patients. Also recommend the department report on how it intends to limit the spread of the AIDS virus among patients whose infection status is unknown.	600
4. ***Population Adjustments. Reduce Item 4440-011-001 by $385,000.*** Recommend reduction because the department has not accurately reflected partial-year staffing adjustments due to patient population phase-in.	602
5. Vacaville Mental Health Program. Recommend that prior to budget hearings, the Departments of Mental Health and Corrections report on issues regarding the implementation and operation of psychiatric programs at the California Medical Facility in Vacaville.	603
6. Short-Doyle/Medi-Cal and Disaster Relief Funds. Recommend deletion of Budget Bill language exempting the department from the Section 28 process for augmentations.	606
7. ***Homeless Program. Augment Item 4440-101-890 by $6.1 Million.*** Recommend augmentation to reflect available federal funds for the homeless mentally disabled. Recommend adoption of Budget Bill language specifying how the funds should be used.	607
8. Special Education Pupils. Withhold recommendation on $15.8 million for mental health services pending receipt of additional caseload and cost information.	609
9. Institutions for Mental Diseases. Withhold recommendation on $66.2 million proposed for care and treatment of patients, pending submission of information regarding shortfalls in reimbursements.	610

GENERAL PROGRAM STATEMENT

The Department of Mental Health directs and coordinates statewide efforts aimed at the treatment and prevention of mental disabilities. The department's primary responsibilities are to:

1. Administer the Short-Doyle and Lanterman-Petris-Short Acts. The acts provide for delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled.

2. Operate Atascadero, Metropolitan, Napa, and Patton State Hospitals and manage programs for the mentally disabled located at Camarillo State Hospital.

3. Administer the Conditional Release program, which provides for the community outpatient treatment and supervision of judicially committed persons and mentally disordered offenders.

The department has 6,771.6 personnel-years in the current year.

DEPARTMENT OF MENTAL HEALTH—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $1.1 billion (all funds) for the support of the Department of Mental Health's activities in 1988-89. This is an increase of $53.4 million, or 5.1 percent, above estimated current-year expenditures. Proposed General Fund expenditures for support of the department and its programs are $926.5 million, which is $35.2 million, or 3.9 percent, above estimated General Fund expenditures in the current year.

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
1986-87 through 1988-89
(dollars in thousands)

	Actual	*Est.*	*Prop.*	*Change from 1987-88*	
Expenditures	*1986-87*	*1987-88*	*1988-89*	*Amount*	*Percent*
Department support	$37,583	$44,042	$45,692	$1,650	3.7%
State hospitals	325,406	329,679	362,301	32,622	9.9
Local programs	576,644	593,534	597,621	4,087	0.7
Special education pupils	5,375	14,875	15,791	916	6.2
Brain-damaged adults	2,503	3,257	4,357	1,100	33.8
Institutions for mental diseases	—	53,152	66,171	13,019	24.5
Totals	$947,511	$1,038,539	$1,091,933	$53,394	5.1%
Funding sources					
General Fund	*$809,749*	*$891,300*	*$926,497*	*$35,197*	*3.9%*
Special Account for Capital Outlay	*1,712*	*715*	—	*−715*	*−100.0*
Primary Prevention Fund	—	*950*	*955*	*5*	*0.5*
Federal funds	*20,075*	*17,351*	*16,718*	*−633*	*−3.6*
Reimbursements	*115,975*	*128,223*	*147,763*	*19,540*	*15.2*
Personnel-years					
Department support	335.2	366.7	377.9	11.2	3.1%
State hospitals	6,331.8	6,404.9	6,881.8	476.9	7.4
Totals	6,667.0	6,771.6	7,259.7	488.1	7.2%

ANALYSIS AND RECOMMENDATIONS

A. DEPARTMENT SUPPORT

The budget proposes expenditures of $45.7 million for support of the Department of Mental Health in 1988-89. This amount consists of $28.4 million for department administration and $17.3 million for the Conditional Release program. This is an increase of $1.7 million, or 3.7 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
1986-87 through 1988-89
(dollars in thousands)

Expenditures	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change from 1987-88 Amount*	*Percent*
Department administration	$23,978	$26,951	$28,371	$1,420	5.3%
Conditional release	13,605	17,091	17,321	230	1.3
Totals	$37,583	$44,042	$45,692	$1,650	3.7%
Funding sources					
General Fund	*$35,383*	*$41,472*	*$42,946*	*$1,474*	*3.6%*
Federal funds	*804*	*762*	*578*	*−184*	*−24.1*
Primary Prevention Fund	—	*212*	*217*	*5*	*2.4*
Reimbursements	*1,396*	*1,596*	*1,951*	*355*	*22.2*

Budget Changes. Table 3 shows the changes in the department's support budget proposed for 1988-89. The major changes are (1) an increase of $883,000 ($514,000 General Fund) for additional Short-Doyle/Medi-Cal auditors and (2) an increase of $595,000 to augment an existing contract with a construction management firm.

Table 3
Department of Mental Health
Proposed 1988-89 Support Budget Changes
(dollars in thousands)

	Conditional Release Program (General Fund)	*Administration General Fund*	*Administration All Funds*
1987-88 expenditures (Budget Act)	$17,200	$23,384	$25,654
Adjustments, 1987-88:			
1. PERS rate reduction	—	−61	−62
2. Carry-over of AIDS funds, Ch 767/85	—	112	112
3. Institutions for mental diseases administration	—	500	500
4. Salary and benefits increase	—	337	353
5. Transfer from Conditional Release program to support	−109	109	109
6. Adjustments to grants and reimbursements	—	—	259
7. Early intervention program (five months)	—	—	26
1987-88 expenditures (revised)	$17,091	$24,381	$26,951
Baseline adjustments, 1988-89:			
1. Price increase	423	222	238
2. Full-year funding of 1987-88 salary and benefits increase	—	296	310
3. Community treatment facilities, Ch 1271/87	—	45	45
4. Reduce one-time funding for hospital cost recovery system rewrite	—	−125	−125
5. Transfer equipment funding from support to Conditional Release program	91	−91	−91
6. Reduce one-time adjustments	—	−612	−871
7. Back out transfer from conditional release to support	109	−109	−109
8. Full-year funding for Early Intervention program	—	—	36
9. Full-year cost for patient care	674	—	—
10. Mentally disordered offender population adjustment	−558	—	—

DEPARTMENT OF MENTAL HEALTH—Continued

Program change proposals:			
1. Construction management contract	—	595	595
2. Short-Doyle/Medi-Cal audits	—	514	883
3. Conditional Release program audits	−133	133	133
4. Convert Conditional Release program contract to civil service positions	−342	342	342
5. Various funding transfers between support and the Conditional Release program	−34	34	34
1988-89 expenditures (proposed)	$17,321	$25,625	$28,371
Change from 1987-88 (revised):			
Amount	$230	$1,244	$1,420
Percent	1.3%	5.1%	5.3%

Premature Conversion of Some Contract Positions to Civil Service

We withhold recommendation on the 17 positions and $1.3 million proposed for the Sacramento direct services office of the Conditional Release program, pending final review by the department of responses to its request for proposals.

The budget proposes a transfer of $342,000 from the Conditional Release (CONREP) program to administration to establish eight civil service positions in the Sacramento direct services office (DSO) for the CONREP program.

The CONREP program provides outpatient supervision and treatment of judicially committed persons and mentally disordered offenders placed on outpatient status. The Sacramento DSO, with satellite offices in Chico and Modesto, provides services to approximately 48 CONREP patients in 20 northern California counties. This direct services operation was developed because the state was unable to contract with the counties or private providers for services to CONREP patients. It is currently staffed with 9 civil service and 8 contract positions.

Under the budget proposal, 8 additional civil service positions would be established and the contract positions would be eliminated. The Sacramento DSO would have a total of 17 civil service positions, an operating budget of $1.3 million, and provide services to approximately 70 CONREP patients in 1988-89. The proposal responds to a State Personnel Board (SPB) determination that the existing combination of civil service and contract positions is inconsistent with provisions of the Government Code. The Sacramento DSO contracts with individuals who work in a state office, report to a state supervisor, and perform ongoing work equivalent to that performed by civil service staff in the program. The SPB indicates that the individuals working under contract in the Sacramento DSO are clearly in an employment relationship with the state; and, therefore, the contracts with these individuals are inappropriate.

Establishing civil service positions is not the only option open to the department in responding to the SPB determination. In fact, the department has recently issued a request for proposals (RFP) to private providers for taking over the operation of program services that are currently provided by the Sacramento DSO. The deadline for submitting responses to the RFP was January 4. At the time of the preparation of this analysis, the department was reviewing submitted proposals. It indicated that a final determination on the proposals would not be made until possibly the end of February. The department informed us that three outcomes are possible: (1) awarding a contract with a private provider based on the submitted proposals, (2) rejecting the recently submitted proposals and soliciting new proposals, or (3) deciding to go ahead with its budget proposal to provide direct CONREP services using state civil service employees.

If the department is successful in contracting with a private provider to assume responsibility for program operation, it would then have 17 positions it does not need. Until the department determines how the office will be operated, we are withholding recommendation on the 17 positions and $1.3 million proposed for the Sacramento DSO.

B. STATE HOSPITAL PROGRAMS

The budget proposes expenditures of $362.3 million, all funds, in 1988-89 for clients in state hospitals for the mentally disabled. This is an increase of $32.6 million, or 9.9 percent, above estimated current-year expenditures. The budget proposes an appropriation of $321.8 million from the General Fund for these programs, which is an increase of $21.9 million, or 7.3 percent, above estimated current-year expenditures. Table 4 shows the components of the state hospital budget in the past, current, and budget years.

Table 4
Department of Mental Health
State Hospitals Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	Actual	Est.	Prop.	Change	
Expenditures	*1986-87*	*1987-88*	*1988-89*	*Amount*	*Percent*
County clients	$190,892	$184,822	$195,607	$10,785	5.8%
Judicially committed clients	102,961	115,779	126,208	10,429	9.0
Other clients [a]	31,553	29,078	40,486	11,408	39.2
Totals	$325,406	$329,679	$362,301	$32,622	9.9%
Funding sources					
General Fund	*$292,085*	*$299,886*	*$321,815*	*$21,929*	*7.3%*
Reimbursements	*31,609*	*29,078*	*40,486*	*11,408*	*39.2*
SAFCO	*1,712*	*715*	—	*−715*	*−100.0*
Average population					
County clients	2,572	2,520	2,543	23	0.9%
Judicially committed clients	1,557	1,622	1,729	107	6.6
Other clients [a]	447	473	529	56	11.8
Totals	4,576	4,615	4,801	186	4.0%
Authorized positions					
Department of Mental Health	6,332	6,840	7,487	647	9.5%
Department of Developmental Services	991	908	945	37	4.1
Totals	7,323	7,748	8,432	684	8.8%
Cost per client (actual dollars)					
County clients	$74,219	$73,342	$76,920	$3,578	4.9%
Judicially committed clients	66,128	71,380	72,995	1,615	2.3
Other clients [a]	70,588	61,476	76,533	15,057	24.5
Totals	$71,111	$71,436	$75,464	$4,027	5.6%

[a] Includes clients from the Department of Corrections, the Department of Developmental Services (DDS), and the California Youth Authority.

DEPARTMENT OF MENTAL HEALTH—Continued

Client Characteristics

State hospitals serve four categories of clients: county clients, judicially committed clients, mentally disordered offenders, and clients of other institutions.

County clients may voluntarily consent to treatment or may be detained involuntarily for treatment for specified periods of time under the provisions of the Lanterman-Petris-Short Act (LPS).

Judicially committed clients include persons who are legally categorized as (1) incompetent to stand trial, (2) not guilty of a crime by reason of insanity, or (3) mentally disordered sex offenders.

Mentally disordered offenders include prison parolees who have been committed to the department for treatment and supervision.

Clients of other institutions include mentally disabled clients of the Departments of Corrections and the Youth Authority who are transferred to state hospitals to receive medication and other treatment.

Proposed Budget Changes

The major changes proposed for 1988-89 include (1) an increase of $14 million in reimbursements for psychiatric services provided to Department of Corrections inmates, (2) an increase of $6.6 million for additional staff needed to cover increased employee absences, (3) an increase of $4.2 million for population adjustments, and (4) an increase of $1.2 million to establish an AIDS unit at Napa State Hospital. Table 5 displays the budget changes proposed for 1988-89.

Table 5
Department of Mental Health
State Hospitals
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$293,565	$322,894
Adjustments, 1987-88:		
1. Retirement reduction	−243	−258
2. Reimbursement adjustments	—	30
3. Salary and benefit increase	6,452	6,901
4. Deficiency for dieticians—one-time	112	112
1987-88 expenditures (revised)	$299,886	$329,679
Baseline adjustments, 1987-88:		
1. Reverse one-time adjustments	−112	149
2. One-time ward furniture reduction	−835	−835
3. Full-year costs—Atascadero peace officers	215	215
4. Full-year costs for mentally disordered offenders (MDOs)	668	668
5. Price increase	2,204	2,363
6. PERS rate reduction	109	117
7. Full-year costs of 1987-88 salary and benefit increases	4,879	5,222
8. Reimbursement adjustment	—	37
9. Funding shift—SAFCO to General Fund	715	—
10. Phase-out of developmentally disabled population at Napa	1,538	−1,616

Caseload and cost adjustments:		
Population adjustment	4,229	3,968
Program change proposals:		
1. Psychiatric services for prison inmates	—	14,015
2. AIDS unit at Napa	1,191	1,191
3. Coverage factor	6,605	6,605
4. Atascadero peace officers	257	257
5. MDO evaluator at Atascadero	98	98
6. Costs for Department of Developmental Services proposals	168	168
1988-89 expenditures (proposed)	$321,815	$362,301
Change from 1987-88 (revised):		
Amount	$21,929	$32,622
Percent	7.3%	9.9%

Coverage Factor

We recommend a reduction of $245,000 in the General Fund amount budgeted for coverage factor increases in order to reflect anticipated salary savings. (Reduce Item 4440-011-001).

The budget proposes to add 186 positions at a General Fund cost of $6.6 million to increase the "coverage factor" at the five state hospitals having mental health programs. The coverage factor is a staffing allowance that is intended to compensate for normal staff absences from work due to vacation, sick leave, and other factors. The 186 positions represent an increase of approximately 2.7 percent in total state hospital staffing and an increase of approximately 3.7 percent in level-of-care (direct patient care) staffing.

The department states that the coverage factor must be periodically updated because of changes in employment regulations, policies, and staffing patterns. The last revision to the coverage factor for the department was approved by the Legislature in 1983-84. The budget for 1988-89 proposes to increase backup staffing to provide for 57.7 days of absence for each nursing and rehabilitation therapist position and 54.2 days of absence for other professional level-of-care staff positions.

There are four major reasons for this coverage factor increase:

- Collective bargaining added an additional holiday.
- The level of absences related to industrial disability leave and sick leave have increased by approximately three days per level-of-care employee.
- State regulations now require that level-of-care staff be allotted two additional days of training.
- The department proposes to recognize an increase in jury and military duty, and coverage for informal time off and bereavement leave totaling 1.32 days.

Our review of the coverage factor proposal indicates that the department has underestimated the amount budgeted for salary savings. The budget proposes salary savings amounting to $51,000, or less than 1 percent of the total amount budgeted for the additional staff coverage. Administrative policy is to budget a minimum of 5 percent for salary savings for new positions. The department has carried out this policy in all other budget proposals. The department has not documented or adequately justified why these positions should be exempt from a policy that has been uniformly applied to all other new positions. Accordingly, we recommend that the Legislature reduce the amount proposed for additional hospital staff coverage by $245,000.

DEPARTMENT OF MENTAL HEALTH—Continued

Is There a Need for a "Special" AIDS Unit?

We recommend that the Legislature delete the $1,191,000 General Fund augmentation for a special 20-bed unit for patients infected with the AIDS virus, because the department has not justified the need for a special unit nor designed the proposed unit to meet the needs of patients with behavioral problems. In addition, we recommend the department report at budget hearings how it intends to limit the spread of the virus among patients whose HIV status is unknown. (Reduce Item 4440-011-001 by $1,191,000.)

The budget requests $1,191,000 for a special 20-bed unit to be located at Napa State Hospital for patients who (1) are infected with the Human Immunodeficiency Virus (HIV) or are diagnosed as having Acquired Immune Deficiency Syndrome (AIDS) or AIDS-related complex (ARC)—which are caused by HIV infection—*and* (2) exhibit behavior that constitutes a health risk to others and/or need special medical attention due to their AIDS/ARC or HIV infection.

Present Hospital Situation. Currently, patients who have AIDS/ARC or who are known to be infected with the HIV virus are housed along with other mentally ill patients who are not infected or whose HIV status is unknown. The department does not have any special units for patients who have medical needs related to HIV infection or AIDS/ARC or whose behavior constitutes a risk to others.

Medical needs of hospital patients are generally handled by hospital medical and nursing staff on the patient's housing unit or in acute medical/surgical units at Camarillo and Napa. Patients with acute medical problems that cannot be handled in this manner are transferred to community hospitals. Medical problems associated with HIV infection and AIDS/ARC are handled in a similar manner.

The hospitals use various techniques to handle behavioral problems within the general population, depending on the situation and the hospital. For example, patients who are suicidal are medicated and put on one-to-one observation, that is, at least one staff person is required to watch over the patient at all times. Other patients who are physically assaultive are put in seclusion rooms until their adverse behavior diminishes. In situations where the department believes an HIV-infected patient is exhibiting behavior that puts other patients and staff at risk of acquiring the HIV virus, the patient is placed on one-to-one observation.

Current Data on the Number of Patients Affected. Table 6 shows that as of January 7, 1988, the department had identified, through a voluntary testing program, 22 HIV-infected patients. Eight of the 22 patients reported as HIV-infected have been diagnosed with AIDS or ARC. Over the five-month period from August through December 1987, between 4 and 10 infected patients were on one-to-one observation. The department was unable to provide information regarding the number of acute care patient-days that were utilized by patients with HIV infection or AIDS/ARC. One patient has needed extensive medical care that required transferring the patient to a community hospital.

Table 6
Department of Mental Health
Number of HIV Tests Performed, HIV-Infected Patients, and AIDS/ARC Patients
By State Hospital

Hospital	*HIV Tests Performed July 1, 1987 to January 7, 1988*	*HIV-Infected Patients as of January 7, 1988*	*Patients With AIDS or ARC as of January 7, 1988*
Atascadero	126	5	3
Camarillo	12	—	—
Metropolitan	72	4	—
Napa	162	9	4
Patton	47	4	1
Totals	419	22	8

Proposed Special Unit. The special unit would house up to 20 patients who are HIV-infected or diagnosed as having AIDS/ARC and who meet one of the following criteria:

- Exhibits behavior that puts other patients and staff in potential danger of acquiring the virus.
- Requires medical attention as a result of HIV infection or AIDS/ARC.
- Requests transfer to the unit. These patients would be housed in the unit on a space-available basis.

The unit would have 25.5 staff positions, including 20 registered nurses, 1.5 physicians, 2 social workers, a rehabilitation therapist, and a custodian. This staffing level is comparable to staffing of the acute medical/surgical units at Napa and Camarillo. The department states that this level of medical staffing is necessary due to (1) the infection control measures that would be necessary and (2) the potential medical problems that could occur.

Problems with the Proposal. According to the proposal, the new unit would serve as both a behavioral control unit and a medical unit. We identified problems with the proposal from both perspectives.

Problems with the Unit as a Medical Unit. The department has not documented the need for additional resources to care for the medical needs of HIV-infected and AIDS/ARC patients. This unit would potentially serve patients with (1) acute medical needs who now would be transferred to community hospitals, (2) acute medical needs who would now be served in the acute medical/surgical units, and (3) nonacute medical problems. The department has not been able to provide any documentation as to (1) the differences in medical care provided by the new unit that would make it possible to avoid transfers to community hospitals, (2) workload associated with acute medical problems related to HIV infection or AIDS/ARC that would justify expanding the number of acute beds at the hospital, and (3) the rationale for housing nonacute patients in an intensively staffed acute unit.

Problems with the Unit as a Behavioral Control Unit. The proposal indicates that HIV-infected and AIDS/ARC patients with behavioral problems would be housed in the special unit. From this perspective, the proposal has three problems. First, the unit does not meet the needs of the patients. The department could not identify any "special" or unique

DEPARTMENT OF MENTAL HEALTH—Continued

psychiatric treatment that would be available on the unit to address these behavioral problems. In fact, the unit is equipped and staffed to care primarily for acute medical needs. The staffing is not typical of staffing patterns the department normally proposes for patients with behavioral problems—both in the type of staff and their number.

Second, the level of workload documented by the department does not justify establishing a new unit; from July 1, 1987 to January 7, 1988, only between 4 and 10 patients had been on one-to-one observation at any one time. Third, the proposal does not address behavioral problems in patients whose HIV status is unknown. There may be many patients in state hospitals whose HIV status is unknown but who are infected and are capable of transmitting the virus. Under current law, the department is prohibited from testing patients for HIV infection unless the patient provides written consent. Therefore, a comprehensive approach to limiting the spread of the virus would have to encompass *all* patients exhibiting behaviors that may endanger other patients or staff—not just those who are known to be HIV-infected.

Recommendation. In summary, the department has not documented workload that justifies the need for a special unit to address the medical needs and behavioral problems of these patients, nor designed the proposed special unit to meet the needs of patients with behavioral problems. In addition, the proposal for a special behavioral unit does not provide a comprehensive approach to limiting the spread of the virus among patients whose HIV status is unknown. Based on these problems, we recommend that the Legislature delete the $1,191,000 General Fund augmentation for a special 20-bed unit for HIV-infected and AIDS/ARC patients. In addition, we recommend that the department explain at budget hearings how it intends to limit the spread of the virus among patients whose HIV status is unknown.

Population Adjustments

We recommend a reduction of $385,000 in the amount budgeted for state hospital population adjustments because the department did not accurately reflect partial-year staffing adjustments due to patient population phase-in. (Reduce Item 4440-011-001.)

The department proposes the addition of 132 level-of-care (direct patient care) staff in the state hospitals it operates, due to increases in the hospital population. The cost of the new positions is $4.2 million.

Population Increases. The major factors accounting for the increase are:

- An increase of 36 noncounty patients, consisting of (1) an increase of 74 judicially committed patients, (2) a reduction of 20 mentally disordered sex offenders, (3) final phase-out of 16 developmentally disabled patients, and (4) a reduction of 2 California Youth Authority patients.
- An increase of 72 mentally disordered offenders (MDOs). The budget projects that this population will increase from 102 at the end of the current year to 174 by the end of the budget year.
- An increase of 26 "AB 299" patients. Chapter 1005, Statutes of 1985 (AB 299), provides that when a small county utilizes state hospital beds for long-term conservatorship patients, these beds (up to a maximum of two beds per county) shall not apply towards that

county's allocation. In addition, the funding for these state hospital services shall be from the state hospital appropriation. The department has identified an ongoing population of 26 clients.

Funding Adjustments. As part of the proposal, the department adjusted the amount of funding requested for level-of-care positions in order to take into account (1) phasing-in of the noncounty and MDO populations and (2) the sunset of AB 299 as of January 1, 1989.

For the noncounty and MDO populations, the department proposes to phase in 33 percent of the 132 requested positions during each of the first three quarters of the budget year. Because the rates of growth for both the noncounty and MDO populations are expected to be constant throughout the year, we believe a phase-in on a quarterly basis would be more appropriate and still provide sufficient staffing at all times. If the positions were phased in at a rate of 25 percent in each of the four quarters of the budget year, the department would save $385,000 during the budget year. We therefore recommend a reduction of $385,000 in the amount budgeted for state hospital population adjustments to correct overbudgeting.

Vacaville Mental Health Program

We recommend that the Departments of Mental Health and Corrections jointly report prior to budget hearings on plans for resolving issues regarding the implementation and operation of inpatient, day care, and outpatient treatment programs at the California Medical Facility in Vacaville.

The budget proposes an augmentation of $14 million in reimbursements from the California Department of Corrections (CDC) to assume responsibility for (1) operating a 150-bed acute inpatient program at the California Medical Facility (CMF) located in Vacaville, (2) operating a 60-bed day care program at CMF, and (3) treating 50 additional penal code clients at Atascadero State Hospital.

Background. At present the CDC has 282 beds for mentally ill inmates within the prison system—264 at the CMF and 18 at the California Institute for Men. In addition, the Department of Mental Health (DMH) provides approximately 407 beds for mentally ill inmates under a contract with the CDC—362 beds at Atascadero and 45 at other state hospitals.

As a result of a suit involving the adequacy of treatment in CDC facilities, the Sacramento Superior Court issued an order requiring the CDC to obtain licensure for, or cease operation of, its hospital facilities by January 1, 1989. This order affects the 264 beds at the CMF, which are currently unlicensed. The closure of these beds would represent a 38 percent reduction in inpatient psychiatric beds available to CDC inmates.

Budget Proposal. The proposal involves net increases of $7.7 million and 143.6 positions and a net reduction of four beds. Table 7 presents details of the adjustments included in the proposal. The request involves converting most of the space at the CMF currently containing 264 beds into (1) a 150-bed acute psychiatric hospital and (2) a 60-bed unit for inmates participating in a day treatment program. The 150-bed acute psychiatric unit would be licensed as a distinct part of the CMF general acute care hospital (the CDC budget contains related proposals for staffing to enable licensure of the 83 general acute care and skilled nursing beds). The 60-bed day program would not be licensed.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 7
Department of Mental Health
Proposal to Operate California Medical Facility
Psychiatric Facilities
(dollars in thousands)
1988-89

	Beds	*Positions*	*Amount*
Department of Corrections			
Reductions due to transfer of functions	−264	−174.4	−$7,539
Increases to support psychiatric services (pharmacy, dietary, and operating expenses)	—	9	1,208
Contract funds	—	—	14,015
Subtotals	(−264)	(−165.4)	($7,684)
Department of Mental Health			
Licensed acute inpatient beds	150	223	$11,259
Unlicensed day program	60	29	1,364
Atascadero State Hospital	50	57	1,392
Reimbursements	—	—	−14,015
Subtotals	(260)	(309)	(—)
Net totals	−4	143.6	$7,684

Acute Inpatient Program—150 Beds. Under the proposal, the 150-bed acute psychiatric program will provide services similar to those provided in acute care programs at Atascadero for penal code patients. The department indicates that the treatment program will adhere to planned scheduled treatment (PST) guidelines. The PST is a program developed to provide measures of qualitative and quantitative success and effectiveness of treatment provided to patients.

Day-Care Program—60 Beds. This program will provide the "intermediate" level of psychiatric care for inmates at the CMF. The purpose of the program is to stabilize patients' psychiatric symptoms and reestablish the skills necessary for independent living within the correctional setting. Patients can be referred from both the acute inpatient program and the general population.

In this program, the DMH will provide approximately one clinical staff person for every five patients, 16 hours each day, five days a week. Medical coverage would be provided through the inpatient psychiatric program at night and on weekends. The CDC would be responsible for security at night and on weekends.

Concerns Related to the Implementation of the Proposal. We have identified a number of problem areas that need to be addressed jointly by the DMH and the CDC prior to the implementation of the proposal (for additional discussion, please see Item 5240, Department of Corrections):

- ***Control of Placements in the Units.*** The DMH and the CDC have not developed criteria or procedures for determining when inmates may be admitted to, or discharged from, the treatment units. This may present major problems if there are disagreements between the departments. For example, if the DMH refuses to admit an inmate referred by the CDC on the basis that the inmate would not benefit from treatment, the CDC may not have an alternative placement.

- ***Custody/Security.*** The departments have not yet determined the arrangements for custody and security within the units. The DMH is assuming that the CDC will provide necessary custodial oversight of inmates within the programs. The CDC, however, proposes to delete 34.4 of the 87.5 security positions associated with its current programs from its budget. It is not clear how security will be provided (for example, whether there will be a roving team or regularly assigned staff), what level of security staffing there will be, or which department will be responsible.
- ***Potential Breakdown in the Continuum of Services.*** The proposal does not address the need for improvements in the outpatient treatment provided by the CDC to inmates who do not need inpatient care or day treatment. From our observations of the current CDC outpatient program, distribution of medication is the primary method of outpatient treatment. There are very few, if any, structured activities such as group therapy. Without a more comprehensive outpatient treatment program, the inpatient and day care programs may become overburdened with mentally decompensating inmates. The proposal addresses only two parts of a three-part program.
- ***Potential Recruiting Problems.*** It is not clear that the DMH will be able to recruit enough personnel to fill the direct-care staffing needs of the programs.

The departments indicate that they have appointed a joint task force to address issues relating to the implementation and operation of the inpatient and day care programs. At the time our analysis was prepared, the task force had not developed a complete list of issues to be addressed nor a schedule for resolving them. Due to the importance of these issues to the ultimate operation of the program, we recommend that the departments report jointly, prior to budget hearings, on the issues they have identified as needing resolution, the schedule for resolving these issues, and the procedures for resolving conflicts between the two departments. At a minimum, the departments' report should address the issues we identify above.

C. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $491.4 million from the General Fund for assistance to local mental health programs in 1988-89. This is a reduction of $279,000, or 0.1 percent, below estimated current-year expenditures. Total expenditures for local mental health programs in 1988-89, including expenditures from reimbursements and federal funds, are proposed at $597.6 million, which is $4.1 million, or 0.7 percent, above estimated current-year expenditures. Table 8 displays local assistance expenditures and funding sources for the past, current, and budget years.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 8
Department of Mental Health
Local Mental Health Programs
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

	Actual	*Est.*	*Prop.*	*Change from 1987-88*	
Expenditures	*1986-87*	*1987-88*	*1988-89*	*Amount*	*Percent*
Short-Doyle allocations	$541,193	$559,318	$564,133	$4,815	0.9%
Community residential treatment systems	15,910	15,910	15,910	—	—
AIDS	—	700	700	—	—
Primary prevention projects	270	738	738	—	—
Federal block grant	14,817	16,589	16,140	−449	−2.7
Federal disaster grant	154	—	—	—	—
Sacramento mental health center	4,300	279	—	−279	−100.0
Totals	$576,644	$593,534	$597,621	$4,087	0.7%
Funding sources					
General Fund	*$477,778*	*$491,697*	*$491,418*	*−$279*	*−0.1%*
Reimbursements	*79,595*	*84,510*	*89,325*	*4,815*	*5.7*
Federal funds	*19,271*	*16,589*	*16,140*	*−449*	*−2.7*
Primary Prevention Fund	—	*738*	*738*	—	—

Budget Changes. Table 9 shows the changes to the budget for local mental health programs that are proposed for 1988-89.

Table 9
Department of Mental Health
Local Mental Health Programs
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$490,718	$575,176
Adjustments, 1987-88:		
1. Allocation from Control Section 15.00 (AIDS)	700	700
2. Carry-over interest for Sacramento County	279	279
3. Disaster funds from Office of Emergency Services	—	185
4. Increase in Short-Doyle/Medi-Cal reimbursements	—	17,194
1987-88 expenditures (revised)	$491,697	$593,534
Baseline adjustments, 1987-88:		
1. Reduce interest carry-overs	−279	−279
2. Reduce disaster funds	—	−185
3. Reduce "war on drugs" funds	—	−449
4. Increase in Short-Doyle/Medi-Cal reimbursements	—	5,000
1988-89 expenditures (proposed)	$491,418	$597,621
Change from 1987-88 (revised):		
Amount	−$279	$4,087
Percent	−0.1%	0.7%

Budget Bill Provisions Should Be Deleted

We recommend that the Legislature delete proposed Budget Bill language that would exempt the department from the Section 28 process for augmentations from Short-Doyle/Medi-Cal funds and disaster relief funds from the Office of Emergency Services.

The 1988 Budget Bill includes language that would allow the department to spend unanticipated funds from two sources without obtaining authorization from the Department of Finance through the Section 28 process. Under Section 28, the Department of Finance may authorize expenditure of unanticipated funds 30 days after notifying the Joint Legislative Budget Committee (JLBC) of the proposed expenditure. Under the budget proposal, the department could spend funds without obtaining approval from the Department of Finance or waiting 30 days, provided that it notifies the JLBC of the expenditures. The JLBC, however, would have no period during which to comment on the proposal before such funds are expended.

The funding sources proposed for exemption from Section 28 are (1) federal funds available as a result of increased claiming by counties through the Short-Doyle/Medi-Cal program and (2) disaster relief funds allocated by the Office of Emergency Services. In both cases, any additional funds received by the department would be allocated to counties.

During the current year, there have been unanticipated increases from both of these funding sources. At the time this analysis was prepared, the dollar amounts involved were $17.2 million in federal funds and $185,000 in disaster relief funds.

The Section 28 process allows the Legislature the opportunity to review and comment on proposed expenditures, in light of its priorities, *before* the funds are approved for expenditure. If the Legislature determines that the expenditure proposals are, for whatever reasons, inappropriate or unwarranted, the Section 28 waiting period allows the Legislature time to address these problems.

Exemption from the Section 28 process would make it possible for the department to allocate the funds to counties more quickly. We do not believe, however, that the benefits of more rapid allocation of these funds to counties outweigh the benefits of legislative review of proposed expenditures. Particularly for the federal funds, where typically the amounts involved are very large, we believe the Legislature should retain its flexibility to review and comment *before* the funds are allocated.

We therefore recommend that the Legislature delete the proposed Budget Bill language exempting the department from the Section 28 process for augmentations from federal Short-Doyle/Medi-Cal funds and disaster relief funds from the Office of Emergency Services.

Homeless Mentally Disabled

We recommend that local assistance funds for the homeless mentally disabled be increased by $6.1 million to reflect available federal funds to serve this population. (Increase Item 4440-101-890 by $6.1 million). In addition, we recommend Budget Bill language specifying how the additional funds should be used.

The budget includes $19.7 million from the General Fund to fund community support services for the homeless mentally disabled. This amount is the same as estimated current-year expenditures.

The goal of this program is to assure that needed community services are provided to mentally disabled persons who are homeless or at risk of becoming homeless to stabilize, maintain, and enhance their living in the community. The department allocates the funds to counties, which may use them for a comprehensive range of services including mental health services, food, clothing, shelter, and outreach.

DEPARTMENT OF MENTAL HEALTH—Continued

Potential Infusion of Federal Funds. The Governor's Budget does not reflect the availability of approximately $6.1 million in federal funds that will be available in 1988-89 under a new Mental Health Services Block Grant (MHSBG) program established by the McKinney Homeless Assistance Act of 1987. The McKinney Act appropriated funds on a one-time basis for a broad range of programs for homeless persons. The California share of these funds, including the MHSBG, is estimated to be approximately $56 million. (For further discussion of McKinney Act funds, please see the discussion of state programs to help the homeless in Part Three of *The 1988-89 Budget: Perspectives and Issues.)*

In order to receive the MHSBG funds, the state must provide $2 million in matching funds, either in cash or in-kind contributions. The Legislature has three options for funding the match. First, the Legislature could use a portion of the proposed appropriation for community support services as the required match. Second, the Legislature could augment the budget by the amount needed for the match. Finally, the state could work with counties to develop a plan whereby the counties would provide the matching funds.

The first option is the most attractive because it does not involve additional General Fund appropriations, it allows legislative control of the federal funds, and it assures that the state will receive the full allocation to which it is entitled. Accordingly, we recommend that the Legislature augment the local assistance budget by $6.1 million in federal funds.

In addition, we recommend that the Legislature adopt Budget Bill language specifying how the funds should be used. At the time this analysis was prepared, however, we had no basis for recommending particular priorities for inclusion in Budget Bill language. Below we discuss additional information scheduled to become available in the spring that will assist the Legislature in determining its priorities for expenditure of the funds.

Potential Sources of Information for Assisting the Legislature in Structuring Funding Priorities. In determining its priorities for the new MHSBG funds, the Legislature should consider (1) the most effective use of funds for mental health services and (2) how the mental health funds fit with the overall program for spending McKinney Act funds in various departments.

There are two data sources that may assist the Legislature in evaluating the most effective use of funds for mental health services. First, the 1986 Budget Act required the department to contract for an independent performance review of county community support services programs for homeless mentally disabled persons. Second, the DMH is currently performing evaluations of programs for the homeless mentally disabled that were funded using the federal Alcohol, Drug Abuse, and Mental Health (ADAMH) block grant funds.

At the time we prepared this analysis, neither the independent review nor the evaluations of the ADAMH block grant projects were available for review. The department indicates that both should be available by the time of budget hearings. At a minimum, the independent review and the ADAMH evaluations should provide the Legislature with descriptions of various program approaches and preliminary data on the cost-effectiveness of some local programs. In addition, the independent review could be useful for developing methods for estimating and surveying the homeless population in the state, as well as ways of determining effective evaluation criteria for newly funded programs.

With respect to overall priorities for use of McKinney Act funds in various state programs, we believe a good starting point for legislative discussion would be a proposal by the administration. Accordingly, in our discussion of programs for the homeless in the *Perspectives and Issues,* we recommend that prior to budget hearings, the Department of Finance submit a plan for spending McKinney Act funds.

D. SPECIAL EDUCATION PUPILS

We withhold recommendation on the $15.8 million proposed for mental health services to special education pupils pending receipt of additional caseload and cost information (Item 4440-131-001).

Chapter 1747, Statutes of 1984 (AB 3632), and Ch 1274/85 (AB 882) mandated local mental health programs to provide assessment, treatment, and case management services to special education pupils referred by school districts. These services are to be provided pursuant to a child's individualized education plan (IEP) if necessary for him/her to benefit from education.

The budget includes $15.8 million to fund mental health assessment, treatment, and case management costs of special education pupils. This amount consists of $15.1 million from the General Fund and $675,000 in federal reimbursements for Short-Doyle/Medi-Cal services. This amount represents an increase of $916,000 (all General Fund), or 6.2 percent, over estimated current-year expenditures.

The budget is based on the department's estimate that in 1988-89 approximately 3,974 pupils will require mental health services. The department estimates the total cost of the services to be $32.7 million, or approximately $8,200 per child. The department indicates that approximately $16.9 million of these services are already being provided by (1) Short-Doyle and Short-Doyle/Medi-Cal and (2) private insurance, private organizations, and parents. The net costs would be $15.8 million. These costs may vary greatly as more reliable data become available.

Problems With the Estimates. We identified two problems with the department's estimates. First, the reliability of the data used for projecting caseload and costs for the budget year is questionable. The department bases its budget-year estimates on information that was gathered in a survey of counties regarding their caseload and costs during the six-month period preceding February 1987. The experience from this period is not a good indication of current program activities because the program was still in the early phases of start-up.

Second, the department's estimate of 3,974 pupils requiring services assumes that 70 percent of the existing caseload will require services in 1988-89, and that *no* new cases will be identified. (The reason the appropriation is proposed to increase even though the caseload is decreasing is that the department estimates the cost per case for continuing cases is significantly higher than new cases, which made up a large portion of the caseload in 1986-87.) The assumption that 70 percent of existing cases will need services is questionable because it is not based on any data. The assumption that no new cases will be identified is unrealistic.

DEPARTMENT OF MENTAL HEALTH—Continued

Future Survey Planned. The department indicates that it will conduct a follow-up survey in February 1988 to obtain additional caseload and cost estimates from the counties. This survey will allow more accurate estimates of caseload and costs. Until this information is available, the Legislature has no accurate basis for determining the level of funding necessary for providing services to special education pupils.

We therefore withhold recommendation on the $15.8 million proposed for this program in order to allow the department to collect additional information on caseload and costs of mental health services provided to special education pupils.

E. INSTITUTIONS FOR MENTAL DISEASES (IMDs)

We withhold recommendation on the $66.2 million proposed to fund the care and treatment of patients in institutions for mental diseases (IMDs) pending submission of information regarding shortfalls in reimbursements.

The budget proposes $66.2 million to fund the care and treatment of mentally disabled patients in institutions for mental diseases (IMDs). This is an increase of $13 million, or 25 percent, over estimated current-year expenditures. The increase primarily results from (1) full-year funding of the program and (2) a proposed increase to pay for 317 additional beds.

The $66.2 million consists of $50.9 million from the General Fund and $15.3 million in reimbursements from Supplemental Security Income/State Supplementary Program (SSI/SSP) payments to eligible beneficiaries. The budget assumes that 23 percent of program costs will be funded by reimbursements in 1988-89. This is essentially the same level of reimbursements budgeted in the current year.

Background. As a result of federal audits of skilled nursing facilities (SNFs), 37 facilities with special treatment programs (SNF/STPs) were reclassified as IMDs effective August 1987. As a result of the reclassification, these facilities cannot receive Medi-Cal reimbursement for services provided to patients who are between the ages of 22 and 64. Also as a result of the reclassification, many of the patients became eligible to receive full or partial SSI/SSP payments. The SSI/SSP payments offset a portion of the patients' costs for care.

In response to these changes, the Legislature transferred responsibility for reimbursing these providers to the Department of Mental Health. The 1987 Budget Act appropriated $41.3 million from the General Fund for this purpose, based on (1) reimbursing facilities for an average of 2,974 patients in 37 facilities for 11 months and (2) the department being able to obtain reimbursements of $12.4 million from SSI/SSP payments made to patients.

The 1987 Budget Act included language requiring the department to submit a preliminary report on December 1, 1987, and a final report on February 15, 1988, outlining a plan for serving mental health clients in IMDs. The reports are intended to supply the Legislature with various information, including data on characteristics of the IMD caseload and payments for IMD services. At the time this analysis was prepared, the reports were not available for review.

Problems with Collecting Reimbursements Are Likely to Result in a Current-Year Deficiency of at Least $2.9 Million. The department's method for collecting reimbursements is to submit monthly bills to patients, conservators, or representative payees for the amount of the patient's SSI/SSP payment. Reimbursements lag approximately 60 days after actual treatment and care is provided.

Table 10 shows the differences between projected reimbursements and what the department has actually received from August through December 1987. The table shows that (1) for the first five months of the program, actual reimbursements were $4.3 million, or 76 percent, below projected reimbursements and (2) the percent of shortfall in reimbursements improved from 96 percent in August to 44 percent in December. The department indicates various reasons for the reimbursement shortfalls:

1. Based on numerous questions from patients, conservators, and representative payees regarding the change in payment arrangements, the department believes that many persons may have withheld payment to the department because they lacked a clear understanding of the differences, in terms of treatment and in payment, between SNF/STPs and IMDs.

2. The department's system for processing billings from facilities and sending out invoices to patients, conservators, and representative payees was not prompt. This resulted in a lag of up to three months before some patients, conservators, and representative payees received billings for services provided.

3. The department indicates that it may have underestimated the amount of outside income available to SSI/SSP-eligible patients. Outside income reduces the level of the SSI/SSP payment to which an individual is entitled.

Table 10
Department of Mental Health
Institutions for Mental Diseases
Actual and Projected Reimbursements
August through December 1987

Month of Service	*Actual Reimbursements*	*Projected Reimbursements*	*Difference*	*Percent Shortfall in Reimbursements*
August	$47,563	$1,124,000	−$1,076,437	−95.8%
September	94,389	1,124,000	−1,029,611	−91.6
October	293,591	1,124,000	−830,409	−73.9
November	253,636 [a]	1,124,000	−870,364	−77.4
December	634,404 [a]	1,124,000	−489,596	−43.6
Totals	$1,323,583	$5,620,000	−$4,296,417	−76.4%

[a] Amounts may be understated due to lags in collections.

Although the department has improved its performance in collecting reimbursements for IMD services, it indicates that a substantial increase in collections for the months of August through October is unlikely. Even if the department were able to collect 100 percent of the proposed reimbursements for the remainder of the current year, the shortfall in current-year reimbursements would be $2.9 million.

Additional Funding Requested for 317 Beds. The budget proposes an increase of $6,326,000 to fund an additional 317 IMD beds. The amount consists of $4,853,000 from the General Fund and $1,473,000 in reimbursements. Reimbursements are estimated to equal 23 percent of the total costs of the additional 317 beds. This level of reimbursements is equivalent to the level of reimbursements estimated for the current year.

DEPARTMENT OF MENTAL HEALTH—Continued

The increase of 317 beds is based on the department's estimate that in the budget year, five SNFs with a total capacity of 453 beds are scheduled to meet requirements for receiving Medi-Cal funding for their STPs within their skilled nursing facilities. The department estimates that 317, or 70 percent, of the 453 beds would house persons between the ages of 22 and 64 and, therefore, must be funded through the IMD program.

Budget May Be Underfunded. The department has not been able to fully explain the causes of its problems collecting reimbursements, nor identified specific plans for addressing these problems. Without this information, the Legislature cannot be confident that the department's projections of reimbursements in the budget year are realistic.

Therefore, we withhold recommendation on the IMD budget pending submission of information regarding (1) how the department intends to fund the likely current-year deficiency, (2) the specific causes of the shortfalls and the amount attributable to each cause, (3) its plan for addressing the causes of the shortfalls, and (4) updated estimates of current- and budget-year reimbursements.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 125

Requested 1988-89	$34,830,000
Recommended approval	2,960,000
Recommended reduction	1,173,000
Recommendation pending	30,697,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***Project administration and contingency. Reduce Item 4440-301-036 by $1,087,000.*** Recommend that the Legislature, in considering the major capital outlay projects for the Department of Mental Health, limit the amounts approved for project administration and construction contingency to 20 percent of estimated construction contract amounts, per State Administrative Manual requirements. (Future savings of $426,000.) 615
2. Cost Overruns. Withhold recommendation on $27,742,000 for three projects pending the outcome of efforts by the department and the Office of Project Development and Management to reduce cost overruns. 617
3. Kitchen Renovation, "N" Building, Patton State Hospital. Withhold recommendation on $1,753,000 for kitchen renovation in the "N" Building at Patton State Hospital pending further discussions with the department on significant savings possible from limiting the project scope to address only life safety concerns. 618

4. Security Control Improvements, Atascadero State Hospital. Withhold recommendation on $1,202,000 for security control improvements at Atascadero State Hospital pending further information from the department regarding perimeter security needs at the hospital. 619
5. Warehouse, Atascadero State Hospital. Recommend that the Legislature adopt supplemental report language recognizing reduced future cost for the project due to redesign of air conditioning improvements. (Future savings: $105,000.) 620
6. ***Building 197 Improvements at Napa State Hospital. Reduce Item 4440-301-036(10) by $86,000.*** Recommend that the Legislature adopt supplemental report language reducing future construction contract costs by conforming the cost estimate to recent bid experience at a neighboring building at Napa State Hospital. Recommend reducing funds for preliminary plans and working drawings in Item 4440-301-036(10) by $86,000 based on the reduced construction contract amount. (Future savings: $1,354,000.) 620

OVERVIEW OF THE BUDGET REQUEST

The budget includes $34.8 million in Item 4440-301-036 from the Special Account for Capital Outlay (SAFCO) for the Department of Mental Health's capital outlay program in 1988-89. Table 1 shows the amounts requested for each project with our recommendations.

Table 1
Department of Mental Health
1988-89 Capital Outlay Program
Item 4440-301-036
(dollars in thousands)

Sub-Item	*Project Title*	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Estimated Future Cost*[b]
(1)	Minor projects	Statewide	pwc	$733	$733	—
(2)	Fire, life safety improvements—remodel patient living areas	Atascadero	c	11,133	pending	—
(3)	Improve security control	Atascadero	pwc	1,349	pending	—
(4)	Additional warehouse space	Atascadero	p	39	39	$1,237
(5)	Fire, life, safety and environmental improvements—R and T Building	Metropolitan	c	4,024	pending	—
(6)	Remodel laundry building	Metropolitan	c	487	459	—
(7)	Personal alarm system, CTW building	Metropolitan	c	587	545	—
(8)	Patient support modules	Metropolitan	pwc	291	236	—
(9)	Fire, life, safety and environmental improvements—Building 199	Napa	c	13,166	pending	—
(10)	Fire, life, safety and environmental improvements—Building 197	Napa	pw	706	547	8,001
(11)	Fire, life, safety and environmental improvements—"30" Building	Patton	w	466	401	8,012
(12)	Kitchen renovation, "N" Building	Patton	pwc	1,849	pending	—
	Totals			$34,830	$2,960	$17,250

[a] Phase symbol indicates: p = preliminary plans; w = working drawings and c = construction.
[b] Department estimates.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

The 1988-89 capital improvement program represents the fifth year of a major initiative to upgrade all patient living areas in the department's hospitals to meet current fire, life safety and environmental standards. This capital outlay work is part of a larger departmental effort to achieve accreditation of its hospitals by the Joint Commission on Accreditation of Hospitals (JCAH). As of October 1987, the JCAH had granted accreditation to all the department's hospitals. Continued accreditation status, however, is contingent on successful and timely completion of the projects to remodel patient living areas.

According to the Governor's Budget, the patient living area remodeling plan involves the renovation of space for 5,355 patient beds at a total estimated cost of $139.2 million, or about $26,000 per bed. To date, the Legislature has approved funds totaling $64.4 million for this work, leaving an estimated funding need of $74.8 million in 1988-89 and future years in order to complete the patient living area remodeling. The budget requests $37.6 million of this amount for expenditure in 1988-89, including $8.1 million for Camarillo State Hospital which is budgeted under the Department of Developmental Services (Item 4300-301-036).

Table 2 shows estimated costs for the patient living area remodeling effort as well as for additional projects in patient program areas, staff offices and support facilities. When these other projects are taken into account, the overall Mental Health Hospital Remodeling Plan involves a total estimated cost of $170.7 million. As Table 2 indicates, the Legislature has appropriated a total of $90.1 million for the overall capital outlay effort, leaving an estimated funding need of $80.6 million in 1988-89 and future years to carry out the plan.

Table 2
Department of Mental Health
Hospital Remodeling Plan
(dollars in thousands)

Type of Project	*Total Beds*	*Estimated Total Cost*	*Previously Funded Amount*	*Estimated Future Cost*[a]
Patient living area remodeling	5,355	$139,197	$64,428	$74,769
Other hospital projects	N/A	31,520	25,720	5,800
Totals		$170,717	$90,148	$80,569

[a] Department estimates.

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay

We recommend approval.

The department's budget includes $733,000 in Item 4440-301-036(1) for seven minor capital outlay projects in 1988-89. Minor capital outlay projects are construction projects costing $200,000 or less. The department's projects range in cost from $17,000 to protect corridor walls with wainscotting at Atascadero State Hospital to $190,000 to remodel the rehabilitation clinics in the CTE and CTW Buildings at Metropolitan State Hospital. Our review indicates that the proposed scope and costs for these projects are reasonable.

Excessive Amounts for Project Administration and Contingencies

We recommend that the Legislature, in considering the major capital outlay projects for the Department of Mental Health, limit the amounts for project administration and construction contingencies to 20 percent of estimated construction contract amounts, consistent with the State Administrative Manual requirements. Consistent with this recommendation, we recommend reducing Item 4440-301-036 by $1,087,000. (Future savings of $426,000).

The State Administrative Manual (SAM) generally limits the combined amount that may be budgeted for project administration and construction contingency on capital outlay projects to 18 percent of the construction contract amount in the case of new construction, and 20 percent in cases of remodeling or renovation. In the past, the Legislature generally has followed these guidelines in appropriating funds for capital outlay

Table 3
Department of Mental Health
Capital Outlay Program
Amounts Allocated for Project Administration/Contingency
1988-89 and Estimated Future Costs
Item 4440-301-036
(dollars in thousands)

Sub-Item	*Project Title*	*Location*	*Construction Contract Amount* [a]	*Project Administration and Contingency* [b]	*1988-89 Amount in Excess of SAM Limits* [c]	Future Amount in Excess of SAM Limits [c]
(2)	Fire, life safety improvements—remodel patient living areas	Atascadero	$9,591	$2,169	$251	—
(3)	Improve security control	Atascadero	1,002	347	147	—
(4)	Additional warehouse space	Atascadero	980	296	—	$100
(5)	Fire, life safety and environmental improvements—R and T Building	Metropolitan	3,227	863	218	—
(6)	Remodel laundry building	Metropolitan	403	109	28	—
(7)	Personal alarm system, CTW Building	Metropolitan	467	135	42	—
(8)	Patient support modules	Metropolitan	196	95	55	—
(9)	Fire, life safety and environmental improvements—Building 199	Napa	11,332	2,378	112	—
(10)	Fire, life safety and environmental improvements—Building 197	Napa	6,858	1,575	73	130
(11)	Fire, life safety and environmental improvements—"30" Building	Patton	6,853	1,632	65	196
(12)	Kitchen renovation, "N" Building	Patton	1,434	383	96	—
	Totals		$42,343	$9,982	$1,087	$426

[a] Department's estimate of amount needed (in budget year or future year) to award bid to construction contractor.

[b] Includes estimated amount needed for architectural and engineering fees, construction inspection, construction management, and contingency. Does not include asbestos consulting, agency retained items and hospital plan checking.

[c] State Administrative Manual (SAM) limit for project administration and contingency is 20 percent of construction contract.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

projects. Project administration includes such things as architectural and engineering fees, construction inspection services, construction management services, and other consultant services. Contingencies are amounts set aside to pay for additional construction contract costs that may arise due to unforeseeable circumstances during construction.

Table 3 shows that, based on SAM guidelines, the department has over-budgeted for project administration and contingencies for each of its major capital outlay projects in the 1988-89 budget. The total amount allocated by the department for project administration/contingency exceeds the 20 percent limit by $1,087,000 in 1988-89 and $426,000 in future years. The department has not justified the need to exceed the 20 percent limit established by SAM, especially in view of the fact that the department's support budget (Item 4440-001-001) requests *an additional $1.1 million* in 1988-89 for consulting services for construction/capital outlay program management. Consequently, we recommend that the Legislature limit these costs to 20 percent of the approved estimate for construction costs. We further recommend that the Legislature reduce Item 4440-301-036 by $1,087,000, as summarized in Table 3.

Major Projects for Which We Recommend Approval

We recommend approval of four projects in Item 4440-301-036, except for the excess project administration/contingency.

Laundry Building Remodel at Metropolitan. The budget includes $487,000 in Item 4440-301-036(6) to remodel the laundry building at Metropolitan State Hospital (Los Angeles County). The Legislature appropriated $38,000 in the 1987 Budget Act for preliminary plans and working drawings for this project. Except for excess costs for project administration/contingency ($28,000), the project is consistent with the work previously approved by the Legislature. Thus, we recommend approval in the reduced amount of $459,000.

Support Modules (Staff Offices) at Metropolitan. The budget includes $291,000 in Item 4440-301-036(8) for "patient support modules" at Metropolitan State Hospital. The project involves the purchase and installation of two trailers (each 24 feet by 60 feet) on the grounds of the hospital to provide additional staff office space. This request also includes excess administration/contingency costs ($55,000). We recommend approval in the reduced amount of $236,000.

Improvements to "30" Building at Patton. The budget includes $466,000 in Item 4440-301-036(11) to prepare working drawings for fire, life safety and environmental improvements to the "30" Building at Patton State Hospital in San Bernardino. The Legislature appropriated $206,000 in the 1987 Budget Act for preliminary plans for this project. The department expects the preliminary plans to be completed in mid-February 1988 and the working drawings to be completed in June 1989. Accounting for excess project administration/contingency ($65,000), we recommend approval in the reduced amount of $401,000.

Personal Alarm System, CTW Building, Metropolitan State Hospital. The budget includes $587,000 for the construction phase of the installation of a personal alarm system for staff working in the CTW Building at Metropolitan State Hospital. The Legislature provided $67,000 in the 1987 Budget Act for preliminary plans and working drawings for this project. After accounting for excess project administration/contingency costs ($42,000), we recommend approval in the reduced amount of $545,000.

Proposed Projects Experiencing Major Cost Overruns

The Legislature already has appropriated funds for preliminary plans and working drawings for five of the 11 major capital outlay projects proposed in the department's budget. The budget requests funds for the construction phase of these projects. When the Legislature appropriated funds for the preliminary plans/working drawings, it also recognized future construction costs (based on estimates provided by the department) by including the estimated construction amounts in supplemental report language.

As Table 4 indicates, the estimated construction costs for four of the five projects, as reflected in the 1988-89 budget request, have increased. In three cases the increases have been substantial. Taking into account $42,000 in savings for one project, the total estimated construction amount (construction contracts and contingency) has increased by $3.8 million, or 17 percent, above the amount previously approved for these projects by the Legislature.

Table 4
Department of Mental Health
1988-89 Capital Outlay Program
Construction Phase Requests
Cost Overruns and Savings
(dollars in thousands)

Project Title	*Location*	*Cost Previously Approved By Legislature*[a]	*Budget Bill Amount for Construction*[b]	*Overrun (Savings)*	*Percent Increase (Decrease)*
Remodel patient living areas	Atascadero	$8,369	$10,262	$1,893	22.6%
Improvements, R and T Building	Metropolitan	2,855[c]	3,453	598	20.9
Remodel laundry building	Metropolitan	420	431	11	2.6
Personal alarm system	Metropolitan	542	500	(42)	(7.7)
Improvements, Building 199	Napa	10,759	12,125	1,366	12.7
Totals		$22,945	$26,771	$3,826	16.7%

[a] Estimated future construction cost in *Supplemental Report of the 1987 Budget Act*, except as indicated in note c.
[b] Construction cost consists of construction contracts and contingency.
[c] Estimated future construction cost in *Supplemental Report of the 1986 Budget Act*.

Three Projects With Substantial Cost Overruns

We withhold recommendation on $27,742,000—which is the balance requested in Item 4440-301-036 for three projects after accounting for excess project administration/contingency—pending the outcome of efforts by the department and the Office of Project Development and Management to reduce projected cost overruns.

The budget includes $28,323,000 in Item 4440-301-036 for the following three projects:

- fire and life safety improvements at Atascadero State Hospital ($11,133,000),
- fire, life safety and environmental improvements at Metropolitan State Hospital, R and T Building ($4,024,000), and
- fire, life safety and environmental improvements at Napa State Hospital, Building 199 ($13,166,000).

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

The above amounts include a total of $25.8 million for construction contracts and contingencies, which is $3.8 million, or 17 percent, more than the amount approved by the Legislature at the time it appropriated funds for preliminary plans and working drawings.

Only a small portion of this increase is due to inflation. For example, according to the review of the latest cost estimate for Atascadero by the Office of Project Development and Management (OPDM), $630,000 of that project's $1.9 million cost overrun is due to a *miscalculation in the original cost estimate of the square feet to be remodeled.* Another increase ($220,000) is due to *a new estimate by the design consultant of the number of doors to be replaced* as part of the remodeling.

The OPDM review, dated December 10, 1987, states: "we are working with the design consultant and our program management team to try and reduce some of the cost overruns." Similar reviews are in progress on the other two projects with significant cost overruns. According to OPDM, all three reviews should be completed in late February. Pending the outcome of these efforts to reduce costs, and our review of the information developed by these efforts, we withhold recommendation on $27,742,000 requested in categories (2), (5) and (9) of Item 4440-301-036. This amount is the balance of the request in these subitems after accounting for excess project administration/contingency ($581,000).

Kitchen Renovation, "N" Building, Patton State Hospital

We withhold recommendation on $1,753,000—which is the balance requested in Item 4440-301-036(12) for renovation of the kitchen area in the "N" Building at Patton State Hospital after accounting for excess project administration/contingency—pending further discussions with the department on significant savings possible from limiting the project scope to address only life safety concerns.

The budget includes $1,849,000 in Item 4440-301-036(12) for preliminary plans, working drawings and construction for renovation of the kitchen/dining area in the "N" Building at Patton State Hospital. The primary reason for the project is the need to remove clay tile furring and partitions in the kitchen and dining areas. During the course of a remodeling project elsewhere in the "N" Building, the department discovered clay tile furring on interior walls. Based on "pull tests," the department's consultant and the Office of the State Architect concluded that the clay tile constituted a significant earthquake hazard and recommended that it be removed. This proposed project will remove the clay tile from the kitchen/dining area, a part of the building that was outside the area of the other remodeling project.

The proposed kitchen/dining renovation project will cost $138 per square foot, based on the estimated construction contract amount. This is at least double the square foot cost of almost all other remodeling projects proposed in this item. One reason for this high cost is that the proposed work also includes extensive renovation of electrical/plumbing systems and replacement of kitchen equipment. Some of this work is appropriate because removal of the clay tile partitions requires demolition/removal of a portion of the existing systems/equipment. This related work is necessary. A portion of this additional work, however, is unrelated to the removal of the clay tile. The department has not justified the need for this part of the proposed renovation.

At our request, the department recently revised its cost estimate to reflect a project scope limited to the clay tile problem. The revised estimate shows potential savings totaling $480,000. Unaccountably, however, the estimate shows (1) no change in estimated electrical costs and (2) *increases* in plumbing/air conditioning costs totaling $111,000. At the time this analysis was written, the department was in the process of developing information substantiating the need for increased plumbing/air conditioning expenditures. Pending further discussion with the department on these points, we withhold recommendation on $1,753,000 in Item 4440-301-036(12) for kitchen renovations at Patton. This is the balance of the request for this subitem after accounting for excess project administration/contingency ($96,000).

Security Control Improvements at Atascadero State Hospital

We withhold recommendation on $1,202,000—which is the balance requested in Item 4440-301-036(3) for security control improvements at Atascadero State Hospital after accounting for excess project administration/contingency—pending receipt of further information from the department concerning perimeter security needs at the hospital.

The budget includes $1,349,000 in Item 4440-301-036(3) for security improvements at Atascadero State Hospital in San Luis Obispo County. The Atascadero patient population includes defendants judged by the courts to be mentally incompetent to stand trial and "mentally disordered offenders" (inmates whose prison terms have expired but are not ready for parole due to severe mental disorder and violent behavior). Thus, increased security measures are required at this state hospital.

The proposed additional security measures include lighting for roof and exterior areas, surveillance cameras for five courtyard areas, a guard tower, and perimeter fencing. These measures are in response to security deficiencies identified by the Department of Corrections. According to the Department of Mental Health, existing security personnel will be used to staff the guard tower and to watch the surveillance camera monitors. The department believes that the additional staff time required for these activities will be offset by reduced staff time spent on security patrols.

The Department of the Youth Authority (DYA) is also requesting funds in the budget (Item 5460-301-746) for a guard tower at the Preston School of Industry. The request indicates that video-camera systems are not effective perimeter security tools. In defense of its proposed guard tower, the DYA describes the inadequacy of an alternative camera monitoring system:

> "By mounting a camera monitoring system, the immediate fence area can be protected. However, general movement where most problems occur would be unobserved. When an escape occurs, the observer will be unable to see and direct the response team. Additional staff would be required to monitor and maintain the system."

In our analysis of the Youth Authority budget, we withhold recommendation on the proposed guard tower at Preston, as well as other projects involving camera monitoring systems, pending further information from the DYA regarding (1) the relative merits of guard towers and camera monitoring systems and (2) specific lighting levels needed for night use of the camera monitoring systems.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

We believe that the department's request for *both* a guard tower and a camera monitoring system at Atascadero State Hospital raises a similar issue of possible duplication of security control measures. Consequently, we withhold recommendation on $1,202,000 requested in Item 4440-301-036(3), pending further information from the department regarding the (1) relative merits of the two security measures (including considerations of operating costs), (2) need to have *both* measures at Atascadero, and (3) specific lighting levels needed for night use of the camera monitoring system. The $1,202,000 is the balance requested in this subitem after accounting for excess project administration/contingency ($147,000).

Additional Warehouse Space, Atascadero State Hospital

We recommend approval of $39,000 requested for preliminary plans for additional warehouse space at Atascadero. We further recommend that the Legislature adopt supplemental report language that recognizes a reduced estimated future cost for the project due to the redesign of air conditioning improvements. (Future savings: $105,000).

The budget includes $39,000 in Item 4440-301-036(4) for preliminary plans for the construction of additional warehouse space at Atascadero State Hospital. The budget request assumes a future cost for working drawings and construction of $1,237,000. The existing warehouse facilities at Atascadero State Hospital are not adequately designed or located either for dry food storage or for secure storage of other items.

The proposed project involves expansion of the one-story main warehouse into a two-story building (increasing available storage space by about 10,000 assignable square feet), and air conditioning to maintain temperatures necessary for dry food storage. In order to reduce construction costs and maintain operational efficiencies, the department has recently decided to provide food storage on the first floor of the building, while nonfood items—which do not require air conditioning—will be stored on the second floor. This will reduce the size and cost of air conditioning equipment.

According to the department, this redesign results in a $105,000 reduction in future project costs. We recommend that the Legislature recognize these savings in supplemental report language describing the scope and cost elements of this project.

Fire/Life Safety, Environmental Improvements, Building 197, Napa State Hospital

We recommend a reduction of $86,000 in Item 4440-301-036(10) for preliminary plans and working drawings for fire/life safety improvements to Building 197 at Napa State Hospital to account for a reduced construction cost to reflect recent construction bid experience at the hospital. (Future savings: $1,354,000).

The budget includes $706,000 for preliminary plans and working drawings for fire, life safety and environmental improvements to 77,514 gross square feet of patient living areas and support areas in Building 197 at Napa State Hospital. The estimated future cost for the construction phase is $8.0 million. This includes an estimated $6.9 million to award a construction contract, or over $88 per square foot for remodeling. This is considerably more than the cost estimates of any of the other patient living area remodeling projects requested in the budget. More importantly, this cost exceeds by a significant margin recent bid experience for a similar project in a neighboring building at Napa—Building 195.

The state received eight bids in December 1987 for remodeling 68,217 gross square feet in Building 195. Seven of those bids were below the state's estimate of $5.7 million ($84 per square foot). The low bid was approximately $4.8 million, or about $71 per square foot.

According to the department's written narrative for the 1988-89 request for Building 197, the cost estimate was based on the working drawings and cost estimates developed for Building 195. This is reasonable because the two buildings are similar in design and function and were built at the same time (in 1949). On this basis, however, the budget estimate should be revised in light of the recent bid experience for Building 195. Adjusting for anticipated inflation between the time of the bid (December 1987) and the start of the budget year, the estimated construction cost for Building 197 should be reduced to $73 per gross square foot—a $1.2 million reduction in estimated future construction costs.

Moreover, based on the reduced construction costs, the associated amounts for project administration/contingency, should be reduced by $86,000 in the budget request and $154,000 in future year costs.

We therefore recommend that the Legislature reduce Item 4440-301-036(10) by $86,000. We further recommend that the Legislature recognize future estimated savings totaling $1,354,000—consisting of $1,200,000 for construction costs and $154,000 for project administration/contingency.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which defines the scope and cost elements of each of the projects approved under this item.

DEPARTMENT OF MENTAL HEALTH—REVERSION

Item 4440-495 to the General Fund — Budget p. HW 107

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Budget Bill proposes to revert to the General Fund the unencumbered balance of interest funds appropriated in Ch 1440/85.

Chapter 1440, Statutes of 1985 (AB 1024), appropriated $4.3 million from federal Outer Continental Shelf Lands Act (8g) funds to the department for allocation to Sacramento County in order to remodel the Sacramento Mental Health Center. Chapter 1440 also appropriated the interest accruing from the $4.3 million for the same purpose. The measure provided that any unexpended funds from these appropriations shall revert to the General Fund.

Sacramento County has spent the $4.3 million in federal funds and a portion of the available interest funds. Item 4440-495 would revert the

DEPARTMENT OF MENTAL HEALTH—REVERSION—Continued

remaining interest funds. The department estimates that the amount of the reversion would be $111,000.

The reversion is consistent with language in Chapter 1440. Accordingly, we recommend approval.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General Fund and various funds — Budget p. HW 128

Requested 1988-89	$4,562,111,000
Estimated 1987-88	4,541,805,000
Actual 1986-87	4,280,892,000
Requested increase (excluding amount for salary increases) $20,306,000 (+0.4 percent)	
Total recommended reduction	2,725,000

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5100-001-001—Support	General	$30,053,000
5100-001-184—Support	Benefit Audit	7,025,000
5100-001-185—Support	Contingent	24,685,000
5100-001-514—Support	Employment Training	79,338,000
5100-001-588—Support	Unemployment Compensation Disability Insurance	65,108,000
5100-001-869—Support	Consolidated Work Program	62,175,000
5100-001-870—Support	Unemployment Administration	346,964,000
5100-001-908—Support	School Employees	515,000
5100-011-890—Support	Federal Trust	(346,964,000)
5100-021-890—Support	Federal Trust	(62,175,000)
5100-101-588—Local assistance	Unemployment Compensation Disability Insurance	1,410,750,000
5100-101-869—Local assistance	Consolidated Work Program	208,109,000
5100-101-870—Local assistance	Unemployment Administration	2,910,000
5100-101-871—Local assistance	Unemployment	2,295,183,000
5100-101-890—Local assistance	Federal Trust	(208,109,000)
5100-101-908—Local assistance	School Employees	16,567,000
5100-111-890—Local assistance	Federal Trust	(2,298,093,000)
Reimbursements	—	26,996,000
Unemployment Insurance Code Section 1586	Contingent	1,000,000
Reimbursement to Federal Government	School Employees	−15,267,000
Total		$4,562,111,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***IRCA Service Unjustified. Reduce Item 5100-001-185 by $2.4 million.*** Recommend deletion of $2.4 million proposed from the Contingent Fund because the services would benefit 627

only a small number of employers. Further recommend that prior to budget hearings, the department report on fee-for-service alternatives for this service.

2. Employment Service Support. Withhold recommendation on $4.4 million in reimbursements requested to provide specialized employment service pending receipt of detailed information on the number of clients to be served. 629
3. ***Disability Insurance (DI) Program. Recommend:*** 632
   a. ***Augment Item 5100-001-588 by $225,000.*** Recommend augmentation from the DI Fund for a study of the efficiency and timeliness of DI field offices' claims processing. Further recommend adoption of Budget Bill language requiring the department to contract with a management consulting firm to conduct the study.
   b. ***Reduce Item 5100-001-588 by $550,000.*** Recommend reduction from the DI Fund to reflect staff needs based upon the department's cost model study. 635

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 unemployment insurance contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The department has 10,003.5 personnel-years (PYs) in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $4.6 billion from various funds for support of EDD in 1988-89. This is an increase of $20 million, or 0.4 percent, above estimated current-year expenditures. Of the total amount proposed, $3.7 billion is for the payment of UI and DI benefits, and $852 million is for various other programs and administration.

The $852 million proposed for other programs and administration is $159 million, or 15.7 percent, below current-year expenditures. This reduction is due primarily to two factors. First, the budget shows a $162 million reduction in funds available for the Job Training Partnership Act (JTPA) because the current-year budget includes $114 million in local assistance funds reappropriated from the prior year and $48 million in state program funds carried over into the current year. Although not shown in the budget document, a comparable level of JTPA funds will likely be carried forward into the budget year. Second, the budget reflects a reduction of $5.3 million in reimbursements to EDD from the Department of Social Services (DSS). This reduction reflects a shift in the provision of employment services to welfare recipients from the state to the counties due to implementation of the Greater Avenues for Independence (GAIN) program.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 1
Employment Development Department
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	Actual 1986-87	*Est. 1987-88*	*Prop. 1988-89*	*Change From 1987-88 to 1988-89* Amount	Percent
Employment Programs					
Employment service	$106,723	$112,079	$112,535	$456	0.4%
Work incentive and related	29,236	27,377	22,023	−5,354	−19.6
Food stamp recipients	457	—	—	—	—
Service centers	6,844	7,149	7,277	128	1.8
Job agent	2,815	3,043	3,099	56	1.8
Job service reimbursable	—	—	4,393	4,393	—
Youth employment services	—	73	—	−73	—
Employment training panel	94,014	82,571	77,461	−5,110	−6.2
Subtotals, Employment Programs	($240,089)	($232,292)	($226,788)	(−$5,504)	(−2.4%)
Job Training Partnership Act					
Administrative cost pool	$8,035	$9,607	$9,894	$287	3.0%
Incentive awards and technical assistance	8,062	25,764	10,613	−15,151	−58.8
Older workers	5,908	10,345	5,633	−4,712	−45.5
Educational linkages	17,437	23,945	15,021	−8,924	−37.3
Special local projects	1,345	6,108	359	−5,749	−94.1
Displaced workers	15,689	33,178	19,733	−13,445	−40.5
Veteran's programs	—	1,449	922	−527	−36.4
Adult and youth training	152,675	204,024	146,456	−57,568	−28.2
Summer youth program	75,152	118,317	61,653	−56,664	−47.9
Subtotals, Job Training Partnership Act	($284,303)	($432,737)	($270,284)	(−$162,453)	(−37.5%)
Unemployment Insurance					
Administration	$245,830	$247,611	$259,213	$11,602	4.7%
Benefits	2,098,178	2,157,548	2,299,393	141,845	6.6
Subtotals, Unemployment Insurance	($2,344,008)	($2,405,159)	($2,558,606)	($153,447)	(6.4%)
Disability Insurance					
Administration	$61,117	$69,011	$66,371	−$2,640	−3.8%
Benefits	1,324,862	1,373,500	1,410,750	37,250	2.7
Subtotals, Disability Insurance	($1,385,979)	($1,442,511)	($1,477,121)	($34,610)	(2.4%)
Personal income tax collections	$23,112	$22,722	$23,986	$1,264	5.6%
Employment training tax collections	1,767	1,831	1,877	46	2.5
General administration, undistributed	1,634	4,553	3,449	−1,104	−24.2
Total Budget	$4,280,892	$4,541,805	$4,562,111	$20,306	0.4%
(Program)	($857,852)	($1,010,757)	($851,968)	(−$158,789)	(−15.7%)
(UI and DI benefits)	($3,423,040)	($3,531,048)	($3,710,143)	($179,095)	(5.1%)
Funding Sources					
General Fund	*$28,893*	*$29,846*	*$30,053*	*$207*	*0.7%*
Benefit Audit Fund	*4,203*	*6,794*	*7,025*	*231*	*3.4*
EDD Contingent Fund	*23,431*	*21,337*	*25,685*	*4,348*	*20.4*
Employment Training Fund	*125,083*	*94,002*	*91,438*	*−2,564*	*−2.7*
Disability Fund	*1,385,456*	*1,441,863*	*1,475,858*	*33,995*	*2.4*
Consolidated Work Program Fund	*284,303*	*432,737*	*270,284*	*−162,453*	*−37.5*
Unemployment Administration Fund	*330,203*	*340,354*	*349,874*	*9,520*	*2.8*
Unemployment Fund—Federal	*2,054,611*	*2,130,109*	*2,267,816*	*137,707*	*6.5*
Federal Trust Fund	*(2,669,117)*	*(2,903,200)*	*(2,887,974)*	*(−15,226)*	*(−0.5)*
School Employees Fund	*15,967*	*16,925*	*17,082*	*157*	*0.9*
Reimbursements	*28,742*	*27,838*	*26,996*	*−842*	*−3.0*
Totals	$4,280,892	$4,541,805	$4,562,111	$20,306	0.4%

General Fund and Contingent Fund Requests

The budget proposes an appropriation of $30 million from the General Fund and $25 million from the EDD Contingent Fund to support the EDD in 1988-89. The Contingent Fund is composed of revenues from penalties and interest levied against employers who pay their taxes late. Penalties from late payment of personal income tax withholdings are transferred quarterly from the Contingent Fund to the General Fund. Remaining revenues from late payment of UI, DI, and Employment Training (ET) taxes, remain in the Contingent Fund. At the end of each fiscal year, the balance over $1 million is transferred to the General Fund.

Table 2

Employment Development Department
Proposed 1988-89 General and Contingent Fund Budget Changes
(dollars in thousands)

	General Fund	*Contingent Fund*	*Totals*
Funds available, 1987 Budget Act	$29,296	$20,264	$49,560
Baseline Adjustments			
Salary, benefit, and price increase	$524	$108	$632
Retirement rate reduction	−47	−10	−57
Adjustments for federal fund carry-over from 1986-87	—	−2,412	−2,412
Adjustments for one-time expenditures	—	189	189
Subtotals, Baseline Adjustments	($477)	(−$2,125)	(−$1,648)
Program Changes			
Immigration Reform and Control Act	—	$2,198	$2,198
Subtotals, Program Changes	(—)	($2,198)	($2,198)
1987-88 expenditures (revised)	$29,773	$20,337	$50,110
Baseline Adjustments			
Replacement of federal fund carry-over from 1986-87	—	$2,412	$2,412
Elimination of one-time expenditures	—	−189	−189
Salary, benefit, and price increase	$553	772	1,325
Adjustments for one-time expenditures	−273	—	−273
Subtotals, Baseline Adjustments	($280)	($2,995)	($3,275)
Program Changes			
Immigration Reform and Control Act	—	$156	$156
Employment service automation	—	−101	−101
Employer growth	—	798	798
Increased data processing costs	—	500	500
Subtotals, Program Changes	(—)	($1,353)	($1,353)
1988-89 expenditures (proposed)	$30,053	$24,685	$54,738
Change from 1987-88 (revised):			
Amount	$280	$4,348	$4,628
Percent	0.9%	21.4%	9.2%

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The $55 million proposed from the General Fund and the Contingent Fund represents a net increase of $4.6 million, or 9.2 percent, from these funds as compared with estimated current-year expenditures. This increase is primarily due to the following factors: (1) replacement of one-time federal carry-over funds with Contingent Fund monies in order to support the ES program in 1988-89, (2) an increase of $798,000 to support additional personal income tax withholding collections due to employer growth, and (3) an increase of $500,000 due to increased data processing costs in the employment services and tax collection programs.

ANALYSIS AND RECOMMENDATIONS

DEPARTMENTAL PROGRAMS AND SUPPORT

Proposed Staffing Changes Reflect a Variety of Factors

The budget proposes a net increase of 455.3 positions in 1988-89. Table 3 shows the proposed position changes according to the reason for the change. It also shows the salaries, benefits, and operating expenses corresponding to the staffing changes. In the case of automation, increased operating expenses offset savings from staff reductions. Changes in workload also reflect increases in operating expenses as a result of increased data processing costs. Table 4 shows how the staffing changes are distributed among EDD's programs.

Table 3
Employment Development Department
Proposed Position Changes
and Fiscal Effect
1988-89
(dollars in thousands)

	Positions			Net Fiscal Effect			
Reason for Change	*Added*	*Reduced*	*Net*	*Salaries*	*Benefits*	*OE&E*	*Total*
Automation efficiencies [a]	—	−72.1	−72.1	−$1,496	−$490	$2,421	$435
Program change and legislative mandates	190.6	−26.7	163.9	3,801	1,260	−3,710	1,351
Workload changes	373.4	−9.9	363.5	9,241	3,029	9,363	21,633
Totals	564.0	−108.7	455.3	$11,546	$3,799	$8,074	$23,419

[a] These figures have been adjusted to reflect the fact that, while the department anticipates eliminating a total of 148.9 positions in the budget year, these positions will not be eliminated until January 1989.

Table 4
Employment Development Department
Proposed Position Changes by Program
1988-89

Reason for Change	*Unemployment Insurance*	*Disability Insurance*	*Employment Service*	*Tax Collections*	*Other Employment Programs*	*Total*
Automation efficiencies [a]	—	−72.1	—	—	—	−72.1
Program change and legislative mandates	−16.4	14.8	143.7	—	11.9	154.0
Workload changes	278.1	78.2	—	17.1	—	373.4
Totals	261.7	20.9	143.7	17.1	11.9	455.3

[a] The department anticipates eliminating positions as a result of automation in the Disability Insurance program, effective January 1989.

The major causes for position changes in each category shown in Tables 3 and 4 are discussed below:

- ***Automation.*** The department proposes to reduce its staff by 72.1 positions in order to reflect staff savings created by automation in its DI program. This reduction frees up $1 million. However, increased automation cost in the ES program will total $1.4 million. The net cost of proposed automation changes is $440,000.
- ***Program Changes and Legislative Mandates.*** The budget proposes a net increase of 163.9 positions due to program changes and legislative mandates. The major additions in the ES program are due to the department's proposal to (1) provide services to employers under IRCA and (2) provide employment services under contract to local employment and training programs.
- ***Workload Changes.*** The department proposes to add a net of 373.4 positions due to increased workload. The largest workload increases are in the UI, DI, and tax programs as a result of growth in the number of employers and employees in the state.

EMPLOYMENT SERVICES

The Employment Development Department (EDD) administers Employment Services (ES) and Special Group Employment Services programs in 130 local field offices throughout the state, the majority of which are co-located with Unemployment Insurance (UI) field offices. The purpose of the ES program is to assist unemployed persons find jobs by matching their skills with the needs of employers. The ES staff keep in constant touch with employers so that unemployed individuals requesting assistance can be referred to available jobs. The purpose of the Special Group Employment Services program is to provide special services to individuals with particular barriers to employment (i.e., the disabled, clients who are not proficient in English and participants in the Greater Avenues for Independence (GAIN) program). The budget proposes $149.3 million to support these programs in 1988-89, a decrease of $400,000 from the current year.

Department's Proposal to Provide IRCA Service Unjustified

We recommend the deletion of $2.4 million proposed from the Contingent Fund to support certifications of authorization to work because the services would benefit only a small number of employers. (Reduce Item 5100-001-185 by $2.4 million.)

Background. Since June 1, 1987 the department has expanded the Employment Services (ES) program to assist employers in meeting their legal responsibilities under the new federal Immigration Reform and Control Act (IRCA). The IRCA requires *employers* to verify that all of their employees hired after November 6, 1986 are legally eligible to work in this country.

Employers that accept applicants referred by EDD field offices have two options regarding the verifications of job applicants that are required by IRCA. First, an employer may verify job applicants in the same manner as he/she does with prospective employees not referred by EDD. In order to do this, the employer must examine and ascertain the validity of documents (such as a passport, social security card, etc.), which establish an applicant's authorization to work. The employer completes and retains an Immigration and Naturalization Service verification form to certify that he/she reviewed these documents.

Second, the employer can request the field office to *certify* that the individual hired is the same individual that the field office *verified* as

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

being authorized to work. In order to perform this certification, the field office checks the applicant's signature on EDD's verification form against the applicant's signature, which must be included in the employer's certification request.

The EDD began offering certifications as an option to employers using ES in June 1987. The department ceased offering this service to employers in October 1987, pursuant to an injunction issued in the case of the *California State Employees Association (CSEA) et. al. v. Kiddoo.* In issuing the injunction, the court noted that the department had not followed the rulemaking procedures required in statute prior to implementing verifications and certifications. The department anticipates that it will issue the regulations required to implement the program early in 1988.

Budget Proposal. The budget proposes expenditures of $2.4 million to perform verifications and certifications. This is an increase of $200,000, or 9 percent, over estimated current-year expenditures. The change from the current year is the result of two factors: (1) the current-year budget includes $463,000 in *one-time* costs for assisting aliens in documenting their work histories in this country, as required by federal law, and (2) the department anticipates performing verifications and certifications for a full year in 1988-89, while the 1987-88 estimate assumed eight months of program operation.

We have three concerns with the department's proposal.

Verifications and Certifications are Optional Under Both State and Federal Law. Federal law requires that employers verify their employee's authorization to work; it does not *require* the department to perform these functions. While federal law does *permit* the department to perform these functions, the Department of Labor has indicated that it will *not* provide additional federal funding to cover the costs—states must either redirect federal funds from the basic ES program or pay for the costs of verifications and certifications with state funds.

State law also does not require the department to verify or certify job applicants. While state law limits eligibility for ES to individuals "who are legally qualified to engage in gainful employment," the department has met this requirement in the past by requiring ES applicants to "self-certify," that is, declare in writing that they are eligible to work in this country.

Proposal Is Not Consistent With Legislature's Priorities For Use of the Contingent Fund. In the past, the Legislature has used the Contingent Fund to support three activities:

- The collection of personal income tax withholdings.
- The automation of the UI and ES programs, which results in improved services.
- The support of the basic ES program because of shrinking federal funds.

All of these activities benefit the general public interest by providing services to a broad range of state residents. At the end of each fiscal year, the unexpended balance over $1 million in the Contingent Fund is transferred to the General Fund.

Using Contingent Fund money to support verifications and certifications in the ES program is not consistent with the priorities that the

Legislature has established for the use of this fund. Although the department does not maintain information on the number of employee's it serves, the department estimates that it will perform certifications on only 12 percent of ES applicants. Thus, we conclude that the verification and certification process only benefits a small number of employers.

These Services Would Be Most Appropriately Provided on a Fee-For-Service Basis. Since the certifications are provided only at the request of the employer, we believe that it would be possible to charge a fee to cover the costs of providing the service. Under this system, employers could decide whether having EDD perform the certifications for a fee is a better business decision than performing the verifications themselves.

Recommendation. In summary, we conclude that the Contingent Fund is not an appropriate source for funding the costs of providing verifications and certifications under IRCA. We therefore recommend deletion of $2.4 million proposed for this purpose. This will enable the Legislature to use these funds to support programs it deems to be of higher priority.

As an alternative, the Legislature also may wish to consider having the department provide these services on a fee-for-service basis. Therefore, we further recommend that the department report to the Legislature prior to budget hearings, on alternatives for providing these services to employers who request them on a fee-for-service basis.

Reimbursable Employment Services

We withhold recommendation on $4.4 million requested to provide specialized employment services pending receipt of more accurate estimates of the number of clients the department plans to serve under the contracts.

The budget proposes $4.4 million and 96 PYs to provide specialized employment services to the clients of local training and education providers on a reimbursable basis. Specifically, the budget proposes to provide the following specialized services:

- Job placement, including job development and on-the-job training.
- Job search workshops.
- Assessments to match applicants' skills and interests with local jobs.
- Local labor market information.

The department anticipates that it will provide these services under contracts with JTPA-funded Service Delivery Areas (SDAs), the Employment Training Panel (ETP), community colleges, and other locally administered employment and training programs.

We believe that the reimbursable ES proposal has merit because it could enhance the coordination of services provided at the local level. In order for this to occur, however, the department will have to inform local service providers that the services are available. It will also have to negotiate contracts that specify the type and quantity of each service to be provided. The department is currently at the preliminary stages of developing this proposal. For example, the department has not yet developed a plan for how it will advertise the availability of reimbursable job services to local providers. Consequently, it has not yet determined how many local employment and training providers will want specialized employment services or the number of clients that would receive services under these contracts.

Without this information, it is not possible to determine what the appropriate funding level would be for the proposed services. We

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

therefore withhold recommendation pending receipt of this information from the department.

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 $259 million for UI administration and $2.3 billion for benefit payments. The level of administrative expenditures proposed for 1988-89 is $11.6 million, or 4.7 percent, above estimated current-year levels. This increase is primarily due to (1) an increase of $6.8 million in data processing costs and (2) an increase of $5.5 million in salaries, benefits, and prices. The $2.3 billion proposed for UI benefits in 1988-89 is $142 million, or 6.6 percent, higher than current-year benefit levels. This increase is primarily due to an anticipated increase in the number of unemployed persons in the state and the duration of their unemployment.

Estimates Will be Updated in May

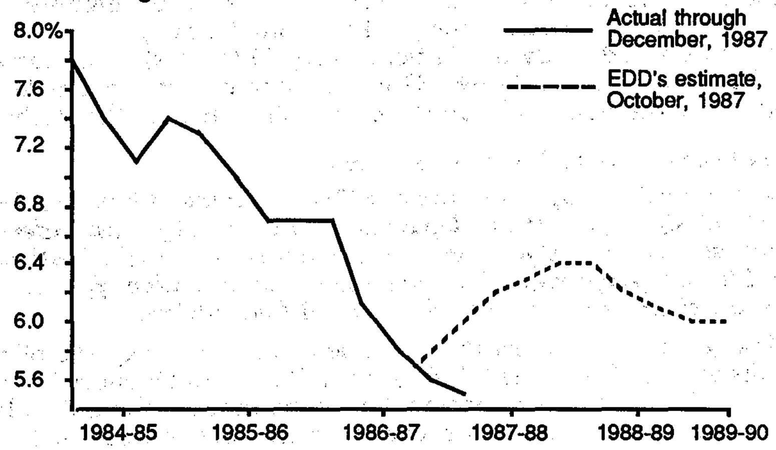
The department's estimates of UI expenditures are based on actual program costs through September 1987 and a forecast of trends in the economy, especially as they affect unemployment. The department made its projections of the state's unemployment rate in October 1987, shortly after the dramatic stock price adjustment that occurred on October 19, 1987. The estimate is based, in part, on the department's expectation that the reduction in stock prices would have a ripple effect on employment and thus the unemployment rate would increase. The actual unemployment rates for October, November, and December have, however, turned out to be substantially lower than the department's projections. Chart 1 shows the actual unemployment rate through December 1987 and the department's estimates based on its October forecast.

As Chart 1 shows, the trend predicted by the department is not borne out by the data now available. The department will revise its estimates in May. This estimate will be based on data through March 1988 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 1988-89 expenditures.

In addition, we are concerned that the budget does not take into account the effects that recently created federal budget reductions will have on the UI budget. The budget anticipates that the federal government will reimburse the state for all costs associated with administering the UI program during 1988-89. The department now advises, however,

Chart 1

Employment Development Department
California's Actual and Projected Unemployment Rate
Quarterly Data
1984-85 through 1989-90



that the total appropriation for the UI program contained in the federal budget for federal fiscal year (FFY) 1988 is 4.75 percent lower than the FFY 1987 appropriation. It is unclear how this reduction will affect the availability of federal funds to cover the state's UI administrative costs during 1987-88 or 1988-89. We anticipate that the department will have more reliable information on federal funding at the time it prepares its May estimates.

DISABILITY INSURANCE PROGRAM ADMINISTRATION

The Disability Insurance (DI) program provides cash benefits to individuals who are unable to work due to nonwork-related illness or injury, including pregnancy. The EDD administers the DI program through 21 field offices located throughout the state. The program is self-financing: benefits and administrative costs are funded through a payroll tax of 1.2 percent on the first $21,900 of each employee's annual wages. The budget anticipates that by June 30, 1989 the year-end balance in the DI Fund will be $820 million. This is consistent with the actuarial requirements for an adequate fund balance.

The budget proposes $65 million from the DI Fund to support the administration of the DI program in 1988-89. This represents a decrease of $3.3 million from the current year.

Study Generates New Workload Standards

During the current year, the department has developed new workload standards for the DI program. The new workload standards are based on a "cost model study" completed in June 1987. The department uses cost model studies to determine how many staff are required to administer

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

most of its programs. The department advises that the new study was needed because the workload standards developed by the previous study, which it had used since 1982, were outdated and inaccurate. For the new study, the department timed staff in six field offices as they performed various tasks associated with administering the DI program. The study indicated that it takes less time and therefore less staff to administer the program than was previously thought. For example, the previous workload standards would justify an additional $420,000 (14 PYs) in the current year and $300,000 (9.7 PYs) in 1988-89 as compared with the staffing levels justified under the new workload standards established by the study.

Disability Insurance Field Offices Need Review

We recommend an augmentation of $225,000 (augment item 5100-001-588 by $225,000) to permit the department to contract for an independent evaluation of the DI program. We further recommend adoption of Budget Bill language requiring that the contractor identify ways to improve efficiency and reduce delays in DI field offices.

The budget anticipates that the 21 DI field offices will pay $1.3 billion in benefits to 650,000 workers this fiscal year. Because a DI check is often an individual's sole source of income during the time he/she is disabled, it is important that field offices are able to process these claims efficiently and in a timely manner. We therefore reviewed the administration of the DI program to determine whether or not field offices were operating as efficiently and timely as possible. Our analysis leads us to conclude that DI field offices could improve in both areas; however, we believe a more thorough review of DI administration is necessary in order to determine what methods would achieve these improvements.

Cost Model Study Reveals Potential to Improve Efficiency. Our review of the department's cost model study reveals that there are opportunities for substantial improvements in the efficiency of some of the field offices. Specifically, the study showed large differences in the speed with which the sampled field offices performed various tasks. For example, the study found that staff in one field office needed an average of 14-1/2 hours to investigate claims involving work-related injuries, while a second field office's staff investigated the same kind of claim in only 3-1/2 hours.

In order to assess the potential for increasing the efficiency of the field offices, we compared the average times measured for all field offices to complete each of the tasks in the cost model study—the department's workload standards are based on these averages—to the time that the fastest office took to perform the same tasks. Table 5 displays the results of this comparison.

Table 5
Employment Development Department
Disability Insurance Program
Comparison of Field Office Staff Time Spent on Administrative Tasks

	Amount of Staff Time Spent Per Task (in minutes)		
	Average Office	*Fastest Office*	*Percent Difference*
Determining initial eligibility	25.9	19.3	25.3%
Issuing checks to claimants	1.6	1.0	39.2
Processing continuing DI claims	15.7	8.2	47.7
Investigating overpayments made to claimants	143.6	55.4	61.4
Processing appeals made by claimants	347.6	261.4	24.8
Processing voluntary DI plans	27.6	12.2	55.7
Processing claims that are workers' compensation-related	341.0	197.2	42.2
Field visits	64.3	53.5	16.8
Percent of staff time devoted to general overhead tasks	13.8%	7.0%	49.3%

As Table 5 shows, there are large differences in the amount of time it takes the fastest offices to perform various tasks as compared to the average office. For example, it takes the average office 25.9 minutes to make an initial determination of eligibility, while the fastest office was able to complete this task in 19.3 minutes—25 percent faster than the average office. Similarly, the average time to investigate an overpayment is almost 144 minutes, but the fastest office at investigating overpayments is able to accomplish this task 61 percent faster.

We estimate that workload standards based on the fastest processing times observed during the cost model study would justify 382 fewer PYs than would standards based on the average times. We are not, however, suggesting that the department adopt standards based on the fastest offices. We recognize that not all offices are capable of achieving the speed of the fastest offices because:

- To some unknown extent, there are tradeoffs involved between efficiency in one task and efficiency in another; for example, a field office may be able to make claim determinations faster because it spends more time training staff.
- Local variations probably justify some of the differences among field offices. For example, San Jose claim examiners must travel to Salinas to appear at workers' compensation board appeals hearings—a one hour drive—while in Oakland, the DI office and the workers' compensation appeals board are in the same building.

Nevertheless, we believe that the variation between the average and the fastest offices indicates that improvements in efficiency are achievable.

In our visits to DI field offices, we identified one example of how a small change in field office procedures could result in a substantial improvement in efficiency. The change involved the Los Angeles field office. That office recently modified the form that it sends to claimants who indicate that their injuries are work-related. The office manager felt that a change was necessary because the original form seemed difficult to understand and often resulted in delays caused by some claimants not

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

completing it properly. The change involved adding one line to the bottom of this form, in both English and Spanish.

The field office advises that the modification to the form has reduced the amount of time staff needed to process these claims, because staff are less likely to need to explain the form to claimants or follow up on claims that were completed improperly. This conclusion is borne out by the fact that, according to the new cost model study, the Los Angeles field office is 42 percent faster at processing these claims than the average office.

At the time this analysis was prepared, no other field office had made a similar change in the form. We believe that a thorough review of the program's field offices would reveal other, similar opportunities to improve efficiency.

Timely Payment of DI Benefits. Chapter 1093, Statutes of 1985 (SB 557), requires the department to issue initial payments to eligible claimants within 14 days of receiving a properly completed disability insurance claim. Timely payment is especially important to disability insurance beneficiaries because the DI check may be their only source of income for the period during which they are disabled. The department's most recent study indicates that field offices paid approximately 81 percent of their initial claims within 14 days. However, we believe that the department's studies may underestimate the true extent of delays. For example, in April 1986, the department estimated that the number of claims paid in 14 days averaged 84 percent, while another study done at the same time by the Auditor General indicated that the average number of claims paid in 14 days might be as low as 73 percent.

We are particularly concerned about the field offices' timeliness problems because they do not seem to result from a lack of adequate staff to perform the work. Our analysis of the department's staffing and timeliness data indicates that there is no relationship between the number of claims per staff position in a field office and the timeliness with which a claim is paid.

In addition, we are concerned that the department has been unable to accurately determine the reasons for delays in paying claims. The department advises that delays in paying initial claims arise for three reasons:

- ***Complicated Claims.*** There are a number of complications that can develop in processing initial claims that impede a field office's ability to pay them promptly. About 60 percent of all initial claims processed require field office claim examiners to solicit information from sources outside of the field office before payment can be made.
- ***Telephone Calls.*** According to the department, an increasing volume of telephone calls from claimants has impeded claim examiners from paying claims promptly. The department estimates that in 1986, the 21 field offices received approximately two million telephone calls.
- ***Foot Traffic.*** While the DI program was initially intended to handle claims primarily by mail, there is an increasing volume of foot traffic in some field offices.

The department has little consistent data with which to evaluate the extent to which these factors contribute to delays. Based on the limited data the department has provided, however, we were unable to confirm its impression that these factors are the primary reason for delays. We believe that an in-depth analysis of field office timeliness problems is necessary in order to determine more precisely what causes the variation in payment issuance.

Based on our review of DI field office efficiency and timeliness, we believe that the field offices could improve in both areas. Moreover, we believe that review of DI field office operations by an independent management consulting firm would reveal specific ways for the field offices to achieve these improvements. Therefore, we recommend the adoption of Budget Bill language requiring the department to contract with a private consultant to study ways to improve both the efficiency and timeliness in the DI field offices. Such a study could result in better service to clients, improved efficiency, and ultimately, in savings to the DI Fund.

Our experience with contracts of this sort indicates that the department will need $150,000 to $225,000 to cover the costs of the contract. We therefore also recommend an augmentation of $225,000 from the DI Fund to cover the costs of the contract. The following Budget Bill language is consistent with this recommendation:

> Of the amount appropriated by this item, the department shall use up to $225,000 to contract with a private firm for a study of ways to improve the efficiency and timeliness of DI field offices. The purpose of this study shall be to identify specific changes that the field offices can make to improve efficiency and reduce delays in paying DI claims.
>
> At a minimum, the study should:
>
> - Evaluate the department's latest cost model study, determine why some field offices in the study were substantially faster at performing various tasks than others, and identify specific organizational changes in the field offices that will improve the efficiency of the slower offices.
> - Determine why some field offices experience more delays in paying claims and recommend specific measures the department can undertake to reduce delays, including but not limited to staffing levels, alternative staff allocation methods, and organizational changes.

TECHNICAL ISSUES

Department's Workload Standards Are Inappropriately Adjusted

We recommend a reduction of $550,000 and 18.5 positions (reduce Item 5100-001-588 by $550,000) to more accurately reflect the results of the department's cost model study.

Our analysis indicates that the department overestimates the field office staff needed to administer the DI program by 17.7 positions in the current year and 18.5 positions in the budget year. This occurred because the department adjusted the average times measured during the cost model study upward by a specified percentage. However, these adjustments are not based on any factual evidence that the average times failed to accurately measure workload associated with these positions.

Using the nonadjusted average times, we estimate that 18.5 fewer positions would be required in the budget year. We therefore recommend a reduction of $550,000 and 18.5 positions to reflect a more accurate estimate of the staffing level needed for the DI program in 1988-89.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 5100-301 from various federal funds — Budget p. HW 147

Requested 1988-89	$837,000
Recommended approval	837,000

ANALYSIS AND RECOMMENDATIONS

The budget proposes $837,000 for seven minor capital outlay projects ($200,000 or less per project) for the Employment Development Department (EDD) in 1988-89. This amount includes: $488,000 from the Federal Trust Fund, $107,000 from the Unemployment Compensation Disability Fund, and $242,000 from the Employment Development Department Contingent Fund. These projects range in scope and cost from remodeling a conference room in El Monte ($12,000), to major program-related renovations of the Bakersfield and Hollywood offices ($199,000 per project).

Bakersfield Renovation Project

We recommend the addition of Item 5100-301-870(2)—Renovate Bakersfield Office—Construction—$199,000, and an offsetting reduction of $199,000 in Item 5100-301-870(1)—Minor Projects, to appropriately budget renovation of the Bakersfield office as a major capital outlay project.

Further, we recommend Budget Bill language specifying the availability of previously appropriated funds for the Bakersfield project.

The Budget Bill proposes $199,000 to renovate the department's field office in Bakersfield. Cost estimates by the Office of the State Architect indicate, however, that the full cost of the proposed project will be $277,000. The department proposes to make up the difference by using the unspent balance, $78,000, of a 1986 Budget Act appropriation for minor capital outlay. This appropriation was to have financed, in 1986-87, the alteration of restrooms to make them accessible to the mobility impaired and to provide open-office landscaping in the Bakersfield office. This work was never undertaken, and is included in the project proposed for 1988-89. The project proposed in the budget, therefore, should have been budgeted as a major capital outlay project, because its full cost exceeds $200,000.

The work approved in 1986 should proceed. The additional renovations proposed in the budget are justified because this work will enable the department to better serve its clients, and will save the state money, by making room in a state-owned building for department personnel who currently occupy leased space. Based on the work involved for all improvements, the $227,000 estimate by the Office of State Architect is reasonable.

Accordingly, we recommend that the project proceed, but that it be budgeted as a major capital outlay project. Thus, we recommend a $199,000 reduction in Item 5100-301-870(1) and the addition of a new subitem—5100-301-870(2)—in the same amount.

Furthermore, to assure that the prior funds remain available for this project, we recommend the following Budget Bill language:

Item 5100-301-870—Employment Development Department— Capital Outlay

1. Provide that for the Bakersfield office renovation project in category (2), up to $78,000 from the unspent balance of the appropriation in Items 5100-301-870 and 5100-301-185, Budget Act of 1986, shall be available for preliminary plans, working drawings, and construction.

Supplemental Report Language

For purpose of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

EMPLOYMENT DEVELOPMENT DEPARTMENT— REAPPROPRIATION

Item 5100-490 from federal funds Budget p. HW 135

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reappropriates local assistance funds for employment and training programs under the federal Job Training Partnership Act (JTPA). The item contains Budget Bill language that allows the Employment Development Department (EDD) to carry forward into 1988–89 all JTPA local assistance funds which are unexpended in the current year. Without this language, the EDD would be required to notify the Legislature of its intent to carry over these funds through the process established by Section 28 of the Budget Bill. The item also requires the EDD to notify the Legislature by December 1, 1988 on the actual amount of JTPA local assistance funds carried over into 1988–89.

Our analysis indicates that establishing a reappropriation item for these federal funds is appropriate for two reasons. First, the funds come from the federal government; there are no state funds in this item that might be recaptured if not spent. Second, the state has no direct programmatic authority over these funds. The state's role is that of an intermediary—passing the JTPA funds from the federal government to the local program operators. Therefore, we recommend approval of this item.

Health and Welfare Agency

DEPARTMENT OF REHABILITATION

Item 5160 from the General Fund and various funds — Budget p. HW 148

Requested 1988-89	$226,146,000
Estimated 1987-88	218,704,000
Actual 1986-87	186,242,000
Requested increase (excluding amount for salary increases) $7,442,000 (+3.4 percent)	
Total recommended reduction	None
Total recommendation pending	74,968,000

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5160-001-001—Support	General	$20,981,000
5160-001-890—Support	Federal Trust	117,377,000
5160-001-942—Support	Vending Stand Account	1,858,000
5160-101-001—Local assistance	General	80,701,000
Reimbursements	—	5,229,000
Total		$226,146,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Unbudgeted Vocational Rehabilitation (VR) Funds. Recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on (a) the amount of VR-eligible services that are currently provided by the Departments of Mental Health, Alcohol and Drug Programs, Social Services, and Employment Development and the level of General Fund support for these services proposed in the budget and (b) the feasibility of requiring the Department of Rehabilitation (DOR) to enter into interagency agreements with these departments in order to avoid the loss of $8 million in unbudgeted federal VR funds. 641
2. Work Activity Program (WAP) Rates. Recommend that prior to budget hearings, the DOR report to the fiscal committees on the costs of reverting to a cost-based rate system, as required by current law. 642
3. WAP and Supported Employment Program (SEP) Expenditures. Withhold recommendation on $75 million in General Fund support for WAP and SEP pending review of the May estimate. 643
4. ***Unbudgeted Federal Title VI Funds. Recommend reduction of $2.4 million in General Fund support for SEP and augmentation of the same amount of federal funds that have become available since the department prepared its budget in November. (Reduce Item 5160-101-001 by $2.4 million and augment Item 5160-101-890 by $2.4 million.)*** 643

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation (DOR) assists disabled persons to achieve social and economic independence by providing vocational rehabilitation and habilitation services. Vocational rehabilitation services seek to place disabled individuals in suitable employment. Habilitation services help individuals who are unable to benefit from vocational rehabilitation achieve and function at their highest levels.

The department has 1,653.6 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Total program expenditures are proposed at $226 million for DOR in 1988-89. This includes $102 million from the General Fund, $117 million from federal funds, $1.9 million from the Vending Stand Account, and $5.2 million in reimbursements. Total expenditures proposed for 1988-89 are $7.4 million, or 3.4 percent, more than estimated current-year expenditures.

The $102 million proposed from the General Fund for support of the DOR in 1988-89 is an increase of $7.1 million, or 7.5 percent, above estimated current-year expenditures. The proposed General Fund amount includes $21.0 million for support of the department and $81 million for local assistance. Table 1 displays program expenditures and funding sources for the prior, current, and budget years.

Table 1
Department of Rehabilitation
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Vocational rehabilitation	$105,924	$125,137	$128,061	2.3%
Habilitation services	61,009	70,164	76,894	9.6
Support of community facilities	7,896	11,911	9,482	−20.4
Administration	11,323	11,492	11,709	1.9
Totals	$186,152	$218,704	$226,146	3.4%
Funding Sources				
General Fund	*$83,036*	*$94,552*	*$101,682*	*7.5%*
Federal Trust Fund	*97,467*	*117,389*	*117,377*	—
Vending Stand Account	*1,364*	*1,652*	*1,858*	*12.5*
Reimbursements	*4,375*	*5,111*	*5,229*	*2.3*

Table 2 displays the significant changes in expenditure levels proposed in the budget for 1988-89. Major budget changes proposed are (1) $4.0 million for a new unspecified Work Activity Program (WAP) rate system and (2) $2.7 million for the increase in the WAP/Supported Employment Program (SEP) caseload. Both changes are discussed later in this analysis.

DEPARTMENT OF REHABILITATION—Continued

Table 2
Department of Rehabilitation
Proposed 1988-89 General Fund Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (revised)	$94,552	$218,704
Cost adjustments		
Employee compensation adjustments	$166	$1,102
Inflation adjustments to OE&E	280	1,873
Financial legislation	−28	−28
Subtotals, cost adjustments	($418)	($2,947)
Workload adjustments		
Increase in Vending Stand Account	—	$183
One-time reduction in federal funds for establishment grants to VR facilities	—	−2,400
Subtotals, workload adjustments	(—)	(−$2,217)
Program change proposals		
Set-aside for new Work Activity Program (WAP) rate system	$4,000	$4,000
WAP/Supported Employment Program (SEP)—caseload increase	2,712	2,712
Subtotals, program change proposals	($6,712)	($6,712)
1988-89 expenditures (proposed)	$101,682	$226,146
Change from 1987-88:		
Amount	$7,130	$7,442
Percent	7.5%	3.4%

Table 3 presents a summary of personnel-years for the department in the prior, current, and budget years. The increase in total personnel-years is due to the proposed addition of one position to the administrative services division of the DOR.

Table 3
Department of Rehabilitation
Personnel-Years
1986-87 through 1988-89

	Actual	*Est.*	*Prop.*	*Change From 1987-88*	
Program	*1986-87*	*1987-88*	*1988-89*	*Amount*	*Percent*
Vocational rehabilitation	1,350.6	1,447.1	1,447.1	—	—
Habilitation services	19.1	19.1	19.1	—	—
Support of community facilities	11.2	12.4	12.4	—	—
Administration	171.0	175.0	175.9	0.9	0.1%
Totals	1,551.9	1,653.6	1,654.5	0.9	0.1%

ANALYSIS AND RECOMMENDATIONS

VOCATIONAL REHABILITATION SERVICES

Vocational rehabilitation (VR) services are provided by the department's counselors and by nonprofit organizations. Counselors (1) evaluate applicants for services, (2) work with clients to develop their rehabilitation plans, (3) authorize the purchase of services necessary to implement the plans, (4) supervise the progress of each client in their caseload, and (5) follow-up to verify rehabilitation. Nonprofit organizations—which include sheltered workshops, facilities for the deaf and blind, and independent living centers—provide counseling, job development, placement, and supportive services.

The federal and state governments share in the cost of the basic VR services on an 80 percent-20 percent basis. In addition, the federal government reimburses DOR for the full cost of successfully rehabilitating certain VR clients.

The budget proposes $139 million for VR services in 1988-89, which includes $128 million for direct client services and $11 million for state administrative costs. Of the total amount proposed for VR services, $19 million is from the General Fund, $113 million is from federal funds, and $7.1 million is from fees and reimbursements. In addition to the VR funds proposed for the VR program itself, the budget also proposes $3.1 million in federal VR funds for grants to community rehabilitation facilities.

Unbudgeted Federal Funds May Be Available for Support of VR Programs

We recommend that the Department of Finance report to the fiscal committees prior to budget hearings on (1) the amount of VR-eligible services that are currently provided by the various state departments and the levels of General Fund support for these services proposed in the budget and (2) the feasibility of requiring the DOR to enter into interagency agreements with each of these departments in order to utilize federal VR funding for the services provided by the departments.

The budget includes $113 million in federal VR funds. The department advises that this amount is *at least* $8 million less than the total amount of federal funds available. The department also indicates that it did not budget these additional federal funds for two reasons. First, according to the department, it is unclear that the existing VR programs operated by the DOR could actually absorb an increase of this amount. Second, the budget does not include the 20 percent state match that is required under federal law. In the current year, these two problems will result in the state returning $500,000 in federal VR funds to the federal government.

According to the federal official in charge of overseeing California's expenditure of VR funds, state programs designed to help the physically disabled, the mentally ill, and substance abusers return to work could qualify for VR funding. We have identified the following four state programs that appear to satisfy these criteria:

- ***Mental Health Services.*** The Department of Mental Health (DMH) allocates Short-Doyle funds to the counties to support a variety of mental health services, some of which are intended to help mentally disabled individuals to return to employment. The DMH operates the Conditional Release program for judicially committed clients which, among other things, helps these individuals make the transition to employment.
- ***Alcohol and Drug Programs.*** The Department of Alcohol and Drug Programs (DADP) allocates funds to county drug and alcohol abuse treatment programs, many of which provide services that help substance abusers to return to employment.
- ***Deaf Access Assistance program.*** The Department of Social Services (DSS) administers the Deaf Access Assistance program, which provides various services to the deaf, many of which help them to return to employment.
- ***Deaf and Hearing-Impaired Job Placement.*** The Employment Development Department (EDD) operates this program to help the deaf and the hearing-impaired locate jobs.

DEPARTMENT OF REHABILITATION—Continued

In order for any of these programs to actually receive a portion of the $8 million in unbudgeted federal VR funds, it would be necessary for the affected departments to negotiate an interagency agreement with the DOR. This is because federal law designates DOR as the "single state agency" responsible for administering federal VR funds. Our analysis indicates that it would be possible to use some of the $8 million in federal VR funds either to offset the General Fund costs of services currently provided by the DMH, DADP, DSS, and EDD, or to provide additional services to the clients already served by these departments. Since the budget proposal would result in the state returning $8 million in VR funds to the federal government, we believe that the possibility of making these funds available to other departments warrants further investigation.

We therefore recommend that the Department of Finance report to the fiscal committees prior to budget hearings on (1) the amount of VR-eligible services that are currently provided by the DMH, DADP, DSS, and EDD and the levels of General Fund support for these services proposed in the budget and (2) the feasibility of requiring the DOR to enter into interagency agreements with each of these departments in order to utilize federal VR funding for the services provided by these departments.

Habilitation Services

The department serves individuals through the habilitation services program who are too severely disabled to benefit from the VR program. Habilitation services include (1) the WAP, (2) the SEP, and (3) Counselor-Teacher and Reader Services for the blind. The objectives of WAP are to (1) provide clients with stable work in a sheltered setting, (2) increase clients' vocational productivity and earnings, and (3) to the extent possible, develop clients' potential for competitive employment. The major objective of SEP is to provide training and supportive services to clients so that they can engage in competitive employment.

Budget Contains a $4 Million General Fund Set-Aside for a New WAP Rate-Setting System

We recommend that the department report to the fiscal committees prior to budget hearings on the costs of reverting to a cost-based WAP rate-setting system, as required by current law.

The budget proposes total expenditures of $62.8 million for WAP in 1988-89. Of the total, $61.8 million is for support of work activity centers and $1.0 million is for state administration of the program. The $61.8 million for WAP facilities, includes $4.0 million as a set-aside to fund a revised WAP rate-setting system. The budget does not specify what the new system would be. Instead, the budget indicates that the administration will work with the Legislature to design a new system.

Prior to 1984-85, WAP rates were based on the historical costs of the habilitation service providers. Each facility annually submitted a cost statement which was audited by the department. These cost statements were used to set a daily per client rate for each facility, thereby allowing the rates to reflect differences in costs between facilities.

Chapter 135, Statutes of 1984, froze the rates DOR pays WAP providers at the 1984-85 level. The rate freeze established by Chapter 135 will sunset July 1, 1988. If no new rate structure is established by that date, the cost-based rate system in effect prior to the rate freeze would be reactivated.

The budget proposes two things with regards to the WAP rates. First, as we have noted above, it proposes to appropriate $4 million from the General Fund to cover the 1988-89 costs of new WAP rates. It does not, however, specify an alternative rate-setting system. Second, the budget contains a provision that would extend the freeze on WAP rates until "such time as legislation establishing a new rate system is implemented."

We are concerned that the department has been unable to provide an estimate of the costs that would result if the cost-based rate system takes effect on July 1, 1988. The Legislature will need an estimate of these costs in order to assess the merits of any new system proposed by the administration or to design an alternative system. We therefore recommend that the department report to the fiscal committees prior to budget hearings, on the costs of reverting to a cost-based rate-setting system.

WAP and SEP Estimates Will Be Updated in May

We withhold recommendation on $75 million in General Fund support requested for WAP and SEP, pending review of the May estimates of caseloads and costs.

The budget proposes $75 million from the General Fund for the WAP ($62 million) and SEP ($13 million) in 1988-89. The proposed expenditures for these programs are based on actual caseloads and expenditures through September 1987. The department will present revised estimates in May which will be based on more recent caseloads and expenditures. Because the revised estimates will be based on more recent experience, they will provide the Legislature with a more reliable basis for budgeting 1988-89 expenditures. We therefore withhold recommendation on the amount proposed for these programs, pending review of the May estimates.

Unbudgeted Federal Funds

We recommend a reduction of $2.4 million in General Fund monies proposed to support SEP and an augmentation of the same amount in federal fund support in order to reflect the availability of additional federal funds. (Reduce Item 5160-101-001 by $2.4 million and augment Item 5160-101-890 by $2.4 million.)

Since the department prepared its budget in November, the federal government has advised the state that it will receive additional federal funds of $2.4 million in federal fiscal year (FFY) 1987 and $2.4 million in FFY 1988 under Title VI of the federal Rehabilitation Act. The department advises that these funds can be used to offset the General Fund costs of SEP. In fact, the department is planning to budget, through the Section 28 process, the FFY 1987 funds to offset $2.4 million of General Fund support from SEP in 1987-88. The department advises that the FFY 1988 funds will also be available to offset General Fund SEP costs in 1988-89. Budgeting these federal funds to offset General Fund costs would free up $2.4 million in General Fund resources that the Legislature could

DEPARTMENT OF REHABILITATION—Continued

use according to its priorities for this or other program areas. We therefore recommend a reduction of $2.4 million from the General Fund proposed to support SEP and an augmentation of a like amount in federal funds.

DEPARTMENT OF SOCIAL SERVICES

SUMMARY

The Department of Social Services (DSS) is the single state agency responsible for supervising the delivery of cash grants and social services to needy persons in California. Monthly grant payments are made to eligible recipients through two programs—Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Program (SSI/SSP). In addition, welfare recipients, low-income individuals, and persons in need of protection may receive a number of social services such as information and referral, domestic and personal care assistance, and child and adult protective services. The budget proposes total expenditures by the department of $9.3 billion in 1988-89. This is an increase of $817 million, or 9.6 percent, above estimated current-year expenditures. Table 1 identifies total expenditures from all funds for programs administered by DSS for the past, current, and budget years.

Table 1
Department of Social Services
Expenditures and Revenues, by Program
All Funds
1986-87 through 1988-89
(dollars in thousands)

Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change from 1987-88*	
				Amount	*Percent*
Departmental Support	$218,677	$238,500	$234,158	−$4,342	−1.8%
AFDC [a]	4,221,376	4,415,231	4,709,873	294,642	6.7
SSI/SSP [b]	1,665,013	1,856,441	2,024,651	168,210	9.1
Special adult	2,477	2,858	3,160	302	10.6
County Welfare Department Administration [a]	701,152	792,016	840,192	48,176	6.1
Refugee	47,762	46,643	49,983	3,340	7.2
Social Services [a]	934,380	1,138,361	1,443,910	305,549	26.4
Community Care Licensing	11,112	13,774	14,719	945	6.9
Totals	$7,801,949	$8,503,824	$9,320,646	$816,822	9.6%
Funding Sources					
General Fund	*$4,248,447*	*$4,792,386*	*$5,371,318*	*$578,932*	*12.1%*
Federal funds [b]	*3,077,173*	*3,189,194*	*3,397,869*	*208,675*	*6.5*
County funds	*467,963*	*499,030*	*529,372*	*30,342*	*6.1*
Reimbursements	*8,333*	*17,268*	*19,846*	*2,578*	*14.9*
State Children's Trust Fund	*327*	*5,946*	*2,241*	*−3,705*	*−62.3*
Special Deposit Fund	—	—	—	—	—
Foster Family Home Insurance Fund	*−294*	—	—	—	—

[a] Includes county funds.
[b] Excludes SSI federal funds.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by DSS. The budget requests a total of $5.4 billion from the General Fund for these programs in 1988-89. This is an increase of $579 million, or 12 percent, over estimated current-year expenditures.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 2
Department of Social Services
General Fund Expenditures
1986-87 through 1988-89
(dollars in thousands)

Program	Actual 1986-87	Est. 1987-88	Prop.[a] 1988-89	Change from 1987-88 Amount	Change from 1987-88 Percent
Departmental support	$76,884	$87,753	$80,807	−$6,946	−7.9%
AFDC	1,984,750	2,131,385	2,259,608	128,223	6.0
SSI/SSP	1,655,958	1,845,729	2,013,405	167,676	9.1
Special adult	2,402	2,783	3,085	302	10.9
County welfare department administration	135,489	150,879	163,524	12,645	8.4
Social services	385,779	565,072	841,495	276,423	48.9
Community care licensing	7,185	8,785	9,394	609	6.9
Totals	$4,248,447	$4,792,386	$5,371,318	$578,932	12.1%

[a] Includes proposed cost-of-living-adjustments.

OVERVIEW OF ANALYST'S RECOMMENDATIONS

We are recommending a net reduction of $42 million from the amount proposed for expenditure from all funds. This amount consists of $29.2 million from the General Fund and $11.5 million in federal funds. In addition, we are withholding recommendation on $7.1 billion in proposed expenditures, pending receipt of additional information in May when the Department of Finance submits the May revision of expenditures and revenues to the Legislature. Our recommendations are summarized in Table 3.

Table 3
Department of Social Services
Summary of Legislative Analyst's Recommended Changes
1988-89
(dollars in thousands)

Program	General Fund	Federal Funds	All Funds[a]	Recommendations Pending (all funds)
Department support	−$112	−$238	−$350	—
AFDC	—	—	—	$4,503,677
SSI/SSP	—	—	—	2,024,651
Special adults	—	—	—	—
Refugees	—	—	—	—
County administration	—	—	—	615,620
Social services	−5,200	—	−5,200	—
Community care licensing	—	—	—	—
Cost-of-living adjustments	−23,900	−11,300	−36,400	—
Totals	−$29,212	−$11,538	−$41,950	$7,143,948

[a] Includes county funds which are not shown separately.

Department of Social Services
DEPARTMENTAL SUPPORT

Item 5180-001 from all funds — Budget p. HW 169

Requested 1988-89	$234,158,000
Estimated 1987-88	238,500,000
Actual 1986-87	218,677,000
Requested decrease (excluding amount for salary increases) $4,342,000 (−1.8 percent)	
Total recommended reduction	350,000

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Support	General	$80,807,000
5180-001-890—Support	Federal	144,183,000
Reimbursements	—	9,120,000
Welfare and Institutions Code Section 18969—Appropriation	State Children's Trust	48,000
Total		$234,158,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Child Support Intercept. Reduce Item 5180-001-001 by $112,000 and Item 5180-001-890 by $238,000.*** Recommend reducing proposed contract with the Employment Development Department (EDD) for child support intercept in the Disability Insurance (DI) program to reflect revised implementation schedule. 651
2. Technical Assistance for the Greater Avenues for Independence (GAIN) program. Recommend that the Legislature adopt Budget Bill language allocating $100,000 ($50,000 from Section 22, $50,000 from federal funds) for continued support of a contract with EDD to provide technical assistance on labor market information for the GAIN program. 651

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamp, and social services programs. It also is responsible for (1) licensing and evaluating nonmedical community care facilities and (2) determining the medical/vocational eligibility of persons applying for benefits under the Disability Insurance program, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Medi-Cal/medically needy program.

The department has 3,634.4 personnel-years in the current year to administer these programs.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $234 million from all funds, including reimbursements, for support of the department in 1988-89. This is $4.3 million, or 1.8 percent, less than estimated current-year expendi-

DEPARTMENTAL SUPPORT—Continued

tures. Of the total amount requested, $90 million is from the General Fund and reimbursements. This is a decrease of $6.1 million, or 6.4 percent, from estimated current-year expenditures.

Table 1 identifies the department's expenditures by program and funding source for the past, current, and budget years.

Table 1
Department of Social Services
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change from 1987-88 Amount*	*Change from 1987-88 Percent*
AFDC-FG&U	$15,828	$17,038	$17,065	$27	0.2%
AFDC-FC	4,433	4,216	4,122	−94	−2.2
Child support	7,997	9,020	10,225	1,205	13.4
SSI/SSP	689	666	675	9	1.4
Special adult	225	281	286	5	1.8
Food stamps	20,311	21,234	22,009	775	3.6
Refugee programs					
Cash assistance	3,024	2,876	2,673	−203	−7.1
Social services	2,173	2,087	2,153	66	3.2
Targeted assistance	389	484	484	—	—
Child welfare services	3,729	4,131	3,547	−584	−14.1
County services block grant	1,069	851	884	33	3.9
IHSS	2,188	2,151	2,201	50	2.3
Specialized adult services	284	282	288	6	2.1
Employment services	4,834	6,757	7,254	497	7.4
Adoptions	7,070	6,969	8,142	1,173	16.8
Child abuse prevention	2,042	2,118	2,066	−52	−2.5
Community care licensing	31,291	32,208	34,996	2,788	8.7
Disability evaluation	99,424	107,919	108,236	317	0.3
Administration	11,677	17,212	6,852	−10,360	−60.2
Totals	$218,677	$238,500	$234,158	−$4,342	−1.8%
Funding Sources					
General Fund	*$76,884*	*$87,753*	*$80,807*	*−$6,946*	*−7.9%*
Federal funds	*133,754*	*142,380*	*144,183*	*1,803*	*1.3*
Reimbursements	*8,331*	*8,286*	*9,120*	*834*	*10.1*
State Children's Trust Fund	*2*	*81*	*48*	*−33*	*−40.7*
Foster Family Home Insurance Fund	*−294*	—	—	—	—

Proposed General Fund Changes

Table 2 shows the changes in the department's support expenditures that are proposed for 1988-89. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	*Other Funds* [a]	*Total Funds*
1987-88 expenditures (revised)	$87,753	$150,747	$138,500
Workload Adjustments			
Community care licensing—caseload increase	$2,297	−$263	$2,034
Elimination of one-time costs—disaster relief	−11,200	—	−11,200
Expiration of Ch 1163/86—adult protective services pilot program	−52	−81	−133
Sunset of Foster Family Home and Family Small Home Insurance Fund	−388	−215	−603
Foster care rates—audits and appeals	172	133	305
Other	−1,839	−1,078	−2,917
Subtotals, workload adjustments	(−$11,010)	(−$1,504)	(−$12,514)
Cost Adjustments			
Employee compensation	$1,026	$1,555	$2,581
Operating expenses and equipment	494	1,996	2,490
Subtotals, cost adjustments	($1,520)	($3,551)	($5,071)
Program Adjustments			
Greater Avenues for Independence	$554	$1,149	$1,703
Adoptions district office augmentation	770	193	963
Community care licensing legislation	733	8	741
County automation and fraud prevention activities	226	364	590
Systematic Immigration Verification for Entitlement Systems	—	95	95
Implementation of adult protective services pilot program (Ch 1163/85)	49	—	49
Child support enforcement	163	346	509
Disability evaluation program reduction	—	−1,753	−1,753
Child welfare training program (Ch 1310/87)	20	—	20
Food stamps expedited services (Ch 1293/87)	19	18	37
Other	10	137	147
Subtotals, program adjustments	($2,544)	($557)	($3,101)
1988-89 expenditures (proposed)	$80,807	$153,351	$234,158
Change from 1987-88			
Amount	−$6,946	$2,604	−$4,342
Percent	−7.9%	1.7%	−1.8%

[a] Includes federal funds, special funds, and reimbursements.

Proposed Position Changes

The budget requests authorization for 3,849.9 positions in 1988-89. This is a net increase of 76.7 positions, or 2.0 percent. The single largest increase—76.7 positions—is to compensate for current staffing shortages and a projected workload increase in the Community Care Licensing Division. All of the decrease—69.5 positions—is due to a technical correction which reflects more accurately the amount of federal funds that are available for the Disability Evaluation Division. Table 3 displays the position changes for 1988-89.

DEPARTMENTAL SUPPORT—Continued

Table 3
Department of Social Services
Proposed Position Changes
1988-89

Program	*Existing Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Changes Amount*	*Net Changes Percent*
AFDC—FG/U	284.3	—	5.6	289.9	5.6	2.0%
AFDC—FC	85.8	—	3.0	88.8	3.0	3.5
Child support	75.3	—	7.3	82.6	7.3	9.7
SSI/SSP	12.6	—	—	12.6	—	—
Special adult	4.2	—	—	4.2	—	—
Food stamps	298.6	—	7.9	306.5	7.9	2.6
Refugee programs						
Cash assistance	49.7	—	0.6	50.3	0.6	1.2
Social services	30.5	—	—	30.5	—	—
Targeted assistance	8.9	—	0.6	9.5	0.6	6.7
Child welfare services	72.5	—	—	72.5	—	—
County services block grant	20.5	—	1.0	21.5	1.0	4.9
IHSS	42.2	—	0.3	42.5	0.3	0.7
Specialized adult services	6.0	—	—	6.0	—	—
Employment programs						
WIN	8.4	—	—	8.4	—	—
GAIN	57.8	—	20.0	77.8	20.0	34.6
Adoptions	148.9	—	20.6	169.5	20.6	13.8
Child abuse prevention	37.0	—	1.0	38.0	1.0	2.7
Community care licensing	707.2	—	76.7	783.9	76.7	10.8
Disability evaluation	1,699.1	−69.5	—	1,629.6	−69.5	−4.1
Administration	123.7	—	1.6	125.3	1.6	1.3
Totals	3,773.2	−69.5	146.2	3,849.9	76.7	2.0%

ANALYSIS AND RECOMMENDATIONS

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

- An increase of \$1.7 million (\$0.6 million General Fund) for the extension of 18.5 limited-term positions and addition of 1.5 new limited-term positions to oversee the continuing implementation of the GAIN program.
- An increase of \$963,000 (\$770,000 General Fund) for 20 positions in the Relinquishment Adoptions program to reduce backlogs.
- An increase of \$2.0 million (\$2.3 million General Fund augmentation; \$0.3 million federal funds reduction) for the Community Care Licensing Division due to workload increases.
- An increase of \$258,000 (\$83,000 General Fund) for continued development and maintenance of the Statewide Automated Child Support System.
- An increase of \$741,000 (\$733,000 General Fund) for the Community Care Licensing Division to meet legislative mandates, including the collection of licensing fees and timely performance of post-licensing visits.
- An increase of \$305,000 (\$172,000 General Fund) to reduce a backlog that has accumulated in foster care rate appeals hearings and to

resolve rate audit disputes regarding foster care group homes.

- An increase of $162,000 ($10,000 General Fund) in contract funding for the expansion of services provided by the California Parent Locator Service.
- A decrease of $1.7 million (federal funds) to reflect a decrease in the estimated workload of the Disability Evaluation Division.

Revised Implementation Schedule for Child Support Intercept Reduces Cost in the Budget Year

We recommend a reduction of $350,000 ($112,000 General Fund, $238,000 federal funds) to more accurately reflect the department's contract with the Employment Development Department to intercept Disability Insurance checks from claimants delinquent in paying child support. (Reduce Item 5180-001-001 by $112,000 and Item 5180-001-890 by $238,000.)

Since 1983, the Department of Social Services (DSS) has contracted with the Employment Development Department (EDD) to intercept Unemployment Insurance (UI) checks from claimants who are delinquent in paying child support. The department estimates that EDD collects $12 million annually in child support payments from UI claimants through this intercept system. The DSS uses these payments to (1) offset grant payments to AFDC recipients, (2) pay child support directly to non-AFDC families, and (3) provide child support collection incentive payments to county district attorneys.

Pending legislation, AB 1766, would require EDD and DSS to establish a similar child support intercept system in the Disability Insurance (DI) program. The budget assumes enactment of this measure and proposes $601,000 to implement the DI child support intercept program in 1988-89. Both EDD and DSS advise that this amount assumes an implementation date of July 1, 1988. However, the departments have recently revised their implementation schedule to reflect the fact that the DI program will not be fully automated and capable of intercepting DI checks until November 1988.

With a revised implementation date of November 1988, the EDD estimates that its costs to operate DI child support intercept will be $250,000 in 1988-89, a reduction of $350,000 from the amount proposed in the budget. Therefore, we recommend a reduction of $350,000 ($112,000 General Fund and $238,000 federal funds) to more accurately reflect EDD's revised schedule for implementing a child support intercept system in the DI program.

Technical Assistance on Labor Market Information for the GAIN Program Should Be Continued

We recommend that the Legislature adopt Budget Bill language allocating $100,000 ($50,000 from Section 22 of the 1988 Budget Bill and $50,000 from federal IV-A funds) to support continuation of a contract between DSS and EDD for the purpose of providing technical assistance to GAIN counties on labor market issues.

The 1987 Budget Act required the EDD to provide technical assistance to GAIN counties in order to improve the quality of labor market analyses that counties use to design and implement their GAIN programs. Specifically, the 1987 Budget Act allocated $100,000 from Section 22 to support two EDD staff persons dedicated to providing technical assis-

DEPARTMENTAL SUPPORT—Continued

tance to GAIN counties in designing labor market assessments for GAIN. Both DSS and EDD advise that this arrangement has been successful in improving the labor market information used for GAIN planning purposes. The EDD staff have visited several counties to provide technical assistance and have reviewed the labor market assessments in each county's GAIN implementation plan.

Because quality labor market information is an essential factor to the success of the GAIN program, we recommend that the Legislature adopt Budget Bill language continuing the current arrangement between DSS and EDD. The following language is consistent with this recommendation:

> Of the amount appropriated in Section 22 of this act, $50,000 is for the support of an interagency contract between the Department of Social Services (DSS) and the Employment Development Department (EDD). This amount shall be matched with $50,000 in federal Title IV-A funds in this item. The interagency contract should identify the nature and scope of the activities provided with these funds. It is the intent of the Legislature that this contract support the cost of two staff persons dedicated to providing technical assistance to county welfare departments in designing labor market assessments, conducting surveys, assessing client training needs, and other areas in which EDD has expertise. It is also the intent of the Legislature that DSS notify EDD whenever a county plan appears to be severely deficient in the extent to which labor market or client assessments actually identify potential job opportunities or client needs.

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 159

Requested 1988-89	$4,503,677,000 [a]
Estimated 1987-88	4,222,624,000
Actual 1986-87	4,033,525,000
Requested increase $281,053,000 (+6.7 percent)	
Recommendation pending	4,503,677,000

[a] Includes $223,199,000 in Item 5180-181-001 and Item 5180-181-890 to provide a 5.2 percent cost-of-living adjustment, effective July 1, 1988.

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for children	General	$2,152,899,000
5180-101-890—Payments for children	Federal	2,127,579,000
5180-181-001 (a)—Cost-of-living adjustment	General	106,709,000
5180-181-890—Cost-of-living-adjustment	Federal	116,490,000
Total		$4,503,677,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Aid to Families with Dependent Children (AFDC)—Longitudinal Data Base. Recommend that prior to budget hearings, the department provide the Legislature with a plan, including a proposed time frame, for developing a longitudinal data base on AFDC recipients.	658
2. AFDC Estimate. Withhold recommendation on $4.5 billion ($2.2 billion General Fund) pending review of revised estimates in May.	660

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) program provides cash grants to certain families and children whose income is not adequate to provide for their basic needs. Specifically, the program provides grants to needy families and children who meet the following criteria.

AFDC-FG. Families are eligible for grants under the AFDC-Family Group (AFDC-FG) program if they have a child who is financially needy due to the *death, incapacity, or continued absence* of one or both parents. In the current year, an average of 521,500 families will receive grants each month through this program.

AFDC-U. Families are eligible for grants under the AFDC-Unemployed Parent (AFDC-U) program if they have a child who is financially needy due to the *unemployment* of one or both parents. In the current year, an average of 74,600 families will receive grants each month through this program.

AFDC-FC. Children are eligible for grants under the AFDC-Foster Care (AFDC-FC) program if they are living with a licensed or certified foster care provider under a court order or a voluntary agreement between the child's parent(s) and a county welfare or probation department. In the current year, an average of 44,533 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 5,326 children will receive assistance each month through this program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $4.5 billion ($2.3 billion from the General Fund and $2.2 billion in federal funds) for AFDC cash grants in 1988-89. This amount includes $106.7 million in Item 5180-181-001 and an additional $116.5 million requested in Item 5180-181-890 to provide a 5.2 percent cost-of-living adjustment (COLA), effective July 1, 1988 to AFDC-FG and AFDC-U grants. The budget does not propose to provide a COLA in the rates paid to foster care providers. The total General Fund request for AFDC grants represents an increase of $281 million, or 6.7 percent, above estimated 1987-88 expenditures.

Table 1
Expenditures for AFDC Grants by Category of Recipient
1986-87 through 1988-89
(dollars in thousands)

	Actual 1986-87				Estimated 1987-88				Proposed 1988-89[a]			
Recipient Category	*General*	*Federal*	*County*	*Total*	*General*	*Federal*	*County*	*Total*	*General*	*Federal*	*County*	*Total*
Family group	$1,445,869	$1,654,137	$178,535	$3,278,541	$1,523,370	$1,678,560	$181,458	$3,383,388	$1,602,059	$1,803,077	$193,214	$3,598,350
Unemployed parent	304,154	347,965	37,557	689,676	315,519	347,668	37,546	700,733	319,099	359,138	38,480	716,717
Foster care[b]	278,213	94,022	14,602	386,837	336,675	115,669	18,002	470,346	384,512	134,316	20,522	539,350
Adoptions program	12,701	3,974	—	16,675	16,435	5,742	—	22,177	20,562	7,691	—	28,253
Child support incentive payments to counties	13,291	21,416	−34,707	—	17,323	25,473	−42,796	—	16,392	27,490	−43,882	—
Child support collections	−69,478	−72,739	−8,138	−150,355	−77,937	−81,873	−9,185	−168,995	−83,016	−87,643	−9,833	−180,492
Subtotals	$1,984,750	$2,048,775	$187,849	$4,221,374	$2,131,385	$2,091,239	$185,025	$4,407,649	$2,259,608	$2,244,069	$198,501	$4,702,178
AFDC cash grants to refugees												
Time-expired	(150,722)	(173,778)	(18,176)	(342,676)	(171,866)	(198,155)	(20,726)	(390,747)	(195,249)	(225,115)	(23,545)	(443,909)
Time-eligible	—	(85,626)	—	(85,626)	—	(81,424)	—	(81,424)	—	(86,956)	—	(86,956)
Totals	$1,984,750	$2,048,775	$187,849	$4,221,374	$2,131,385	$2,091,239	$185,025	$4,407,649	$2,259,608	$2,244,069	$198,501	$4,702,178

[a] Includes 5.2 percent cost-of-living adjustment effective July 1, 1988.
[b] Does not include reimbursements from the State Department of Education for severely emotionally disturbed (SED) children.

As shown in Table 1, total expenditures from *all funds* for AFDC cash grants are budgeted at $4.7 billion in 1988-89. This is $295 million, or 6.7 percent, above estimated current-year expenditures.

The AFDC-FG program accounts for $3.6 billion (all funds), or 74 percent, of total estimated grant costs under the three major AFDC

Table 2
Department of Social Services
Proposed 1988-89 Budget Changes for AFDC Grant
(dollars in thousands)

	General Fund	*All Funds*
1987 Budget Act	$2,077,521	$4,371,208
Adjustments to Appropriation		
Caseload increase		
AFDC-FG&U	$6,462	$6,432
AFDC-FC		
Foster family home	6,235	9,498
Group home	8,371	17,156
SED children	6,760	11,145
Other	−686	−6,716
Subtotals, caseload increase	($27,142)	($37,515)
Court cases	−$2,568	−$5,744
Ch 1353/87 (homeless assistance)	7,265	16,100
Child support collections	−7,289	−15,584
Refugee program audit	22,942	—
Other adjustments	6,372	4,154
Total adjustment to appropriation	$53,864	$36,441
1987-88 expenditures (revised)	$2,131,385	$4,407,649
1988-89 Adjustments		
Statutory 1988-89 COLA	$106,709	$236,069
Caseload increase		
AFDC-FG&U	34,209	76,893
AFDC-FC		
Foster home	16,895	29,268
Group home	31,636	43,383
SED children	5,236	5,512
Other	−5,930	−9,159
Subtotals, caseload increase	($82,046)	($145,897)
Ch 1353/87 (homeless assistance)	$10,165	$22,534
Court cases	−1,953	−4,321
Increased grant savings		
Minimum wage	−10,675	−24,091
Income & Eligibility Verification System (IEVS)	−240	−531
GAIN	−34,384	−75,695
Subtotals, grant savings	($45,299)	($100,317)
Increased child support collections	−$5,079	−$11,497
Reduced child support incentive payments	−931	—
Other adjustments	−17,435	6,164
Total adjustments	$128,223	$294,529
1988-89 expenditures (proposed)	$2,259,608	$4,702,178
Change from 1987 Budget Act:		
Amount	$182,087	$330,970
Percent	8.8%	7.6%
Change from 1987-88 estimated expenditure:		
Amount	$128,223	$294,529
Percent	6.0%	6.7%

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

programs (excluding child support collections). The Unemployed Parent program accounts for 15 percent of the total and the Foster Care program accounts for 11 percent.

Table 2 shows the factors resulting in the net increase of $295 million from all funds proposed for the AFDC program in 1988-89. As the table shows, the largest cost *increases* projected for the budget year include:

- A $236 million ($107 million General Fund) increase to provide a 5.2 percent COLA for AFDC-FG and AFDC-U grants beginning July 1, 1988.
- A $77 million ($34 million General Fund) increase for an anticipated caseload growth of 2.4 percent and 0.5 percent, respectively, in the AFDC-FG and AFDC-U programs.
- A $69 million ($48 million General Fund) increase for an anticipated 13 percent increase in the AFDC-FC caseload.
- A $23 million ($10 million General Fund) increase to provide short-term housing assistance to AFDC recipients pursuant to Ch 1353/87.

These increases are partially offset by *reductions* attributable to:

- Grant savings of $76 million ($34 million General Fund) that the department estimates will result from implementation of the Greater Avenues for Independence (GAIN) program.
- Grant savings of $24 million ($11 million General Fund) resulting from the increase in the minimum wage that will take effect on July 1, 1988.
- Increased child support collections of $12 million ($5 million General Fund).

The $295 million increase proposed for 1988-89 represents a 6.7 percent increase over the department's revised estimate of expenditures in the current year. The level of expenditures proposed in the budget, however, is $331 million, or 7.6 percent, above the amount appropriated by the 1987 Budget Act.

Increases in Current-Year AFDC Grant Costs. The department estimates that General Fund expenditures in the current year will exceed the amount appropriated in the 1987 Budget Act by $36 million ($54 million General Fund). The main factors contributing to this net increase include (1) $31 million ($21 million General Fund) for higher-than-anticipated increases in foster care caseloads, (2) $16 million ($7.3 million General Fund) to begin providing housing assistance to homeless AFDC families on February 1, 1988, (3) a one-time General Fund cost of $23 million due to a federal audit of the refugee program, and (4) $16 million ($7.3 million General Fund) in increased revenues from higher-than-anticipated child support collections.

Caseloads and Grants

Caseload Growth. Table 3 shows that in 1988-89, the Department of Social Services (DSS) expects AFDC caseloads to increase by 41,991 persons, or 2.4 percent, from the revised estimate of caseloads in 1987-88. As the table shows, this increase reflects an addition of 33,660 persons, or 2.4 percent, to the AFDC-FG program, an increase of 1,650 persons, or 0.5 percent, to the AFDC-U program, and an increase of 5,717 children, or 12.8 percent, to the AFDC-FC program.

Table 3
Department of Social Services
Aid to Families with Dependent Children
Average Number of Persons Receiving Assistance Per Month
1986-87 through 1988-89

Program	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Change From 1987-88 Amount*	*Change From 1987-88 Percent*
AFDC-family group	1,348,033	1,387,560	1,421,220	33,660	2.4%
AFDC-unemployed parent	342,001	342,000	343,650	1,650	0.5
AFDC-foster care	39,565	44,533	50,250	5,717	12.8
Adoption assistance	4,343	5,326	6,290	964	18.1
Refugees [a]					
—Time-eligible	(4,300)	(4,133)	(7,742)	(3,609)	87.3
—Time-expired	(168,000)	(185,600)	(200,425)	(14,825)	8.0
Totals	1,733,942	1,779,419	1,821,410	41,991	2.4%

[a] Grants to refugees who have been in the United States less than 31 months (time-eligible) are funded entirely by the federal government. Time-expired refugees—those who have been in the United States longer than 31 months—may qualify for and receive AFDC grants supported by the normal sharing ratio. These figures do not reflect a recent reduction in the number of months of federally funded time eligibility from 31 to 24 months.

COLA Overbudgeted. Existing law requires that AFDC payment levels be adjusted, effective July 1, 1988, based on the change in the California Necessities Index (CNI) during calendar year 1987. The Commission on State Finance is required to calculate the CNI. When the department prepared its budget in December 1987, the commission had not yet received the data necessary to calculate the percent change in the CNI—which is based on December-to-December changes in inflation indexes reported for Los Angeles and San Francisco. The 5.2 percent increase proposed in the budget was based on the Department of Finance's November estimate of what this change would be. The commission's staff now advises that the data for December 1987 shows that the CNI actually increased by 4.7 percent.

Table 4 displays the AFDC grants for 1987-88 and for 1988-89. The 1988-89 grant levels shown on the table reflect the 4.7 percent COLA that will take effect on July 1, 1988. The 4.7 percent COLA will result in grant levels that are $1 to $5 per month lower than the grants that would have been provided under the 5.2 percent COLA estimated in the budget. In our analysis of the COLA item (please see Item 5180-181-001), we recommend a reduction of $24 million ($12 million General Fund) to reflect the lower cost that will result from the 4.7 percent COLA.

Table 4
Maximum AFDC-FG and AFDC-U Grant Levels
1987-88 and 1988-89

Family Size	*1987-88*	*1988-89* [a]	*Difference*
1	$311	$326	$15
2	511	535	24
3	633	663	30
4	753	788	35
5	859	899	40

[a] Includes a 4.7 percent COLA, effective July 1, 1988.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

ANALYSIS AND RECOMMENDATIONS

The Department Needs to Develop a Data Base Which Will Help to Explain the Dynamics of the AFDC Caseload

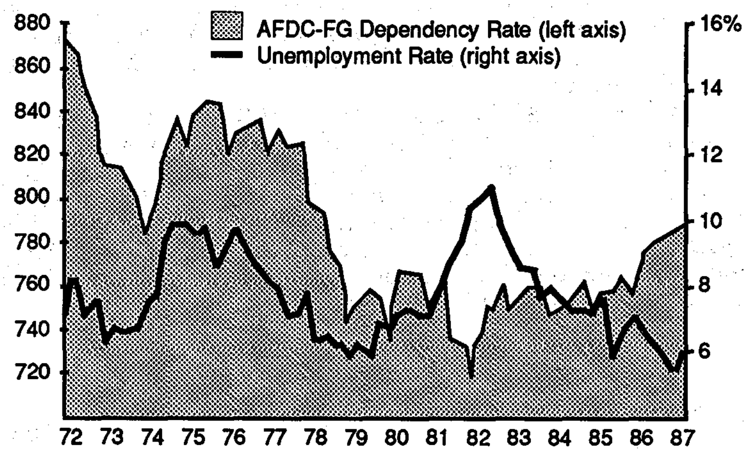
We recommend that prior to budget hearings, the department provide the fiscal committees with a plan, including a proposed time frame, for developing a longitudinal data base on the AFDC caseload.

Currently, the department maintains cross-sectional data on the AFDC caseload. That is, it tracks monthly caseload and grant totals and conducts studies of the number of people on aid at a given point in time and their characteristics. These data are useful for some purposes. For example, they provide a reasonably reliable basis for forecasting AFDC grant costs. Cross-sectional data do *not* provide good information, however, on (1) why people are on aid, (2) how long they remain on aid, and (3) why they leave aid. In order to address these important questions about the dynamics of the AFDC caseload, the department would need to develop a longitudinal data base which would track the aid history of individual AFDC recipients. We believe that the department could construct such a data base using its existing data processing systems.

The department's estimate of AFDC caseloads for 1988-89 raises two significant policy questions which illustrate the need for longitudinal data.

Chart 1

AFDC-FG Dependency Rate
Number of AFDC-FG Cases per 10,000 Females Aged 15-44
1972 through 1987[a]



[a] Data shown are for fiscal year (FY) beginning in year specified. FY 87 data are for the first quarter only.

Why is the AFDC-FG Dependency Rate Growing? Chart 1 displays the AFDC-FG dependency rate—the number of AFDC-FG cases compared to the state's population of women between the ages of 15 and 44—over a 15-year period (1972 through 1987). The number of AFDC-FG cases per 10,000 females in this age bracket is a good indicator of the welfare dependency rate because more than 95 percent of AFDC-FG households are headed by women 15-44 years of age.

The chart shows that the AFDC-FG dependency rate has increased steadily over the past several years. During this same period, California's unemployment rate has steadily declined. Obviously, there are many economic and noneconomic factors which could be affecting welfare dependency rates. We also recognize that the unemployment rate is only one measure of the economy and does not necessarily reflect the employment opportunities available to AFDC recipients. Nevertheless, the chart is noteworthy because it shows that the relationship between welfare dependency and unemployment has changed over time.

The incongruity between the AFDC-FG dependency rate and the unemployment rate appears to have emerged immediately following the implementation of federal eligibility changes in 1981 and 1982, which reduced the amount of income an individual could earn and still remain eligible for aid. The department advises that the number of AFDC-FG cases with outside income has dropped significantly over these years, indicating that the AFDC-FG caseload has become more isolated from the mainstream labor market than it was in the past. This could have important implications for the GAIN program's efforts to assist AFDC recipients to enter the labor market and reduce welfare dependency, as well as for AFDC costs in the long-term.

Why is the AFDC-U Dependency Rate Decreasing More Slowly Than the Unemployment Rate? Chart 2 shows the AFDC-U dependency rate—the number of AFDC-U cases compared to the state's population of men between the ages of 18 and 59—over a 15-year period (1972 through 1987). We have compared the AFDC-U caseload to this population group because more than 85 percent of AFDC-U households are headed by men 18-59 years of age. The chart shows that the AFDC-U dependency rate has been declining in recent years. The chart also shows that the trends in the AFDC-U dependency rate tend to follow unemployment trends. However, the chart shows that, in recent years, the AFDC-U dependency has not decreased as dramatically as has the unemployment rate. This may be because some individuals in the AFDC-U caseload have not been able to take advantage of the improved employment situation for various reasons. Again, this phenomenon could have significant implications for the GAIN program.

We believe that the department should begin to address these issues by developing a longitudinal data base which would track the aid experience of AFDC recipients over time. In order to understand what is happening with the AFDC caseload, we believe that the department should analyze the aid experience of AFDC recipients in conjunction with factors including, but not limited to, the following:

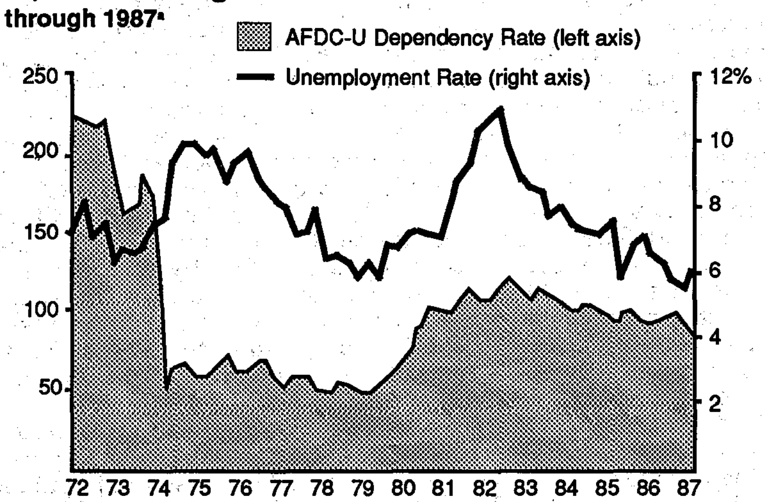
- Unemployment Insurance (UI) and employment experience.
- Characteristics of AFDC recipients.
- Prevailing wage rates and earnings of AFDC recipients.
- Regional economic variations.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Therefore, we recommend that prior to budget hearings, the department provide the fiscal committees with a plan, including a proposed time frame, for developing a longitudinal data base on the AFDC caseload.

Chart 2

AFDC-U Dependency Rate Number of AFDC-U Cases per 10,000 Males Aged 18-59 1972 through 1987[a]



[a] Data shown are for fiscal year (FY) beginning in year specified. FY 87 data are for the first quarter only.

AFDC Estimate

We withhold recommendation on $4.5 billion ($2.3 billion General Fund and $2.2 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 1988-89 are based on actual caseloads and costs in 1986-87, updated to reflect the department's caseload and cost projections through 1988-89. In May, the department will present revised estimates of AFDC costs based on actual caseload grant costs through December 1987. 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 1988-89 expenditures. Therefore, we withhold recommendation on the amount requested for AFDC grant costs pending review of the May estimate.

Our review of the department's AFDC estimates indicates that the projections for 1988-89 appear to more accurately reflect actual trends than the projections which have been provided in previous budgets. We have several specific concerns regarding the estimates, however, which we believe the department should address when it prepares its revised estimate in May.

The AFDC-FG Estimate is Based on Only Nine Months of Actual Data. The budget proposes total expenditures of $3.6 billion (including the cost of the proposed 5.2 percent COLA) in 1988-89 for cash grants to AFDC-FG recipients. The amount proposed for AFDC-FG assumes an average monthly caseload of 534,000 cases. This represents an increase of 2.6 percent above the number of cases estimated for the current year.

The AFDC-FG estimate is based on caseload data for the nine-month period, October 1986 through June 1987. The department advises that it based its estimate on this period because the data for July through October 1986 showed a sharp increase in caseload. Since it could not explain this increase, the department decided to limit the base period to nine months. We estimate that applying the department's estimating methodology to a 12-month base period would result in an increase in estimated AFDC-FG costs of $93 million, while a 36-month base period would result in an increase of $57 million. The additional months of actual data which the department will have available for its May estimate may help to explain whether the sharp increase between July and October 1986 was a one-time anomaly or part of a new trend.

The AFDC-U Estimate Does Not Reflect the Impact of the Immigration Reform and Control Act (IRCA) on the State-Only AFDC-U Caseload. The budget proposes $717 million for cash grants to AFDC-U recipients. This amount assumes an average monthly caseload of 75,100 AFDC-U cases in 1988-89, which represents 343,600 persons on aid. The department expects this caseload to grow slightly during the budget year (by less than 1 percent).

IRCA is a recently enacted federal program which allows aliens residing in this country illegally to apply for legal residency if they meet certain criteria. IRCA prohibits recently legalized individuals from receiving federally funded AFDC. However, under state law, these individuals would qualify for the state-only AFDC-U program. Under the state-only AFDC-U program, eligibility is limited to three months. The administration anticipates that as a result of IRCA, a large number of recently legalized individuals will qualify for cash assistance under the state-only AFDC-U program. Specifically, Section 23.50 of the 1988 Budget Bill proposes $7.4 million in federal State Legalization Impact Assistance Grant (SLIAG) funds for the AFDC-U program to support these individuals. However, the DSS budget does not reflect any increase in the AFDC-U caseload resulting from this anticipated increase due to IRCA. We were unable to assess what impact IRCA would have on AFDC caseloads because, at the time this analysis was prepared, the department was unable to provide us with an estimate. (Please see our review of the administration's IRCA proposal in *The 1988-89 Budget: Perspectives and Issues.*)

The AFDC-U Estimate Also Does Not Reflect the Impact of Recent Reductions in Federal Funds for Refugees. The costs proposed in this item include costs to provide AFDC grants to refugees who are eligible for AFDC programs—most refugees on AFDC are in the AFDC-U program since they are typically in intact families. Currently, the federal government will pay 100 percent of the costs to provide AFDC grants to refugees who have been in the county less than 31 months (referred to as time-eligible refugees). The costs to provide AFDC to time-expired refugees are supported by federal, state, and county funds according to the normal sharing ratio for AFDC grants. The federal government

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

recently notified DSS that, effective February 1988, federal funding reductions will result in reducing from 31 months to 24 months the period for which refugees are time-eligible (supported 100 percent by federal funds). As a result of this change, fewer refugees will qualify for 100 percent federal funding. Consequently, the state and the counties will be required to share the AFDC costs for a greater percentage of the refugee caseload than is proposed in the budget. According to DSS' preliminary calculations, this change will result in increased General Fund costs in this item of approximately $3.5 million in 1987-88 and approximately $8 million in 1988-89. We expect the department to reflect this change in its May estimate.

Department Should Evaluate New Homeless Assistance Program. The budget includes $36 million ($17 million General Fund, $19 million federal funds) for a new homeless assistance program. Chapter 1353, Statutes of 1987, provides short-term assistance for homeless AFDC families by providing funds for (1) temporary shelter and (2) security and utility deposits to aid families in obtaining permanent shelter. The measure makes implementation of this program conditional upon the state receiving federal funds for a share of the costs. The department advises that the federal government has approved California's plan to implement a homeless assistance program on a one-year basis. We believe that the department should use this one-year period to evaluate the program's effectiveness. In *The 1988-89 Budget: Perspectives and Issues,* we recommend that DSS report to the fiscal committees on its plans to evaluate the effectiveness of the homeless assistance program in reducing homelessness among AFDC families.

Estimate of GAIN "Grant Avoidance" Savings Lacks Credibility. The 1988-89 budget anticipates that the GAIN program will result in AFDC grant savings of $169 million ($76 million General Fund). Of this amount, $90 million in savings ($41 million General Fund) is due to individuals finding jobs as a result of education and training services provided under the program. The remaining $79 million ($36 million General Fund) is due to "grant avoidance"—savings resulting from people who do not apply for aid or who terminate aid rather than participate in the program.

The department's estimate of grant avoidance savings is based on its assumption that 6 percent of mandatory GAIN participants will (1) never apply for aid or (2) terminate aid during the year. According to the department, these families have other sources of income on which they can depend in lieu of collecting AFDC benefits. For example, the department believes that families receiving income that is not reported for tax purposes would be discouraged from applying for grants due to GAIN participation requirements.

We believe that the department's arguments are not sufficiently convincing to warrant a reduction in anticipated AFDC grant expenditures of $79 million. First, the department could not provide data to demonstrate that *any* grant avoidance will take place.

Second, the department could not provide data substantiating its assumption that 6 percent of all mandatory program participants will never apply for aid or terminate during the budget year. The department advises that its estimate represents an educated guess of the actual figure. The department further indicates that it does not expect to obtain actual data in the near future to substantiate an estimate. We believe the only possibility of obtaining actual data on grant avoidance is through the study of the GAIN program currently being coordinated by the Manpower Demonstration Research Corporation. At the earliest, however, these data will not be available until 1990.

Without data to buttress its assertions, the estimate of grant avoidance included in the 1988-89 budget is without foundation. Programs such as the Employment Preparation Program (EPP) and Experimental Work Experience Program (EWEP), operated by San Diego County, have demonstrated that by requiring participation in job search and training programs, the GAIN program will reduce the level of AFDC expenditures. (The EPP and EWEP required certain AFDC applicants to participate in job search and work experience activities.)

We think that the 1988-89 estimate of savings due to people finding jobs as a result of GAIN that is derived from the San Diego experience has a solid analytical foundation. However, the department's assertion that, in addition, 6 percent of the mandatory caseload will voluntarily terminate or be discouraged from applying for aid has never been demonstrated. We believe that when it prepares its May estimate, the department should reconsider its decision to include grant avoidance savings.

AFDC-FC Estimate

The budget proposes total expenditures of $539.4 million in 1988-89 for the AFDC-Foster Care (AFDC-FC) program. This amount includes $384.5 million from the General Fund, $134.3 million in federal funds, and $20.5 million in county funds. The expenditure proposal assumes that there will be an average of 50,250 children in foster care in 1988-89. This is 5,717, or 13 percent, more children than the caseload anticipated in the current year.

The Foster Care Estimate Does Not Take Into Account the State's Shortage of Family Homes. The department's estimate of the number of children placed in family homes assumes that this caseload will continue to grow at the same rate as in recent years—about 14 percent. Our analysis of the supply of family homes in the state, however, indicates that available homes will soon be filled to capacity (we discuss the family home shortage in more detail in our analysis of the Community Care Licensing budget—Item 5180-161). If this occurs, social workers will have to place children in emergency shelters and group homes rather than family homes. As a result, we would expect the rate of growth of family home caseloads to decrease and that of group homes to increase. We believe that the department should attempt to take into account the state's shortage of family homes when it prepares its revised estimates of foster care caseloads.

The Department's Estimate of the AFDC-FC Savings That Will Result From a Proposed Increase in Funding For the Adoptions Program is Unrealistic. The budget proposes General Fund augmentations of $5.4 million and $1.0 million, respectively, for county adoption agencies and state district adoptions offices. (We discuss these augmentations in more detail in our analyses of the social services programs budget—Item 5180-151—and the department's support budget—Item 5180-001.) The department projects that the augmentations will result in savings of $9.3 million ($6.0 million General Fund, $3.0 million federal funds, and $0.3 million county funds) in foster care expenditures during 1988-89.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

The department's projection of foster care savings assumes that the increase in adoptions funding will enable county and state adoptions agencies to place 1,174 additional foster care children in adoptive homes in 1988-89. Adoptive placements result in savings to the foster care program because foster care payments cease as soon as adoptive placement occurs. Our analysis indicates that the estimate of the foster care savings that will result from the adoptions augmentation is unrealistic for four reasons:

- The estimate assumes that an augmentation that will fund a 23 percent increase in adoptions staff will generate a 48 percent increase in adoption placements. This assumption implies that the new staff that is funded through the augmentation will place more children, on average, than the existing staff. The department has not provided any evidence to support this assumption.
- The estimate assumes that all of the additional adoptions will occur in the first three months of the year, saving nine months of foster care grant payments. It is more likely that adoptive placements, hence savings, would occur evenly over the course of the year.
- The estimate does not take into account the increase of adoption assistance payments (cash payments to parents who adopt hard-to-place children) that is likely to result from the anticipated increase in adoptions.
- The estimate exaggerates the savings from adoptions by using an unrealistic average foster care payment rate to calculate savings.

After adjusting for these factors, we estimate that the foster care savings resulting from increased adoptions would be $1.3 million instead of the $9.3 million projected in the budget. We believe that the department should include a more realistic estimate of the 1988-89 savings in its May estimate.

Department of Social Services

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED

Item 5180-111 from the General Fund and the Federal Trust Fund — Budget p. HW 161

Requested 1988-89	$2,024,651,000[a]
Estimated 1987-88	1,856,441,000
Actual 1986-87	1,665,013,000
Requested increase $168,210,000 (+9.1 percent)	
Total recommended reduction	None
Recommendation pending	2,024,651,000

[a] This amount includes $140,734,000 proposed in Item 5180-181-001 to provide a 5.2 percent cost-of-living increase, effective January 1, 1989.

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$1,873,005,000
5180-111-890—Payments to aged, blind, and disabled refugees	Federal	10,911,000
5180-181-001—Payments to aged, blind, and disabled—COLA	General	140,400,000
5180-181-890—Payments to aged, blind, and disabled refugees—COLA	Federal	335,000
Total		$2,024,651,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Withhold recommendation on $2 billion from the General Fund pending review of revised estimates in May.	669

GENERAL PROGRAM STATEMENT

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. A person may be eligible for the SSI/SSP program if he or she is elderly, blind, or disabled and meets the income and resource criteria established by the federal government.

The federal government pays the cost of the SSI grant. California has chosen to supplement the federal payment by providing an SSP grant. The SSP grant is funded entirely from the state's General Fund. In California, the SSI/SSP program is administered by the federal government through local Social Security Administration (SSA) offices.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $2 billion from the General Fund for the state's share of the SSI/SSP program in 1988-89. The budget also includes $11 million in federal funds to reimburse the state for the

Table 1
SSI/SSP Expenditures
1986-87 through 1988-89
(dollars in thousands)

Category of Recipient	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*[a]	*Percent Change From 1987-88*
Aged	$1,153,103	$1,022,898	$1,090,994	6.7%
Blind	84,923	107,434	114,718	6.8
Disabled	1,750,107	2,179,451	2,411,024	10.6
Totals	$2,988,133	$3,309,783	$3,616,736	9.3%
Funding Sources				
Included in Budget Bill:				
General Fund	*$1,655,958*	*$1,845,729*	*$2,013,405*	*9.1%*
Federal funds (reimbursements for refugees)	*9,055*	*10,712*	*11,246*	*5.0*
Subtotals, Budget Bill	*($1,665,013)*	*($1,856,441)*	*($2,024,651)*	*(9.1%)*
Not Included in Budget Bill:				
SSI grants	*$1,323,120*	*$1,453,342*	*$1,592,085*	*9.5%*

[a] Includes 5.2 percent SSI/SSP COLA, effective January 1, 1989.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

grant costs of refugees and $335,000 for the federal share of a state cost-of-living adjustment (COLA) granted to refugees. The total proposed appropriations are an increase of $168 million, or 9.1 percent, above estimated current-year expenditures.

The budget also assumes that federal expenditures for SSI grant costs will be $1.6 billion. This is an increase of $139 million, or 9.5 percent, above estimated federal expenditures in the current year. The combined state and federal expenditure anticipated by the budget for the SSI/SSP program is $3.6 billion, which is an increase of $307 million, or 9.3 percent, above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures by category of recipient and by funding source, for the years 1986-87 through 1988-89.

Table 2 shows the factors resulting in the net increase of $307 million in all funds for the SSI/SSP program in 1988-89. As the table shows, the largest cost *increases* projected for the budget year are attributable to:

- A $166 million ($91 million General Fund) increase to fund an estimated 4.9 percent caseload growth.
- A $140 million General Fund increase to provide a 5.2 percent COLA for SSI/SSP grants, beginning January 1, 1989.
- A $71 million General Fund increase to fund the full-year cost in 1988-89 of the 2.6 percent COLA provided for SSI/SSP grants on January 1, 1988.

These increases are partially offset by a decrease of $136 million in General Fund costs resulting from COLAs in the federal SSI program and social security benefits. These increases are counted as increased beneficiary income and thus reduce the state share of grant costs.

Table 2
SSI/SSP Budget Changes
1988-89
(dollars in thousands)

	General Fund	*All Funds* [a]
1987 Budget Act	$1,832.3	$3,271.4
1987-88 Adjustments to Appropriations		
Unanticipated caseload increase	$21.1	$36.1
Increase in 1/88 federal COLA [b]	−5.1	3.5
Baseline change for 1/88 state COLA	−1.2	−1.2
Federal reimbursement for refugees	−1.4	—
Total deficiency	$13.4	$38.4
1988-89 Adjustments		
Increase in caseload	$91.0	$165.8
Full-year costs of 1/88 state COLA	71.1	71.1
Full-year costs of 1/88 federal COLA [b]	−77.0	−49.9
1/89 federal COLA (3.8 percent) [b]	−58.8	−23.4
1/89 state COLA (5.2 percent)	140.4	140.7
Increased costs for recipients in institutes for mental disease	1.2	2.6
Federal reimbursement for refugees	−0.2	—
1988-89 expenditures (proposed)	$2,013.4	$3,616.7
Change from 1987-88:		
Amount	$167.7	$306.9
Percent	9.1%	9.3%

[a] Includes federal SSI payments not appropriated in the state budget as well as General Fund amounts.

ANALYSIS AND RECOMMENDATIONS

Eligibility Requirements

The SSA administers the SSI program. In addition, the SSA will administer a state's SSP program if it is requested to do so by the state. When the SSA administers a state's SSP program, as it does in California, federal eligibility requirements are used to determine an applicant's eligibility for both the SSI and SSP programs.

To be eligible for the SSI/SSP program, individuals must fall into one of three categories—aged, blind, or disabled. In addition, their income and resources cannot exceed certain specified limits.

With one exception, the eligibility requirements for the SSI/SSP program are essentially unchanged from the current year. The federal Deficit Reduction Act of 1984 (DEFRA) increased the limit for personal and real property by $100 for individuals and $150 for couples for each year of a five-year period beginning January 1, 1985. Under this provision, the resource limits for (1) individuals are $1,900 in 1988 and $2,000 in 1989 and (2) couples are $2,850 in 1988 and $3,000 in 1989.

General Fund Deficiency of $13.4 Million in 1987-88

The budget anticipates that expenditures for SSI/SSP during 1987-88 will exceed available funds by $38.4 million ($13.4 million General Fund), or 1.2 percent. As Table 2 shows, the deficiency is primarily attributable to:

- A $36 million ($21 million General Fund) increase due to a 1.1 percent increase in caseload above the level assumed in the Budget Act.
- A $3.5 million increase ($5.1 million *decrease* in General Fund costs) because the federal COLA that was applied to SSI grants and social security benefits on January 1, 1988 was higher than anticipated. The higher-than-anticipated federal COLA resulted in a shift of costs from the state to the federal government.

Grant Levels and Cost-of-Living Adjustments

The maximum grant amount received by an SSI/SSP recipient varies according to the recipient's eligibility category. For example, in 1988 an aged or disabled individual can receive up to $575 per month, while a blind individual can receive up to $643. The actual amount of the grant depends on the individual's other income. In addition to categorical differences, grant levels vary according to the recipient's living situation. The majority of SSI/SSP recipients reside in independent living arrangements.

Federal and State COLA Requirements. Cost-of-living increases for the SSI/SSP grant are governed by both federal and state law. As regards federal law, the SSA amendments of 1983 require California to maintain its SSP grants at or above the July 1983 level. This means that for aged or disabled individuals—who represent the largest groups of recipients—the state must provide at least $157 per month in addition to the SSI grant

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

provided by the federal government. The SSP grant levels proposed in the budget exceed those required by federal law.

State COLA Overbudgeted. Existing state law requires that the total SSI/SSP payment levels be adjusted, effective January 1, 1989, based on the change in the California Necessities Index (CNI) during calendar year 1987. 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. When the department prepared its budget in December 1987, the commission had not yet received the data necessary to calculate the percent change in the CNI. The 5.2 percent increase proposed in the budget was based on the Department of Finance's November estimate of what this change would be. The commission's staff now advises that the data for December 1987 shows that the CNI actually increased by 4.7 percent.

Table 3 displays the SSI/SSP grants for 1988 and for 1989 using the 4.7 percent COLA that is required by existing law. As the table shows, the COLA that will take effect on January 1, 1989 will result in grant levels to individuals that are $27 to $59 higher than the grants in 1988. In our analysis of the COLA item (please see Item 5180-181-001), we recommend a reduction of $13.5 million from the General Fund to reflect the lower cost that will result from the 4.7 percent COLA for SSI/SSP.

Table 3
Maximum Monthly SSI/SSP Grant Levels
Calendar Years
1988 and 1989

Category of Recipient [b]	*1988*	*1989* [a]	*Difference*
Aged or disabled			
Individual:			
Total grant	$575	$602	$27
SSI	354	368	14
SSP	221	234	13
Couple:			
Total grant	1,066	1,116	50
SSI	532	552	20
SSP	534	564	30
Blind			
Individual:			
Total grant	643	673	30
SSI	354	368	14
SSP	289	305	16
Couple:			
Total grant	1,253	1,312	59
SSI	532	552	20
SSP	721	760	39
Aged or disabled individual			
Nonmedical board and care:			
Total grant	648	678	30
SSI	354	368	14
SSP	294	310	16

[a] Assumes a 4.7 percent increase in SSI/SSP grants and a 3.8 percent increase in SSI grants, effective January 1, 1989.

[b] Unless noted, recipients are in independent living arrangements.

Potential Supplemental Rates for Board and Care Facilities. As Table 3 shows, the highest grant level is provided to recipients who reside in nonmedical board and care facilities. In 1988, an individual in such a facility can receive up to $648 per month. During the most recent period for which we have data—December 1985 through November 1986—General Fund payments to these facilities totaled $200.9 million, or approximately 13 percent, of total SSP grants to all recipients for the same period.

Maximum grants for board and care facilities may increase, depending upon the Legislature's action on the 1988-89 Budget Bill and legislation to establish supplemental rates for those facilities. Chapter 1127, Statutes of 1985, required the Health and Welfare Agency (HWA) to submit an implementation plan to the Legislature by December 1, 1986 that would establish supplemental payments based on three levels of care in the board and care facilities that serve elderly persons. Based on the plan submitted by the HWA, we estimate that implementation of legislation establishing the supplemental rates would result in General Fund costs of approximately $8.7 million in 1988-89. Legislation has been introduced (SB 50) to implement the supplemental rates to the extent that funds are appropriated by the Budget Act. The budget, however, does not propose funding for the increased rates. The state SSP program will bear the full cost of any supplemental rates, because no additional federal SSI funds will be available for this purpose.

Estimates Will Be Updated In May

We withhold recommendation on $2.0 billion from the General Fund requested for SSI/SSP grant costs, pending review of revised SSI/SSP expenditure estimates to be submitted in May.

The proposed expenditures for the SSI/SSP program are based on actual caseload and cost data through July 1987. The department will present revised estimates in May, which will be based on program costs through February 1988. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1988-89 expenditures.

The May revision will also give the department an opportunity to improve its estimate by addressing several specific concerns that we have identified in our review of the estimate detail that the department submitted in support of the budget. We discuss these concerns below.

Basic Caseload Estimate May Be Too Low

The budget proposal assumes an average monthly SSI/SSP caseload of 777,217, which is an increase of 4.9 percent, above estimated current-year caseloads. Table 4 compares the projected caseload in each recipient category for 1987-88 and 1988-89.

Table 4
SSI/SSP
Average Monthly Caseload
1986-87 through 1988-89

Eligibility Category	*Actual 1986-87*	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Aged	272,443	281,317	289,567	2.9%
Blind	20,062	20,683	21,333	3.1
Disabled	413,488	438,875	466,317	6.3
Totals	705,993	740,875	777,217	4.9%

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

Compared to the most recent actual experience, a caseload increase of 4.9 percent would represent a *reduction* in the rate of growth of the SSI/SSP caseload. For example, Table 5 shows that the number of recipients increased by 5.5 percent between the first six months of 1986-87 and the same period in 1987-88. Although this is only a difference of six-tenths of a percentage point above the 4.9 percent increase projected by the department, the higher growth rate would result in an additional General Fund cost of approximately $22 million.

Table 5
SSI/SSP
Actual Change in Average SSI/SSP Caseload
July through December
1986-87 and 1987-88

	July-December		*Percent Change From*
Eligibility Category	*1986-87*	*1987-88*	*1986-87*
Aged	270,149	280,499	3.8%
Blind	19,847	20,467	3.1
Disabled	406,850	433,917	6.7
Totals	696,846	734,883	5.5%

Upward Trend in Disabled Caseload. The accelerating growth in the SSI/SSP caseload during the past year represents a change from prior years. For example, the disabled caseload declined from 1981 through 1983. In the spring of 1984, the caseload began to increase slightly and since July 1986 it has shot upwards. During the first six months of 1987-88, the disabled caseload was 6.7 percent higher than in the same period in 1986-87. The comparable increase in the prior year was only 4.3 percent. The department, however, projects a 6.3 percent increase in the disabled caseload between 1987-88 and 1988-89.

Our review indicates that the disabled caseload initially began to increase in 1984 when the federal Secretary of Health and Human Services imposed a moratorium on periodic reviews (referred to as "continuing disability reviews (CDRs)") of disabled SSI/SSP recipients. These reviews were conducted to determine continued eligibility for benefits and resulted in terminations for some recipients. Although CDRs resumed in May 1986, the growth in the disabled caseload has not slowed.

Although we are not certain of the factors that are causing the growth in this population, we believe that it is in part the result of changes that Congress made to the SSI eligibility standards when it authorized the resumption of CDRs in late 1985. The new standards made it more difficult to terminate disabled persons from aid and broadened the eligibility criteria for mentally ill SSI/SSP applicants. If the new standards are, in fact, the major reason for the higher-than-anticipated increases in the disabled caseload, then the recent trend of increasing rates of growth in this caseload will most likely continue.

Upward Trend in Aged Caseload. Since March 1985, the number of aged recipients also has been growing at a steadily increasing rate. During the first six months of 1987-88, the aged caseload was 3.8 percent higher than in the same period in 1986-87. The department, however, projects a 2.9 percent increase in the aged caseload between 1987-88 and 1988-89.

Estimate Does Not Account for the Increase in the Minimum Wage

As a result of the increase in the minimum wage to $4.25 per hour on July 1, 1988, the income of some employed SSI/SSP recipients will increase. To the extent that this occurs, it will result in reduced grant costs for these individuals. The department's estimate does not take this factor into account.

Our analysis indicates that there is at least one methodology that the department could use to estimate the decrease in SSI/SSP costs that will result from the increase in the minimum wage. The department collects information on the number of SSI/SSP recipients with income and on the amount of income they earn. The Employment Development Department (EDD) has a data base that may be used to tie the amount of monthly income for a sample of the total California population to average hourly income. By applying the EDD data on hourly income to the DSS data on SSI/SSP recipients' monthly income, we believe that the department may be able to estimate the number of SSI/SSP recipients currently earning below $4.25 per hour. This would allow the department to project the increase in earnings of these recipients and the resulting reduction in their SSI/SSP grants.

Estimate Does Not Accurately Account for the General Fund Savings That Will Result From the Federal SSI and Social Security COLAs

As a result of annual federal COLAs to SSI grants and social security benefits, state costs for SSP grants decrease. This is because (1) the COLAs for SSI grants offset the General Fund costs of the state COLA that is provided for the whole SSI/SSP grant and (2) the COLAs for social security benefits increase beneficiary income resulting in reduced costs for SSI/SSP.

The department's estimate does not accurately account for these General Fund savings because the computer model that it uses to estimate the impact of the federal COLAs on state grant costs is inaccurate. The model was developed in the 1970s and the department recognizes that it is outdated. This was particularly evident in the department's May 1987 estimate for the 1987-88 SSI/SSP costs, which provided an inaccurate estimate of the cost of the SSI/SSP program for reasons that could not be explained by the caseload estimate or other identifiable factors. The department is updating the computer model and should have the revised model ready in time for the May estimates.

Estimate Does Not Account for Federal Reductions in the Refugee Program

The federal government pays the full amount of grant costs for certain refugees, offsetting General Fund costs for their grants. The department's budget proposal ignores the impact of federal reductions in the refugee program which reduce from 31 to 24 months the period for which the federal government will pay the full cost of cash assistance provided to refugees after they enter this country. As a result of these changes, fewer refugees will be supported by federal funds and the state will be

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

required to pay the grant costs of a greater percentage of the refugee caseload than is proposed in the budget. The department should be able to reflect the decreased amount of available federal funds in its May revision.

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and the Federal Trust Fund — Budget p. HW 162

Requested 1988-89	$3,160,000
Estimated 1987-88	2,858,000
Actual 1986-87	2,477,000
Requested increase $302,000 (+10.6 percent)	
Total recommended reduction	None

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-121-001—Special Adult programs	General	$3,085,000
5180-121-890—Special Adult programs	Federal	75,000
Total		$3,160,000

GENERAL PROGRAM STATEMENT

The Special Adult programs consist of three distinct program elements designed to fund the emergency and special needs of Supplemental Security Income/State Supplementary Program (SSI/SSP) recipients. These elements are the (1) Special Circumstances program, which provides financial assistance for emergency needs, (2) Special Benefits program, which provides a monthly food allowance for guide dogs belonging to blind SSI/SSP recipients, and (3) Temporary Assistance for Repatriated Americans program, which provides assistance to needy U.S. citizens returning from foreign countries.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $3.1 million for the Special Adult programs in 1988-89. This is $302,000, or 11 percent, more than estimated General Fund expenditures for this program in the current year. This increase results primarily from projected expenditure growth in the Special Circumstances program.

The budget also proposes $75,000 in federal funds to provide cash assistance to repatriated Americans. This is the same amount as is estimated for the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department proposes to increase expenditures for Special Adult programs in the budget year based on caseload growth in 1985-86 and 1986-87. Our analysis indicates that the proposed increase is appropriate.

Department of Social Services
REFUGEE CASH ASSISTANCE PROGRAMS

Item 5180-131 from the Federal Trust Fund — Budget p. HW 164

Requested 1988-89	$49,983,000 [a]
Estimated 1987-88	46,643,000
Actual 1986-87	47,762,000
Requested increase $3,340,000 (+7.2 percent)	
Total recommended reduction	None

[a] Includes $1,231,000 proposed in Item 5180-181-890 as a 5.2 percent cost-of-living increase.

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-131-890—Refugee programs—Local assistance	Federal	$48,752,000
5180-181-890—Refugee programs—Local assistance—COLA	Federal	1,231,000
Total		$49,983,000

GENERAL PROGRAM STATEMENT

This item appropriates federal funds that pay for the costs of cash grants and medical assistance provided to refugees and Cuban/Haitian entrants who are eligible for assistance and who have been in this country for less than 31 months. Refugees who have been in this country for more than 31 months and who meet applicable eligibility tests, may receive assistance under the Aid to Families with Dependent Children (AFDC), Supplemental Security Income/State Supplementary Program (SSI/SSP), Medi-Cal, and county general assistance (GA) programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of $49,983,000 in federal funds to refugees and entrants in 1988-89 for cash and medical assistance provided through the Refugee Cash Assistance program. This is an increase of $3.3 million, or 7.2 percent, above estimated current-year expenditures.

The $3.3 million increase consists primarily of (1) a $1.8 million increase in medical assistance costs and (2) a $1.2 million increase proposed in Item 5180-181-890 as a 5.2 percent cost-of-living adjustment (COLA) per the requirements of existing law. As discussed in our review of the COLA item (please see Item 5180-181), the amount proposed for the COLA is overbudgeted because it is based on an estimated 5.2 percent increase in the California Necessities Index (CNI). More recent data indicate that the CNI actually increased by 4.7 percent.

REFUGEE CASH ASSISTANCE PROGRAMS—Continued

The amount proposed in this item does not reflect the impact of recent reductions in federal funds for refugees. As discussed in our review of the AFDC program (please see Item 5180-101), the federal government has reduced from 31 to 24 months the period for which it will pay the full cost of assistance provided to refugees. After 24 months, refugees who meet eligibility tests may receive assistance through the AFDC, SSI/SSP, Medi-Cal, and GA programs, which are funded by a combination of federal, state, and county funds.

We anticipate that the department will adjust both the COLA amount and the federal time-eligibility period when it submits its May estimate.

Department of Social Services
COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 5180-141 from the General Fund and the Federal Trust Fund — Budget p. HW 163

Requested 1988-89	$615,620,000[a]
Estimated 1987-88	578,573,000
Actual 1986-87	508,546,000
Requested increase $37,047,000 (+6.4 percent)	
Total recommended reduction	None
Recommendation pending	615,620,000

[a] Includes $20,094,000 proposed in Item 5180-181-890 to provide a 4.8 percent cost-of-living adjustment.

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County administration	General	$163,524,000
5180-141-890—County administration	Federal	432,002,000
5180-181-890—Cost-of-living adjustment	Federal	20,094,000
Total		$615,620,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. County Administration Budget. Withhold recommendation on $616 million ($164 million General Fund, $452 million federal funds) pending review of revised estimates in May. 677

GENERAL PROGRAM STATEMENT

This item contains funds to cover the state and federal share of the costs incurred by counties in administering (1) the Aid to Families with Dependent Children (AFDC) program, (2) the Food 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.

Table 1
County Welfare Department Administration
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	Actual 1986-87				*Estimated 1987-88*				*Proposed 1988-89*			
Program	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
1. AFDC administration	$102,988	$200,302	$117,376	$420,666	$112,450	$231,629	$127,257	$471,336	$121,425	$243,429	$131,553	$496,407
2. Nonassistance food stamps	27,609	61,986	27,930	117,525	33,398	77,607	33,163	144,168	36,522	84,463	36,374	157,359
3. Child support enforcement	—	101,075	44,802	145,877	—	108,336	49,961	158,297	—	113,409	53,360	166,769
4. Special adult programs	2,007	—	74	2,081	2,292	—	108	2,400	2,656	—	124	2,780
5. Refugee cash assistance	—	4,401	—	4,401	—	4,410	—	4,410	—	4,689	—	4,689
6. Adoption assistance	33	17	—	50	39	21	—	60	38	22	2	62
7. Staff development	2,543	5,276	2,733	10,552	2,700	5,691	2,954	11,345	2,883	6,084	3,159	12,126
8. Local mandates	309	—	−309	—	—	—	—	—	—	—	—	—
Totals	$135,489	$373,057	$192,606	$701,152	$150,879	$427,694	$213,443	$792,016	$163,524	$452,096 [a]	$224,572 [a]	$840,192

[a] Proposed federal and county amounts include funds for an estimated 4.8 percent COLA for county welfare department employees, effective during 1988-89.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $164 million from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1988-89. This is an increase of $13 million, or 8.4 percent, over estimated current-year General Fund expenditures for this purpose. The $164 million includes $7.5 million to fund increased General Fund costs resulting from the estimated 4.7 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1987-88.* In accordance with the policy established by the Legislature in recent Budget Acts, counties will pay for any COLAs granted to county employees in the budget year using county and federal funds. The state will fund its share of these costs starting in *1989-90.*

Table 2
County Administration of Welfare Programs
Proposed 1988-89 Budget Changes
All Funds
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (revised)	$150,879	$792,016
Adjustments To Ongoing Costs Or Savings		
AFDC administration		
Basic caseload costs	$4,267	$16,842 [a]
Court cases/legislation	−17	−70
GAIN savings	−3,250	−13,295
Income and Eligibility Verification System (IEVS)	−143	−574
Statewide Automated Welfare System (SAWS)	95	383
Audit exceptions	2,894	—
Other	−491	−2,039
Subtotals, AFDC	($3,355)	($1,247)
Nonassistance food stamps administration		
Basic caseload costs	$1,246	$5,180
IEVS	164	325
SAWS	23	94
Other	52	386
Subtotals, food stamps	($1,485)	($5,985)
Other programs		
Basic caseload costs	$299	$1,966
Child support enforcement	—	−197
Subtotals, other programs	($299)	($1,769)
New Costs		
Retroactive COLA (4.7 percent)	$7,506	$1,118
Estimated COLA for 1988-89 (4.8 percent)	— [b]	38,057
Subtotals, new costs	($7,506)	($39,175)
1988-89 expenditures (proposed)	$163,524	$840,192
Change from 1987-88:		
Amount	$12,645	$48,176
Percent	8.4%	6.1%

[a] Includes basic costs for time-eligible refugees.

[b] The state will not share in the costs of COLAs granted to welfare department employees for 1988-89 until 1989-90.

The budget proposes total expenditures of $840 million for county administration of welfare programs during 1988-89, as shown in Table 1. This is an increase of $48 million, or 6.1 percent, over estimated current-year expenditures.

Table 2 shows the budget adjustments that account for the net increase in county administration expenditures proposed for 1988-89. Significant changes include:

- A $17 million ($4.3 million General Fund) increase to fund administration costs related to estimated increases in AFDC caseloads (basic costs).
- A $13 million ($3.2 million General Fund) increase in estimated administrative savings resulting from reductions in the AFDC caseload due to GAIN.
- A $1.1 million ($7.5 million General Fund) increase to fund the estimated 4.7 percent retroactive COLA for 1987-88.
- A $38 million increase in federal and county funds (no General Fund monies) to provide a 4.8 percent COLA estimated for 1988-89. The General Fund share of the ongoing costs of this COLA will be covered in the state budget beginning in 1989-90.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on $616 million ($164 million General Fund and $452 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 1988-89 are based on 1987-88 budgeted costs updated to reflect the department's caseload estimates for 1988-89. In May, the department will present revised estimates of county costs based on actual county costs in 1987-88. 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 1988-89 and the department's updated caseload data for county-administered programs.

The department's budget proposal has not been updated to reflect the impact of recent federal reductions in the refugee program which reduced from 31 months to 24 months the period for which the federal government will pay the full cost of cash assistance provided to refugees after they enter this country. As a result of these changes, fewer refugees will be supported by 100 percent federal funds and more refugees will be supported by a mix of federal, state, and county funds. Consequently, the state and counties will be required to share the administrative costs for a greater percentage of the refugee caseload than is proposed in the budget. We anticipate that the department will be able to include an estimate of these additional state and county costs in the May estimate.

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 1988-89 expenditures. Therefore, we withhold recommendation on the amount requested for county administration of welfare programs pending review of the May estimate.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

No Basis for GAIN Administrative Savings Resulting From Grant Avoidance

As discussed in our analysis of Item 5180-101, the Department of Social Services estimates that the GAIN program will result in AFDC grant savings for two reasons: (1) savings due to individuals finding jobs as a result of education and training services provided under the program and (2) savings that result because individuals terminate aid or choose not to apply for aid at all in order to avoid participating in GAIN (the department refers to these savings as "grant avoidance savings").

The budget estimates that these grant savings will translate into administrative savings of $23 million ($6 million General Fund, $11 million federal funds, and $6 million county funds) because they will reduce the number of AFDC cases that counties have to administer. The department estimates that, of these administrative savings, $7.2 million ($1.8 million General Fund, $3.6 million federal funds, and $1.8 million county funds) will be due to "grant avoidance." The department's estimate of administrative savings due to grant avoidance is based on a percentage of its AFDC caseload estimate. Therefore, the exact amount of savings assumed in the budget will change when the department submits revised caseload estimates in May.

In our analysis of the AFDC budget (please see Item 5180-101), we conclude that the department has not provided any evidence to support its assumption that the GAIN program will generate grant avoidance savings. Therefore, when we review the May Revision of Expenditures, we will reexamine the projected grant avoidance savings to ensure that they reflect a more accurate estimate of county administrative costs.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund and the Federal Trust Fund — Budget p. HW 164

Requested 1988-89	$1,323,611,000
Estimated 1987-88	1,025,199,000
Actual 1986-87	846,871,000
Requested increase $298,412,000 (+29.1 percent)	
Total recommended reduction	5,200,000

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social services programs—local assistance	General	$826,574,000
5180-151-890—Social services programs—local assistance	Federal	488,590,000
5180-181-001—Social services programs—local assistance COLA	General	921,000

5180-181-890—Social services programs—local assistance COLA	Federal	2,302,000
Reimbursements	—	3,031,000
Welfare and Institutions Code Section 18969, Appropriation	State Children's Trust	2,193,000
Total		$1,323,611,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Child Welfare Services (CWS)—Workload Measurement Study. Recommend that the Legislature adopt supplemental report language requiring the department to develop workload standards for the four CWS programs by December 1, 1990 using a specified sample of counties. 684
2. Office of Child Abuse Prevention (OCAP)—Funding. Recommend that, prior to budget hearings, the department advise the fiscal committees of its plans to reduce funding for child abuse primary prevention training centers. 686
3. Adoptions—Allocation of Funds. Recommend approval of the requested ($5,373,000) augmentation. Also recommend that the Legislature adopt Budget Bill language directing the department to allocate $1,024,000 of the augmentation to provide a COLA to county adoption agencies and $4,349,000 to counties based on performance and need. 688
4. ***In-Home Supportive Services (IHSS)—Workers' Compensation. Reduce Item 5180-151-001 by $5.6 Million.*** Recommend a reduction in General Fund support to reflect a decrease in the rate of growth in IHSS workers' compensation costs. 696
5. IHSS—Minimum Wage Estimate. Recommend that the department advise the fiscal committees of its plan to incorporate additional factors in its estimate of the effect of the minimum wage increase on the IHSS program with particular attention to the reduction in service hours which results. 697
6. ***IHSS—Contract Costs. Reduce Item 5180-151-001 by $1.9 Million.*** Recommend a reduction in General Fund support to reflect a lower-than-anticipated cost for the IHSS Case Management Information and Payrolling System contract. 698
7. IHSS—Welfare Staff Mode. Recommend that the department advise the fiscal committees on options for evaluating the costs and quality of services provided by the welfare staff mode. 698
8. Greater Avenues for Independence (GAIN) Program—Current-Year Expenditures. Recommend that, prior to budget hearings, the department report to the fiscal committees on its estimate of the amount of unspent funds, budgeted in the current year, that could be available for reappropriation. 704
9. GAIN—Additional Adult Education Funds. Recommend that, prior to budget hearings, the department report to the fiscal committees, on the amount of additional adult education funds available for GAIN that are not currently reflected in the budget. 705

SOCIAL SERVICES PROGRAMS—Continued

10. GAIN—Education Attrition. Recommend that, prior to budget hearings, the department advise the fiscal committees of counties' actual experience regarding participants' rate of attrition from the education component of GAIN. 706
11. GAIN—Cost Containment. Recommend that prior to budget hearings, the department report to the fiscal committees on its plan for developing a system for containing the costs of the GAIN program. 706
12. GAIN—Budget Assumptions. Recommend that, prior to budget hearings, the department report to the fiscal committees on specified issues regarding GAIN funding needs, including (a) maximizing existing resources, (b) development of interagency agreements with various departments, (c) grant diversion, and (d) job development. 708
13. ***GAIN—Reimbursement from the Employment Development Department (EDD). Increase Item 5180-151-001 by $3 Million.*** Recommend increased General Fund support for GAIN to correct double-counting the amount of reimbursements available from EDD to offset GAIN costs. 710
14. ***GAIN—Cooperative Agencies Resources for Education (CARE) Funds for Supportive Services. Reduce Item 5180-151-001 by $700,000.*** Recommend decreased General Fund support for GAIN supportive services because CARE resources can be used for this purpose. 710

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers various programs that provide services, rather than cash, to eligible persons who need governmental assistance. The six major programs providing these services are (1) Other County Social Services (OCSS), (2) Specialized Adult Services, (3) Employment Services, (4) Adoptions, (5) Refugee programs, and (6) Child Abuse Prevention.

Federal funding for social services is provided pursuant to Titles IV-A, IV-B, IV-C, and XX of the Social Security Act and the Federal Refugee Act of 1980. In addition, 10 percent of the funds available under the federal Low-Income Home Energy Assistance (LIHEA) block grant are transferred to Title XX social services each year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $1.3 billion in expenditures from state ($828 million General Fund, $2.2 million State Children's Trust Fund, and $3 million reimbursements) and federal funds ($491 million) to support social services programs in 1988-89. In addition, the budget anticipates that counties will spend $106 million from county funds for these programs. Thus, the budget anticipates that spending for social services programs in 1988-89 will total $1.4 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
1986-87 through 1988-89 [a]
(dollars in thousands)

Program	Actual 1986-87	Est. 1987-88	Prop. 1988-89 [b]	Change From 1987-88 Amount	Change From 1987-88 Percent
Other County Social Services	$343,474	$420,484	$473,005	$52,521	12.5%
Child welfare services	(272,399)	(342,877)	(391,865)	(48,988)	14.3
County services block grant	(71,075)	(77,607)	(81,140)	(3,533)	4.6
Specialized Adult Services	420,281	502,275	608,003	105,728	21.0
In-home supportive services	(414,586)	(496,579)	(602,307)	(105,728)	21.3
Maternity home care	(2,253)	(2,254)	(2,254)	(—)	—
Access assistance for deaf	(3,442)	(3,442)	(3,442)	(—)	—
Employment Services	85,250	117,299	267,815	150,516	128.3
GAIN [c]	(43,790)	(93,100)	(259,400)	(166,300)	178.6
Demonstration programs	(38,007)	(21,694)	(6,310)	(−15,384)	−70.9
JTPA child care	(3,453)	(400)	(—)	(−400)	d
State child care	(—)	(2,105)	(2,105)	(—)	—
Adoptions	19,141	21,345	26,698	5,353	25.1
Refugee Assistance	42,697	38,431	32,146	−6,285	−16.4
Social services	(27,971)	(23,880)	(17,613)	(−6,267)	−26.2
Targeted assistance	(14,696)	(14,533)	(14,533)	(—)	—
Refugee demonstration program support services	(30)	(18)	(—)	(−18)	d
Child Abuse Prevention	23,536	24,527	22,243	−2,284	−9.3
Totals	$934,379	$1,124,361	$1,429,910	$305,549	27.2%
Funding Sources [b]					
General Fund	*$385,778*	*$551,072*	*$827,495*	*$276,423*	*50.2%*
Federal funds	*460,768*	*465,462*	*490,892*	*25,430*	*5.5*
County funds	*87,508*	*100,562*	*106,299*	*5,737*	*5.7*
State Children's Trust Fund	*325*	*5,865*	*2,193*	*−3,672*	*−62.6*
Reimbursements	—	*1,400*	*3,031*	*1,631*	*116.5*

[a] Includes actual 1986-87 and anticipated 1987-88 and 1988-89 county expenditures.
[b] Includes funds for 1988-89 COLAs ($921,000 from the General Fund, $2.3 million from federal funds, and $15.6 million in county funds). Also included in these amounts is the General Fund share of the COLAs that counties granted their child welfare service workers in 1987-88.
[c] Excludes General Fund expenditures of $44 million for GAIN from Control Section 22 and other funds for GAIN appropriated in other items in the Budget Bill. Table 11 in our analysis of the GAIN program in this item displays all the funds appropriated in the Budget Bill for GAIN.
[d] Not a meaningful figure.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services in 1988-89 represents an increase of $306 million, or 27 percent, above estimated current-year expenditures. It also shows the various changes in funding for social services programs that are proposed in the budget year. The most significant of these changes are as follows:

- $166 million ($137 million General Fund) increase in the cost of the Greater Avenues for Independence (GAIN) program, which will be in the third-year of a scheduled six-year phase in.
- A $63 million General Fund increase for increased payments to In-Home Supportive Services (IHSS) service providers resulting from the increase in the minimum wage, which is expected to boost average payments to providers from $3.72 to $4.25 per hour.

SOCIAL SERVICES PROGRAMS—Continued

- A $47 million ($41 million General Fund) increase in the IHSS program due to increased caseloads and hours of service provided to recipients.
- A $32 million ($20 million General Fund) increase due to anticipated growth in caseloads under the Child Welfare Services (CWS) program.
- A $4.3 million (all funds) increase for cost-of-living adjustments (COLAs) that counties granted to CWS workers in 1987-88. This increase consists of (1) an increase of $12.2 million in General Fund costs that results because, consistent with the state's "retroactive" COLA policy, the state did not share in the 1987-88 costs of these COLAs during 1987-88, but will begin providing its share of these costs in 1988-89, (2) a reduction of $10.1 million in county costs, also due to the "retroactive" COLA policy, and (3) an increase of $2.2 million in the federal costs associated with the 1987-88 COLA due to caseload increases.
- A $18 million increase in federal and county funds for the costs of the COLAs granted to county CWS social workers in 1988-89. Under the "retroactive" COLA policy, the state share of these costs will be provided beginning with the 1989-90 budget.
- A $14 million reduction in the Work Incentive (WIN) program due to the change over from the WIN program to the GAIN program in the remaining WIN counties.

Table 2
Department of Social Services
Proposed 1988-89 Budget Changes
Social Services Programs
1987-88 and 1988-89
(dollars in thousands)

	General Fund	*All Funds*
1987-88 expenditures (Budget Act)	$539,340	$1,125,418
1987-88 Adjustments to Appropriations:		
Reduction in federal emergency assistance funds	$11,910	—
Reduction in federal refugee funding	—	−$1,933
Child abuse challenge grant	—	861
Other adjustments	−178	15
Subtotals, expenditure reduction	($11,732)	(−$1,057)
1987-88 expenditures (revised)	$551,072	$1,124,361
1988-89 Adjustments:		
Other county social services (OCSS):		
Child Welfare Services (CWS) caseload increase	$19,828	$32,301
CWS prior-year COLA costs	12,207	4,309
Severely emotionally disturbed children caseload increase	645	987
Reduction in CWS appeals	−51	−22
Implementation of new child welfare training program	530	530
Reduction in federal funds for independent living	—	−7,034
In-Home Supportive Services (IHSS) administration—caseload increase	3,026	3,026
Adult Protective Services (APS) demonstration projects	266	507
Subtotals, OCSS	($36,451)	($34,604)

IHSS:		
Increased provider wages due to minimum wage increase	$63,009	$63,009
Increased caseload and hours of service	41,236	47,262
Increased workers' compensation costs	3,046	3,046
Increased costs for payrolling contracts	1,239	1,239
Settlement of *Miller v. Woods* court case	−7,800	−8,667
Sunset of Santa Cruz demonstration project	−1,023	−1,137
Other IHSS program changes	3,800	55
Subtotals, IHSS	($103,507)	($104,807)
Employment services:		
Work Incentive (WIN) program phase-out	−$6,634	−$13,938
JTPA child care termination	—	−400
Reduction in other employment programs	−628	−1,446
Third-year phase-in costs for GAIN	136,567	166,300
Subtotals, employment services	($129,305)	($150,516)
Adoptions:		
Increased staff to reduce backlogs	$3,815	$5,373
Other	−26	−20
Subtotals, adoptions	($3,789)	($5,353)
Refugee programs:		
Reduced carryover	—	−$6,285
Subtotals, refugees	—	(−$6,285)
Child abuse prevention:		
Reduction—federal grants program	$2,850	−$1,062
Redirection to new child welfare training program	−400	−550
Reduction—State Children's Trust Fund program	—	−672
Subtotals, child abuse prevention	($2,450)	(−$2,284)
Proposed COLAs:		
IHSS statutory maximum	$921	$921
CWS (4.8 percent)	—[a]	17,917
Subtotals, COLAs	($921)	($18,838)
1988-89 expenditures (proposed)	$827,495	$1,429,910
Change from 1987-88		
Amount	$276,423	$305,549
Percent	50.2%	27.2%

[a] The state share of the COLAs that counties grant to their child welfare services workers during 1988-89 will be included in the base funding for the program beginning with the 1989-90 budget.

The proposed increase of $306 million from all funds consists of (1) a General Fund increase of $276 million, or 50 percent, (2) a federal fund increase of $25 million, or 5.5 percent, (3) an increase in county funds of $5.7 million, or 5.7 percent, (4) a decrease of $3.7 million, or 63 percent, from the State Children's Trust Fund, and (5) a $1.6 million, or 117 percent, increase in reimbursements. The General Fund bears a larger share of the increase in the cost of social services programs than federal and county funds for the following reasons:

- ***County Share Limited.*** Because the county share of costs for several of these programs is limited, increased costs are borne by the General Fund. For example, state law limits the increase in the counties' share of CWS program costs to the percentage COLA provided in the program. In addition, the counties do not share in the costs of the GAIN program, which are anticipated to increase by 179 percent in 1988-89. As a result, the General Fund will support most of these increased costs for the GAIN program.

SOCIAL SERVICES PROGRAMS—Continued

- *Limited Federal Funds.* For the most part, the amount of federal funds made available to California for social services programs is not based on the cost of the programs, but on federal appropriation levels and the state's share of the nation's population (or other demographic measures). Thus, although expenditures for the program supported by Title XX (IHSS) are budgeted to grow by 21 percent in 1988-89, California's Title XX allocation for federal fiscal year (FFY) 1989, is expected to be less than 1 percent more than the state's allocation for FFY 1988.

ANALYSIS AND RECOMMENDATIONS

OTHER COUNTY SOCIAL SERVICES

Proposed Funding for Other County Social Services. The budget proposes total spending of $473 million for the Other County Social Services (OCSS) program in 1988-89, which is 13 percent, more than estimated expenditures in 1987-88. This amount consists of $69 million in federal funds (Titles IV-A, IV-B, and IV-E), $320 million in General Fund support, and $84 million in county funds.

Of the amount requested for OCSS, $392 million is proposed for the CWS program. The balance of the OCSS request—$81 million—is proposed for the County Services Block Grant (CSBG).

County Services Block Grant. The County Services Block Grant (CSBG) program includes IHSS administration, out-of-home care, and protective services for adults, information and referral, staff development, and 13 optional programs.

Child Welfare Services. The Child Welfare Services (CWS) program provides services to abused and neglected children and children in foster care and their families. The program has four separate elements.

- The Emergency Response (ER) program requires counties to provide immediate social worker response to allegations of child abuse and neglect.
- The Family Maintenance (FM) program requires counties to provide ongoing services to children (and their families) who have been identified through the ER program as victims, or potential victims, of abuse or neglect.
- The Family Reunification (FR) program requires counties to provide services to children in foster care who have been temporarily removed from their families because of abuse or neglect.
- The Permanent Placement (PP) program requires counties to provide case management and placement services to children in foster care who cannot be safely returned to their families.

CWS Workload Standards Need Revision

We recommend that the Legislature adopt supplemental report language (1) requiring the department to report by December 1, 1989 on its timetable for a CWS workload standards study, (2) specifying that the study be based on a selection of counties that the department has identified as performing required tasks in an efficient manner and demonstrating high levels of compliance with program requirements, and (3) requiring the department to submit its proposed workload standards by December 1, 1990.

The *Supplemental Report of the 1987 Budget Act* required the DSS to submit to the Legislature two reports regarding the Child Welfare Services (CWS) program: (1) a report on the statewide and county-specific results of the 1986 CWS Case Review and a description of corrective action efforts, and (2) a plan for the review of the program workload standards currently used to budget the four CWS programs.

Good County Management Important in Ensuring Compliance. In the first report, the department reviewed the extent to which counties comply with CWS program requirements and the factors which influence the degree of compliance. The department found that the following factors do *not* have an effect on a county's ability to comply with CWS program requirements:

- Social worker caseload.
- Supervisor-to-staff ratios.
- Expenditures per case.
- Support (overhead) costs per case.

Instead, the department found that *good management practices* strongly influence a county's ability to comply with CWS program requirements. For instance, the report states that counties which passed compliance reviews generally have well-defined, organized systems in place which are characterized by factors such as color-coded forms, accessible state regulations, ongoing quality control efforts, and regular training.

Department Proposes Schedule for Workload Study. The department's second report addresses the Legislature's concern regarding the validity of the workload standards currently used by the department in preparing the CWS budget. The department found that the current workload standards for the four CWS components no longer reflect actual county practice or the characteristics of the caseloads currently served by the program. The report concludes that there is a need for a comprehensive review and revision of the CWS workload standards. The department proposes to conduct a work measurement study to set new workload standards by December 1, 1990.

Workload Study Should Focus on Counties With the Best Performance Records. The final workload standards adopted by the department will be strongly influenced by the counties it selects to comprise its sample for the workload measurement study. Obviously, the study would yield quite different results if it measures workload in efficiently-run counties rather than in less well-organized environments. We therefore recommend that the Legislature direct the department to construct its sample by using those counties which it identified as having demonstrated high levels of compliance with program requirements and an ability to perform the required tasks in an efficient manner. We also recommend that the department submit to the Legislature a timetable for the study by December 1, 1989 and a final report by December 1, 1990—these timelines are the same as those proposed by the department in its report on the workload standards. The following supplemental report language is consistent with these recommendations:

> The department shall submit to the Legislature by December 1, 1989 a timetable for a CWS workload standards study. In performing this study, the department shall construct a sample which is comprised of counties that it has identified as having demonstrated high levels of

SOCIAL SERVICES PROGRAMS—Continued

compliance with program requirements and an ability to perform the required tasks in an efficient manner. The department shall complete this study and submit its proposed workload standards to the Legislature by December 1, 1990.

OFFICE OF CHILD ABUSE PREVENTION

The Office of Child Abuse Prevention (OCAP) administers a large number of child abuse prevention and intervention programs throughout the state. Most of these programs were established and funded initially by specific legislation. In subsequent years, funding has been provided by the various Budget Acts.

Department Proposes Substantial Reduction for Training Centers

We recommend that the department report at budget hearings on the effects of its plans to reduce funding for child abuse primary prevention training centers.

Chapter 1638, Statutes of 1984, established child abuse primary prevention programs in schools throughout California. The purpose of these programs is to provide training and education to children, parents, and school staff in order to reduce child abuse and neglect.

The budget proposes $9.8 million to support these programs in 1988-89 reflecting a reduction of $400,000, or 3.9 percent, from estimated current-year expenditures. As shown in Table 3, $9.5 million is proposed to be distributed to 84 primary prevention providers serving 131 areas throughout the state (providers receive contracts ranging from $10,000 to $650,000). The remaining amount, $300,000, is proposed to maintain two training centers, one in northern California and one in southern California. This is a reduction of $400,000, or 57 percent, from the $700,000 estimated to be expended on the centers during the current year. The two training centers provide information, training, and technical assistance to the 84 service providers.

Table 3
Department of Social Services
Child Abuse Primary Prevention Program Expenditures
1985-86 through 1988-89
(dollars in thousands)

	1985-86	*1986-87*	*1987-88*	*1988-89*
Northern training center	$344	$400	$350	Unallocated [a]
Southern training center	400	300	350	Unallocated [a]
Subtotals, training centers	($744)	($700)	($700)	($300)
Primary prevention services	$5,933	$9,171	$9,500	$9,500
Totals	$6,677	$9,871	$10,200	$9,800

[a] The department has not specified how it will allocate the $300,000 between the two centers in 1988-89.

The budget proposes to redirect this $400,000 reduction to fund the Child Welfare Training program created by Chapter 1310, Statutes of 1987. The Child Welfare Training program provides training to social workers in detecting and investigating reports of child abuse and neglect.

The department's proposal to reduce funding for the training centers concerns us because it has been the Legislature's policy to fully fund the two training centers since Ch 1638/84 was initially enacted. At the time that this analysis was prepared, the department could not provide details on what activities would be decreased or eliminated under the budget proposal, or why these activities no longer need to be funded at their current level. We believe that the Legislature will need this information in order to determine the appropriate funding level for the training centers in 1988-89. We therefore recommend that the department report at budget hearings on the effects of its plans to reduce funding for the training centers.

ADOPTIONS PROGRAMS

The Department of Social Services (DSS) administers a statewide program of services to parents who wish to place children for adoption and to persons who wish to adopt children. Adoptions services are provided through five state district offices, 28 county adoption agencies, and a variety of private agencies.

There are two components to the Adoptions program: (1) the Relinquishment Adoptions program, which provides adoption services to children in foster care, and (2) the Independent Adoptions program which provides adoption services to birth parents and adoptive parents when both agree on placement and do not need the extensive assistance of an adoption agency.

The Adoptions program is supported primarily from the General Fund. The General Fund pays for the cost of case work activities provided by state and county agencies, and reimburses private adoption agencies for placing in homes those children who are hard to place due to their physical, mental, or emotional handicaps as well as other factors.

Budget Proposes Increased Funding for the Relinquishment Adoptions Program in 1988-89

As shown in Table 4, the budget proposes total spending of $35 million for the two adoptions programs in 1988-89. This is an increase of $6.5 million, or 23 percent, more than estimated expenditures in the current year.

Table 4
Department of Social Services
1988-89 Adoptions Program
State Operations and Local Assistance
(dollars in thousands)

	Federal Funds	*General Fund*	*Total*
Basic Costs			
County adoption agencies	$6,895	$14,430	$21,325
State district offices	6,482	697	7,179
Subtotals, basic costs	($13,377)	($15,127)	($28,504)
Proposed Augmentation			
County adoption agencies	$1,558	$3,815	$5,373
State district offices	193	770	963
Subtotals, augmentation	($1,751)	($4,585)	($6,336)
Totals	$15,128	$19,712	$34,840

Of the total amount proposed for 1988-89, $28.5 million would be used to maintain the current staffing levels in the state's district offices ($7.2 million) and the county adoption agencies ($21.3 million). The depart-

SOCIAL SERVICES PROGRAMS—Continued

ment proposes an augmentation of $6.3 million to increase the number of state and county staff in the Relinquishment Adoptions program in 1988-89.

The department advises that the proposed augmentation is needed to eliminate a backlog of children waiting for adoptive placement. (As we note below, however, we believe that the department's projection of the number of children that will be adopted in 1988-89 is unrealistic. As a result, while the augmentation clearly will reduce the backlog, we do not believe that it will eliminate the backlog.) Of the total proposed augmentation, $963,000 is proposed for 20 additional state staff in district offices, and $5.4 million is proposed for about 77 additional county adoptions workers. The department estimates that the augmentation will allow state and county adoptions staff to place 1,174 more children in adoptive homes. These additional adoptive placements are projected to result in savings of $9.3 million to the AFDC-FC program in 1988-89, since the children will no longer receive foster care grants once they are adopted.

Assessment of Department's Proposal

We recommend approval.

Our analysis indicates that the department's proposal to augment the Relinquishment Adoptions program and reduce the backlog has merit for two reasons: (1) adoption provides a more stable and secure family environment for children than does foster care, and (2) adoptive placement of these children would result in General Fund savings in the long-run because adoption eliminates the need for monthly foster care grants.

Our review of the department's estimate of the savings that will be achieved in 1988-89, however, indicates that the department has substantially overestimated these short-term savings. (We discuss the department's placement projections under the next issue.) Specifically, we believe that the proposed increase in adoptions staff will generate savings of about $1.3 million in 1988-89, which is $8.0 million less than the department's estimate. (Please see our analysis of the AFDC-Foster Care budget—Item 5180-101—for a more detailed discussion of the savings estimate.) Our analysis also indicates, however, that in the long run, the additional adoptive placements resulting from the increase in state and county adoptions staff will generate savings totaling about $38 million. For this reason and in light of the benefits to the adopted children and their families that the budget proposal will generate, we recommend approval of the proposed augmentation.

Allocation of Funds Could Increase Adoptions

We recommend that the Legislature adopt Budget Bill language directing the department to provide technical assistance to counties performing below the statewide average and allocate the proposed augmentation based on performance and need.

The budget anticipates that the $5.4 million augmentation for county adoption agencies will result in *county* agencies placing 1,002 more children in 1988-89 than they would place without the augmentation. We believe that this assumption is unrealistic because it implies that the 77 new workers funded with the proposed augmentation would each place

13 adoptive children in the first year. Currently, the average adoption worker places about six children per year in adoptive homes. The department has not provided justification for its assumption that the additional staff will be more productive than the current average.

Current Allocation Formula. Currently, the department allocates funds to adoption agencies according to a formula called the "adoptions yardstick." The yardstick allocates funds based on a variety of activities associated with the Relinquishment Adoptions program. For example, a portion of the funds appropriated each year is allocated to agencies based on their share of the statewide total number of children whom the courts have "freed" from their parent's control for the purpose of placing them in adoptions. Our analysis suggests that by improving its allocation formula, the department could increase the number of children placed in adoptions by the staff funded with the proposed augmentation.

Review of Adoption Agency Performance. We reviewed the performance of the 28 county adoptions agencies from the point-of-view of (1) the percent of "adoptable" children that are placed in adoptive homes each year, (2) the staffing level (adoptable children per worker) of the agency, and (3) the number of children placed by the average worker. The results of this review are displayed in Table 5.

The first column in Table 5 shows the caseload of the average worker in each county. For instance, in Orange County, the average adoptions case worker is responsible for 16.5 foster care children who have case plan goals of adoption. In those counties which the table characterizes as having "low staffing" levels, the workers are responsible for more than the statewide average number of children.

The second column provides a measure of the "efficiency" of each adoption agency—the number of children placed in adoptive homes by the average worker. For example, in Orange County, the average worker placed 7.2 children in adoptive homes.

The third column shows the percent of "adoptable" foster care children in each county who are successfully placed in an adoptive home each year. We believe that this column provides a good measure of the overall performance of each adoption agency.

The table shows that the counties that place the highest percentage of their adoptable children are those that combine high staffing levels with high efficiency, while the counties that place the smallest portion of their caseloads in adoptive homes are those that have low staffing levels and low efficiency. Specifically, the counties in the high staffing/high efficiency category placed 46 percent of their adoptable children in adoptive homes, while counties in the low staffing/low efficiency category placed only 29 percent of their children in adoptive homes. This compares with a statewide average placement rate of 36 percent.

SOCIAL SERVICES PROGRAMS—Continued

Table 5
Department of Social Services
Performance of Public Adoption Agencies
Average Annual Workload Statistics
1985-86 and 1986-87

	Number of Children Assigned to Each Worker	*Number of Children Placed by Each Worker*[a]	*Percent of "Adoptable" Children Placed*
High Staffing/High Efficiency Counties			
Orange	16.5	7.2	45.0%
San Diego	16.3	6.4	39.9
Ventura	15.5	6.4	40.2
Stanislaus	13.6	6.4	47.1
Tulare	13.2	6.6	50.4
San Bernardino	12.8	6.5	51.4
Santa Cruz	12.4	6.9	59.7
Monterey	12.2	8.6	69.7
Placer	9.2	6.5	69.7
San Mateo	6.0	6.3	69.8
Averages[b]	14.9	6.7	46.1%
High Staffing/Low Efficiency Counties			
Santa Clara	15.0	4.6	31.6%
Contra Costa	13.2	5.9	48.0
Santa Barbara	12.1	4.9	38.6
San Luis Obispo	11.7	4.9	42.1
Merced	10.7	3.9	37.5
El Dorado	10.7	5.2	45.2
Marin	9.8	3.5	33.9
Shasta	9.1	4.4	48.8
Fresno	8.7	4.3	47.8
Averages[b]	12.8	4.8	38.6%
Low Staffing/High Efficiency Counties			
San Francisco	26.0	6.5	26.5%
State District Offices	26.0	7.0	29.4
Riverside	23.5	7.0	29.2
Solano	20.9	7.2	35.5
Kern	20.6	7.8	37.5
Alameda	19.0	6.8	34.7
Sacramento	17.9	6.2	34.3
Averages[b]	22.5	6.9	31.6%
Low Staffing/Low Efficiency Counties			
San Joaquin	22.0	4.9	24.1%
Imperial	20.4	4.8	23.4
Los Angeles	18.4	5.4	29.9
Averages[b]	18.7	5.3	29.4%
Statewide Averages[b]	17.1	6.0	35.8%

[a] Adjusts for adoptive placements made in other counties by assigning 75 percent credit to the county placing the child and 25 percent credit to the county that finds the adoptive home.

[b] All averages are calculated as "weighted" averages, accounting for differences in foster care populations between counties.

Number of Adoptions Depends on Allocation Formula

Table 5 shows that some counties are more efficient than others in that they place more children per worker. It also shows that some counties have higher workloads than others and, therefore, probably have a greater need for additional staff. By giving more resources to the most efficient counties and to those with the greatest need for additional staff, the state could increase the number of adoptions statewide. For example, an allocation that gives more money to the low staffing/high efficiency counties would probably result in a greater increase in the number of children placed in adoptive homes than would one that allocates more to the high staffing/low efficiency group.

Recommended Allocation Principles and Formula

Based on our review of adoption agency performance and the Legislature's policy of minimizing lag time in placing children in adoptive homes, we believe that the allocation of the adoptions' augmentation should be guided by the following principles:

- Allow all counties to maintain at least their current level of services in the budget year by providing a COLA to offset the effects of inflation.
- Allocate additional resources to those counties that most need additional staff.
- Maximize the number of successful adoptions and provide incentives for the counties to improve performance over the long run.
- Provide technical assistance to those counties performing at a level below the statewide average.

Under an allocation formula that satisfies these four principles, high staffing/high efficiency counties would receive a COLA; they would *not* receive an augmentation based on a "need" for more staff; they *would* receive an augmentation as a "reward" for high efficiency; and they would *not* receive technical assistance from the department to improve their efficiency.

Our analysis indicates that allocating the proposed augmentation in a manner consistent with these principles would increase the number of children adopted in 1988-89 and improve the long-term performance of adoption agencies as well. Table 6 presents one allocation method that is consistent with the principles we have identified.

Table 6
Department of Social Services
Allocation of Adoptions' Augmentation
Based on Need and Performance [a]
(dollars in thousands)

1. COLA: 4.8 percent (all 28 county agencies) [b]	$1,024
2. Staffing bonus (20 percent funding increase):	
Low staffing/low efficiency	1,546
Low staffing/high efficiency	729
3. Efficiency bonus (20 percent funding increase):	
Low staffing/high efficiency	729
High staffing/low efficiency	1,345
Total augmentation	$5,373

[a] The figures in this table were calculated by multiplying the basic costs of counties in the respective group by the noted percentage.

[b] The 4.8 percent COLA is the department's estimate of the COLA that counties will grant to their employees in 1988-89.

Under this method, the $5.4 million would be used to provide (1) a 4.8 percent COLA to all agencies thus allowing them to maintain current service levels, (2) a 20 percent increase in funding to those agencies with

SOCIAL SERVICES PROGRAMS—Continued

the greatest need for additional staff, and (3) a 20 percent increase in funding to the most efficient agencies.

It is important to note that this is only one way in which the Legislature could respond to the concerns outlined above. The figures (i.e., *20 percent* augmentation for staffing needs) used in Table 6 are used as *examples* of actions the Legislature could take—different augmentations may be desirable). In any case, the following Budget Bill language is consistent with the recommendation that the Legislature require the department to consider performance and need in allocating the proposed augmentation. In addition, we include in our recommendation, Budget Bill language directing the department to work with the low efficiency counties to develop and implement corrective action plans to raise their performance level to the current statewide average.

The following Budget Bill language is consistent with this recommendation:

> Of the amount appropriated in Item 5180-151 (d), $1,024,000 shall be allocated to provide a cost-of-living adjustment to county adoption agencies and $4,349,000 shall be allocated to the counties based on an evaluation of the performance and staffing needs of the 28 county adoptions agencies. In addition, the department shall work with those counties performing below the statewide average to develop and implement corrective action plans to raise performance levels to the current statewide average.

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance. While this implies that the program *prevents* institutionalization, eligibility for the program is *not* based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he or she lives in his or her own home—or is capable of safely doing so if IHSS is provided—and meets specific criteria related to eligibility for SSI/SSP.

An eligible individual will receive IHSS services if the county determines that (1) these services are not available through alternative resources and (2) the individual is unable to remain safely at home without the services.

The primary services available through the IHSS program are domestic and related services; nonmedical personal services, such as bathing and dressing; essential transportation; protective supervision, such as observing the recipient's behavior to safeguard against injury; and paramedical services, which are performed under the direction of a licensed health care professional and are necessary to maintain the recipient's health.

The IHSS program is administered by county welfare departments under broad guidelines that are established by the state. Each county may choose to deliver services in one or a combination of ways: (1) by individual providers (IPs) hired by the recipients, (2) by private agencies under contract with the counties, or (3) by county welfare staff.

Proposed Budget-Year Expenditures

The budget proposes expenditures of $602 million for the IHSS program in 1988-89. This is an increase of $106 million, or 21 percent, above estimated current-year expenditures. The significant changes that account for the increase are as follows:

- A $63 million increase for increased payments to IPs as a result of the rise in the minimum wage effective July 1, 1988, which boosts average payments to providers from $3.72 per hour to $4.25 per hour.
- A $47 million increase to fund an estimated 5.9 percent increase in basic caseload and a 2.8 percent increase in average hours per case.
- A $3 million increase due to an estimated 41 percent increase in workers' compensation costs.
- An $8.7 million decrease due to the settlement in 1987-88 of the *Miller v. Woods* court case.
- A $1.1 million decrease due to the expiration of the Santa Cruz Demonstration project.

Table 7 displays IHSS program expenditures, by funding sources, for the past, current, and budget years. The table shows that, while expenditures for the IHSS program from all funds are expected to increase by 21 percent, expenditures from the General Fund are projected to increase by 61 percent, while almost no increase is anticipated in federal funds and county funds. Available federal funds are expected to increase slightly because the department anticipates a small increase in the federal appropriations for Title XX and the Low-Income Home Energy Assistance (LIHEA) block grant (which together provide all federal funding for IHSS). County funds remain level as a result of newly enacted legislation—Ch 1438/87 (SB 412), which freezes the county share of costs for the IHSS program at the 1987-88 level.

Table 7
Department of Social Services
In-Home Supportive Services Program
Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

	Actual 1986-87	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Funding Sources				
General Fund	$104,923	$170,155	$274,583 [a]	61.4%
Federal funds	292,942	303,578	304,878	0.4
County funds	16,721	22,846	22,846	—
Totals	$414,586	$496,579	$602,307 [a]	21.3%

[a] Includes $921,000 (General Fund) for 1988-89 COLA to the maximum service award.

Estimates Will Be Updated in May

The proposed expenditures for IHSS are based on program costs through June 1987. The department will present revised estimates in May, which will be based on program costs through February 1988. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1988-89 expenditures. Based on our review of the caseload and cost data that was available at the time this analysis was prepared, we conclude that (1) the department's estimates of caseload growth is most likely too low and (2) the department's estimate of average hours per

SOCIAL SERVICES PROGRAMS—Continued

case is probably high. Our review indicates that the low caseload estimate may be offset by the high estimate of average hours per case. We will be more confident of the net effect of these changes, however, at the time of the May revision.

Caseload Estimate Is Too Low. Table 8 displays the average monthly caseload by service delivery type for the past, current, and budget years. The table shows that the department estimates that caseloads will grow by 5.9 percent between 1987-88 and 1988-89. The estimate is based on actual caseload data through June 1987. Caseload data for the period July 1987 through December 1987, however, suggests that the rate of growth may be accelerating. Specifically, the actual caseload for the IP mode for the first six months of 1987-88 is 2 percent higher than the department estimates for the current year. If this increased rate of growth continues into 1988-89, the resulting IHSS IP mode caseload would be 122,768 cases, or 6.5 percent, higher than the caseload estimated in the budget. A caseload increase of this magnitude would result in increased General Fund costs of approximately $27 million in 1988-89.

Table 8
Department of Social Services
In-Home Supportive Services
Average Monthly Caseload
by Provider Type
1986-87 through 1988-89

	Actual 1986-87	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Service Provider Types				
Individual providers	99,019	108,100	115,300	6.7%
Contract agencies	19,668	18,300	18,700	2.2
County welfare staff	1,999	1,500	1,500	—
Totals	120,686	127,900	135,500	5.9%

Estimated Hours of Service Per Case Are Too High. Table 9 displays the average hours of service per case by service delivery type for the past, current, and budget years. The department estimated the average hours of service for 1988-89 by applying an assumed growth rate of 2.8 percent to its estimate of average hours for 1987-88. This rate of growth is slightly lower than the growth in prior years, but higher than the actual growth in hours per case for the first six months of 1987-88, which remained almost level with 1986-87.

Our analysis indicates that the department's estimate of average hours of service for 1988-89 is too high. Specifically, data for the period July 1987 through December 1987 show that the actual average hours of service for the IP mode for the first six months of 1987-88 is 6.5 percent lower than estimated by the department, suggesting that average hours of service have not grown as rapidly as the department estimated for the *current* year.

We do not believe that the rate of growth will continue to decrease in 1988-89 for the reasons discussed below. However, even if the growth rate does increase to the 1.9 percent level (for IP) estimated by the department, the department's estimate of average hours of service for 1988-89 would still be too high. This is because the department estimates

Table 9
Department of Social Services
In-Home Supportive Services
Average Monthly Hours of Service per Recipient
by Provider Type
1986-87 through 1988-89

	Actual 1986-87	*Est. 1987-88*	*Prop. 1988-89*	*Percent Change From 1987-88*
Service Provider Types				
Individual providers	75.74	80.41	81.92	1.9%
Contract agencies	26.47	27.40	28.63	4.5
County welfare staff	11.53	13.00	[a]	[a]
Totals [b]	72.58	76.91	79.06	2.8%

[a] Not available.
[b] Weighted average excludes county welfare staff.

average hours for 1988-89 by applying the growth rate to its estimate of hours in *the current year.* Because actual data for the first six months of 1987-88 show that the department's estimate of average hours in the current year is too high, its estimate for the budget year is also too high. Based on the actual data for July through December 1987, the resulting IHSS average hours of service for 1988-89 would be 77.1, which is 5.9 percent lower than the average hours of service estimated in the budget. A decrease in average hours of service of this magnitude would result in decreased General Fund costs of approximately $25 million in 1988-89.

Program Changes Make Projected Growth Rates Uncertain. Although recent trends indicate that the department's estimate of hours of service is too high, it is important to note that several recent program changes will result in changes in these trends that are difficult to estimate. Specifically, the following changes create substantial uncertainty regarding future trends in average hours per case:

- ***Completion of Time-Per-Task Implementation Ends.*** During 1986, counties implemented time-per-task standards that limited the hours of service provided for specific tasks such as laundry and shopping. As a result of time-per-task implementation, the average hours of service per case increased at a slower rate than in prior years. It is likely that the greatest impact of the standards occurred in the first year of implementation, when the entire caseload was reevaluated under the new standards. In the future, however, the standards will probably continue to moderate increases in average hours of service for new cases by an unknown extent.
- ***Uniform Standards and the Case Management Information and Payrolling System (CMIPS).*** The department completed implementation of the new CMIPS on July 1, 1987. This statewide system provides counties with management tools that allow them to more closely monitor the hours of service awarded by social workers to IHSS recipients. It is not clear to what extent the use of CMIPS information restrained the growth in average hours of service per case in 1986-87 and 1987-88 because other factors, such as the implementation of time-per-task guidelines, also slowed the growth

SOCIAL SERVICES PROGRAMS—Continued

in average hours of service during this period. To the extent that the use of CMIPS has moderated the upward trend, we expect that ongoing use of CMIPS data will continue to restrain the growth in average hours of service in the future.

Moreover, counties will begin using a new needs assessment tool in March 1988. The new instrument is intended to improve uniformity in the awards of IHSS service hours. To the extent that counties *currently* provide lower average hours of service than are appropriate for their caseloads, greater program uniformity is likely to cause the growth in average hours to increase. To the extent that the average hours of service currently provided are too high, the new assessment tool may result in slower growth in average hours. We will not know whether greater uniformity actually increases or decreases service awards until late in 1988-89.

- ***Chapter 1438, Statutes of 1987.*** Chapter 1438, Statutes of 1987, freezes the county share of costs for IHSS at the 1987-88 level. It also requires the state to cover any IHSS deficiency that might arise in future years through a General Fund deficiency appropriation. The measure also eliminates counties' authority to reduce the level of services in the IHSS program if their Budget Act appropriations are insufficient. The act may result in increased growth in the IHSS program in 1988-89 and thereafter because it removes one of the counties' financial incentives to restrain IHSS costs by freezing the counties' share of costs at the 1987-88 level. By freezing the county share of IHSS costs at the 1987-88 level, the measure also creates an incentive for counties to keep costs low in the current year. These factors may result in increases in the level of services in the future.

Growth in Workers' Compensation Costs Decline

We recommend a General Fund reduction of $5.6 million to reflect a reduced rate of growth in IHSS workers' compensation costs in 1988-89. (Reduce Item 5180-151-001 by $5.6 million.)

The budget proposes $10.4 million from the General Fund to pay workers' compensation costs in 1988-89 to individuals who have become disabled while working as IHSS providers. This is 42 percent above the $7.3 million estimated for 1987-88. The department advises that the projected increase is based on the growth in expenditures from 1985-86 to 1986-87 for (1) workers' compensation benefit payments, which increased by 57 percent during this one-year period, (2) administrative costs, which increased by 1.4 percent, and (3) legal fees, which increased by 44 percent. Benefit payments comprise more than 90 percent of total expenditures for IHSS workers' compensation costs.

The state began providing workers' compensation benefits to IHSS providers in 1978-79. Since 1982-83, the state has been self-insured for the costs of these benefits. That is, the state pays the benefits directly to the injured employees rather than paying a private insurance company. Typically, under a self-insurance plan, there is a substantial phase-in period during which costs accelerate dramatically prior to leveling off and stabilizing. This is because, in the early years, injured workers begin to receive monthly benefit payments that continue past the initial year of the claim, yet relatively few workers have been receiving benefits for long enough to be terminated. In later years, as workers return to work, or their benefits expire, the number of workers terminated each month approaches the number of new claims. Thus, the rate of growth in the costs of the benefit payments stabilizes.

The state's experience with IHSS workers' compensation costs is consistent with this pattern. Specifically, costs rose rapidly in the early years of self-insurance and have grown at declining rates in more recent years. Table 10 displays the annual percentage increase in these costs since the inception of self-insurance.

Table 10
Department of Social Services
Workers' Compensation Benefit Costs for In-Home Supportive Services Providers Since the Inception of Self-Insurance
1983 through 1987

	Annual Percentage Increase
1983	—
1984	98%
1985	87
1986	76
1987 [a]	17

[a] Last full year for which data are available.

The department's estimate does not take this decline in the annual rate of increase into account. In fact, as we note above, the 42 percent increase in total costs estimated in the budget is based to a large extent on the 57 percent increase in benefit payments that occurred between 1985-86 and 1986-87. We think a more reasonable assumption would be that benefit payments will increase at the same rate they increased between calendar years 1986 and 1987—17 percent. In fact, it is quite possible, in light of the pattern of declining percentage increases displayed in Table 10, that the actual increases for 1987-88 and for 1988-89 will be substantially less than 17 percent. This is because benefit payments increased by only 5.7 percent between the last six months of 1986 and the same period in 1987.

Based on the assumption of a 17 percent increase in benefit payments, we estimate that total workers' compensation costs will be $4.1 million in 1987-88 and $4.8 million in 1988-89. Therefore, in the *current* year, the expenditures for IHSS workers' compensation will be $3.2 million below the department's estimate. In addition, these costs will be $5.6 million less than the department's estimate for the budget year. Therefore, we recommend a General Fund reduction of $5.6 million to more accurately reflect the cost of workers' compensation for IHSS providers in 1988-89.

Impact on Minimum Wage Increase Lower Than Department Estimates

We recommend that the department advise the fiscal committees prior to budget hearings, of its plans to incorporate additional factors into its estimate of the increase in IHSS costs that will result from the increase in the minimum wage.

As a result of the increase in the minimum wage, which will take effect on July 1, 1988, the department estimates that IHSS costs will increase by $63 million. The department's estimate of this increase is based on two calculations. First, the estimate calculated that costs would increase by

SOCIAL SERVICES PROGRAMS—Continued

$65.4 million due to the expected increase in IP wages from $3.72 per hour to $4.25 per hour. Second, the department reduced this amount by $2.4 million to reflect an anticipated reduction in hours of service for those recipients who receive the statutory maximum amount of service.

The reduction in hours will occur because some IHSS recipients will receive fewer hours of service as a result of the increase in the minimum wage. This is because state law limits the amount of service that an individual can receive based on the total cost of the service. For example, severely impaired recipients are limited to $1,100 worth of service each month in 1988-89. At the current wage of $3.72 per hour, a severely impaired recipient can therefore receive up to 296 hours of service. At $4.25 per hour, however, the same recipient could receive no more than 259 hours, or 37 hours less. The department's estimate did not recognize, however, that all those recipients who may not be at the maximum but are *within* 37 hours of the statutory maximum will also receive a reduced number of hours of services as a result of the change in the minimum wage. For this reason, we conclude that the cost of the minimum wage increase to the IHSS program will actually be less than the amount estimated by the department.

We believe that the department will be able to project the number of hours of service that will actually be reduced by the time it prepares its May estimate. Therefore, we recommend that the department advise the fiscal committees of its plan to adjust its estimate of the cost of the minimum wage. (In our analysis of the COLA item [please see Item 5180-181-001], we further discuss the impact of increases in provider wages on the level of IHSS services available to those at or near the statutory maximum.)

Contract Savings

We recommend a General Fund reduction of $1.9 million to reflect the actual costs of the contract for the Caseload Management Information and Payrolling System in 1988-89. (Reduce Item 5180-151-001 by $1.9 million.)

The department estimates General Fund costs of $5 million for the Caseload Management Information and Payrolling System (CMIPS) in 1988-89. Subsequent to the preparation of this estimate, the department awarded a five-year, $16.9 million contract to the Electronic Data Systems company for the CMIPS system. As a result of the new contract, CMIPS costs in 1988-89 will be $3.1 million, or $1.9 million below the amount proposed in the budget for 1988-89.

Therefore, we recommend a General Fund reduction of $1.9 million to reflect the actual costs of the CMIPS contract in 1988-89.

Costs and Benefits of County Welfare Department Staff Provider Mode

We recommend that the department report to the fiscal committees prior to budget hearings, on the options for assessing the costs and benefits of the welfare staff mode for providing IHSS.

The budget includes $9.2 million for the costs of county welfare department staff to provide direct services to IHSS recipients and to supervise independent providers. This represents an increase of 7.6 percent above the 1987-88 amount. There are currently 20 counties that use the welfare staff mode of providing IHSS services. These include three counties that began using welfare staff to supervise individual providers (IPs), and to assist clients in supervising IPs, for the first time in the current year. County staff advise that these counties decided to begin using welfare staff to supervise IPs as a result of the escalating costs of IHSS contracts and to improve the quality of services.

In recent years, some counties have changed modes of providing IHSS. Not only have some counties been experimenting with the welfare staff mode, but some have switched from the contract to the IP mode. Our analysis indicates that there are three major reasons that counties switch provider modes:

Contract Costs Increase. In 1987, hourly contract costs increased by 10 percent above the 1986 level in several of the counties that have the largest IHSS contracts in the state. Hourly costs for IPs increased by only 1 percent between 1986-87 and 1987-88, and hourly costs for welfare staff increased by 6.5 percent.

Quality of Care/Provider Availability. In many counties, local groups have raised concerns about the quality of care in the IHSS program and clients' problems in locating competent providers. The *Supplemental Report of the 1986 Budget Act* required the department to report on the extent of these problems. In March 1987, the department surveyed counties to identify the reasons that clients were receiving less than 80 percent of their authorized hours of service. The counties responded that the most significant reason was that no provider was available. Moreover, lack of a provider was the reason that clients received less care than they were entitled to in *40 percent* of IP mode cases, but in only *18 percent* of the cases served by contract providers. The surveys did not address the welfare staff mode, but it is likely that welfare staff providers are generally available to clients in those counties that utilize this mode.

Financial Liability and Collective Bargaining. Although the Department of Social Services (DSS) and county welfare departments indicate that IHSS clients are the employers of the IPs, the courts have not always agreed. The courts have found that IHSS workers are the employees of the state and the counties for various purposes, including, for example, the minimum wage provisions of the Fair Labor Standards Act. While the decisions to date have *not* established county liability for providers' actions or specified that the county is the party responsible for collective bargaining, several IP mode counties have expressed concern over their *potential* exposure in these areas.

Our analysis indicates that these factors will continue to result in provider mode shifts as counties seek to improve the quality of IHSS programs while remaining within their budget allocations. The DSS can directly influence county decisions to change provider modes because it has statutory authority to disapprove annual county plans for providing IHSS, if the proposed plans would result in costs above the level of the county's IHSS allocation. To ensure that the IHSS program provides cost-effective, high quality services in the future, the Legislature needs to have the information that would allow it to assess the costs and quality-of-care impacts of each provider mode.

An IHSS pilot project that sunsets on June 30, 1988, will provide such an assessment of the costs and benefits for both the contract and the IP modes of service delivery. The evaluation of that pilot project does *not*, however, address these issues with respect to the welfare staff mode. It is our understanding that the department could provide accurate and

SOCIAL SERVICES PROGRAMS—Continued

comprehensive data on welfare staff mode *costs* by making some adjustments to its existing data collection systems and by reviewing data from counties that currently use the welfare staff mode. There are several options for making an assessment of the *quality of care* associated with the welfare staff mode, such as collecting information from various counties that currently use the welfare staff mode or establishing a pilot project. Therefore, we recommend that the department report to the fiscal committees prior to budget hearings on options for assessing the costs and benefits associated with the welfare department staff mode of providing IHSS.

ACCESS ASSISTANCE FOR THE DEAF

Background

The Deaf Access program provides funds for social services to deaf and hearing-impaired persons through eight regional contractors, which provide services in 28 of the state's 58 counties. The budget proposes $3.4 million in General Fund support for the Deaf Access program in 1988-89, which is the same amount that was appropriated for this program in 1987-88.

Language in the 1986 Budget Act required each contractor providing services under this program to submit to the Department of Social Services (DSS) an estimate of the unmet statewide need for deaf access services in 1986-87. According to recently updated information provided by seven of the eight deaf access contractors in response to the 1986 Budget Act language, the cost to extend services to the 30 counties that are not currently served would be $1.6 million. This would be a 47 percent increase above the level proposed in the budget for 1988-89. The contractors also estimated that the cost to increase the level of services in areas that currently receive some services would be $1.5 million. Therefore, the total increase for both extending services to unserved areas and increasing the level of services for areas that are currently served, would be $3.1 million, an increase of 91 percent, above the amount proposed for 1988-89.

Funding Options

Our analysis indicates that, other than the General Fund, there are two potential sources of funding available to the Legislature if it chooses to increase the level of services and the geographical coverage of the Deaf Access program:

- *Local Funds.* In 1985-86, the eight regional contractors used $1.6 million in funds available from charities and local governments. It is unclear whether the contractors could expand services in the areas that they already serve through a greater reliance on local funds. Part of the costs of expanding the program to serve additional areas of the state probably could, however, be funded locally by charities and local governments that serve these areas.
- *Federal Vocational Rehabilitation (VR) Funds.* Our analysis indicates that federal VR funds may be available to cover a portion of the costs of the Deaf Access program in 1988-89. In our analysis of the Department of Rehabilitation budget (please see Item 5160-001), we identify $8 million in unbudgeted federal VR funds. It is possible that some of these unbudgeted funds could be used for the Deaf Access

program. Because these funds are potentially available for several programs in addition to the Deaf Access program, we recommend in our analysis of Item 5160-001, that the Department of Finance report to the fiscal committees prior to budget hearings, on the potential use of these funds by several state departments.

EMPLOYMENT PROGRAMS FOR AFDC RECIPIENTS—

Greater Avenues for Independence (GAIN)

The DSS provides education and training services to recipients of AFDC in order to help them find jobs and become financially independent. In total, the budget proposes $268 million ($191 million General Fund) for employment services programs. The major portion of these funds—$259 million ($189 million General Fund)—is for the GAIN program. (These amounts do not include funds proposed for support of the GAIN program in Items 6110-156-001 and 6110-166-001, and Section 22 of the 1988 Budget Bill.) The remaining funds proposed in this item consist of (1) $6.3 million ($2.6 million General Fund) to operate the Work Incentive Demonstration program in counties which have not yet made the transition to GAIN, (2) $2.1 million in federal funds proposed for transfer to the State Department of Education (SDE) for child care services for GAIN participants, and (3) reimbursements of $3 million in federal funds from EDD to partially offset the General Fund costs of GAIN.

Overview of the GAIN Budget Request

Table 11 displays expenditures from all funding sources proposed for GAIN in the current and budget year. The table displays expenditures for each of the components of the GAIN program. It also displays the various funding sources for the 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 11 shows that the budget proposes $408 million in expenditures for the GAIN program in 1988-89, which represents an increase of $198 million, or 94 percent, above the amount provided in the 1987 Budget Act. The department has not revised its current-year figures to reflect updated caseload and cost data—we discuss the department's estimate of current-year expenditures in more detail below. As the table shows, the largest increases are for the costs to serve GAIN participants who are in the education, training, and job search components of the program.

Funds Appropriated for GAIN. Table 11 shows that the bulk of the support for the program is derived from funds specifically appropriated for GAIN. The largest appropriation is the $189 million General Fund appropriation proposed for the DSS. This represents an increase of $136

SOCIAL SERVICES PROGRAMS—Continued

Table 11
Department of Social Services
GAIN Program
Proposed Expenditures and Funding Sources
1987-88 [a] and 1988-89
(dollars in thousands)

	Est. 1987-88 [a]	*Prop. 1988-89*	*Change Amount*	*Change Percent*
EXPENDITURES BY COMPONENT				
Registration, orientation, and appraisal	$8,074	$14,476	$6,402	79%
Education	115,012	172,035	57,023	50
Job search	20,567	48,128	27,561	134
Assessment	10,379	16,662	6,283	61
Training	60,784	103,563	42,779	70
Long-term PREP	7,765	23,866	16,101	207
90-day child care	7,496	8,918	1,422	19
Planning	18,249	19,000	751	4
Child care licensing	1,353	309	−1,044	−77
Evaluation	163	400	413	253
County administration	—	365	365	b
Totals	$249,842	$407,772	$157,930	63%
Less legislative reduction	−40,000	—	—	—
Adjusted expenditure totals	$209,842	$407,772	$197,930	94%
FUNDING SOURCES				
Funds Appropriated for GAIN				
General Fund				
Department of Social Services	$53,000	$189,400	$136,400	257%
State Department of Education	(10,800)	(11,400)	(600)	6
Adult education	6,200	4,200	−2,000	−32
Match for JTPA education funds	4,600	7,200	2,600	57
Department of Finance	44,000	44,000	—	—
Subtotals, General Fund	($107,800)	($244,800)	($137,000)	127%
Federal funds	41,900	70,700	28,800	69
Totals, funds appropriated for GAIN	($149,700)	($315,500)	($165,800)	111%
Funds Redirected for GAIN				
General Fund				
Existing ADA funds	($21,000)	($45,500)	($24,500)	117%
Adult education	5,200	14,100	8,900	171
Regional occupation centers and programs	2,600	2,000	−600	−23
Community colleges	13,200	29,400	16,200	123
Career opportunity development programs	600	3,000	2,400	400
Cooperative agencies resources for education	100	300	200	200
Job agent/service center	400	900	500	125
Subtotals, General Fund	($22,100)	($49,700)	($27,600)	125%
Employment Training Fund	$5,000	$1,100	−$3,900	−78%
Federal funds				
JTPA	(20,500)	(16,100)	(−4,400)	−22
Training	15,900	8,900	−7,000	−44
Education	4,600	7,200	2,600	57
Job service	1,500	6,900	5,400	360
Career opportunity development programs	900	1,600	700	78
Community services block grant	800	1,500	700	88
Vocational education block grant	600	4,800	4,200	700
Refugee social services	5,000	5,000	—	—
PELL grants	4,300	5,600	1,300	30
Subtotals, federal funds	($33,600)	($41,500)	($7,900)	24%
Totals, funds redirected for GAIN	($60,700)	($92,300)	($31,600)	52%
Grand totals, all funding sources	$210,400 [c]	$407,800	$197,000	94%

[a] Current-year figures have not been revised from those in the 1987 Budget Act.
[b] Not a meaningful figure.
[c] Detail does not add to totals due to rounding.

million, or 257 percent, over the amount appropriated in the current year.

Redirected Funds. As shown in the table, the budget assumes that $92 million in funds proposed for existing programs will be available to provide services to GAIN participants. For example, the budget assumes that the community colleges will provide education and training services to GAIN participants totaling $29 million, at no charge to the GAIN program. Community colleges, and the other state programs shown on the table, may provide additional services to GAIN participants on a fee-for-service basis under contract with county welfare departments.

While Table 11 breaks out GAIN expenditures by program component, Table 12 shows how the $408 million proposed for GAIN would be distributed among expenditure categories. Table 12 shows that almost one-half of the funds (48 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 $130 million, or 32 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, $84 million, or 21 percent of total costs, is for *administrative costs*, which consist primarily of county costs to administer the GAIN program.

Table 12
Department of Social Services
GAIN Expenditures by Category
1988-89
(dollars in millions)

	Proposed 1988-89	*Percent of Total*
Program Costs		
Orientation	$1.2	0.3%
Testing and evaluation	10.9	2.7
Education	82.7	20.3
Job club/search[a]	30.2	7.4
Assessment	12.4	3.0
Training and vocational education	55.7	13.7
Long-term PREP	1.1	0.3
Subtotals, program costs	($194.2)	(47.6%)
Supportive Services		
Child care[b]	90.8	22.3
Transportation	32.5	8.0
Ancillary expenses[c]	6.5	1.6
Subtotals, supportive services	($129.8)	(31.8%)
Administration[d]	$83.7	20.5%
Totals	$407.7	100.0%

[a] Includes 90-day job search.
[b] Includes transitional child care provided for 90 days after an individual leaves aid due to employment.
[c] Includes workers' compensation costs for participants in certain training components.
[d] Includes funds for planning, statewide evaluation, and child care licensing.

Budget Shortfall

While the total amount proposed for GAIN in 1988-89 is nearly double the amount budgeted for the current year, the budget acknowledges that the increase is not sufficient to fully fund the program statewide.

SOCIAL SERVICES PROGRAMS—Continued

Therefore, the budget proposes a two-tiered approach to funding the program in 1988-89. Specifically, the budget proposes to (1) fully fund costs in the 18 counties that were operating GAIN prior to October 1987 and (2) allocate the remaining funds among 40 counties at a level which will cause these counties to serve only a portion of their potential GAIN caseload. (Chapter 1025, Statutes of 1985, which created the GAIN program, allows counties to accommodate funding shortfalls by reducing the number of participants that the program serves, rather than by reducing the kinds of services that participants receive.)

Options for Addressing the Budget Shortfall

The budget proposal presents the Legislature with a major policy issue: What are the Legislature's options for funding the GAIN program in 1988-89? In *The 1988-89 Budget: Perspectives and Issues,* we discuss the costs of the GAIN program and how the department's cost estimate has evolved since the Legislature enacted Chapter 1025. In addition, we discuss the following three options for funding the program in 1988-89:

- ***Program Participation Restrictions.*** The budget's two-tiered funding proposal is an example of how restrictions on who can participate in the GAIN program can reduce expenditures. The major problems that we have identified with the proposal are that (1) it treats different counties differently, and (2) it sets a precedent that could be difficult to reverse. One alternative to the two-tiered approach would be to require *some* participation restrictions in 58 counties.
- ***Reductions in Scope of Services.*** Another option for addressing the budget shortfall would be to reduce the amount or kinds of services provided to GAIN participants. Obviously, changes in program scope would involve major policy decisions.
- ***Full Funding.*** According to the department's current estimates, fully funding all 58 counties would require an additional General Fund commitment of $97 million in 1988-89. We believe, however, that by the time of the May revision, this figure could change substantially. We discuss several issues below that could affect the costs of fully funding the GAIN program in 1988-89.

Current-Year Expenditure Information

We recommend that prior to budget hearings, the department report to the fiscal committees on its most recent estimate of current-year county allocations and expenditures, and the amount of unspent funds that could be available for reappropriation.

While the *estimated* costs of GAIN and the amount *allocated* to counties for the program has risen dramatically, the amount of money actually *spent* on the program remains relatively low to date. In 1986-87, the first year of GAIN operations, counties spent only $14 million, or 33 percent, of the funds allocated to them (this excludes expenditure of funds from other programs). The department's preliminary estimate of expenditures for the first three months of 1987-88 indicates that the counties spent $6 million. This is substantially less than the amount anticipated for expenditure during this period. It is too early to project exactly how much the counties will spend in the remaining months of the current year. Our analysis indicates, however, that implementation delays and lower-than-anticipated caseloads in various GAIN components, will hold total county spending substantially below appropriation levels in the current year. Therefore, we expect that a substantial portion of the funds budgeted for the current year will be available to offset costs in 1988-89.

Updated information about anticipated expenditures for the current year will help the Legislature to (1) assess expenditure patterns in the counties and (2) calculate the amount of funds potentially available to be reappropriated for the budget year. Therefore, we recommend that the department report to the fiscal committees prior to budget hearings, on its most recent estimate of current-year allocations and expenditures, and the amount of resulting carry-over which could be reappropriated for the budget year.

Additional Adult Education Funds Are Potentially Available to Offset the Costs of GAIN

We recommend that DSS and the State Department of Education (SDE) report to the fiscal committees prior to budget hearings, on the amount of additional education funds available for GAIN which are not reflected in the budget.

The cost to support GAIN participants in the education component is estimated at $172 million. These costs would be funded primarily by General Fund monies appropriated for GAIN. The budget also assumes that $14 million of the total will be from existing education resources that the schools will make available to GAIN participants. Our review indicates that the amount of existing adult education funds available for GAIN in the budget year may be greater than the amount assumed in the budget. These additional resources could be used to reduce the need for new General Fund resources in 1988-89.

The department indicates that counties are identifying more adult education resources available at the local level than the amount assumed in the GAIN estimate. While the department advises that it has increased its estimate slightly to reflect an increase in the availability of adult education resources to serve GAIN participants, it will not be able to determine exactly how much more of this existing resource will be available until it has reviewed all of the county plans and verified these figures with the SDE.

In addition to the higher-than-anticipated amount of resources available for adult education in local schools, additional education resources could be available for serving GAIN clients from three other sources: (1) funds appropriated in Ch 1025/85, which were never spent, (2) unexpended adult education funds that are required to be reallocated for the GAIN program, and (3) new adult education "growth funds" proposed for 1988-89, of which an unspecified amount will be used for GAIN. (In Item 6110-156-001, we recommend that the Superintendent of Public Instruction inform the Legislature of the amount of growth funds that would be available for GAIN.) These amounts are not reflected in DSS' calculation of funding sources for GAIN education costs. At the time this analysis was prepared, the data necessary to prepare a precise estimate of the amount of these funds was not available. Based on preliminary information, however, we estimate that the amount could total more than $5 million.

In order to provide the Legislature with the information it will need to determine how much *additional* money is needed from the General

SOCIAL SERVICES PROGRAMS—Continued

Fund to provide education to GAIN participants, we recommend that the DSS, in conjunction with the SDE, report to the fiscal committees prior to budget hearings, on the amount of adult education resources which will be available for GAIN from (1) local school districts, (2) unspent funds appropriated in Ch 1025/85, (3) unexpended ADA funds, and (4) new adult education "growth funds" for 1988-89.

Department Needs to Review Assumption About Attrition from the Education Component of GAIN

We recommend that the department advise the fiscal committees prior to budget hearings on counties' experience regarding GAIN participants' rate of attrition from education.

The budget assumes that 5 percent of the GAIN participants enrolled in education will leave aid each month. In other words, over the course of the seven month estimated average stay in education, 35 percent of the participants who initially enrolled in this component will leave the GAIN program. This assumption has significant implications for the costs of the program, since it substantially reduces the estimated caseload in the education component. The DSS advises that it based this assumption in part on preliminary data showing that more AFDC applicants leave aid after a short period than the department had previously assumed. However, the budget also assumes that, due to budget constraints, most counties will serve only AFDC *recipients,* not *applicants.* Since recipients, on average, remain on aid longer than applicants, the department's attrition assumption may not be justified in light of the reduced funding level proposed in the budget.

The department could test the accuracy of its assumption by surveying actual attrition rates for applicants as well as for recipients in the operating counties. Consequently, we recommend that DSS advise the fiscal committees prior to budget hearings on the actual experience of counties that have implemented GAIN regarding the attrition of AFDC applicants and recipients.

DSS Needs to Develop a System for Containing GAIN Costs

We recommend that the department report to the fiscal committees prior to budget hearings on its plan for developing a system for containing GAIN costs.

One way to reduce the costs of fully funding the GAIN program is to ensure that counties provide GAIN services as efficiently as possible and maximize their use of available existing resources. Our review of the county budget allocations approved by DSS thus far indicates that there is substantial variation in county costs. This variation suggests that some counties could deliver GAIN services more efficiently, thereby reducing the funding requirements of the program.

Current County Allocation Process. Currently, the department does not have a formal system for containing GAIN costs. Instead, the department reviews each county's budget request on a case-by-case basis. The department has significantly improved its allocation process as the DSS and the counties have gained more experience with the program. Nevertheless, we believe that further improvement is necessary.

Under the Current Allocation System, the DSS Has Approved Widely Varying County Costs. Table 13 shows the costs of GAIN, on a per-person basis, in the first 12 counties to implement the program. The table displays each county's "gross costs" (total expenditures by *all* programs to serve GAIN clients), the amount of existing resources available to offset these costs, the percentage of gross costs that are offset by existing resources, and the resulting net costs. The table shows that there is substantial variation in the net costs of the counties' programs. Specifically, the net costs range from $860 per registrant in Napa County to $2,382 in Yuba County.

Table 13
Department of Social Services
Range of Budgeted Costs Per GAIN Registrant [a]
First 12 Counties to Implement the Program
1987-88

	Gross Costs	*Existing Resources*	*Existing Resources as Percent of Gross Costs*	*Net Costs*
Yuba	$3,236	−$854	26%	$2,382
San Mateo	2,381	−262	11	2,119
Butte	2,394	−412	17	1,982
Santa Clara	2,559	−794	31	1,765
Fresno	2,456	−845	34	1,611
Merced	2,274	−647	28	1,627
Kern	1,669	−192	12	1,477
Shasta	2,366	−961	41	1,405
Ventura	1,985	−721	36	1,264
Stanislaus	1,648	−485	29	1,163
Madera	1,554	−485	31	1,069
Napa	928	−68	7	860
Median	$2,320	−$566	29%	$1,522

[a] Costs shown reflect approved county plans. Actual expenditure data for the GAIN program are not available at this level of detail.

Our review of the data shown in Table 13 suggests that the counties with relatively high net costs fall into two categories: those with relatively high gross costs and those with a relatively low percentage of existing resources. To the extent that the counties with relatively high net costs are able to bring these costs more in line with the median costs, either by reducing gross costs or increasing existing resources, the overall costs of the GAIN program would be reduced substantially.

Approaches to Developing a System for Containing GAIN Costs. We recognize that developing a system to contain the costs of the GAIN program will be a major undertaking for the department. This is because the GAIN program is very complex and is designed to allow counties substantial flexibility in structuring local programs tailored to local conditions. Nevertheless, the variation in county costs described above suggests that cost reductions are possible.

In order to develop a GAIN cost containment system that encourages counties to provide services as efficiently as possible and to maximize their use of existing resources, the department will need to develop cost guidelines for GAIN services and targets for the percentage of costs which should be offset with existing resources. In fact, the 1987 Budget Act required the department to develop cost guidelines (but not guidelines on the utilization of existing resources) and submit them to the

SOCIAL SERVICES PROGRAMS—Continued

Legislature by January 1, 1988. At the time this analysis was prepared, the department had not yet submitted these guidelines.

To ensure that cost and existing resource utilization guidelines are reasonable, and that they would not require counties to reduce the level or quality of the services they provide, the department will need several types of information which are not currently available. Specifically, the department needs information on actual county expenditures for various types of GAIN services and the actual amount of existing resources used to serve GAIN participants—the expenditure and existing resources utilization data currently available reflect *county plans,* not actual *county activities.*

Based on this information and on its continuing review of county operations, DSS should be able to develop a system for containing GAIN costs. We therefore recommend that the department provide the Legislature, prior to budget hearings, with its specific plans for developing a system for containing GAIN costs, including its plans for gathering detailed expenditure data which tracks county expenditures by program component, type of expenditure, and funding source.

Review of GAIN Budget Assumptions

We recommend that prior to budget hearings, the Department of Social Services report to the fiscal committees on the following issues regarding GAIN funding needs: (1) the potential to maximize the use of existing resources available to serve GAIN participants, (2) its progress in developing interagency agreements with specified departments as required by the 1987 Budget Act, (3) the reasonableness of assumptions regarding grant diversion, and (4) the appropriateness of budgeting a specified amount for GAIN job development.

Based on our review of the department's GAIN estimate and its budget assumptions, we have identified several problems that the department should address prior to the May revision in order to provide the Legislature with a more accurate picture of the costs of the program.

The Budget Does Not Reflect All Available Resources. As we discuss above, the amount of existing resources which can be used to offset GAIN costs is one key to containing the costs of the program. If more of the needs of GAIN participants can be met with existing resources, then the amount the Legislature needs to appropriate for GAIN will be less.

Our review indicates that the DSS may be able to offset more GAIN costs with existing resources than the current estimate indicates, thereby reducing General Fund needs. For example, the department only used one-third of the Job Training Partnership Act (JTPA) funds and two-thirds of the community college resources that it estimates to be available to support the training and vocational education needs of GAIN participants. We found that:

- ***Counties May Be Able to Use JTPA Resources to Provide Employment Services Not Identified by the Department.*** Local JTPA Service Delivery Areas (SDAs) could provide job club and job search activities for GAIN participants. In addition, SDAs could administer grant diversion-funded training. (Grant diversion-funded training uses all or part of an individual's AFDC grant to pay an employer for the cost of training. The individual receives a wage during training, with the expectation that the employer will hire him or her after the training period.) Currently, DSS assumes that both of these activities will be funded with an equal share from the General Fund and federal funds, rather than 100 percent federal support.

- ***Counties Can Use Cooperative Agencies Resources for Education (CARE) Funds to Provide Supportive Services for GAIN Participants.*** This program provides child care and other supportive services to AFDC recipients with children under six who are attending community college. However, the DSS has assumed CARE funds would be used only for direct program costs. Using CARE resources to offset supportive services needs would reduce the need for new General Fund resources for this purpose. In turn, DSS could use available community college resources to "backfill" the direct program costs the department assumes would be offset with CARE funds.

Maintenance of Effort Commitment Is Uncertain. Three of the major existing funding sources for GAIN—adult education programs, community colleges, and JTPA—have committed to provide a certain level of education and training services to GAIN participants within their existing resources. Beyond this level, these agencies are entitled to receive additional funds for costs incurred as a result of GAIN. These additional funds would come either: (1) through contracts with county welfare departments or (2) through amounts released by the Department of Finance pursuant to Section 22 of the 1988 Budget Bill. This threshold level of services—known as a maintenance of effort level—is key because it determines the amount of additional funds these programs will require to provide GAIN services.

Our review indicates that the DSS needs to continue to work with these other agencies to establish an appropriate maintenance of effort level. This will serve two purposes. First, it will help counties determine the availability of local education and training resources for their planning and budgeting purposes. Second, it will help the department determine how much additional money is needed for these purposes statewide, including the amount needed from Section 22 of the Budget Bill.

The 1987 Budget Act directs the department to enter into interagency agreements with the other state agencies who are involved in GAIN, including the SDE, the community colleges, and the Employment Development Department (EDD) to work out standard procedures for using existing resources. At the time this analysis was prepared, these agreements had not been developed. We would expect that some of the issues identified above would be resolved in these agreements.

Grant Diversion Assumptions Are Not Realistic. The budget assumes that an equal number of GAIN participants will be referred to regular on-the-job training (OJT)—where an employer receives a subsidy from JTPA or some other training provider to offset the cost of training—and OJT funded by grant diversion. Grant diversion is potentially an excellent funding source for training GAIN participants. However, it is complicated and requires careful planning. Consequently, only one county is currently using this technique. The department expects several other counties to begin using grant diversion soon. Nevertheless, we question whether counties will be able to do the amount of grant diversion in 1988-89 which is assumed in the budget. To the extent that counties refer people to regular OJT rather than grant diversion-funded OJT, the costs

SOCIAL SERVICES PROGRAMS—Continued

of training will be higher. In this event, however, regular OJT *could* be provided using existing JTPA resources, which our review indicates are not fully accounted for in the GAIN budget.

Job Development Costs May Be Overstated. The GAIN estimate includes approximately $200 per participant in certain training components to pay for job development. At the same time, the department increased the average cost it proposes for training to reflect updated JTPA training costs. We have two concerns with this aspect of the estimate.

1. The JTPA training costs already include costs for some amount of job development. We recognize that additional job development efforts may be warranted for GAIN under certain circumstances, particularly for developing work experience positions for GAIN participants. However, it is unclear how much job development is needed for GAIN in addition to the job development provided by training contractors.

2. The counties may be able to take advantage of existing job development efforts in their community—through EDD, JTPA, and economic development agencies. In fact, budgeting additional job developers through the GAIN program may be counter-productive in some areas. This is because a primary consideration in job development is not to flood the employer community with job developers.

We believe that the Legislature will need information on each of the issues we have outlined above in order to determine the appropriate funding level for the GAIN program in 1988-89. We therefore recommend that prior to budget hearings, the DSS report to the fiscal committees on the following:

1. The potential to maximize the use of existing resources available to serve GAIN participants.

2. Its progress in developing interagency agreements with various departments as required by the 1987 Budget Act in order to clarify maintenance of effort commitments.

3. The reasonableness of current assumptions about the use of grant diversion to fund training in 1988-89 given the status of county grant diversion efforts.

4. The appropriateness of budgeting $200 for job development for each GAIN participant in certain types of training given existing job development efforts.

Technical Issues

We recommend increasing Item 5180-151-001 by $3 million to correct for double-counting the amount of reimbursements available from EDD's Job Service 10-Percent funds to offset the General Fund costs of GAIN.

The GAIN statute requires that up to one-half of the federal Job Service discretionary funds granted to the EDD be used to support GAIN activities. In 1988-89, EDD proposes to transfer $3 million to DSS for this purpose. Our review of DSS' budget documents indicates that DSS inadvertently credited these reimbursements twice against its General Fund expenditures for GAIN.

We recommend reducing Item 5180-151-001 by $700,000 to reflect the amount of CARE funds that will actually be available to provide supportive services to GAIN participants.

Our review of DSS' budget documents indicates that the department (1) understated the amount that will be available for GAIN participants from the CARE program and (2) failed to use these funds to offset the General Fund requirements for the GAIN program in 1988-89.

GAIN Child Care

The State Department of Education (SDE) has primary responsibility for overseeing the provision of child care for GAIN participants. In our analysis of the budget for the SDE (please see Item 6110), we make two recommendations regarding child care in the GAIN program. Specifically, we recommend that:

1. The Legislature adopt supplemental report language in Item 6110-001-001 directing SDE to determine the feasibility of obtaining federal reimbursement for GAIN-related reporting costs and include any available federal reimbursements in the 1989-90 budget.
2. The Legislature (a) adopt supplemental report language directing SDE to collect data on the number of GAIN "graduates" who are receiving state-subsidized child care services, and (b) direct SDE to develop a system for assessing the number of GAIN participants and graduates enrolled in state-subsidized child care and report on the proposed system prior to consideration of the 1989-90 budget.

Department of Social Services

COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund and the Federal Trust Fund — Budget p. HW 167

Requested 1988-89	$14,719,000
Estimated 1987-88	13,774,000
Actual 1986-87	11,112,000
Requested increase $945,000 (+6.9 percent)	
Total recommended reduction	None

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Local assistance	General	$9,394,000
5180-161-890—Local assistance	Federal	5,325,000
Total		$14,719,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Foster Family Home Recruitment Activities. Recommend that the Legislature adopt Budget Bill language separately allocating appropriations for recruitment and basic licensing activities, and supplemental report language directing the department to provide technical assistance to the counties. 716

COMMUNITY CARE LICENSING—Continued

Also recommend that prior to budget hearings, the department advise the fiscal committees whether it would require additional staff to implement this recommendation.

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation 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.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations totaling $14,719,000 ($9,394,000 General Fund and $5,325,000 federal funds) to reimburse counties for licensing activities in 1988-89. This is an increase of 6.9 percent over the estimated current-year expenditures. The increase is due to (1) a projected 6.2 percent increase in the foster family home caseload ($672,000) and (2) a projected 6.4 percent increase in family day care caseload ($273,000). Table 1 displays program expenditures and funding sources for this program in the past, current, and budget years.

Table 1
Department of Social Services
Community Care Licensing
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change From 1987-88 Amount	Change From 1987-88 Percent
Family day care licensing					
General Fund	$4,142	$4,077	$4,350	$273	6.7%
Foster family home licensing	5,970	7,697	8,369	672	8.7
General Fund	(2,043)	(3,708)	(4,044)	(336)	(9.1)
Federal funds	(3,927)	(3,989)	(4,325)	(336)	(8.4)
Foster family home recruitment	1,000	2,000	2,000	—	—
General Fund	(1,000)	(1,000)	(1,000)	—	—
Federal funds	(—)	(1,000)	(1,000)	—	—
Totals	$11,112	$13,774	$14,719	$945	6.9%
Funding Sources					
General Fund	*$7,185*	*$8,785*	*$9,394*	*$609*	*6.9%*
Federal funds	*3,927*	*4,989*	*5,325*	*336*	*6.7*

ANALYSIS AND RECOMMENDATIONS

FOSTER FAMILY HOME RECRUITMENT PROGRAM

Background

The budget includes $2 million ($1 million General Fund, $1 million federal funds) for recruitment activities in 1988-89. This is the same amount that the Department of Social Services (DSS) estimates the counties will spend for recruitment in the current year. Under the Foster Family Home Recruitment program, initiated in 1985-86, counties conduct public awareness campaigns, send representatives to speak at public functions, advertise in the media, and interview prospective foster parents. In the 48 counties that license family homes under contract with the department, the recruitment activities are generally performed by licensing staff. In the other 10 counties, recruitment is the responsibility of the county's child welfare services staff.

Chapter 1597, Statutes of 1984, established the Foster Family Home Recruitment program in response to a shortage in the number of homes available for foster care children. This shortage developed as a result of two factors: (1) between June 1983 and June 1985, the number of children in foster care grew by about 16 percent and (2) the supply of foster family homes remained basically stable, growing from 12,495 to 12,629, an increase of only 1 percent, during the same period.

Maintaining an adequate supply of foster family homes is important for two reasons. First, foster family homes provide children with a more family-like environment than do group homes: providing children in foster care with the most family-like environment possible is one of the basic goals of the state's $374 million per year Child Welfare Services program. Second, it costs the state substantially less to support a child in a foster family home than in a group home: the average monthly cost of family home care is currently $452 per month while the cost of group home care is $2,438 per month, a difference of $24,000 annually.

Shortage of Foster Family Homes Worsens

Chart 1 shows that the gap between the number of foster children and the number of homes has widened steadily over the past few years despite recruitment efforts. Specifically, since 1984-85, the number of children in foster care has increased at more than twice the rate of the number of participating homes. Moreover, the department's projections for the budget year indicate that the increase in the number of children in foster care will continue to outpace the growth in the supply of homes. According to the department's budget-year figures, for each additional family home that will be added to the total supply of homes, there will be an additional seven children added to the foster care caseload.

Repercussions of the Foster Family Home Shortage

Chart 1 also shows that the number of children placed in *family homes* has grown steadily, despite the relatively low rate of growth in the number of homes available. Our analysis indicates, however, that the historical rate of growth in foster family home placement cannot continue indefinitely. This is because, as Chart 2 shows, family homes will be filled to capacity sometime during the current year. Specifically, the chart shows that early in 1988 there will be 35,067 licensed family home beds and the same number of children placed in family homes, according to the department's projections.

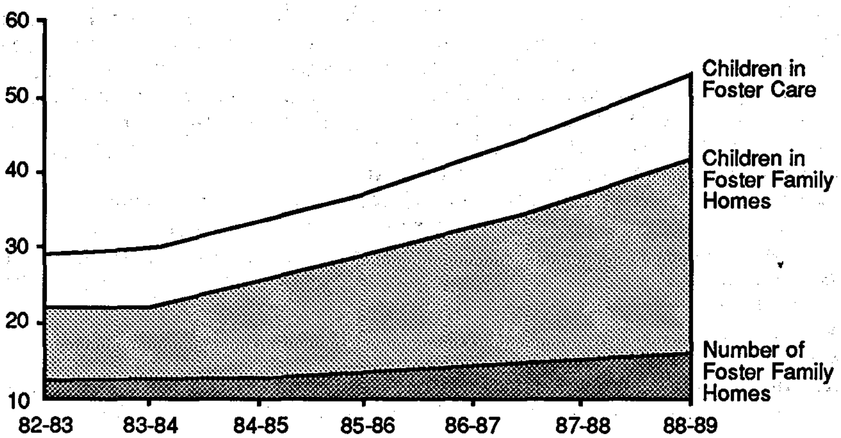
In fact, the department's projections show that by the end of 1988–89, the state will have 3,792 more children in need of foster family care than the number of beds available in the state's foster family homes. Absent any change in capacity, social workers will have to place these children in emergency shelters or group homes. We discuss this problem with the department's estimate of the foster family home caseload as part of our analysis of the AFDC-Foster Care item (please see Item 5180-101-001).

COMMUNITY CARE LICENSING—Continued

Chart 1

Number of Children In Foster Care Compared to the Supply of Family Homes

1982-83 through 1988-89 (In thousands)



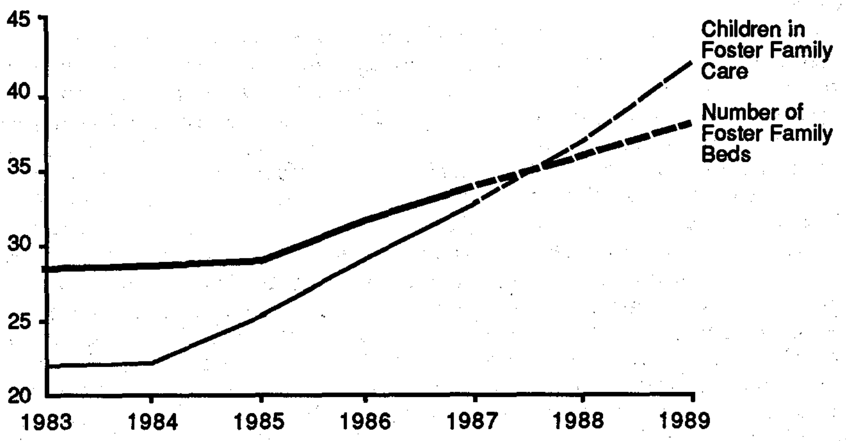
Could the Foster Family Home Recruitment Program Be More Effective?

Chart 1 shows that the recruitment program has had a substantial impact on the supply of family homes: the supply increased by over 6 percent annually in the two years following the implementation of the program. On the other hand, Chart 2 shows that the increase in family homes has not been adequate to prevent a significant shortfall of family home beds beginning in 1988. In order to assess whether the recruitment program has been as effective as possible, we examined changes in the supply of family homes that occurred in various counties following the implementation of the recruitment program.

Our review of the data reveals that there have been substantial differences between counties with respect to the level of success achieved in the recruitment programs. For example, Los Angeles, Alameda, and San Bernardino Counties have increased their supply of family homes by more than 15 percent since the implementation of the recruitment program, while Orange, San Francisco, and Contra Costa Counties have experienced either no change or actual reductions in the availability of family homes since the state augmented the licensing budget to pay for recruitment activities.

Chart 2

Foster Family Home Trends
Growth in Capacity vs. Growth in Occupancy
1983 through 1989[a] (in thousands)



[a] Caseload figures are for June of each year.

Department Does Not Monitor Recruitment Expenditures

In light of the state's need for more family homes and the potential that county recruitment efforts could be improved, we were concerned to find that the department has no information on exactly how much money has been spent on recruitment either statewide or on a county-by-county basis. In order to evaluate the effectiveness of the recruitment program and to ensure that the counties are using the funds as intended by the Legislature, county expenditure data are critical. The department advises that this information is not available because the funds intended for recruitment have been allocated to counties as part of the general Community Care Licensing (CCL) program allocations.

Technical Assistance to Counties Needed

Each county has established and organized its own foster family home recruitment program. Our review of the program indicates that, currently, counties share very little information with each other about successful recruitment activities or strategies. One way for the department to improve the effectiveness of county recruitment programs, especially for counties whose supply of family homes has not kept pace with increasing foster care caseloads, would be for the department to provide technical assistance.

Technical assistance can take many forms. For example, the department currently provides this assistance in the Aid to Families with Dependent Children program where it works with counties to establish corrective action plans for improving the accuracy of eligibility determi-

COMMUNITY CARE LICENSING—Continued

nations. In the case of the recruitment program, the department could be the statewide source for information and coordination. For example, the department could identify strategies that have proven effective for counties like Los Angeles, Alameda, and San Bernardino, which have increased their supply of foster family homes, and help other counties implement these strategies or modify them to suit their needs.

Conclusion

We recommend that the Legislature adopt Budget Bill language requiring the department to separately allocate and monitor funds intended for recruitment purposes. We also recommend that the Legislature adopt supplemental report language directing the department to assist counties intheir recruitment efforts, especially those with family home shortages. In addition, we recommend that prior to budget hearings, the department provide the fiscal committees with an estimate of the additional staff, if any, that would be required to provide technical assistance and corrective action planning to counties.

Our review of the recruitment program indicates that even though the supply of foster family homes has increased since the program was enacted in 1985, recruitment efforts have not been sufficient to keep pace with the growth in the number of children in foster care. Since the effectiveness of the recruitment program varies substantially from county to county, we believe that the department should develop tighter fiscal controls over the funds intended for recruitment and provide counties with technical assistance, enabling them to improve the effectiveness of their recruitment programs. We therefore recommend the adoption of Budget Bill language requiring the department to allocate recruitment funds separately from the general CCL allocation. The following Budget Bill language is consistent with this recommendation:

"Of the amount provided in this item, the department shall separately allocate to the counties \$2 million (\$1 million General Fund, \$1 million federal funds) for foster family home recruitment activities. Each county that expends funds from its recruitment allocation shall provide the department with a description of its proposed recruitment activities by September 30, 1988. At a minimum, the description shall identify the amount of funds that the county expects to spend for (1) advertising, (2) general overhead activities associated with recruitment efforts, and (3) licensing activities designed to facilitate the application process for new licensees. The department shall reallocate any unexpended funds, including funds originally allocated to counties that do not comply with the reporting requirement established by this provision, to counties that in the department's judgment, based on its review of county recruitment activities, can most effectively use the funds to increase the supply of foster family homes."

We further recommend that the Legislature adopt supplemental report language directing the department to provide technical assistance and to work with individual counties to develop corrective action plans to improve the effectiveness of their recruitment programs:

"The department shall work with those counties experiencing the most pronounced family home shortages to develop a corrective action plan to improve the effectiveness of the counties' recruitment programs.

"In addition, the department shall provide technical assistance to counties that request it, and issue an All-County Letter by January 1, 1989, containing (1) a directory of the various recruitment activities performed by the counties, making a special note of those counties that have had the most successful recruitment programs since 1985, and (2) an analysis of which activities and strategies generate the greatest number of responses and successful applications."

We recognize that the department may need additional staff to provide the technical assistance and corrective action planning that we recommend. Therefore, we also recommend that prior to budget hearings, the department provide the fiscal committees with an estimate of the additional staff, if any, that would be required to implement the above recommendation.

Department of Social Services
COST-OF-LIVING ADJUSTMENTS

Item 5180-181 from the General Fund and the Federal Trust Fund — Budget p. HW 169

Requested 1988-89	$388,482,000
Total recommended reduction	35,203,000
Recommendation pending	None

1988–89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-181-001—Cost-of-living adjustments	General	$248,030,000
5180-181-890—Cost-of-living adjustments	Federal	140,452,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Statutory Cost-of-Living Adjustments (COLAs)—Decrease in California Necessities Index (CNI). Reduce Item 5180-181-001 by $23.9 Million and Item 5180-181-890 by $11.3 Million.*** Recommend a reduction of $35.2 million ($23.9 million General Fund and $11.3 million federal funds) to reflect a 4.7 percent actual increase instead of the 5.2 percent estimated for the proposed budget. 718
2. Update CNI. Recommend that prior to budget hearings, the Commission on State Finance report on options for updating the CNI. 719
3. In-Home Supportive Services (IHSS) Statutory Maximum Service Award. We recommend the enactment of legislation to ensure that the cost control mechanism for IHSS is meaningfully related to the clients' needs for services and the Legislature's budgetary priorities for the IHSS program. 720

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide cost-of-living adjustments (COLAs) to various welfare and social services

COST-OF-LIVING ADJUSTMENTS—Continued

programs. In general, this item provides funds to compensate for the effects of inflation on the purchasing power of grants to welfare recipients.

In accordance with the policy established by the Legislature in previous Budget Acts, the state will fund its share of the COLA granted to certain county welfare department employees one year in arrears (referred to as "retroactive" COLAs). Thus, the budget proposes to fund in 1988-89, the General Fund costs of specific COLAs granted to county welfare department employees in 1987-88. (These funds are appropriated in Items 5180-141-001 and 5180-151-001). For employee COLAs granted by counties in 1988-89, the state will fund its share of the costs beginning in 1989-90.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an augmentation of $388 million ($248 million General Fund, $140 million federal funds) to fund COLAs that are required by statute for the following programs: Aid to Families with Dependent Children-Family Group and Unemployed parents (AFDC-FG&U), Supplemental Security Income/State Supplementary Program (SSI/SSP) grants, the refugee cash assistance program, and the In-Home Supportive Services (IHSS) maximum grant awards. This item also provides the federal share of the 4.8 percent COLA that county welfare departments are expected to grant their employees in 1988-89. The budget also anticipates that the counties will spend $46 million from their funds to cover the county share of the costs of (1) AFDC-FG & U grants ($13 million) and (2) the 1988-89 COLA for county welfare department employees ($33 million).

ANALYSIS AND RECOMMENDATIONS

Budget Overestimates Statutory COLAs

We recommend a reduction of $35.2 million to reflect the actual statutory increase for welfare program COLAs in 1988-89. (Reduce Item 5180-181-001 by $23.9 million and reduce Item 5180-181-890 by $11.3 million.)

State law requires that SSI/SSP grants, AFDC-FG&U grants, and the maximum service award under the IHSS program be adjusted to reflect yearly increases in the California Necessities Index (CNI). The Commission on State Finance is the state agency responsible for estimating the change in the CNI. When the department prepared its budget in December 1987, the commission had not yet received the data necessary to calculate the percentage change in the CNI, which is based on December-to-December changes in inflation indexes reported for Los Angeles and San Francisco. The 5.2 percent increase proposed in the budget was based on the Department of Finance's (DOF) November estimate of what this change would be. The commission's staff and the DOF now advise that the data for December 1987 show that the CNI actually increased by 4.7 percent. Therefore, the amount of the COLAs for social services programs required by current law is 4.7 percent, rather than the 5.2 percent increase proposed in the budget.

The budget proposes statutory COLAs for the following programs in 1988-89:

- *SSI/SSP.* The budget proposes to provide a 5.2 percent COLA for SSI/SSP recipients on January 1, 1989 at a cost of $140.7 million ($140.4 million General Fund, $0.3 million federal funds). Current law requires a 4.7 percent COLA, at a cost of $127.2 million ($126.9 million General Fund, $0.3 million federal funds).
- ***AFDC-FG&U.*** The budget proposes to provide a 5.2 percent COLA to AFDC-FG&U cash grants on July 1, 1988 at a cost of $236.1 million ($106.7 million General Fund, $116.5 million federal funds, $12.9 million county funds). Current law requires a 4.7 percent COLA, at a cost of $213.4 million ($96.4 million General Fund, $105.3 million federal funds, $11.6 million county funds).
- ***IHSS Statutory Maximum.*** The budget proposes to provide a 5.2 percent COLA on July 1, 1988 to the *maximum* amount of service that each IHSS recipient is allowed by statute, at a cost of $921,000 (General Fund). Current law requires a 4.7 percent COLA, at a cost of $831,000 (General Fund).
- ***Refugees.*** The budget proposes to provide a 5.2 percent COLA for Refugee Cash Assistance (RCA)/General Assistance on July 1, 1988 at a cost of $1.2 million (federal funds). Current law requires a 4.7 percent COLA, at a cost of $1.1 million (federal funds).

The total difference between the costs of the 5.2 percent COLA projected by the DOF and the costs of the actual 4.7 percent change in the CNI calculated by the Commission on State Finance, is $36.4 million ($23.9 million General Fund, $11.3 million federal funds, $1.2 million county funds). We therefore recommend a reduction of $35.2 million ($23.9 million General Fund and $11.3 million federal funds).

Update the CNI

We recommend that prior to budget hearings, the Commission on State Finance advise the Legislature on options for updating its methodologies for calculating the annual change in the California Necessities Index.

The CNI measures the rate of inflation for a specific market basket of goods and services, each of which is weighted according to the consumption patterns of *low-income* consumers. The CNI contains a subset of the items of the California Consumer Price Index (CCPI) market basket. The CCPI is based on a comprehensive market basket of *all* goods and services which consumers purchase. The CNI subset includes the categories of food, apparel and upkeep, fuel and other utilities, residential rent, and transportation, which reflect the buying patterns of low-income consumers. As determined by surveys conducted by the U.S. Bureau of Labor Statistics (BLS), the relative weighting of individual items in the CCPI market basket is based on the average consumption patterns of a broad cross-section of California households, whereas the relative weighting of individual items in the CNI market basket is based on the spending patterns of *low-income* households.

The relative weights given to the CNI's market basket items are based on the relative amounts spent on these items in the early 1970s. Beginning in January 1987, the BLS has expanded the number of counties included in its survey, and has revised both the items in its consumer market basket and their weights, with the effect that the CCPI is now based on consumption habits as measured in the early 1980s. Under existing law, the CNI will not incorporate these changes, but rather will

COST-OF-LIVING ADJUSTMENTS—Continued

continue to be based on the consumption habits of the low-income households of the 1970s.

If the Legislature wishes to have changes in consumption habits that have occurred since the early 1970s properly reflected in the CNI, it will have to make a statutory change in how the index is computed. The exact effect which such a change would have on future CNI inflation remains to be seen, and would depend on such factors as how the commodity weightings and defined market baskets have changed for low-income California households living in the BLS survey areas. We believe that bringing the CNI up to date by incorporating the new BLS data would be appropriate because it would more accurately reflect the costs currently incurred by low-income persons.

We understand, however, that recent changes in BLS survey methods and the extent and type of reports that it produces may make updating the CNI difficult. Therefore, we recommend that the Commission on State Finance advise the Legislature of options for updating the CNI by incorporating new BLS data prior to budget hearings. Specifically, the commission should address (1) strategies for adapting BLS survey results so as to establish the *relative* weights for all of the items and (2) the adequacy of BLS data with regard to the specific buying habits of *low-income* consumers.

Minimum Wage Increase Will Reduce IHSS Services

We recommend the enactment of legislation to ensure that the cost control mechanism for IHSS is meaningfully related to the clients' needs for services and the Legislature's budgetary priorities for the IHSS program.

Under the IHSS program, counties provide supportive services to aged, blind, and disabled individuals to help them live in their own homes. Most IHSS clients receive these services from individual providers of care although about 12 percent of the services provided are rendered by county welfare department staff or by firms that contract with county welfare departments to provide the services. Current law limits the amount of service that each IHSS client may receive based on the monthly cost of the service. In 1987-88, this limit is $726 for nonseverely impaired (NSI) clients and $1,051 for those who are severely impaired (SI). These amounts are adjusted annually by the percentage increase in the CNI. For example, in 1988-89 the maximum service awards will increase by 4.7 percent.

The annual increase in the maximum award usually results in an increase in the number of hours of service allowed for about 1 percent of IHSS clients. These are clients who received the maximum allowable service award in the previous year, but had been assessed as needing additional services. Since the providers of service have not generally received increases in their hourly wage comparable to the increase in the CNI, the statutory increase to the maximum service award has translated into additional hours of service for clients who are at the statutory maximum.

In 1988-89, however, clients who are at the statutory maximum and who receive service from individual providers, will receive *fewer* hours of service. This is because the effect of the increase in the minimum wage in 1988-89 will more than offset the effect of the increase in the statutory maximum. Table 1 displays the combined effect of the 4.7 percent increase in the maximum service award that will take effect on July 1, 1988 and the increase in the minimum wage that will take effect at the same time. For example, the table shows that an IHSS SI client who is at the statutory limit in 1987-88 is limited to 282.5 hours of service. The 4.7 percent increase in the statutory maximum would increase this individual's hours to 295.7. The increase in the minimum wage, however, will result in a reduction in the individual's hours to a maximum of 258.8 hours, which is a reduction of 12.5 percent, or 36.9 hours.

Table 1

Combined Impact of the 4.7 Percent COLA and the Minimum Wage Increase on Hours of Service for IHSS Clients At the Statutory Maximum Service Award Levels 1987-88 and 1988-89

	1987-88		*1988-89*			
				Hours of Service		
	Maximum Award Level	*Maximum Hours*[a]	*Maximum Award Level*[b]	*At 1987-88 Wage*	*At New Minimum Wage*	*Difference in Hours*
Severely impaired client	$1,051	282.5	$1,100	295.7	258.8	36.9
Nonseverely impaired client	726	105.2	760	204.3	178.8	25.5

[a] Reflects the number of hours that an individual at the statutory maximum can receive from an individual provider at the average wage of $3.72 per hour.
[b] Reflects the 4.7 percent statutory increase that will take effect on July 1, 1988.

It is our understanding that the Legislature originally enacted the statutory maximum as a cost control mechanism for the IHSS program. Without a maximum dollar award, counties would provide services based only on the clients' assessed need. In many cases the county social workers who administer the IHSS program assess clients as needing more hours than the statutory limit would allow. For example, the 1987-88 client assessments indicate that up to approximately 1,300 clients have "unmet needs" for services which the IHSS program cannot provide due to the limits on the maximum service award.

While the statutory maximum has a clear-cut impact on IHSS costs, it is not clear why the maximum is tied to the CNI. When provider wages increase at the same rate as the CNI, the "inflation" adjustment makes sense: it holds the maximum number of service hours constant. In reality, however, this has never occurred. In fact, for most of this decade, wages have increased at substantially lower rates than has the CNI. When this occurs, the hours of service provided to clients at the maximum goes up. On the other hand, when wages increase faster than the statutory maximum, the service level is reduced. In neither case does the change in hours of service have any discernible relationship to the clients' needs or to the Legislature's budget priorities for the IHSS program.

We have identified three basic options for ensuring that the cost control mechanism is meaningfully related to the clients' needs for services and the Legislature's budgetary priorities for the IHSS program:

- ***Change the Methodology for Determining Increases in the Maximum Service Award So That Wage Changes Neither Increase Nor Decrease the Hours of Services Provided to Clients.*** The Legislature could enact legislation that provides for an annual adjustment to the statutory maximum that is tied to wage adjustments for IHSS

COST-OF-LIVING ADJUSTMENTS—Continued

providers and changes in the hourly costs of service for welfare staff and contract providers. Under this approach, clients at or near the limit would receive the same number of hours each year, regardless of changes in provider wages. If this legislation were enacted prior to the effective date of the minimum wage increase, it would prevent service reductions for IHSS clients in 1988-89. This methodology would result in a General Fund cost of approximately $2.4 million above the amount proposed in the budget.

- ***Establish the Maximum Service Award in Each Year's Budget Act.*** The Legislature could also eliminate the statutory maximum service award and replace it with a limit to be established in each year's Budget Act. This approach would give the Legislature flexibility to deal with changes such as the increase in the minimum wage according to its priorities for each year's budget.
- ***Establish A Different Kind of Cost Control Mechanism.*** Finally, the Legislature could enact legislation to control IHSS costs by limiting services to those in need of the fewest hours of services, rather than by limiting services to those with the greatest assessed need. For example, such a cost control mechanism could limit eligibility for individuals who need only domestic services.

We believe that either of the three options outlined above would improve the current cost control mechanism. We therefore recommend the enactment of legislation to implement one of these options so as to ensure that the cost control mechanism for IHSS is related to the clients' needs for services and the Legislature's budgetary priorities for the IHSS program.

DEPARTMENT OF SOCIAL SERVICES—REAPPROPRIATION

Item 5180-490 from the General Fund — Budget p. HW 164

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reappropriates the unexpended balance of the funds appropriated from the General Fund by Ch 1159/85. These funds originally were provided for an Adult Protective Service emergency shelter pilot project and would be used for the same purpose in 1988-89. We recommend that this reappropriation be approved.