

Department of Agriculture

SALARIES OF COUNTY AGRICULTURAL COMMISSIONERS

Item 253 from the General Fund

Budget page 160

Requested 1970-71	\$171,600
Estimated 1969-70	171,600
Actual 1968-69	171,600
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

Approval is recommended.

This item appropriates funds in accordance with Sections 2221-2224 of the Agricultural Code, which provide for cost-sharing agreements for portions of agricultural commissioners' salaries in order to provide adequate and uniform enforcement of applicable Agricultural Code provisions. The appropriation makes available through agreement between the Director of Agriculture and any county board of supervisors a sum not to exceed \$3,300 per year or two-thirds of the salary of each commissioner, whichever is less. Fifty-two counties are participating in this program.

Department of Agriculture

ASSISTANCE TO CITIES AND COUNTIES FOR LAND
UNDER CONTRACT

Item 254 from the General Fund

Budget page 160

Requested 1970-71	\$446
Estimated 1969-70	446
Actual 1968-69	446
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1443, Statutes of 1965, provides that owners of prime agricultural lands, and other lands compatible with agricultural uses, may enter into 10-year contracts with cities and counties for the establishment of agricultural preserves to restrict the use of such lands for agricultural purposes. Section 51260 of the Government Code provides an annual state payment of \$1 to cities and counties for each acre of land under contract, which may be used for the cost of administration and to make or assist in making additional payments to the owners of land under contract. The amounts of payments to owners is specified in the code at five cents per acre for contract lands.

Presently, a total of approximately 2.2 million acres of agricultural lands are covered under terms of Chapter 1443. However, the vast

Assistance to Cities and Counties for Land Under Contract—Continued

majority of this land is restricted for agricultural use under terms of agreements rather than contracts. Agreements, as opposed to contracts, do not require an annual \$1 per acre subvention to the counties. The proposed appropriation in this item represents a subvention for one 446-acre contract held in Fresno County. Seven other contracts exist in Fresno County, but the subvention requirement has been waived by the county. The validity of 72 other contracts, totaling 38,238 acres in Kern County, is presently under litigation.

Last session the Legislature amended the provisions of the California Land Conservation Act to consolidate the provisions of contracts and agreements. However, the existing contracts continue in force unless revised by the landowners and the counties. The dollar-per-acre payment will continue until the contracts are amended.

Department of the Youth Authority**MAINTENANCE OF JUVENILE HOMES AND CAMPS****Item 255 from the General Fund****Budget page 225**

Requested 1970-71 -----	\$3,716,340
Estimated 1969-70 -----	3,545,340
Actual 1968-69 -----	3,411,791
Requested increase \$171,000 (4.8 percent)	
Total recommended reduction -----	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 887 of the Welfare and Institutions Code provides for a state subsidy to county operated juvenile homes, ranches and camps for one-half the operating costs, not to exceed \$95 per month per ward.

The amount requested represents an increase of \$171,000 or 4.8 percent above the current year. The total population for 1970-71 is projected at 3,292 wards, an increase of 181 or 5.8 percent over the current year.

Assistance to Counties for Construction of Juvenile Homes and Camps

The department is not requesting any new funds for 1970-71 and therefore no budget item has been included for this program. There is an estimated carryover of \$665,075 from Item 316, Budget Act of 1969, the availability of which is proposed to be extended through 1970-71 by Section 10 of the budget bill. The department advises that there are sufficient county projects for which this subsidy has been requested to fully utilize the funds available. Whether the counties actually proceed will depend on their own budgetary decisions later this year and are not fully known at this time.

There has been a significant downturn in this construction program. While expenditures previously were from a quarter to over one-half million dollars per year, in 1968-69 only \$180,750 was expended of the

Items 256-258**Local Assistance****Maintenance of Juvenile Homes and Camps—Continued**

\$1,449,000 appropriated. There was also some overbudgeting in the current fiscal year due to counties being unable or unwilling to carry forward planned construction projects.

Failure of the counties to provide local facilities for juveniles could result in increased commitments to the state unless greater use is made of community supervision.

Department of the Youth Authority
ASSISTANCE FOR CONTROL OF JUVENILES

Item 256 from the General Fund**Budget page 225**

Requested 1970-71	\$105,000
Estimated 1969-70	104,560
Actual 1968-69	65,330
Requested increase \$440 (0.4 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This budget item provides the state share of the operating costs of the San Diego border station. The station is located within the limits of the City of San Diego at the location of the border crossing to Tijuana, Mexico. The station is operated by the San Diego Police Department to prohibit juveniles not escorted by adults from entering Mexico. The state contributes a pro rata share of the operating cost in proportion to the number of noncity of San Diego juveniles turned back related to the total number denied permission to cross. The amount requested continues the previously authorized expenditure level.

Department of the Youth Authority
COUNTY DELINQUENCY PREVENTION COMMISSIONS

Items 257 and 258 from the General Fund**Budget page 226**

Requested 1970-71	\$127,200
Estimated 1969-70	229,000
Actual 1968-69	24,000
Requested decrease \$101,800 (44.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

These budget items provide a state contribution toward operating expenses of local delinquency prevention commissions and a subsidy for

County Delinquency Prevention Commissions—Continued

implementation of local delinquency prevention programs. This latter subsidy was first appropriated in the 1969-70 budget.

The operating expense subsidy requested for 1970-71 is \$27,200 (Item 255). The amount requested is \$1,800 below the amount now estimated for expenditure in 1969-70 and is based on the expressed intentions of the counties to apply for such funds.

The \$100,000 (Item 256) requested for implementation of local prevention programs is only 50 percent of the amount approved for the current year. This does not constitute a program reduction but an adjustment of financing procedures.

Because the initial delay in implementation of the program, the first year of operation will be on a calendar year basis, i.e., 1970. The amount requested will provide for the first six months of 1971. It is anticipated that the second six months expenditures will be included in the 1971-72 budget request to maintain the currently authorized level of expenditure.

Department of the Youth Authority**SPECIAL PROBATION SUPERVISION PROGRAMS****Item 259 from the General Fund****Budget page 226**

Requested 1970-71	\$14,750,000
Estimated 1969-70	12,760,000
Actual 1968-69	6,770,322
Requested increase \$1,990,000 (15.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We recommend that the agency be directed to utilize unexpended funds appropriated for this program to expedite development of a definitive annual report on the program.

GENERAL PROGRAM STATEMENT

This subsidy program is to provide for enriched and innovative county probation programs previously approved and meeting minimum standards established by the Department of the Youth Authority. Counties participating are eligible for reimbursements up to a maximum of \$4,000 per case for commitment reductions to state juvenile and adult correctional institutions below an established base rate.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The total request for this subsidy program in 1970-71 is \$14,750,000, an increase of \$1,990,000 or 15.6 percent over 1969-70 estimated expenditures. The program in 1969-70 will provide for participation by 46 counties with approximately 98.5 percent of the state's population.

In the 1968-69 fiscal year, 39 of the 41 participating counties re-

Special Probation Supervision Programs—Continued

duced their commitment rates below their base rate. The average decrease was 29.3 percent. Fifteen participating counties reduced their rate more than 50 percent. The average base commitment rate for participating counties was 60.4 persons per hundred thousand population and only four had rates under 40. In 1968-69, the average rate was 42.7 and 25 counties had rates under 40. The subsidy program has had a leveling effect on commitment rates when compared to the great disparity that existed prior to the inception of this program.

Commitments from Subsidy and Nonsubsidy Counties

Table 1 presents a comparison of commitments to state correctional institutions for fiscal years 1967-68 and 1968-69 between participating and nonparticipating counties.

Table 1
Comparison of State Institutional Commitments
Under the Probation Subsidy Program

	<i>1967-68 Fiscal year</i>		<i>1968-69 Fiscal year</i>	
	<i>Participating counties (36)</i>	<i>Non- participating counties (22)</i>	<i>Participating counties (41)</i>	<i>Non- participating counties (17)</i>
Total CYA and CDC				
Expected commitments	9,620	2,435	11,309	882
Actual commitments	7,204	2,102	7,992	726
Difference (exp. act.)	-2,416	-333	-3,317	-156
Rate decrease (percent)	-25.2	-13.8	-29.3	-17.6

Table 1 reflects substantial decreases in commitment rates for all counties since the inception of the probation subsidy program. In both fiscal years presented, the participating counties show a greater decline in commitment rates than nonparticipating counties. The differences in rate decrease between these two county groups are practically identical at 11.4 percent in 1967-68 and 11.7 percent in 1968-69. The table also indicates that while participating counties reduced commitments by 3,317 persons in 1968-69, such reduction was not solely attributable to the probation subsidy program, as nonparticipating counties also reduced commitments. Therefore, other factors are contributing to the reduction in commitments. These factors may include greater use of attorneys in adult and especially in juvenile cases resulting in fewer convictions; a preexisting trend toward greater use of local programs, the effect of court decisions on apprehension of criminals and the obtaining and use of incriminating evidence and other undetermined factors. It is noted that while the rate of juvenile court commitments is declining, criminal court commitments for those under 21 continues to increase.

Effect of Commitment Rate Reduction

The reduction in commitments has had a decided effect on construction of state detention facilities. The proposed 1968-69 capital outlay budget contemplated one additional adult facility and four additional youth facilities to be completed by 1972-73. Except for the two youth

Special Probation Supervision Programs—Continued

facilities, one completed and one under construction, the plans for additional facilities have been postponed for an indefinite period. A second result of the subsidy program may be the possible relationship of crime increase to increased use of probation. The most current statistical data reflects a continuing increase in the use of probation as opposed to adult commitments to state facilities. An acceleration of such increasing usage is reflected in the period following implementation of the probation subsidy program. For instance the 1960 superior court felony dispositions reflect 44.3 percent placed on probation, 28.1 percent to state adult facilities and 6.7 to state juvenile institutions. In 1966 when the subsidy was authorized, these percentages were 52.4 percent, 21.0 percent and 5.7 percent. Two years later 61.9 percent of convicted felons were placed on probation, 13.6 percent sentenced to state corrections and 5.1 percent committed to state juvenile facilities. While there are a number of factors contributing to crime increase, we must be alert to the possibility that retaining additional convicted criminals in the community may be a contributing factor.

Unless probation and the remainder of the criminal justice system are able to reduce criminal activities of probationers, then increasing the number of convicted criminals in the community will very likely contribute to the crime problem in the state.

Evaluation of Special Probation Programs

The 1969 Legislature directed the department and the participating counties to develop a uniform reporting system reflecting the performance and rehabilitative effects of the various special supervision programs developed under this state subsidy and that the data compiled be reported annually to the Legislature.

Despite the magnitude of present expenditures and program enrichment effected to date, the agency has not initiated any statewide coordinated effort to comply with the legislative directive to determine the effectiveness of these special probation programs.

The 1970-71 budget does not contain any request for funds to initiate the development of a system to provide for an annual report on this program.

Therefore, we recommend that the agency be directed to utilize unexpended funds appropriated for this program to expedite development of a definitive annual report on the program.

Need for Statutory Modification

There is also a need for statutory modification to include in county commitment totals those felony convictions that are set aside by the court in favor of commitment to the civil narcotic addict program. Our discussion and recommendation on this problem is found on page 152 of this analysis.

Department of the Youth Authority
PILOT YOUTH SERVICE BUREAUS

Item 260 from General Fund

Budget page 226

Requested 1970-71 -----	\$50,000
Estimated 1969-70 -----	100,000
Actual 1968-69 -----	100,000
Requested decrease: \$50,000 (50.0 percent)	
Total recommended reduction -----	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This pilot program was authorized by the 1968 Legislature on an experimental basis to terminate 61 days following the 1971 session. The program provides \$25,000 per year for each of four separate Youth Service Bureaus.

The purpose of the Youth Service Bureau Act is to offer an incentive and opportunity for local agencies to pool their resources and develop innovative programs to divert young people from entering into the juvenile justice system.

The amount requested does not reflect a decrease in program but a realignment of program financing from the current calendar year to a fiscal year basis. The amount budgeted will provide for one-half of the third and final year of this program unless extended by the Legislature. The remainder of the third year will be contained in the 1971-72 budget. In addition to the \$100,000 per year in General Funds, the department obtained a federal grant of \$125,000 per year under the Safe Streets Act for five additional bureaus. The department also received \$25,000 from the same federal source to be used to evaluate the effect of the entire program. These latter funds are contained in the departmental program budget.

State supported bureaus have been established in the Bassett district of Los Angeles, Richmond, San Diego and Yuba-Sutter Counties. Federally financed programs have been opened in Yolo, Los Angeles (San Fernando), San Mateo, Santa Clara, and Ventura Counties. These bureaus are in various program stages with some commencing as early as January 1969 and the last was opened in November 1969.

One program aspect common to many of these bureaus is the providing of counseling services to juveniles referred by local law enforcement. The bureaus should be cautious in providing such services that they do not lose sight of their primary function, which is coordinating local delinquency prevention programs and activities for the purpose of reducing delinquent conduct.

Subventions for Education**APPORTIONMENTS TO PUBLIC SCHOOLS****Item 261 from the General Fund****Budget page 322**

Item 261 continues the practice, first established in the Budget Bill of 1969, of controlling State School Fund apportionments to public schools through budget language. Although funds are not appropriated through this item, it does serve as a budgetary control on the amount authorized for transfer from the General Fund to the State School Fund.

The proposed unit rate of \$279.94 which derives a total of \$1.4 billion for the State School Fund will be operational only for the budget year. This is \$7.63 below the operative rate of \$287.57 established for the current year by the Budget Act of 1969 and by Chapter 784, Statutes of 1969 (AB 606). A complete analysis of the State School Fund and the impact of this limitation can be found on pages 204 through 209 of the Educational General Summary section of this analysis.

Subventions for Education**INSTRUCTIONAL TELEVISION****Item 262 from the General Fund****Budget page 323**

Requested 1970-71 -----	\$875,000
Estimated 1969-70 -----	850,000
Actual 1968-69 -----	726,239
Requested increase \$25,000 (2.9 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

Chapter 1236, Statutes of 1965, authorizes the Superintendent of Public Instruction to make allowances to encourage the use of classroom instructional television. School districts or county superintendents of schools are eligible for a payment of \$0.50 multiplied by the number of pupils of the district present in classrooms where instruction was conducted by television in the preceding year. The amount of such allowance, however, shall not exceed one-half of the total cost to the district of providing television broadcasts or closed-circuit television programs. The allowances for this program shall be made from the funds appropriated by this item in the budget year.

The Department of Education reports that approximately one-third of California's public school population is receiving some instruction through television. At present there are 14 regional television organizations representative of 51 counties which plan, produce and acquire 251 television programs for classroom use and 35 programs of in-service teacher education.

Instructional Television—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval. The budget includes a General Fund appropriation of \$875,000 which represents a \$25,000, or 2.9 percent increase, which will accommodate anticipated demand for local reimbursement in the budget year. While we recommend approval of this item, we believe that there are possibilities for more effective utilization of state support through greater regionalization of this program. This is demonstrated by the fact that in 1968-69 a total of 92 school districts in the state received apportionments ranging from \$1 to \$100. We will review this situation as part of our comprehensive report on the educational intermediate unit in California discussed in the General Summary Section of this analysis.

Subventions for Education

COMPENSATORY EDUCATION

Item 263 from the General Fund

Budget page 323

Requested 1970-71 -----	\$11,000,000
Estimated 1969-70 -----	11,000,000
Actual 1968-69 -----	10,481,611

Requested increase—None

Total recommended reduction ----- None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. We recommend that legislation be enacted to delete the 25-percent restriction and the certification requirement in order to allow school districts more flexibility in the employment of teacher aides either in conjunction with, or in place of, certificated teachers.

2. We recommend that the Legislature adopt budget language to redirect \$750,000 from the state compensatory education subvention item committee to the research and teacher education, to the Professional Development Center Program established by Chapter 1414, Statutes of 1968.

GENERAL PROGRAM STATEMENT

General Fund subventions for compensatory education are composed of four parts: (1) assistance to school districts for the reduction of elementary pupil-teacher ratios in poverty schools in grades K-6, (2) special research and teacher training projects, (3) demonstration in reading and mathematics for grades 7-9, and (4) Professional Development Centers for the teachers of disadvantaged children. Programs 1 through 3 were established by the McAteer Act, Chapter 1163, Statutes of 1965, while the Professional Development Centers were established by Chapter 1414, Statutes of 1968 (AB 920).

Federal support for compensatory education programs is authorized by Title I and Title VIII of the Elementary and Secondary Education Act of 1965. Title I of the act provides funds for educational programs

Compensatory Education—Continued

for disadvantaged children while Title VIII provides for drop-out prevention projects. Both programs are administered by the Office of Compensatory Education within the Department of Education.

The distribution of federal Title I funds is computed on a school district entitlement basis which involves the number of pupils from low income families in both the public and private schools of applicant districts. Based on their entitlements, school districts submit applications to the department which are reviewed by the Office of Compensatory Education and referred to the State Board of Education for final action.

ANALYSIS AND RECOMMENDATIONS

We recommend that legislation be enacted to delete the 25-percent restriction and the certification requirement in order to allow school districts more flexibility in the employment of teacher aides either in conjunction with, or in place of, certificated teachers.

We recommend that the Legislature adopt budget language to redirect \$750,000 from the state compensatory education subvention item committed to research and teacher education, to the Professional Development Center Program established by Chapter 1414, Statutes of 1968.

The reasons for these recommendations may be found under the analysis of the Office of Compensatory Education beginning on page 266.

Total subventions for Compensatory Education for 1970-71 are proposed at \$109,032,957 composed of \$11,000,000 in State General Fund support and \$98,032,957 in federal fund support.

Subventions for Education**SPECIAL ELEMENTARY SCHOOL READING PROGRAM**

Item 264 from the General Fund	Budget page 324
Requested 1970-71 -----	\$18,000,000
Estimated 1969-70 -----	23,974,324
Actual 1968-69 -----	15,340,769
Requested decrease \$5,974,324 (24.9 percent)	
Increase to improve level of service—None	
Total recommended reduction -----	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We recommend that no funds appropriated to the Special Elementary School Reading Program be allocated for expenditure by the Director of Finance until comparative test results for 1967-68 and 1968-69, along with a comprehensive statistical analysis of such data for each individual school participating in the program, and access to the raw data is provided to the Department of Finance and the Joint Legislative Budget Committee.

Special Elementary School Reading Program—Continued

We recommend that legislation be adopted to change deadline dates for applications for state support under the Special Elementary School Reading Program from July 1 to August 1 to permit greater coordination between project approval and project funding.

GENERAL PROGRAM STATEMENT

The Miller-Unruh Basic Reading Act established by Chapter 1233, Statutes of 1965, provides allowances to school districts for the employment of specialist reading teachers in grades 1-3 plus payments for salaries of librarians. State support in the budget year will be based on a system of priorities which provide for (1) the continuation of existing programs and (2) the establishment or expansion of programs on the basis of those schools which have the largest percentage of children failing to progress at least one year for each year in school.

The program as originally established provided allowances to participating school districts on an equalization aid basis. In recent legislative sessions, however, substantial changes have been made to the system of state support. Chapter 1643, Statutes of 1967, eliminated the equalization aid approach and provided for 100 percent state support for the provision of specialist teachers in equalization aid districts. Chapter 955, Statutes of 1968, further extended the program by authorizing basic aid districts to receive funds on a 50 percent matching basis to the extent that appropriations permit after support is provided for existing programs and for equalization aid districts. Chapter 1310, Statutes of 1969, eliminated reference to relative district wealth in the priorities for funding programs and provided that funds beyond those for the continuance of existing programs would be distributed to districts which have the largest numbers of children failing to achieve one year of progress for each school year. Table 1 illustrates the annual legislative appropriations for this program compared with the total amounts districts have requested since the program began.

Table 1**Appropriations and Expenditures for Miller-Unruh Basic Reading Act**

<i>Year</i>	<i>Budget appropriation</i>	<i>Allocation to districts</i>	<i>Amount required to fund applications</i>
1966-67	\$8,909,000	\$1,348,986	\$1,348,986
1967-68	14,000,000	7,700,000	7,468,885
1968-69	16,000,000	15,340,769	30,279,864
1969-70	23,974,324	23,974,324 est.	39,289,950 est.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the Special Elementary School Reading Program as budgeted for 1970-71.

The budget proposes a total appropriation of \$18 million in subventions to school districts under the Miller-Unruh Basic Reading Act. This is a reduction of \$5,974,324 from the amount appropriated for the current year through the Budget Act of 1969 and Chapter 784, Statutes of 1969, (AB 606). This amount, however, is roughly equivalent to the budgetary appropriation for the current year of \$16 million adjusted to reflect cost increases to \$18 million. The budget does not

Special Elementary School Reading Program—Continued

propose to continue the higher level of local assistance, approximately \$8 million, added to the budget by Chapter 784, Statutes of 1969.

We recommend that no funds appropriated to the Special Elementary School Reading Program be allocated for expenditure by the Director of Finance until comparative test results for 1967-68 and 1968-69, along with a comprehensive statistical analysis of such data for each individual school participating in the program, and access to the raw data, is provided to the Department of Finance and the Joint Legislative Budget Committee.

In the *Analysis of the Budget Bill 1969-70* we stated that we did not believe the Department of Education through its Division of Instruction was providing an adequate level of administration in view of the fact that the Miller-Unruh Basic Reading Act was the largest of the categorical aid programs financed entirely from the General Fund. This conclusion was based on the lack of objective documentation as to the impact of this program on the reading scores of under-achieving pupils. Despite the fact that the Legislature (1) continued support to the program, and actually added \$8 million to increase the level of local assistance, and (2) adopted legislation to require that test scores be submitted on an individual school basis, no verifiable evaluation of the statewide effect of this program has been submitted by the Department of Education.

To insure that appropriate evaluation is provided, we recommend that the Legislature stipulate that no funds appropriated by this item be allocated for expenditure by the Director of Finance until comparative test results for 1967-68 and 1968-69 along with a comprehensive statistical analysis of those results subject to verification from the raw data are submitted to the Department of Finance and the Joint Legislative Budget Committee.

We recommend that legislation be adopted to change deadline dates for applications for state support under the Special Elementary School Reading Program from July 1 to August 1 to permit greater coordination between project approval and project funding. Chapter 995, Statutes of 1969, provides that application for employment of specialist reading teachers must be filed with the Superintendent of Public Instruction on or before July 1 for funding in the subsequent year. This, however, has resulted in substantial confusion for local districts since the procedure of application approval and project funding are out of phase. Application approval merely implies that the application was submitted in the proper form and ranked on the statewide priority schedule in July. Project funding, however, is the determination of districts to receive support based on the budgetary appropriation and the relative ranking of districts on the priority schedule when final funding is known. In the past, some districts have confused application approval for project funding and subsequently are not ranked sufficiently high on the priority schedule to receive funds from the appropriation.

We believe that much of the apparent confusion could be alleviated if legislation were adopted to delay the final application date until

Special Elementary School Reading Program—Continued

August 1 when the level of state support is known and to direct the Department of Education to more closely coordinate the procedures for application approval and project funding.

Subventions for Education**MATHEMATICS IMPROVEMENT PROGRAM**

Item 265 from the General Fund

Budget page 324

Requested 1970-71	-----	\$925,000
Estimated 1969-70	-----	925,000
Actual 1968-69	-----	862,563
Requested increase—None.		
Total recommended reduction	-----	None

GENERAL PROGRAM STATEMENT

The Mathematics Improvement Program, as established by Chapter 1639, Statutes of 1967, provides for the development of a new testing instrument and authorizes several experimental pilot projects to improve the quality instruction of mathematics in the public schools. The programs which are to be conducted in grades 2, 3, 5, 6 and 8 through 12 are summarized below.

1. *Achievement Test Development.* The State Board of Education is directed, with the advice of the Statewide Mathematics Advisory Committee, to develop an achievement test in mathematics for grades 3, 6 and 8 which will determine the degree to which the mathematics programs of the public schools meet the objectives of the revised outline of curriculum developed by that advisory committee.

2. *Specialized Teacher Program.* The purpose of this three-year project is to permit teachers who have a special interest in mathematics to instruct in the subject. At least half of these specialized teachers are required to participate in summer in-service training programs to be conducted in regional training centers. Participants then provide instruction in mathematics to their own and one other grade level through tradeoff arrangements. Pupils instructed by participating teachers are to be tested to evaluate the effectiveness of the program. The state will pay the costs of all regional in-service training programs including stipends for the participants plus living and travel expenses.

3. *Mathematics Specialist Program.* This program is designed to improve the quality of instruction of mathematics through the employment of the finest mathematical talent available. The specialist need not hold a teaching credential, but is required to have a college minor in mathematics or its equivalent. Districts participating in this program, which are to have relative low wealth and large numbers of underachieving pupils, receive allowances for the salaries of their mathematics specialists on an equalization formula.

4. *Accelerated Instruction Program.* This five-year pilot program is designed to encourage school districts to establish accelerated programs

Mathematics Improvement Program—Continued

of instruction in mathematics in cooperation with institutions of higher learning. These programs are to include grades 8 through 12 and incorporate the basic principles of mathematics and the operations of calculus. The state reimburses participating school districts for the costs of contractual agreements with colleges and universities which cooperate in these projects.

ANALYSIS AND RECOMMENDATIONS

The activities to date in the implementation of the Mathematics Improvement Program as reported by the Superintendent of Public Instruction to the State Board of Education on January 27, 1970 and preliminary evaluation reports can be summarized as follows.

1. *Achievement Test Development.* In December of 1967 the Department of Education contracted for \$100,000 with the School Mathematics Study Group of Stanford University to construct an achievement test which would measure the degree to which mathematics instruction in the public schools meets the objectives required by the Legislature. The approach utilized a statistical sampling procedure to provide an accurate estimate for the entire state. This work has been completed and the State of California Inventory of Mathematical Achievement has been presented to the State Board of Education along with the recommendation that it be designated for statewide administration.

2. *Specialized Teacher Program.* Training in the summer of 1969 was provided in several centers to 860 teachers who are employed in 240 districts. Preliminary evaluation of program results in grades 2 and 5 indicates that:

a. In grade 2, the in-service training program had a very strong effect on mathematics achievement whether or not the teacher trades off. The classes of the teachers with in-service training averaged 10 percent to 12 percent better scores in computation and 15 percent to 20 percent better in comprehension. In grade 5, however, the in-service training program produced a measurable effect only in the area of the specific new material covered by the program.

b. In grade 2, the in-service training program was particularly effective in classes from disadvantaged areas. These classes achieved 16 percent to 19 percent better scores in computation compared to a 5 percent to 6 percent better performance for the advantaged classes. In comprehension the disadvantaged classes had 18 percent to 23 percent better scores while the advantaged classes achieved only 12 percent to 15 percent better scores.

c. In both grades 2 and 5, the trade-off arrangement did not have a large effect on the mathematics achievement of either the home class or the visited class. In grade 2, the evidence seems to indicate that the trade-off teacher does a somewhat better job with the home class than she would have done if the trade-off had not occurred.

d. The in-service training program appears to have had a much more limited effect at grade 5 than at grade 2. In the 1969-70 Specialized Teacher Program many more classes are participating and a variety of in-service training programs are being introduced. There-

Mathematics Improvement Program—Continued

fore, the data from the second year of the program should provide further information to identify the reasons for the differences in performance.

3. *Mathematics Specialist Program.* In its second year of operation this program provided for the employment of 80 mathematics specialists who are used in either a full- or half-time capacity by 19 school districts. This has resulted in 232 classes in grades 2, 3, 5 and 6 being taught by specialist teachers. Evaluation of the program indicates that:

a. The program has had a significant effect on mathematics achievement during the year at both the second and fifth grade levels.

b. The largest effect was observed in the understanding of the areas of algebra actually covered in the specialist program. However, the achievement of the experimental classes in understanding the fundamental arithmetic operations was also considerably above that of the control classes.

c. In grade 2, the specialists were particularly effective in increasing the understanding of the pupils from disadvantaged areas. The specialist classes from the disadvantaged areas averaged about 45 percent higher scores in comprehension while the specialist classes from the advantaged areas averaged about 12 percent higher scores.

d. In grade 5, the specialists were particularly effective in the fully integrated schools in the Berkeley area. On the other hand, the specialists in the rural-suburban schools appear to be least effective.

4. *Accelerated Instruction Program.* The Department of Education has approved applications from 12 school districts proposing to contract with institutions of higher learning in amounts from \$2,500 to \$25,000. All participating districts have agreed to provide information about their projects.

We recommend approval of the Mathematics Improvement Program as budgeted. The budget proposes a sum of \$925,000 for the program for 1970-71 to be composed of \$500,000 for the specialized teacher program and in-service training, \$350,000 for specialist teachers and \$75,000 for accelerated programs.

Subventions for Education**CHILDREN'S CENTERS****Item 266 from the General Fund****Budget page 323**

Requested 1970-71	\$19,399,712
Estimated 1969-70	17,446,702
Actual 1968-69	13,951,764
Requested increase \$1,953,010 (11.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The budget for the Children's Centers Program contains two distinct elements: (1) the normal child care or children's centers provid-

Children's Centers—Continued

ing day care and preschool services for children of low income working parents and (2) development centers for mentally retarded and physically handicapped minors, designed to serve as an alternative to residential placement.

These programs grew out of the Child Care Program as created by Chapter 16, Statutes of 1943, which authorized school districts to establish centers and provide day care services to children whose mothers were employed in defense efforts. The program was supported through federal funds made available under the Lanham Act of 1940. Federal support to this program was terminated in 1946 and the State Legislature continued the program on a year-to-year basis. In subsequent years the state established a means test and required parents to contribute toward the operating expenses of the program in accordance with their financial ability. In 1957 the Child Care Program was made a permanent state responsibility and included in the annual budget.

Children's Center

The Child Care Program was renamed the "Children's Centers Program" by Chapter 1717, Statutes of 1965, and an educational component added. In addition, the Legislature, by Chapter 1248, 1965 Session, authorized the Department of Education and the Department of Social Welfare to formulate a contractual arrangement to provide preschool services to children whose families were receiving public assistance. This program is administered by the Office of Compensatory Education and is financed on a 75-25, federal-state, matching basis.

Development Centers for Handicapped Children

Chapter 1248, Statutes of 1965, established the development center program for handicapped minors to provide day care and treatment for children who are not able to attend public school programs due to severe mental retardation or physical impairment. This program is designed to provide competent services to these children to permit parents to engage in work and reduce the demand for institutional placement. The financing of this program, as modified by Chapter 1538, Statutes of 1967, is based on \$1.75 per attendance hour plus transportation allowances of \$675 per unit of average daily attendance.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the Children's Centers item as budgeted. The budget includes appropriations totaling \$19,399,712 in General Fund support to the Children's Centers Program in 1970-71. This total is composed of \$14,889,712 and \$4,500,000 for child care centers and development centers respectively. In addition, it is estimated that \$15,003,000 will be received in reimbursement from the Department of Social Welfare to support preschool services to the children of low-income families.

School districts participating in the Children's Centers Program historically have not been required to contribute to the program's operational costs. However, the Education Code authorizes the establishment of an override tax for this purpose. Districts have been required to provide the facility to house the program, but the Legislature at

Children's Centers—Continued

the 1968 Session established the Children's Center Construction Law. This authorizes \$1 million to be used for the acquisition of sites, planning and construction of facilities and the acquisition of equipment to assist local districts in the provision of facilities for the program. The Budget Act of 1969 continued the program in the current year through the appropriation of an additional \$1 million from the General Fund.

Although the budget does not provide for the continuance of General Fund support to children's center construction in 1970-71, facilities are an important element of a Children's Center Program. We believe the subject should be dealt with in the legislation recommended in the General Summary portion of this Analysis which considers the child care and preschool educational programs. That recommendation is designed to insure the allocation of state support on a priority basis and to maximum utilization of available federal funds.

GRANTS TO TEACHERS OF PHYSICALLY HANDICAPPED MINORS

Item 267 from the General Fund

Budget page 324

Requested 1970-71	\$150,000
Estimated 1969-70	150,000
Actual 1968-69	125,081
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

To encourage teachers of the mentally retarded and physically handicapped to further their professional education, the Legislature in Chapter 2107, Statutes of 1963, established a program of grants to teachers attending summer school classes at an accredited college or university. The program authorizes county superintendents of schools and school districts to enter into an agreement with certificated teachers to take postgraduate courses leading to a special education credential. Grants are made on the basis of \$50 per unit of college credit for tuition, materials and other expenses for five years or until the course of study is completed. The Superintendent of Public Instruction is required to reimburse participating districts from funds appropriated to the Department of Education.

ANALYSIS AND RECOMMENDATIONS

We recommend approval. In the budget year the Department of Education requests \$150,000 for support of this program, which is the same amount estimated for the current year. In the summer of 1969 a total of 839 teachers submitted acceptable applications for this program. The areas of specialization for these teachers are reviewed in Table 1. Of the 839 teachers submitting acceptable applications in 1969, 671 teachers received grants for course work taken during the summer, an increase of 106 teachers from the prior year.

Grants to Teachers of Physically Handicapped Minors—Continued

Table 1

Areas of Specialization of Participants

Mentally retarded	674
Orthopedically handicapped	57
Visually handicapped	11
Deaf	67
Speech correction	30
Total participants	839

Subventions for Education

FREE TEXTBOOKS

Item 268 from the General Fund

Budget page 231

Requested 1970-71	\$21,300,000
Estimated 1969-70	22,989,357
Actual 1968-69	19,631,786
Requested decrease \$1,689,357 (7.3 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Textbook Budget and the Curriculum Commission

Analysis
page

We recommend that the Legislature require the State Board of Education to establish a priority listing of titles for new textbook adoptions.

967

Consumable Supplementary Textbooks

We recommend that in the distribution of the new mathematics basic and supplementary textbooks, the state distribute the consumable supplementary mathematics textbooks only for the first year of distribution (1970-71) and that school districts be required to use the consumable supplementary mathematics textbooks as nonconsumable textbooks (in the manner practiced by some schools by using plastic overlays, etc.). We further recommend that, after the first year of adoption, districts receive additional textbooks for replacement and growth at a maximum annual rate of 20 percent of the first year's request.

968

Textbook Utilization Study

We recommend that the textbook utilization report to be completed by the Department of Education during the 1969-70 fiscal year contain information concerning an estimate of the extent to which state-supplied textbooks are, and are not, being actually used in the elementary public schools of California.

970

Free Textbooks—Continued

Printing Production Lead Time

Analysis
page

We recommend that the Legislature consider providing necessary funding to permit additional textbook production lead time for the State Printing Plant; for example, annual appropriations for basic textbook reprint production separate from the regular budgetary process.

971

New Adoptions

We recommend that the State Board of Education give more complete justification for the proposed social science adoption for kindergarten through fourth grade (\$3,711,371) to the Senate Finance and Assembly Ways and Means committees at the time the free textbook budget is considered.

972

Royalties

We recommend that prior to approval by the Legislature of funds for the first year of a new adoption, the State Board of Education report to the Senate Finance and Assembly Ways and Means committees the estimated expenditures for royalties of the proposed new adoption for each year of the adoption period compared to similar estimated expenditures for royalties of the old adoption.

972

We recommend that the Department of Education make a study of the costs of royalties in relation to list prices and production costs at the State Printing Plant and that the study include recommendations for reducing royalty charges. This study should be submitted to the Joint Legislative Budget Committee by November 1, 1970.

973

Textbook Bids

We recommend that the nonaccumulative step system of bidding be used in the call for bids by the Board of Education in future new adoptions.

973

GENERAL PROGRAM STATEMENT

California's Constitution, Article IX, Section 7, requires that the State Board of Education provide the state's elementary schools with a free textbook program. There are three stages in the board's process of providing these textbooks to the schools. First, the board selects and adopts the textbooks. Second, the board acquires the adopted textbooks. Third, the textbooks are distributed to the schools prior to the beginning of the new school year. This process is administered for the board by the Department of Education.

SELECTION AND ADOPTION OF TEXTBOOKS

The Constitution provides that the State Board of Education "... shall provide, compile, or cause to be compiled, and adopt, a uniform

Free Textbooks—Continued

series of textbooks . . . and they shall be furnished and distributed by the state free of cost or any charge whatever, to all children attending the day and evening elementary schools of the state, under such conditions as the Legislature shall prescribe."

In exercising its authority over the adoption of state elementary texts, the State Board of Education relies heavily upon the recommendations of the State Curriculum Commission. The duties of the State Curriculum Commission are described in the Education Code, Section 181 which states: "The Curriculum Commission shall study problems of courses of study in the schools of the state and may recommend to the State Board of Education the adoption of minimum standards for courses of study in the kindergarten, elementary, and secondary schools."

The commission consists of the Superintendent and 12 state board appointed members. The Education Code, Section 171 provides: "... at least one-half of the members of the commission shall be persons, who because they have taught, written or lectured on the subject matter fields specified in Section 172, in the course of public or private employment, have thereby become recognized authorities or experienced practitioners in such fields."

The commission periodically recommends to the state board textbook subjects which should be discontinued and replaced with new material. When a recommendation of the commission is approved, as is generally the case, the state board issues a call for bids, and new materials are submitted by publishers for review. To program future state textbook adoptions, the State Curriculum Commission has developed a master plan for state textbook adoptions which is outlined in Table 1.

Table 1
Schedule of Future Adoptions

<i>Criteria for new texts to be developed at November meeting</i>	<i>Books to be submitted by June 1</i>	<i>Adoption to be made by board at April meeting</i>	<i>Adoption period to begin July 1</i>	<i>Subject field (grades 1-8 unless specified)</i>
1967	1968	1969	1970	Mathematics
1968	1969	1970	1971	Social Sciences, grades K-4
1968	1970	1971	1972	Social Sciences, grades 5-8, foreign language
1969	1971	1972	1973	Health, Music, Science
1970	1972	1973	1974	English and related subjects
1971	1973	1974	1975	Reading and Literature
1972	1974	1975	1976	Mathematics
1973	1975	1976	1977	Social Sciences, grades K-4
1974	1976	1977	1978	Social Sciences, grades 5-8, foreign language
1975	1977	1978	1979	Health, Music, Science
1976	1978	1979	1980	English and related subjects

Free Textbooks—Continued

The subject area for the 1970-71 budget year is social science, kindergarten through fourth grade. The 1968 through 1970 schedule of adoption activities is shown in Table 2.

Table 2
Schedule of Adoption Activities 1968 Through 1970

	<i>Approximate date</i>
1. Authorization by State Board of Education for issuance of call for bids in social sciences, kindergarten through grade 4	December 12, 13, 1968
2. Distribution of teachers editions of basic books in reading and literature	By January 15, 1969
3. Recommendation by Curriculum Commission of mathematics textbooks	January 22, 23, 24, 1969
4. Public Hearing for State Curriculum Commission and tentative adoption of textbooks in mathematics	February 13, 14, 1969
5. Publication of call for bids for social sciences textbooks, kindergarten through grade 4	March 28, 1969
6. Furnishing of evaluation copies of mathematics textbooks to 50 libraries and to school districts	By March 28, 1969
7. Curriculum Commission members furnish Bureau of Textbooks names and addresses of advisers for preliminary evaluation of social science books	By April 15, 1969
8. Preparation of estimates of costs of proposed program in mathematics and allotments of funds to districts for supplementary textbooks	By April 18, 1969
9. Distribution of list of Curriculum Commission advisers for social sciences	May 1, 1969
10. Curriculum Commission meeting, Ramada Inn, Fresno, California	May 14, 15, 16, 1969
11. Selection by school districts of supplementary textbooks for adoption in mathematics	By May 16, 1969
12. Submission of social sciences textbooks to Department of Education, Curriculum Commission, and advisers	June 2, 1969
13. Estimation by department of the cost of acquiring recommended mathematics program and transmittal of report to State Board of Education and to State Curriculum Commission	June 12, 1969
14. Final adoption of textbooks in mathematics by State Board of Education, Sacramento	June 12, 13, 1969
15. Distribution of preliminary rating sheets to Curriculum Commission and advisers for books in social sciences	By July 1, 1969
16. Reading and literature books, kindergarten through grade 8, go into adoption	July 1, 1969
Called meeting of Curriculum Commission, Los Angeles	July 10, 1969
17. Curriculum Commission meeting, Hilton Inn, San Francisco	August 20, 21, 22, 1969
18. Final date for publishers to deliver teachers editions or late social sciences samples	September 15, 1969
18a. Evaluators to report on social sciences screening to Curriculum Commission members	By October 15, 1969
19. Curriculum Commission members report evaluations of social sciences books to subcommittee chairman	By October 20, 1969
20. Names and addresses of advisers for final evaluation of social sciences to be given to Bureau of Textbooks. Preparation of justification for social sciences	

Free Textbooks—Continued

Table 2—Continued

Schedule of Adoption Activities 1968 Through 1970

	<i>Approximate date</i>
adoption for transmittal to Department of Finance, Legislative Analyst, Senate Finance Committee, and Assembly Ways and Means	By October 20, 1969
Social sciences chairman to tally evaluations	By October 27, 1969
21. Curriculum Commission meeting, Town and Country Hotel, San Diego, screening of social sciences books. Consideration of criteria for K-8 science and 5-8 social sciences and of recommendation to be made to the state board regarding: (1) nature of textbooks needed—subject, grade, whether basic or supplementary, probable basis of distribution; (2) criteria for evaluating textbooks; and (3) issuance of call for bids	November 5, 6, 7, 1969
22. Distribution of bid forms to publishers	By November 14, 1969
23. Curriculum Commission submit criteria for social sciences grades 5-8, science K-8, to State Board of Education which authorizes publication of call for bids. San Francisco	December 11, 12, 1969
24. Distribution of final rating sheets to Curriculum Commission and advisers	By December 15, 1969
25. Publishers submit bids on social sciences books	By December 15, 1969
26. Opening of bids and State Printer's estimates	December 17, 1969
27. Distribution of teachers editions of basic books in mathematics	By January 15, 1970
28. Advisers report their recommendations to their Commissioners	By January 30, 1970
29. Curriculum Commission submit final evaluations for social sciences K-4 to chairman	By February 4, 1970
30. Curriculum Commission meeting, Sheraton Palace, San Francisco, to recommend books in social sciences K-4	February 11, 12, 13, 1970
31. Public hearing, State Board of Education, Sacramento	March 12, 1970
32. Allotments of textbook credits to school districts	By April 15, 1970
33. Distribution of purchased samples of social sciences books, grades K-4, to city districts, county superintendents and public libraries	By April 15, 1970
34. Curriculum Commission furnish Bureau of Textbooks names of advisers for social sciences grades 5-8	By April 15, 1970
35. Curriculum Commission meeting, El Rancho Hotel, Sacramento	May 20, 21, 22, 1970
36. Receipt of sample textbooks in social sciences grades 5-8	By June 1, 1970
37. Districts report choices of supplementary books to State Department of Education	By June 15, 1970
38. Mathematics textbooks go into adoption	July 1, 1970
39. Distribution of preliminary rating sheets to Curriculum Commission and advisers for books in social sciences grades 5-8 and foreign languages	July 1, 1970
40. Final adoption of social sciences K-4 books by State Board of Education, Los Angeles	July 9, 10, 1970
41. Final date for publishers to deliver teachers editions or late social sciences grades 5-8 and foreign language samples	September 15, 1970
42. Curriculum Commission meeting, El Rancho Hotel, Sacramento	September 23, 24, 25, 1970

Free Textbooks—Continued

Table 2—Continued
Schedule of Adoption Activities 1968 Through 1970

	<i>Approximate date</i>
43. Evaluators to report on social sciences and foreign language screening to Curriculum Commission members	October 23, 1970
44. Names and addresses of advisers for final evaluation of social sciences and foreign languages to be given to Bureau of Textbooks. Preparation of justification for social sciences adoption for transmittal to Department of Finance, Legislative Analyst, Senate Finance Committee, and Assembly Ways and Means	By October 23, 1970
45. Social sciences chairman to tally evaluations	By October 30, 1970
46. Curriculum Commission meeting, Town and Country Hotel, San Diego, screening of social sciences and foreign language books. Consideration of criteria for English and related subjects and of recommendation to be made to the State Board regarding: (1) nature of textbooks needed—subject, grade, whether basic or supplementary, probable basis of distribution; (2) criteria for evaluating textbooks; and (3) issuance of call for bids	November 19, 20, 21, 1970
47. Distribution of bid forms to publishers	By November 28, 1970
48. Curriculum Commission submit criteria for English and related subjects to State Board of Education, which authorizes publication of call for bids. San Francisco	December 10, 11, 1970
49. Distribution of final rating sheets to Curriculum Commission and advisers	By December 18, 1970

Upon approving the commission's recommendation for a new adoption the board issues a call for bids. The call for bids includes a comprehensive statement of the material to be covered by the new adoption. The publishers respond to the call for bids by submitting new material for review by the commission. The commission evaluates this new material with the help of a large number of consultants who have backgrounds in elementary education or in the subject matter under consideration. The publishers bid, and the State Printer estimates his production costs, on those textbooks which have been submitted. Thus, the commission has knowledge of the potential cost of each of the textbooks in advance of making its final selection. When the final selection is accomplished, the board holds a public hearing to receive formally the commission's recommendation of the materials and the distribution ratios for the new adoption.

The Constitution requires that a "uniform series" of textbooks be adopted by the board. All students of similar grade and ability level must use the same basic textbook in a given subject under this single-track system. The board can adopt more than one basic textbook per subject and grade level under this system so long as the board designates the ability level of the students for whom each basic textbook has been adopted. This is referred to as a "track" system of adoption. The board has the authority to augment these basic textbooks by adopting supplementary textbooks which are used to add insight, background, and, generally, to augment the subject matter covered in the basic textbooks. To aid the board in making the distinctions discussed above, the commission's recommendation specifies by grade and ability levels those

Free Textbooks—Continued

textbooks which are recommended for adoption as basics, as supplementaries and as teachers' manuals.

The board makes a tentative adoption of the textbooks recommended by the commission with such modifications as the board may direct. The Department of Education acting at the direction of the board then places this tentative adoption on display in at least 50 public libraries and at the same time in city school districts and with each county superintendent of schools for a period of 60 days. The board finalizes a new adoption of basic textbooks and teachers' manuals at the end of that 60 days.

Multiple Adoption of Supplementary Textbooks

Chapter 917, Statutes of 1968, changed the adoption of supplementary textbooks from a single to a multiple system. In essence, the multiple adoption system gives the school districts a voice in the selection of supplementary textbooks. Instead of having to accept the supplementary textbooks at distribution ratios adopted by the State Board of Education, school districts can now select supplementary textbooks from a list of acceptable titles and establish the distribution ratios for their respective districts.

The mechanics of this multiple adoption process for supplementary textbooks is as follows: The department purchases and distributes one complete set of the tentative adoption to each city school district and, where there are districts which do not qualify as city school districts, to county superintendents of schools. The department also computes each district's textbook credit. This textbook credit is equal to the estimated cost of all the supplementary textbooks which would be available to a district under the conditions of a recommended distribution schedule established by the board. A district may select any supplementary textbook in any number from the list of those tentatively adopted without regard to the recommended distribution schedule established by the board, except that the total cost of its selection cannot exceed the amount of its computed textbook credit. If a total of less than 25,000 copies of a given supplementary textbook is selected on a statewide basis, it is not adopted by the board. The board finalizes its adoption of supplementary textbooks subsequent to receiving the selections of the districts.

The board adopts all textbooks for a period of at least four years and for not more than eight years. At the end of the adoption period, the board may extend the adoption period for not less than one year nor more than four years. Thus, the maximum adoption period possible is 12 years.

ACQUISITION OF TEXTBOOKS

When the adoption process is complete, textbooks are manufactured in the State Printing Plant through a lease agreement with the publishers which permits the state to print the text in return for a "royalty," generally assessed on a per-copy basis. However, in cases where the right to print is withheld by the publisher of an adopted text or the leasing of printing plates is not competitive with the finished book price, the state purchases the completed text directly from the publisher.

Free Textbooks—Continued

DISTRIBUTION OF TEXTBOOKS

Completed textbooks are delivered by publishers or the State Printing Plant to the State Textbook Warehouse in Sacramento for shipment to school districts. Between 85 and 90 percent of the year's total shipments are made from May to August to insure that books will be available when schools open in September. Distribution of texts is based on local orders and ratios established by the State Board of Education. Table 3 summarizes distribution for recent years with estimates for 1969-70 and 1970-71.

Table 3

Number of Texts Distributed

1963-64	9,412,060
1964-65	10,404,140
1965-66	11,335,771
1966-67	7,525,788
1967-68	21,113,675
1968-69	18,210,080
1969-70 (est.)	20,058,093
1970-71 (est.)	20,000,000

ANALYSIS AND RECOMMENDATIONS

In reviewing the proposed textbook budget of \$21,300,000 with its elements of (1) selection and adoption, (2) acquisition and (3) distribution, it is clear that the proposed expenditures are primarily related to the acquisition element and basically are for printing, purchasing, royalty and new adoptions. However, since the State Curriculum Commission has a direct bearing on cost through its "selection" function, its activities are discussed under the section on selection and adoption. Table 4 indicates the distribution of the proposed textbook budget for fiscal year 1970-71. The category of "other" proposed expenditures includes personal services, equipment, warehousing, freight, communications and other operating expenses.

Table 4

Proposed Textbook Budget for Fiscal Year 1970-71

Printing	\$5,778,442 ¹
Purchasing	4,387,168 ¹
New adoptions	3,711,371 ¹
Royalties	6,844,898 ¹
Other	678,121
Reimbursement for sale of textbooks	—50,000

Total Proposed Budget \$21,300,000

¹ See acquisition element of this analysis.

SELECTION AND ADOPTION OF TEXTBOOKS

Overview

The annual expenditure for textbooks has fluctuated considerably from year to year due to a wide variation in the size of annual new adoptions. However, this fluctuation has leveled somewhat in the last few years. Table 5 demonstrates the estimated expenditures for new adoptions and total textbook expenditures in recent years.

Free Textbooks—Continued

Table 5
Annual Textbook Expenditures

<i>Subject area of new adoptions</i>	<i>Estimated expenditures for new adoptions</i>	<i>Total textbook expense²</i>
1960-61 Reading and Literature -----	\$6,085,957	\$11,736,746
1961-62 Reading and Literature ¹ -----	1,552,923	6,876,166
1962-63 History and Geography (5 & 8) -----	1,374,660	8,699,919
1963-64 Arithmetic (1, 2 & 7), Social studies (6 & 7) -----	1,111,000	10,906,962
1964-65 Arithmetic (3, 4, 5, 6, & 8), Social studies (4) -----	2,593,349	11,980,511
1965-66 None -----	---	7,720,420
1966-67 Science Health, Social Science (2, 3 & 5)	13,279,968	17,525,648
1967-68 Music, English and related subjects----	8,099,658	21,260,092
1968-69 Reading and Literature -----	11,000,000	19,631,786
1969-70 Mathematics -----	6,141,521	22,989,357
1970-71 Social Science K-4 (proposed) -----	3,711,371	21,300,000

¹ Deferred purchases.² Includes estimated expenditures for new adoptions and continuing expenditures for previous adoptions.

While annual state expenditures have varied substantially during the years listed above, the number of basic and supplementary titles in adoption have consistently increased. Table 6 demonstrates the number of textbook titles in adoption in recent years.

Table 6
Textbook Titles in Adoption

<i>Year</i>	<i>Numbers of titles¹</i>
1960-61 -----	305
1961-62 -----	360
1962-63 -----	359
1963-64 -----	391
1964-65 -----	392
1965-66 -----	445
1966-67 -----	445
1967-68 -----	561
1968-69 -----	654
1969-70 -----	731
1970-71 -----	763

¹ Includes teachers editions.

Although there has been great variance in the estimated expenditures for new adoptions in each of the last 10 years, the total textbook expense has increased sharply with a leveling off in the last few years, as shown in Table 5. Indications are that there will be a continuing increase of textbook titles in the future as new adoptions are approved, as shown in Table 6.

Table 7 contains cost-per-student data for all basic and supplementary texts in adoption in the state during each of the past five years and demonstrates that the state's per pupil expenditures from 1964-65 to 1968-69 have increased 59.7 percent.

Free Textbooks—Continued

Table 7

Annual Textbook Cost Per Student Served

	1964-65	1965-66	1966-67	1967-68	1968-69
Basic -----	\$3.36	\$3.64	\$3.64	\$3.72	\$4.95
Supplementary -----	.88	1.48	1.48	1.71	1.82
All Textbooks -----	\$4.24	\$5.12	\$5.12	\$5.43	\$6.77
Percent Annual Increase ----	--	20.8%	-0-%	6.1%	24.7%

The average number of textbooks per student in grades 1 through 8 is approximately 14 as shown in Table 8.

Table 8

The Average Number of Textbooks per Student in Grades Kindergarten and One through Eight for Fiscal Year 1969-70

Grade	Number of books per student
Kindergarten -----	0
First -----	16.53
Second -----	13.31
Third -----	13.54
Fourth -----	14.48
Fifth -----	13.83
Sixth -----	15.40
Seventh -----	13.98
Eighth -----	14.36
Total average books K-8 -----	115.43
Average books per student -----	115.43=14.43
	8 grades

Textbook Budget and the Curriculum Commission

We recommend that the Legislature require the State Board of Education to establish a priority listing of titles for new textbook adoptions.

At the present no priority listing of titles exists for new textbook adoptions. If the proposed budget for new textbook adoptions is less than that requested for the new adoption textbook package proposed by the Curriculum Commission, the resulting impact is sometimes less than satisfactory. An example can be cited for the reading and literature adoption which was distributed to school districts in the fall of 1969. During consideration of the reading and literature adoption, the proposed budget for the adoption was less than that requested for the proposed textbook package. To remain within the limits of this budget, the Curriculum Commission and the Board of Education had two courses of action. One course would have been to reduce the number of titles in the proposed textbook package. The second course of action would have been to reduce ratios of distribution of titles within the proposed textbook package. The second course was taken, resulting in some instances of textbooks being distributed in ratios which left students without textbooks. This problem of reduced distribution ratios

Free Textbooks—Continued

was also discussed in a joint statement representing the Curriculum Commission and Division of Instruction and was presented to the Curriculum Commission in February 1970. The joint statement indicates a request for additional funds to obtain additional textbooks in order to raise ratios of distribution for reading and literature textbooks to a more usable distribution level.

If textbooks had been ordered in a priority listing, in ascending order the lowest priority titles would have been removed from the list until the textbook package was within budget limits. It is recommended that the Legislature require the State Board of Education to establish a priority listing of titles for new textbook adoptions.

Consumable Supplementary Textbooks

We recommend that in the distribution of the new mathematics basic and supplementary textbooks, the state distribute the consumable supplementary mathematics textbooks only for the first year of distribution (1970-71) and that school districts be required to use the consumable supplementary mathematics textbooks as nonconsumable textbooks (in the manner practiced by some schools by using plastic overlays, etc.). We further recommend that after the first year of adoption, districts receive additional textbooks for replacement and growth at a maximum annual rate of 20 percent of the first year's request.

Table 9 shows the number of basic and supplementary consumable textbook titles adopted from fiscal year 1963-64 through 1969-70. It should be noted that the State Board of Education with the recommendation of the Curriculum Commission adopted a mathematics textbook package with a total of 47 supplementary textbooks of which 36 are consumable. The number of consumable supplementary textbooks in the mathematics adoption which is to start in the fall of 1970 is much larger than in past adoptions.

The result is that the state will be confronted with complete replacement of these consumable supplementary textbooks for each year during the six years of the mathematics adoption period. Expenditures for consumable supplementary textbooks for mathematics will be approximately \$2.8 million (printing and royalties) for each year of the six years of the adoption period for a total of approximately \$14.0 million beyond the first year of the mathematics adoption. We believe the full fiscal impact of adopting such a large number of supplemental consumable textbooks must be reviewed. We have seen no evidence to support the sudden expansion of this high repetitive cost. Further, we find some districts are able to use consumable textbooks as non-consumables by using plastic overlays, thereby protecting and extending the life of the textbooks.

Free Textbooks—Continued

Table 9
Number of Basic and Supplementary Consumable Textbook Titles
Adopted from Fiscal Year 1963-64 Through 1969-70

<i>Year of adoption</i>	<i>Subject area of new adoptions</i>	<i>Basic consumables</i>	<i>Supplementary consumables</i>
1963-64	Arithmetic (1, 2, 7) -----	2	0
	Social Science (6 and 7) -----	0	0
1964-65	Arithmetic (3, 4, 5, 6, 8) -----	1	7
	Social Studies (4) -----	0	0
1965-66	None -----	0	0
1966-67	Science, Health, Social Sciences (2, 3, 5, 8) -----	0	0
1967-68	Spelling -----	8	0
1968-69	Reading -----	3	0
1969-70	Mathematics -----	3	36

Proposal for Multiple Adoption of Basic Textbooks

At the present time the California State Constitution requires that a "uniform series" of textbooks be adopted by the State Board of Education. This is defined as a single adoption system since all students throughout the state of similar grade and ability level are required to use the same basic textbook. This does not prevent the adoption of more than one basic text per subject and grade level, but when more than one text is adopted, the State Board of Education is required to designate the students for whom the book is intended and the ratios at which they will be distributed to comply with the "uniform series" requirement.

During the 1969 session, the Legislature established the framework for a multiple adoption of basic textbooks with the passage of Senate Bill 225 (Chapter 1110) which is contingent upon the approval of Assembly Constitutional Amendment 60, Proposition No. 6, by the voters in June 1970. SB 225 (Chapter 1110) would change the present textbook system to one that would permit school districts to select basic textbooks from the adoptions made by the State Board of Education. While school districts would be able to select and use one to four basic textbook titles in a given subject, there would be an overall limit of one basic textbook per pupil in any given subject. A basic adoption in a subject, however, would not include more than two titles except where titles are adopted to meet the problems of pupils with (a) varying learning levels, (b) language disabilities or (c) cultural disparities. In these cases, a maximum of four basic book titles in a subject is permitted.

With the inauguration of the multiple adoption system, if authorized by ACA 60, in lieu of the single adoption system presently required by the Constitution, there probably will be an element of increased unit and total printing cost to the state resulting from the production of additional titles. Against this state cost there should be some offsetting savings to school districts through better textbook selection and utilization.

Based on the current level of basic textbook adoptions, if one additional basic textbook is adopted per subject there could be an increased production cost of an estimated five percent of the basic textbook budget, averaging \$13.9 million per year over the last four years,

Free Textbooks—Continued

or 3 percent of the total basic and supplemental textbook budget, averaging \$20.6 million per year over the last four fiscal years. If additional basic textbooks are adopted by the State Board of Education to meet the maximum limits of this constitutional revision, there could be an increase in costs of approximately 10 percent of the basic textbook budget, or 6 percent of the basic and supplemental textbook budget. These alternate assumptions result in prospective increases ranging from \$700,000 to \$1.4 million over the current level of expenditures.

The level of costs of the state textbook program is controllable, both by the State Board of Education in its adoptions and its recommendations to the Legislature, and by the Legislature in authorizing annual appropriations. In enacting SB 225, the Legislature indicated its intent that "the annual expenditure for the provision of state-supplied textbooks should not be materially expanded over the existing levels of support" and directed the State Board of Education to consider this intent in its annual consideration of recommended textbook adoptions under Education Code, Section 9301.

There are indications that many school districts fail to make full use of state basic textbooks, preferring to select and use other textbooks at district expense. Thus a larger selection list could encourage school districts to better utilize state basic textbooks creating offsetting savings to the school districts.

Textbook Utilization Study

We recommend that the textbook utilization report to be completed by the Department of Education during the 1969-70 fiscal year contain information concerning an estimate of the extent to which state supplied textbooks are, and are not, being actually used in the elementary public schools of California. A study concerning textbook utilization is now being conducted by the Bureau of Administrative Research and District Organization. This study follows closely the guidelines of the preliminary study by Peat, Marwick, Mitchell and Company entitled *Methodology Development for Measuring Nature and Extent of Textbook Use* transmitted to the Department of Education January 5, 1968. Funding for this preliminary study came from Title V of the Elementary and Secondary Education Act of 1965 and cost \$25,000. The project was not funded for fiscal year 1968-69 but is now funded for the current fiscal year in the amount of \$28,000 under Title V of the Elementary and Secondary Education Act of 1965. The current review study of textbook utilization includes the following subject-grade areas: science, grades 5 and 8; health, grades 3 and 6; social science, grades 2 and 5.

Under the current study, personal interviews of principals, curriculum directors, and teachers have been conducted to determine the content of questionnaires to be distributed to 450 teachers selected at random for each of the six subject-grade areas. Questionnaires are approaching completion and will soon be distributed. It is anticipated that the questionnaires are to be returned to the Bureau of Administrative Research and District Organization for computation and interpretation.

Free Textbooks—Continued

tation in March 1970. The bureau plans to prepare a preliminary report in time for the May meeting of the State Board of Education with a final report submission in June of 1970. It is felt by the people conducting the current study that the information being gathered should be of particular use and importance to the State Curriculum Commission for consideration in future adoptions.

Legislative committees have long indicated their interest in knowing the extent to which state supplied textbooks are, or are not, being used in elementary schools. The extent of usage will give some indication to the Legislature as to whether or not funding an ever increasing list of titles has resulted in meeting classroom needs for textbooks. It should be noted that the study by Peat, Marwick, Mitchell and Company recommended against actually counting unused textbooks on the shelves or in storage in the various elementary school districts. The current study is following this recommendation.

We believe that it is necessary to estimate the extent of usage of textbooks and that the Legislature must be apprised of this in order to appropriate funds.

ACQUISITION OF TEXTBOOKS**Printing and Purchasing**

We recommend that the funding requests for printing (\$5,778,442) and for purchasing (\$4,337,168) of textbooks be approved. Textbooks adopted by the State Board of Education are acquired through (1) direct purchasing from the publisher or (2) through the State Printer. The expenditure associated with each of these methods of acquisition in recent years is reviewed in Table 10.

Table 10
Cost of Printing and Purchasing Textbooks for
Fiscal Years 1966-67 through 1970-71

	1966-67 ¹	1967-68 ¹	1968-69 ¹	1969-70 (est.) ²	1970-71 (est.) ²
Printing----	\$11,198,654	\$7,988,555	\$8,787,811	\$5,629,995	\$5,778,442
Purchasing	3,858,493	2,359,603	5,376,231	2,270,394	4,337,168

¹ Includes cost of new adoptions.

² Does not include cost of new adoptions.

Textbooks produced by the State Printing Plant are manufactured under contract with the publisher to lease the printing plates to the state in return for a royalty assessed on a per copy basis at the time the books are distributed.

Printing Production Leadtime

We recommend that the Legislature consider providing necessary funding to permit additional textbook production leadtime for the State Printing Plant; for example, annual appropriations for basic textbook reprint production separate from the regular budgetary process. Under existing legislative procedure, funding for all textbooks is directly linked to enactment of the Budget Bill. The timing involved in passing the annual budget had been critical to the textbook distribution system. For example, adjustments to bring the textbook program

Free Textbooks—Continued

into accord with the level of funding occur after the budget is passed. Likewise shipments of books which would be affected by the level of funding are delayed until after the budget is passed. As a partial solution to the problem it is suggested that the Legislature appropriate money for basic textbook reprint production other than the last year of adoption in a manner similar to the way money is appropriated to provide adequate leadtime for highway patrol cars. This action would give the State Printing Plant a much needed production leadtime on books where book-to-student ratios and quantities are known.

New Adoption

We recommend that the State Board of Education give more complete justification for the proposed social science adoption for kindergarten through fourth grade (\$3,711,371) to the Senate Finance and Assembly Ways and Means committees at the time the free textbook budget is considered.

In recent years this office has recommended that before any action is taken on the amounts included in the Budget Bill for new adoptions, the State Board of Education should present to the Legislature a complete justification for the proposed new adoptions with specific answers to the following questions:

1. Reasons for discontinuing the present adoption.
2. Changes in the educational requirements that would necessitate an increase in:
 - a. Distribution ratios
 - b. Number of basic books to be supplied
 - c. More elaborate or enriched textbook material.
3. Necessity for use of supplementary books.
4. Necessity for adoption of textbooks in areas not previously included in the state textbook program.

In October 1969, the Bureau of Textbooks issued a justification for adoption of new textbooks for social science, kindergarten through fourth grade. However, the justification addressed itself mainly to the first question, "Reasons for discontinuing the present adoption," with little response to the remaining questions. We do not believe that the justification given for social science, kindergarten through fourth grade, is sufficient to recommend approval of the proposed budget for the new adoption and that further information is required.

Royalties

1. *We recommend approval of the requested \$6,844,898 to pay royalties on textbooks distributed to school districts during fiscal year 1969-70.*
2. *We recommend that prior to approval by the Legislature of funds for the first year of a new adoption, the State Board of Education report to the Senate Finance and Assembly Ways and Means Committees the estimated expenditures for royalties of the proposed new adoption for each year of the adoption period compared to similar estimated expenditures for royalties of the old adoption.*

Free Textbooks—Continued

In budgeting for the first year of adoption, royalties are excluded in budgeted expenditures for new adoptions. However, the following year, the state must budget the royalties on textbooks distributed the previous year as well as budget for reprints. There is no clear picture of royalty costs of a new adoption.

At the present time the mathematics adoption, which will enter the school districts in the fall of 1970, contains 46 supplementary textbooks of which 36 are consumable. These consumable supplementary textbooks will cost the state in royalties an estimated \$1.7 million each year of the adoption or about \$8.5 million in royalties after the first-year distribution over the remaining five years of adoption.

These royalty costs should have been clearly presented to the Legislature prior to the approval of the proposed budget for the new mathematics adoption.

3. *We recommend that the Department of Education make a study of the costs of royalties in relation to list prices and production costs at the State Printing Plant and that the study include recommendations for reducing royalty charges. This study should be submitted to the Joint Legislative Budget Committee by November 1, 1970.* Under the current proposed textbook budget, over 32 percent is requested for royalties on textbooks. At the present time, the state has no control over the amount of royalties charged on the individual textbooks. Sometimes the royalties are equal to or more than the cost of production at the state printers. If royalty assessments seem excessive, the Textbook Bureau contacts the individual publishers and attempts to work out a downward revision of royalties. We believe a firm guideline is needed in order to adequately assess the proper level of royalty charges.

Textbook Bids

It is recommended that the nonaccumulative step system of bidding be used in the call for bids by the Board of Education in future new adoptions. After the preliminary selection of textbooks for a given subject, a call for bids is issued by the Bureau of Textbooks. Publishers and the state printer submit quotations in a number of ways as specified in the call for bids.

In December 1969, a call for bids was issued for the new adoption of textbooks for social science, kindergarten through fourth grade. Royalty bids were quoted in two ways, royalty on an accumulative step system and royalty on a nonaccumulative step system. Under the accumulative step system, the royalty for all books ordered is reduced as more books are ordered and the number of volumes reach the various price break points. Sometimes this results in the publisher giving a rebate to the state at the end of the adoption period.

Under the nonaccumulative step system, the royalty for additional books is reduced as more books are ordered and the number of volumes reaches the price break points.

In reviewing the bids of December 1969, publishers' bids on royalties were generally lower for the nonaccumulative step system than the

Free Textbooks—Continued

accumulative step system including rebates. It is recommended that the nonaccumulative step of bidding be used in future adoptions.

DISTRIBUTION OF TEXTBOOKS

In the fall of 1969 public elementary schools in California experienced shortages of state-issued textbooks when instruction began in kindergarten through eighth grades. In response to this, we conducted a study to determine causes of the textbook delays. We made a report entitled "A Study of the Processes of Textbook Selection, Production and Distribution" to the Senate Committee on Education on January 13, 1970. This study entailed (1) an in-depth analysis of the components of the textbook selection, production and distribution system, (2) detailed interviews with personnel from the Department of Education, the Department of General Services and the Department of Finance, (3) examination of selected records in the Department of Education, Bureau of Textbooks and Publications and the Office of State Printing and (4) a field survey of shortages in eight selected school districts with especially critical textbook shortage problems at school opening.

The study concluded that problems exist at every step of the complicated and interrelated selection, production and distribution system with no one agency or process constituting the single offender in the late deliveries of textbooks to the public schools. Recommendations deal with improvement of management processes rather than educational questions such as those concerning the number of textbooks, which compounds the processes of the system as they work toward the delivery of textbooks to school districts.

Subventions for Education**ASSISTANCE TO PUBLIC LIBRARIES****Item 269 from the General Fund****Budget page 325**

Requested 1970-71	\$1,000,000
Estimated 1969-70	1,251,616
Actual 1968-69	1,159,694
Requested decrease \$251,616 (20.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Public Library Services Act of 1963 (Chapter 1802) is designed to improve local library services by encouraging the establishment of cooperative library systems. The program originally authorized three types of grants; planning grants and establishment grants designed to encourage local units to form cooperative systems, and per capita grants to partially defray the cost of improved services provided by the regional library systems. Chapter 97, 1966 Statutes, amended the

Assistance to Public Libraries—Continued

program by eliminating the planning grant and by establishing an equalization aid formula for the allocation of state support.

The amendments also modified a provision of the law which limited state support to a maximum of 2 percent of the total operating expenses of California's public libraries from funds received from local sources and substituted a sliding scale limitation which increases in annual increments from 6 percent in 1967-68 to 10 percent in 1969-70. Currently, there are 21 library systems, composed of 15 multiple library systems and 6 single library systems, in California, serving a population of 17,656,407 in 1969-70.

ANALYSIS AND RECOMMENDATIONS

We recommend approval. A sum of \$1,000,000 is proposed for subventions to local libraries for 1970-71 which is a decrease of \$251,616 below the current level of state support. Table 1 shows the number of library systems, the state subventions for assistance to public library systems, the population served by library systems, and state support per capita served by the library systems in California for fiscal years 1967-68 through 1970-71.

Under the proposed budget, state support per capita would decrease from the current level of \$0.071 to \$0.054. The number of library systems is projected to remain the same in 1970-71. Population served by the library systems is projected to increase during 1970-71 mainly due to independent public libraries joining existing library systems.

Table 1

Number of Library Systems, Amount of State Subventions, Population of the Library System and State Support per Capita for Fiscal Years 1967-68 Through 1970-71

<i>Fiscal Year</i>	<i>Number of Library Systems</i>	<i>State Subventions</i>	<i>Population of the Library Systems</i>	<i>State Support¹ per Capita</i>
1967-68	20	\$800,000	14,921,059	\$0.054
1968-69	21	1,200,000	16,412,331	.073
1969-70	21	1,251,616	17,656,407 (est.)	.071
1970-71	21 (est.)	1,000,000 (proposed)	18,630,884 (est.)	.054

¹ Approximate level obtained by dividing state subvention by population served.

In March 1969, a study of the California Public Library Service Act (PLSA) was issued by the Public Library Development Board entitled *Statistical Study of Library Systems, 1963-68*. The purpose of the study was "... (1) statistically to determine the effect upon local library resources and services of library systems qualified under the program; (2) to determine, if possible, the cost of system activities and the percent of the cost currently supported by PLSA grants; (3) to determine the current level of local support for public library service; and (4) to determine from the above facts a desirable level of state support for local library systems."

The study concludes that PLSA "... has had significant results in improving library resources and services." It also pointed out that state funding is substantially below that required to support the library system costs estimated at \$0.40 per capita for the activities of central-

Assistance to Public Libraries—Continued

ized processing, transportation and communication and administration and coordination. Present state support for 1969-70 is slightly less than 20 percent of the estimated \$0.40 or about \$0.07. It also concludes that "... the average level of local support for library service has apparently increased. . . ." Increased local support per capita for library service is reported in the study as follows: 1957-58, \$1.88; 1962-63, \$2.69; and 1967-68, \$3.80. The study recommends that "... the full cost of the program be met by appropriation of state funds to the limit authorized." In order to fund PLSA to the limit authorized, the state would have to appropriate more than \$8 million for 1970-71 or \$0.429 per capita.

Subventions for Education

VOCATIONAL EDUCATION

Item 270 from the General Fund

Budget page 325

Requested 1970-71	\$1,030,271
Estimated 1969-70	1,030,271
Actual 1968-69	875,216
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item provides General Fund support for reimbursements to school districts for vocational education programs and for the state's share of the cost of the Manpower Development and Training Program. Under the allocation procedures for reimbursements to school districts for vocational programs, the costs of state level administration are first deducted from the total amount appropriated. The balance is then distributed to districts maintaining secondary schools for supervision and teacher training. To qualify for these funds, school districts must maintain approved vocational education courses in such areas as industrial education, homemaking education and business education.

The item also includes matching funds to meet the 10-percent state matching requirement of the Manpower Development and Training Act. Chapter 1371, Statutes of 1968, appropriated a sum of \$50,000 for 1968-69 and a sum of \$300,000 for each of the following two years to assist school districts to establish high school work experience programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval. General Fund support for vocational education subventions is proposed at \$1,030,271 which is equal to the level estimated for the current year. The amount proposed is composed of \$800,000 for the Manpower Development and Training Program, \$230,271 for the Supervision and Teacher Training Program and

Vocational Education—Continued

\$300,000 for the Work Study Program appropriated by Chapter 1371, Statutes of 1968, special summer work study program.

We recommend that the Legislature direct the Department of Education to develop and implement a followup study of the special summer work study program to determine (1) the number of project graduates who subsequently enrolled in technical vocational programs in the regular school year, (2) the impact of the project on the subsequent school attendance of the project graduates, (3) the impact of the project on the subsequent scholastic records of the project graduates and (4) the extent to which the participating schools have extended work experience programs.

Chapter 518, Statutes of 1969, incorporated the summer work study program within the programs eligible for appropriated support. This program was originally established by Chapter 1171, Statutes of 1968 (SB 840), which directed the Department of Education to develop and implement in poverty areas an experimental summer vocational education program to include both exploratory occupational education and an opportunity for paid employment. The cost of the program was financed by a combination of federal and state funds including a General Fund augmentation to the vocational education budget totaling \$70,656.

In response to a legislative directive the department recently issued an evaluation report covering the project's second year of operation.

A total of five school districts participated in the experimental program, the Los Angeles, Long Beach and El Centro districts in southern California and the Oakland and San Francisco school districts in northern California. As reviewed in Table 1 a total of 1,079 pupils ranging between 15 and 18 years of age participated in the program in 1968 as compared to 1,581 in 1969. Approximately 63 percent were boys. Minority groups accounted for most of the students, 58 percent were black-American and 26 percent were Mexican-American.

Table 1
Comparison of Summer Vocational Education Programs
in 1968 and 1969

<i>District</i>	<i>Participants 1968</i>	<i>Participants 1969</i>
Compton -----	100	---
Los Angeles -----	489	809
Long Beach -----	136	136
Oakland -----	175	254
San Francisco -----	179	318
Imperial County -----	---	64
Total participation -----	1,079	1,581

The department reports that almost all of the students enrolled in the six-week program combined study and "work for pay" on a half-and-half basis. Approximately 47 percent were school aides employed in workshops, offices and as grounds keepers. Lesser proportions were reported for other occupations.

Vocational Education—Continued

The evaluation report concluded that the program was very successful from the point of view of the students, the teachers, and the agencies which employed the pupils. The report made 13 recommendations designed to improve the program which are too numerous to be repeated here. However, it did recommend that the program be continued and that in the future followup studies be performed to determine the numbers of project graduates who enter into technical vocational programs as a result of their experience in the program and to determine if high schools have extended the work experience opportunities they offer. We believe that this recommendation should be implemented if, as proposed, the project is to be continued in the budget year.

Subventions for Education**CONTRIBUTIONS TO TEACHERS' RETIREMENT FUND****Item 271 from the General Fund****Budget page 332**

Requested 1970-71 -----	\$91,000,000
Estimated 1969-70 -----	79,000,000
Actual 1968-69 -----	71,500,000
Requested increase \$12,000,000 (15.2 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

In 1944 the Legislature, in establishing the State Teachers' Retirement System (STRS), recognized that the system was actuarially unsound and that the assets of the transferred system were insufficient to meet its obligations. The Legislature therefore provided in a declaration of financing policies (Section 13804 of the Education Code) that (a) all benefits in respect to service rendered prior to July 1, 1944, which cannot be met by assets of the State Teachers' Retirement Fund shall be provided from contributions by the state and (b) all benefits for service following July 1, 1944 shall be provided from member contributions and public contributions on an approximately equal basis.

The income to the Teachers' Retirement Fund is derived from four sources: (1) the State General Fund, (2) employing school district contributions, (3) member contributions and (4) interest from investments. All teacher contributions when received are deposited in the Retirement Fund and invested in bonds and mortgages. The state and school district money, on the other hand, is paid out upon receipt for current benefits in force. Largely because school district money is not used to pay the employer's share of current service credit as it is earned, the Retirement Fund operates on an unfunded basis.

To determine the amount of state contribution to the Retirement Fund, the Education Code requires the General Fund to pay that portion of the cost of benefits in force which the employing school district contributions and the contributions of retired teachers do not

Contributions to Teachers' Retirement Fund—Continued

cover. Table 1 illustrates the increasing state share of benefit payments required to be appropriated to the Retirement Fund from the General Fund.

Table 1
State Obligation to Retirement Fund

<i>Year</i>	<i>Total benefit payments excluding refunds (in millions)</i>	<i>State share of benefit payments (in millions)</i>
1965-66 -----	\$111,231	\$53,144
1966-67 -----	119,962	56,182
1967-68 -----	139,856	69,260
1968-69 -----	151,748	71,500
1969-70 (estimate) -----	166,623	79,000
1970-71 (estimate) -----	181,083	91,000

In addition to the increasing state share of benefit payments, there has been a rapidly increasing accrued liability. Independent actuaries completed in 1969 an actuarial evaluation of the Teachers' Retirement Fund for the Joint Legislative Retirement Committee. The report concluded that the Retirement Fund's unfunded accrued liability, which is a state obligation that must eventually be paid, was \$3,613,826,782 as of June 30, 1966. The unfunded accrued liability is estimated to have increased to more than five billion dollars by June 30, 1968. As shown in Table 2, there has been a staggering growth in the unfunded liability since the first actuarial valuation was made in 1919.

Table 2
The Amount of Unfunded Accrued Liability

<i>Date of valuation</i>	<i>Unfunded accrued liability</i>
1919 -----	\$25,613,707
1924 -----	32,848,453
1927 -----	47,635,710
1964 -----	2,124,274,205
1966 -----	3,613,826,782

ANALYSIS AND RECOMMENDATIONS

We recommend approval. For the budget year, \$91 million has been requested to be transferred to the State Teachers' Retirement Fund. This is \$12 million or 15.2 percent more than appropriated in the current year. The school district's portion for the budget year is estimated to be about \$63.3 million, which is only a \$4.8 million or 8.2 percent increase from the current year.

This represents a continuing shift of support of the Retirement Fund from school districts to the General Fund in order to meet the current cost of benefits in force. School districts are required by law to contribute an amount equal to 3 percent of their total certificated personnel salaries to the Retirement Fund. This amount may not exceed the amount provided by a tax rate of 5¢ per \$100 of assessed valuation for elementary school districts, 10¢ per \$100 for a combined elementary and high school, or high school districts, and 15¢ per \$100 for a combined high school and junior college district or a unified district encompassing elementary schools, high schools, and junior colleges. In spite of this

Contributions to Teachers' Retirement Fund—Continued

requirement the retirement system received a statewide average of only 2.38 percent of the payroll on June 30, 1969. The local district contributions, according to STRS, has been declining as a result of lagging reassessment practices at local levels, real estate tax relief measures (i.e., the homeowner's exemption of \$750 of assessed valuation), and increases in teachers' salaries at rates faster than adjustments take place in local taxing levels.

Since school district contributions are insufficient, therefore, to support the cost of benefits in force, the General Fund is required to make up the difference. If this trend were to continue, it is estimated that General Fund support to the system will be more than \$200 million by 1976-77 and that by the turn of the century it will approach a billion dollars annually.

In light of these actuarial forecasts, the Teachers' Retirement Board on January 30, 1970 adopted a proposal to the 1970 Session of the Legislature which will place the State Teachers' Retirement Fund on a sound financial basis and finance proposed benefit improvements. The data and projections for the plan were developed by a firm of consulting actuaries. To put the system on actuarial balance will require a matching contribution of 8 percent, each, from the teachers and the school districts (the latter graded upward from 3 percent beginning July 1, 1971 to 8 percent on July 1, 1976) plus a flat contribution of \$125 million annually from the General Fund for the next 30 years to amortize the state responsibility for benefits in force as of June 30, 1971. These amounts, according to the proposed plan, will be sufficient to maintain the fund in a sound financial and actuarial condition.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM**Item 272 from the General Fund****Budget page 521**

Requested 1970-71	-----	\$452,977,364
Estimated 1969-70	-----	387,654,043
Actual 1968-69	-----	323,790,790
Requested increase \$65,323,321 (16.8 percent)		
Total recommended reduction	-----	\$815,000 (Partial)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. We withhold recommendation on the proposed appropriation for cost of care pending receipt of the spring review of case-load and utilization estimates. 982
2. We recommend reduction of \$815,000 (\$1,630,000 state and federal funds combined) from the amount proposed for the Medical Management System project. 992
3. We withhold recommendation on \$588,513 proposed as the state share of cost for the establishment of 14 medical-social review teams. 995

California Medical Assistance Program—Continued

Analysis
page

4. We withhold recommendation on \$933 896 proposed as the state share of \$1,867,792 in increased administrative expenses related to proposed adjustments in the Medical Assistance Program.

GENERAL PROGRAM STATEMENT

The California Medical Assistance Program (Medi-Cal) was initiated on March 1, 1966, as a result of the legislation enacted in the Second Extraordinary Session of the 1965 Legislature. The program superseded the Public Assistance Medical Care (PAMC) and Medical Assistance for the Aged (MAA) programs which had existed previously.

The program provides medical assistance to families with dependent children, to the aged, blind, and permanently and totally disabled individuals whose income and resources are either insufficient to meet the cost of necessary medical services or are so limited that their application toward the cost of such care would jeopardize the person's or family's future minimum self-maintenance and security.

The total California Medical Assistance Program cost has three component parts: (1) cost of care, (2) the county option and (3) program administration. Cost of care includes the payment for medical care provided by physicians, dentists, hospitals, nursing homes, etc., to recipients of public assistance and the medically indigent. The county option cost is that which is paid by both the state and the county for provision of medical care to county indigent patients in county hospitals. Administration is the cost of administering the program which is carried out by the state, the counties and the fiscal intermediaries. The fiscal intermediaries, Blue Cross North, Blue Cross South, and Blue Shield, process and pay all the claims for payment submitted by providers of care.

Funding is provided by the federal government in the amount of approximately 50 percent of the total cost of care. The state and county governments share the remainder in the amounts computed under various provisions of the Welfare and Institutions Code.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$452,977,364 for the 1970-71 fiscal year from the General Fund to the Health Care Deposit Fund, an increase of \$65,323,321, or 16.8 percent over that estimated to be expended during the current fiscal year. The funds appropriated by this item represent the state share of cost for the Medi-Cal and county option programs. The county option program guarantees state participation in the cost of care for medically indigent persons who are not otherwise covered by the basic Medi-Cal program. All state and county funds which are appropriated for the Medi-Cal program are transferred into the Health Care Deposit Fund.

The estimated total program costs from all sources for care and administrative expenses for the 1970-71 fiscal year are \$1,194,457,677,

California Medical Assistance Program—Continued

an increase of \$131,322,664, or 12.4 percent over the current fiscal year. It is estimated that an average of 2,119,600 individuals will be certified to receive care under the Medi-Cal program during the 1970-71 fiscal year, an increase of 262,700, or 14.1 percent over the current fiscal year.

Table 1 shows total expenditures by type of service for the past, current and budget fiscal years.

Table 1
Expenditures by Type of Service

Type of service	Modified accrual	Service year	
	1968-69 actual	1969-70 estimated	1970-71 requested
Physicians' services -----	\$138,083,511	\$165,939,000	\$187,823,000
Prescription drugs -----	59,281,926	58,640,900	69,055,900
Dental care -----	38,316,367	46,127,500 ¹	53,226,600
County hospitals -----	115,672,051	141,874,600	146,700,900
Community hospitals -----	140,975,312	164,914,115	210,963,800
State hospitals -----	38,758,430	44,897,900	42,300,900
Nursing homes -----	187,967,082	203,160,900 ¹	221,926,300
Other services -----	42,654,069	43,787,100 ¹	48,607,700 ³
Title XVIII (B) buy-in -----	14,843,426	17,914,000 ²	25,539,900
Total cost of care -----	\$776,552,174	\$887,256,015	\$1,006,145,000
Administration -----	33,817,094	42,044,719	53,644,515
Cost of carrying out -----	\$810,369,268	\$929,300,734	\$1,059,789,515
Provisions of Section 14150.1, Welfare and Institutions Code (county option) -----	130,279,525	146,222,831	146,612,162
Totals -----	\$940,648,793	\$1,075,523,565	\$1,206,401,677
Less savings not an obligation of the fiscal year -----	--	-110,668,816	-122,612,816
Add service obligation from prior fiscal year -----	--	+98,280,264	+110,668,816
Total program cost -----	\$940,648,793	\$1,063,135,013	\$1,194,457,677

¹ Includes special budget allocation for limited rates and fees adjustments in fiscal year 1969-70.

² Premium computed at \$5.30 per month July 1, 1970, through June 30, 1971. Includes cost of extending buy-in to MAO aged effective January 1, 1970.

³ In fiscal year 1970-71, "other services" includes optometrists and opticians (\$12,309,300); podiatrists (\$2,780,300); home health agencies (\$4,727,200); Community Mental Health Programs (\$8,000,000); independent laboratories (\$2,431,300); prosthetists and orthodontists (\$1,640,300); physical therapists (\$1,421,400); occupational therapists (\$11,000); speech therapists (\$17,500); audiologists and hearing aids (\$5,032,600); medical transportation (\$1,629,400); and all other services category (\$8,919,500).

COST OF CARE

Of the total \$1,194,457,677 shown in Table 1 as the cost of the Medi-Cal and county option programs, \$1,006,145,000, or 84.2 percent is proposed for direct payment of services. The anticipated cost of care is \$118,888,985, or 13.4 percent above that estimated to be expended during the current fiscal year.

Table 2 shows the estimated cost of the various types of service and the percentage increase for 1970-71 over 1969-70.

California Medical Assistance Program—Continued

Table 2
Type of Service, Medi-Cal
1969-70 and 1970-71

Type of service	1969-70 estimated	1970-71 requested	Percentage increase (decrease)
Physicians' services -----	\$165,939,000	\$187,823,000	13.2%
Prescription drugs -----	58,640,900	69,055,900	17.8
Dental care -----	46,127,500	53,226,600	15.4
County hospitals -----	141,874,600	146,700,900	3.4
Community hospitals -----	164,914,115	210,963,800	27.9
State hospitals -----	44,897,900	42,300,900	(5.6)
Nursing homes -----	203,160,900	221,926,300	9.2
Other services -----	43,787,100	48,607,700	11.0
Title XVIII (B) Buy-In -----	17,914,000	25,539,900	42.6
Total Cost of Care -----	\$887,256,015	\$1,006,145,000	13.4%

Medical Assistance Program Adjustments

On page 529 of the program budget under the heading "Medical Assistance Program Adjustment" the department indicates that during the 1970-71 fiscal year it plans to implement administrative adjustments that will result in program savings. The cost of care as shown in Table 2 has been reduced by \$38,000,000 as a result of the proposed adjustments. The budget indicates four areas in which program cost reductions will result.

1. Intensify control on hospital utilization.

The department proposes that the state or the fiscal intermediaries be notified, in advance of all institutional stays, as to the purpose and anticipated length of stay. Notification of emergencies would be submitted within 24 hours of admittance. At present there is no such system. Currently community hospital stays are limited to eight days without medical review or authorization for longer stays. County hospital stays are not limited by the eight-day requirement.

The Medi-Cal cost of hospital services rendered to aged persons is largely offset by the Medicare program. This is not true of AFDC recipients. In October 1969, the average payment per day to hospitals for those AFDC recipients who were hospitalized was \$87.75. The average payment for all recipients was \$52. The lesser amount results from the fact that the average for all recipients is reduced through the effect of the aged caseload and the Medicare copayments which result in that caseload.

The cost of hospital services continues to rise at a faster rate than any other type of provider service. The average per-day cost for the first four months of the 1969-70 fiscal year for AFDC recipients was \$84.99 compared to \$73.15 for the corresponding period during the 1968-69 fiscal year. This was an increase of 16.2 percent.

The proposed program adjustment would require submission of the hospitalization request 10 days in advance of admission with an estimate of length of stay. Presently nonemergency hospitalizations represent 20 percent of all hospitalizations. The department estimates it can control 10 percent of the nonemergency hospitalization, and thus effectuate an estimated net reduction of 2 percent in hospital expenditures.

California Medical Assistance Program—Continued

The department estimates program savings resulting from this proposal to be \$17 million. On the basis of budget cost estimates for both county and community hospitals it would appear the anticipated savings are overly optimistic. If the \$17 million were not reduced, hospital costs are estimated to be \$510.5 million. A 2-percent reduction would be approximately \$10.2 million. However, considering the fact that county and community hospital costs combined are estimated to increase by 17 percent, any effort to reduce those costs should be made.

2. Tighten eligibility requirements for medically needy persons.

The budget proposes to establish a system of state certification of the medically needy and to tighten eligibility requirements for medically needy persons.

Currently, the counties certify the eligibility of those persons who are in the "Medical Assistance Only" category. Justification material presented by the department does not indicate how the state is to take over this function. In fact on page 533, line 22 of the budget the statement is made that \$1,000,000 is added to the county administration category, a portion of which would be used for this purpose. On page 1001 of this analysis, under the heading of administration, we are withholding recommendation on this amount until the purposes of the augmentation are clarified.

As part of this proposal persons would not be certified if reduced personal property resources are in excess of \$600 (reduced from the present \$1,500) for a single person or \$1,200 (reduced from the present \$3,000) for a couple or a family, or if they have real property in excess of \$5,000 assessed valuation. Property used as a home and real property in which the person holds a life estate would be excluded from consideration as a resource.

The proposal also calls for a single scope of program benefits for both the categorical aid recipient and the medically needy. As the medically needy will be required to obligate all income exceeding the above levels, they will have no income available for presently uncovered medical expenses.

The savings resulting from this proposal are estimated to be \$13,-000,000 offset by \$1,000,000 in administrative expenses.

3. Limit fees when Medi-Cal is copayer with Medicare.

The budget proposes to apply the Medi-Cal payment limits to copayment claims and in cases of joint coverage by both Medicare and Medi-Cal, to limit Medi-Cal copayment to the difference between that which Medicare allows and what Medi-Cal would pay for the same service.

Currently Medi-Cal copayment is based solely on the Medicare payment rates for services provided under that program. Medi-Cal payment limitations, such as Schedules of Maximum Allowance, are not applicable. Medi-Cal payments for similar services are generally lower than Medicare rates of reimbursement, particularly in physician services and extended care facilities services. Limiting Medi-Cal payment in crossover cases as proposed would set forth an equalization of payment for similar services provided to Medi-Cal beneficiaries.

California Medical Assistance Program—Continued

Medicare and Medi-Cal services are similar except that Medicare payments for services in extended care facilities include reimbursement for ancillary services.

The estimated program savings would be \$3,000,000 which would be offset by \$167,792 in administrative expenses.

4. Establish schedule of maximum allowance for outpatient services.

The budget proposes to establish a Schedule of Maximum Allowances (SMA) for outpatient services provided through hospitals, freestanding clinics, neighborhood health centers and other institutions.

Hospital outpatient services are now paid on the same basis as hospital inpatient services. This is the Medicare system of relating costs to charges. Use of this system is mandated by federal regulations for hospital inpatient services. There is, however, no federal requirement for the use of this method to reimburse hospitals for outpatient services.

The department states that the reimbursement rates for hospital outpatient procedures described are almost always higher than the maximums allowed in the Schedule of Maximum Allowance (SMA) for the same service in a nonhospital setting. The use of existing SMA's and development of schedules for "rent" type services would have two beneficial effects: it would probably reduce outpatient charges by at least 5 percent and it would provide a structure for utilization review and development of a data base for accurate estimates of future costs.

Under the proposal, schedules of maximum allowance would be established for the use of hospital facilities such as examination, emergency, cast and operating rooms. Existing SMA's would be applied to ancillary services such as physical therapy, occupational therapy, speech therapy, pharmacy, clinical laboratory, etc.

The program savings resulting from this proposal are estimated to be \$5,000,000 offset by \$200,000 in administrative expenses.

Other Program Adjustments

In addition to the program cost reductions listed above, the budget proposes savings in the following areas:

1. Effective July 1, 1970, psychologists', chiropractors', and special duty nurses' services will be removed from the Medi-Cal scope of benefits. The budget states that the exclusions are made as part of the overall effort of control of expenditures for unnecessary services. The exclusions will result in program savings of \$2,000,000.

2. The cost of nursing home care is estimated to be reduced by \$12.4 million as a result of the establishment of medical-social review teams which will be phased in during the 1970-71 fiscal year. The review is anticipated to result in a 13 percent reduction in the Medi-Cal nursing home population when the program is fully implemented during the 1971-72 fiscal year.

Eligible Caseload Estimates

There are two major classifications of persons who are eligible to receive benefits in the California Medical Assistance Program (Medi-Cal)—the cash grant and the medically indigent. Cash grant recipients

California Medical Assistance Program—Continued

are those persons who receive public assistance grants and are eligible for the Group I scope of benefits, which is the full scope of benefits available under the program. The medically indigent on the other hand, may receive either Group I or Group II benefits, a more limited scope of benefits.

The budget projects a total estimated caseload of 2,119,600 eligible persons for the 1970-71 fiscal year, which is an increase of 262,700 or 14.1 percent over the number estimated for the current fiscal year. As can be seen in Table 3, the largest percentage increase in caseload is anticipated in the Group I category which is projected to increase by 249,300 persons or 14.6 percent.

Table 3
Actual and Projected Medi-Cal Caseloads
Fiscal Years 1968-69 Through 1970-71

Group and linkage factor	Average monthly number of certified eligibles			Number increase	Percentage increase
	1968-69 Actual	1969-70 Estimated	1970-71 Estimated	1970-71 over 1969-70	1970-71 over 1969-70
Medical assistance					
Group I -----	1,502,420	1,704,300	1,953,600	249,300	14.6
Aged -----	334,089	347,600	357,600	10,000	2.9
Blind -----	13,373	14,000	14,400	400	2.9
Disabled -----	142,717	162,700	184,500	21,800	13.4
Families (individuals)	1,012,241	1,180,000	1,397,100	217,100	18.4
Medical assistance					
Group II -----	138,916	146,200	159,000	12,800	8.8
Aged -----	27,309	28,500	29,100	600	2.1
Blind -----	330	300	400	100	33.3
Disabled -----	10,387	11,100	11,600	500	4.5
Families (individuals)	100,890	106,300	117,900	11,600	10.9
Mentally retarded patients					
age 18-64 ----	2,264	6,400	7,000	600	9.4
Total Medi-Cal Coverage -----	1,643,600	1,856,900	2,119,600	262,700	14.1

Group I Eligibility

The Group I caseload consists of recipients of public assistance cash grants and persons certified for public assistance but for various reasons do not receive a grant during a particular month. Others eligible for Group I benefits are those with incomes below the grant level but who elect not to seek support assistance.

Group II Eligibility

The Group II estimated caseload of 159,300 for the 1970-71 fiscal year consists of those people who are categorically linked to a public assistance program but who have incomes above the grant levels. Categorical linkage means that a person is eligible for one of the state's public assistance categories but has an income which is above the maintenance base but is not sufficient to meet the cost of medical care.

California Medical Assistance Program—Continued

Group II eligibles may be required to pay a portion of their medical care cost depending upon their income, other resources and the cost of medical care. If a person is eligible for one of the public assistance categories the amount that person is liable for payment of medical costs varies depending upon the person's income or resources. When those costs are paid he is then eligible for receipt of benefits as a Group II recipient. The scope of benefits for Group II eligibles includes inpatient hospital care and ancillary services and the following outpatient services which are limited to the illness for which hospitalization was ordered: physician services, laboratory services, X-ray and hospital outpatient care.

Although the budget does not indicate it, the department has stated that the Group II scope of benefits will be eliminated when more stringent eligibility requirements for the medically needy are adopted.

COUNTY OPTION PROGRAM

When the Medi-Cal program was proposed in 1965, an increase in cost of care in the county hospitals was anticipated. To protect the counties amendments to the basic Medi-Cal proposal which would allow the counties the option to receive a guarantee from the state that their future medical costs would not exceed those of their 1964-65 fiscal year as adjusted for population increases. County cost of care exceeding the adjusted 1964-65 level was to be met by the General Fund for those counties electing this optional method of cost sharing.

Under the basic county contribution the counties pay an amount equal to 90 percent of the county cost of health care uncompensated from any source in 1964-65 for all categorical aid recipients and other persons age 65 and older. In addition to that 1964-65 amount each county pays an amount specified in Section 14150 of the Welfare and Institutions Code which is increased each year by an amount proportionate to the increase in population. The effect of this basic contribution is that the total county contribution to Medi-Cal is approximately \$106 million for the current fiscal year and would increase slightly as the population increased.

The optional method of payment provides that counties can pay 100 percent of the uncompensated 1964-65 costs for all county indigents increased only by population, and the state would pay for other cost increases, subject to budget limitations.

As a general rule it was to the advantage of the larger counties to select the option because costs would and did increase. Approximately 85 percent of the cost of county hospital care is under the option program.

It was to the advantage of a county not to go into the option if their uncompensated costs were going to go below the 1964-65 level. This could result when a county had many less persons who would be in the "uncompensated" category. This proved true with many small counties.

Some counties such as Tulare erroneously selected the option method of payment. Their uncompensated costs went below the 1964-65 level,

California Medical Assistance Program—Continued

but the counties must contribute the 1964-65 amount. The law provides that such selection to have the share of cost computed under the optional method shall be irrevocable until June 30, 1970. It is anticipated that some counties will switch from the option program to the basic contribution method after that date.

Due to budgetary limitations the department proposes \$35 million as the state share of the county option program for the 1970-71 fiscal year. This is the same as is estimated to be expended during the current fiscal year.

Medi-Cal Pilot Projects

During the 1969-70 fiscal year the Department of Health Care Services created the Demonstration Studies Unit as the departmental administrative unit responsible for the review, analysis, implementation, monitoring and evaluation of Medi-Cal pilot programs. Staffing of the unit was accomplished by budget approval of three analyst and one clerical positions and the transfer of two additional analysts positions from other departmental units. In addition, an estimated five man-years are being expended on the evaluation and medical review of projects by other DHCS staff.

A substantial number of inquiries and proposals were received during the year. The review and analysis of these proposals included evaluation of their potential for demonstrating improvement of the delivery of service, quality and quantity of service, economic impact, and their administrative feasibility.

San Joaquin Medical Foundation Project

This is a study to test the cost control potential of prepaid care with the contractor underwriting the risk involved.

The contractor, the San Joaquin Foundation for Medical Care, is a nonprofit corporation composed of physicians only. They have agreed to provide all necessary physician services to specified eligible recipients (approximately 22,000), residing in the Counties of San Joaquin, Amador, Tuolumne and Calaveras. In return, the state is to pay a flat rate per month per eligible (prepaid capitation).

In addition the foundation is doing a portion of the processing of claims submitted by suppliers of services other than physicians to obtain the necessary data for creation of patient and provider profiles. These profiles will be a record of all services received by the patient or provided by the supplier and will be used to attempt the control of utilization of services. The project began February 1, 1968, and is currently contracted through June 30, 1970.

The conclusions reached by the department after the first year of operations are as follows:

1. The San Joaquin Project is a test of prepayment. Risk did exist to the physicians within the prepayment group as an incentive to improve the quality of services provided.

2. A peer review system exists for physicians but has not been as well developed in the case of other providers.

3. There is an indication that peer review of physician services is holding down costs. More meaningful analysis of medical practice by

California Medical Assistance Program—Continued

medical specialty will be possible when further refinement in provider profiles is made. This work has already begun.

4. During the project's first year, the Foundation paid physician claims more rapidly in the first months immediately following the month of service than did California Blue Shield. This may be due partly to a shorter billing period (60 days) than existed elsewhere in the state.

5. Average claim costs for physician's services under the prepaid contract are lower than those at California Blue Shield. Claims for other services appear to be lower but the administrative costs incurred at California Blue Shield have not been included because of lack of identification.

6. A high degree of manual profile comparison still exists within the claims review process. This contributes to the maintenance of higher costs than might be necessary since it is a slower process than is possible by electronic data processing.

7. No analysis was made of the quality of care afforded under the project due to the short time the project has been operative. This will be part of the study conducted by the University of California at Los Angeles.

Family Health Program

This is a study to test the cost control potential and recipient acceptance of a group practice health insurance coverage.

The contractor in this project is the Family Health Program of Southern California, a medical group practice prepayment organization. For a monthly capitation payment the contractor is to provide most of the services authorized under the Medi-Cal program. Enrollment in the project is a voluntary election by the recipient. Total expected enrollment is 3,000 recipient residents of Long Beach. Effective period of the contract is September 1, 1969, through August 31, 1970.

Prepaid Dental Program

This is a study to test the cost control potential and improvement of utilization practices through prepayment.

The contractor, a dental partnership, has agreed to provide all dental services, excluding orthodontics, for a flat fee per year per enrolled family. Enrollment is restricted to 50 families. The contention is that through dental health education and preventive maintenance care a higher degree of dental health can be achieved at a lower cost per user than is now experienced under the program. This project began May 1, 1969, and will continue through April 30, 1971.

Tri-County Prepayment Medi-Cal Project

The Tri-County Prepayment Medi-Cal Project, implemented in the counties of Sonoma, Lake and Mendocino, on October 1, 1969, is a three-year experiment designed to test the effectiveness of prepayment of the full scope of Medi-Cal benefits and local claims administration in controlling program costs.

California Medical Assistance Program—Continued

The project is underwritten by an insurance company which is also supplying data processing support and technical expertise for the claims processing system.

Administration of the project is carried out by the Sonoma and Mendocino-Lake Counties Medical Foundations at a central claims office in Santa Rosa. The foundations supervise the claims processing activities, as well as local peer review and provider appeals.

The plan provides a guaranteed rate for benefit costs for approximately 20,000 Public Assistance beneficiaries. Benefit costs for Medical Assistance only eligibles (approximately 3,000 persons) are covered on a cost-reimbursement basis. Administrative costs for the project are also under risk.

Sunlite Medical Centers Project

This is a study to test the cost control potential of an all-inclusive rate for nursing home care.

The Sunlite Medical Centers, Inc., a California corporation, has agreed to provide all skilled nursing home services, and to reimburse all other providers for services to beneficiaries in project nursing homes in return for a single per-patient-day payment by the state.

Six nursing homes treating approximately 200 Medi-Cal beneficiaries are involved. The original contract period of four months was extended two months, through November 30, 1969. Evaluation of the project has not been completed.

In addition to these operational demonstration projects, the department indicates that it has four more in the review stages prior to possible implementation.

While it is possible to visualize additional studies to be undertaken, the Department of Health Care Services now has within its resources and capabilities, sufficient studies underway or in active planning to adequately test a variety of alternate methods of health care programs.

The major obstacle to further expanding efforts in demonstration studies is the complex administrative procedures involved in the Medi-Cal program. Administrative responsibilities are spread over the 58 county welfare departments, the State Department of Social Welfare, three fiscal intermediaries and the Department of Health Care Services. Experimentation, such as the department is now doing, requires alternate procedures and reprogramming at each level of administration. For example, to create a study involving a prepaid health plan requires that the county welfare department adopt a deviation procedure in the issuance of identification cards. This must be accomplished without disrupting the ongoing card issuance to nonstudy recipients or the cash grant warrant release to all recipients. A special procedure to capture, or screen out, claims that may be submitted to the fiscal intermediaries for project enrollees must also be instituted. This also must be accomplished without disrupting or delaying a process which maintains continuous review of the utilization of health services by approximately two million recipients and 70,000 providers.

California Medical Assistance Program—Continued

The implementation of an improved system, such as that provided for in the Medi-Cal Management System and for which a prototype is now under consideration, will provide more flexibility and allow even further experimentation with different payment systems in the future. Meanwhile, the information resulting from the present pilot programs is anticipated to be of great value in future program planning.

ADMINISTRATION

The objective of the administration budgetary element is to plan, organize, manage and control the Medi-Cal program. Assurances must be provided that the services bought are of at least a comparable quality to those available to the general public, that all budgetary limitations are observed, that the public is informed of all program developments, and that Medi-Cal is managed in a manner beneficial to both the recipients of purchased services and the taxpayers of this state.

In order to meet the above stated objective the administration program element is divided into six subprogram elements: benefits planning, program cost control, program utilization control, eligibility certification, services payment, and departmental administration. These subprograms are carried out by three groups of administrators. The state group includes the personnel of the Department of Health Care Services as well as contract employees located in the Departments of Social Welfare, Mental Hygiene, and Public Health. The county administration group includes employees of either the Departments of Welfare or Public Health. The fiscal intermediary group includes contract employees of California Blue Shield, the Hospital Service of California, and the Hospital Service of Southern California.

Table 4 shows the total estimated administration costs incurred by these subprogram administrators in fiscal year 1969-70 and the requested funding for this program element for fiscal year 1970-71.

Table 4
Medi-Cal Administration Program Costs Requested 1970-71 and
Estimated 1969-70

<i>Administrative category</i>	<i>1969-70 Estimated expenditure</i>	<i>1970-71 Requested expenditure</i>	<i>Percentage increase over current fiscal year</i>
State support -----	\$8,695,650	\$15,111,723	+ 73.8%
Fiscal intermediary -----	20,335,100	21,798,000	+ 7.2
County operations -----	13,013,969	16,734,792	+ 28.6
Total Administration Program Cost -----	\$42,044,719	\$53,644,515	+ 27.5%

The total cost of administering the provision and payment of health care benefits under the Medi-Cal program is estimated at \$53,644,515 for the 1970-71 fiscal year, which is an increase of \$11,599,796 or 27.5 percent over the current fiscal year estimated expenditure of \$42,044,719. The administrative costs come out of the Health Care Deposit Fund and are paid approximately 50 percent by the General Fund and 50 percent by the federal government.

California Medical Assistance Program—Continued

For purposes of a more detailed examination of the budget request for this administration program we have divided our discussion into three major sections: state support, fiscal intermediary services, and county administration.

State Support

Table 5
Medi-Cal State Support Program Costs Requested
1970-71 and Estimated 1969-70

<i>Administrative agency</i>	<i>1969-70 estimated expenditure</i>	<i>1970-71 requested expenditure</i>	<i>Percentage increase or decrease over current fiscal year</i>
Department of Health Care Services	\$5,743,450	\$11,030,847	+132.5%
Department of Mental Hygiene	1,905,372	1,899,330	-0.3
Department of Social Welfare	1,701,817	1,623,185	-4.6
Department of Public Health	345,011	558,361	+60.6
Total, state support cost	\$8,695,650	\$15,111,723	+73.8%

As indicated in Table 5 the 1970-71 budget proposes an appropriation (Item 112) from the Health Care Deposit Fund for state support in the amount of \$15,111,723. This proposed support item is \$6,416,073 or 73.8 percent more than is estimated to be expended during the current fiscal year.

Included within the proposed \$15,111,723 is \$11,030,847 for the operation of the Department of Health Care Services. This requested appropriation is \$6,287,397 or 132.5 percent more than is estimated to be expended by the department during the current fiscal year. Almost all of this large increase in funding results from two projects.

Medi-Cal Management System

We recommend reduction of \$815,000 (\$1,630,000 state and federal funds combined) from a total of \$2,250,000 intended as the state share of the proposed Medi-Cal Management System project (\$4,500,000 total state and federal funds proposed).

The 1968 Legislature authorized an amount of \$250,000 for a study of the existing Medi-Cal eligibility process, claim payment process and management system. A private contractor was awarded the contract to conduct the study. It completed and submitted a report in March 1969 with extensive recommendations. The department adopted the report in the late summer of 1969 and asked for bids from potential contractors for the development and implementation of the system proposed on a prototype basis, that is, in two counties to test and perfect the procedures.

The report basically recommends a single management claims processing control system. The system would provide for positive eligibility verification by providers of service. There would be local claims processing and review centers that would be linked to the centralized data processing unit by modern communications facilities. The proposed system called for diligent review by panels of provider peer groups of all services provided. The system proposed would be a strong single management system with the ability to immediately adjust the program

California Medical Assistance Program—Continued

to the needs of the state. The present system can at best be described as fragmented and totally unresponsive to the needs of the state, providers of care, and recipients of service.

The 1969 Budget Bill proposed \$750,000 to begin implementation of the consultant proposal. Because adequate information was not presented to the fiscal committees of both houses the \$750,000 was deleted. (The hearings were conducted the same month the contractor's report was submitted to the department.) The Committee on Conference on the budget bill provided \$50,000 for state staff and adopted language in the "Supplemental Report Committee on Conference, 1969 Budget Bill" which provided that the department could go ahead with the Medi-Cal Management System by using savings from appropriated administrative funds to finance the initial portion of the system.

Response to Request for Bids

On November 21, 1969, two groups submitted bids to implement the Medi-Cal Management System on a prototype basis in two counties, San Diego and Sacramento. One group of bidders consisted of California Blue Shield, Blue Cross North and Blue Cross South in conjunction with the Lockheed Corporation. The three Blues formed a corporation called CENPRO. The other bidder consisted of four insurance companies (Occidental Life, Cal-West Life, Pacific Mutual Life, and Pacific National Life) in conjunction with the IBM Corporation. The insurance companies formed a joint venture called Health Care Systems Administrators (HCSA).

The department appointed a state review team to analyze the two proposals with the assistance of three nonstate consultants. On February 6, 1970, the department adopted the review team's unanimous recommendation that it commence negotiations for the signing of a contract with HCSA.

The maximum bid of HCSA was \$5,768,211 compared to CENPRO's bid of \$4,563,971.

The project will be implemented in three phases. Phase one is the design stage to last seven months at a maximum cost of \$1.24 million. Phase two is the developmental phase to last 11 months at a maximum cost of \$2.87 million. The third phase is the implementation phase and will take six months at a maximum cost of \$1.66 million. The department anticipates negotiating a contract by May 1, 1970 with the detailed design phase to commence immediately thereafter.

We have thoroughly reviewed both the CENPRO and HCSA proposals and agree that although the HCSA proposal is \$1.2 million more than the CENPRO proposal, the advantages of the HCSA proposal far outweigh the difference in cost.

The real significance of the new system will be in its operational ability to achieve effective program control. Because of the potential magnitude of savings in this \$1 billion plus program, which such controls can produce, it is felt that the dollar difference of \$1.2 million or 0.1 percent of the annual program cost between the two proposals is

California Medical Assistance Program—Continued

not significant. There is greater assurance of achieving the desired program controls in the HCSA proposal.

While both groups responded adequately to meet the requirements of the Medi-Cal Management System, the Health Care Services Administrators proposal is far more detailed than that of CENPRO. This detail produced a greater degree of credibility and confidence among the team reviewing the proposals. Thorough analysis and planning is reflected in the HCSA proposal. By evidence of the detail included, HCSA uncovered and developed solutions to many potential problem areas within the system. These problem areas were overlooked in the CENPRO proposal.

The reliability of the estimates in the HCSA proposal is supported by more adequate back-up data in almost every area, including extensive development of the teleprocessing network requirements. Conversely, with the amount of time and effort spent on the original study by Lockheed and the experience of the "Blues" organization in the Medi-Cal program, there is small quantity and poor quality of information presented in their proposal. The CENPRO proposal failed to note problem areas.

Both the oral and written presentations of the HCSA group indicate an understanding of the problems involved in the program management and control. It was pointed out that the responsibility for overall program control is vested in a single individual with extensive power over local review center operations. This control will provide for a greater degree of uniformity of operations and claim review. It will also permit greater flexibility to the state in monitoring and controlling the operations.

HCSA has demonstrated a quality of administrative control in the Medicare program that may provide the state with more adequate controls of program utilization and cost. Their plan to institute the same kind of administrative controls in the prototype system will provide a change in administrative approach that should prove to be beneficial. Additionally, there will be a basis for comparison of this new approach with the existing system.

Management information is one of the primary considerations in the proposed system. The HCSA proposal recognizes this as a primary consideration and includes recommendations for the kind of reports that may be useful to the Department in managing the program. The HCSA proposal provides extensive detail in many areas and concrete problem solving procedures which will facilitate contract negotiations.

The HCSA proposal indicates that the joint venture contractors have a resident data processing capability, and they will be involved extensively in every step of the system development and that they intend to operate the data processing facility throughout the contract. The CENPRO organization does not have the same in-house capability and is dependent on Lockheed, a subcontractor, to provide data processing services. The Blue Shield organization does have a contract with Electronic Data System Corporation (EDS) for data processing services for their ongoing business but this again is not an in-house capability.

California Medical Assistance Program—Continued

The budget proposes \$4,500,000 as the 1970-71 support for the project. We are recommending that amount be reduced by \$1,630,000 (\$815,000 General Fund). We are recommending that enough funds be budgeted to finance Phase two of the project (\$2,870,000) and that the support of Phase one (\$1,240,000) come from administrative savings to be realized in the current budget, as was directed by the 1969 Conference Committee. After negotiations are concluded and a contract is signed the department will be in a much better position to determine what the 1971-72 funding needs will be.

Medical-Social Review Teams

We withhold recommendation on \$588,513 proposed as the state share of cost for the establishment of 14 medical-social review teams until complete justification information is submitted.

The Social Security Act Amendments of 1967 require periodic inspections to be made in all skilled nursing homes and mental institutions within the State by one or more medical review teams (composed of physicians and other appropriate health and social service personnel). The aim of these inspections is threefold. First, the care being given to all eligible patients is to be generally inspected. Second, with respect to each of the patients receiving such care, the necessity and desirability of the continued placement of such patients in said facility is to be evaluated. Third, the feasibility of meeting nursing home patients' health care needs through alternative institutional or non-institutional services is to be evaluated.

The Department of Health Care Services proposes to meet this requirement during the 1970-71 fiscal year by establishing 14 medical-social review teams at a cost of \$1,177,027. These teams, each consisting of one-half physician, two Public Health Nurses or Registered Nurses, two social workers, and one clerk, would evaluate the needs of each patient in a nursing home or mental institution to determine whether or not the patient needs that level of care or could be moved to a lower cost residential care facility.

Findings of a recent State Intermediate Care Facilities Survey indicated that approximately 13 percent of all surveyed nursing home patients could have all of their requirements met in a residential care facility or they could be cared for in their own homes with assistance.

A separate study was conducted in San Diego County by the State Department of Public Health. Their findings were that approximately 14 percent of the surveyed nursing home patients could be transferred to residential care facilities.

However, it should be recognized that the State Department of Social Welfare will pay approximately \$11.0 million to support this group of transferred patients in residential care facilities. Thus, these proposed medical-social review teams will cause a \$12.4 million subvention savings in the Medi-Cal program. The cost of these teams (approximately \$1.2 million) is then deducted for a total savings of \$11.2 million. It should be pointed out that even if no savings are real-

California Medical Assistance Program—Continued

ized the expenditure of \$1.2 million is required in order to receive federal matching funds for this program.

Nursing home savings -----	\$23.4 million
Less cost to SDSW for residential care -----	\$11.0 million
<hr/>	
Savings -----	\$12.4 million
Less administrative costs of review teams -----	\$1.2 million
Net program savings -----	\$11.2 million

A major problem to be faced when these review teams are operative is the insufficient number of residential care facilities in the community. The Department of Social Welfare has indicated that there are insufficient facilities to accommodate any large number of patients being transferred out of nursing homes.

Because of the federal law requiring medical-social reviews of nursing home patients, and in light of the shortage of residential care facilities, the Human Relations Agency should place a high priority on developing new residential care facilities to prevent the state from losing federal matching funds in this program.

It would also seem that the Department of Health Care Services, knowing for at least a year that it was required to implement this provision of the law, would have presented a much more specific proposal for implementation in the 1970-71 budget. The department does not currently know which, if any, of the 14 proposed review teams will be county contract personnel and which will be state employees. At a minimum the department will be required to employ a social service administrator I and a clerk-typist II for the purpose of coordinating the work of these teams. This assumes that all 14 teams are manned by county employees whose costs are being reimbursed by the state. At a maximum, the implementation of this medical-social review team proposal could result in the necessity of the state having to hire seven medical consultant I's, 28 social service consultant II's, 28 public health nurses, and 14 clerk-typist II's in addition to the previously mentioned headquarters staff. At the current time, the department cannot supply us with information on whether this proposal, in order to be effective, will require two additional state employees in the Field Services Bureau of the Division of Program and Planning or whether it will require 79 new positions or what number will be required between these two extremes. It even appears that no planning sessions have been held with involved county officials at this time. We cannot properly evaluate this proposal until the department has finished their planning and can present us with a cohesive, coherent, well-thought-out request.

Aside from the funds to support the activities of the Department of Health Care Services, Item 112 also includes \$4,080,876 for contract services rendered to the Medi-Cal program by other state departments. This is an increase of \$128,672 or 3.3 percent over the current fiscal year budget for the same purposes. Of these three contracts, two—those with the Departments of Mental Hygiene and Social Welfare—call for slightly less funding in fiscal year 1970-71 than was received during

California Medical Assistance Program—Continued

the current fiscal year. In both cases the amounts are smaller because of a diminution of services rendered to the Medi-Cal program. In only one case—the contract with the State Department of Public Health—is an increase in funding from the current amount of \$345,011 to the \$558,361 proposed for 1970–71 requested. This increase is discussed below.

Certification of Medi-Cal Facilities

We recommend approval of the request of \$213,350 to be used to fund a contract between the Departments of Health Care Services and Public Health covering the cost of certification of facilities under provisions of the Medi-Cal program.

Since the inception of the Medi-Cal program, the Department of Health Care Services has had an informal agreement with the State Department of Public Health calling for that department to certify facilities as being eligible to receive reimbursement for services rendered to Medi-Cal eligible clients. This was a logical arrangement because the Department of Public Health was the agency certifying the facilities as being eligible to receive reimbursement for services rendered under the provisions of the Medicare program. The department also licensed all health care facilities in the state. Thus, a facility was visited by one inspector who was empowered to make decisions under three different programs. This year the Department of Public Health advised the Department of Health Care Services that if they desired the arrangement outlined above to continue into 1970–71, a formal contract against the Health Care Deposit Fund calling for reimbursement for services rendered would have to be executed.

If such a formal contractual arrangement were undertaken the state could be reimbursed from the federal government for 50 percent of the cost of the Medi-Cal certification function. Up to the current time this function has been borne 100 percent by the state's General Fund. Based on the 1970–71 appropriation request for this service (\$213,350) the execution of this interdepartmental contract will result in a savings to the General Fund of \$104,500. It should also be pointed out that if the funding is not approved the Department of Health Care Services would have to undertake the certification function which would result in over twice as much being expended to maintain the current level of service. Operators of certified facilities would also be inconvenienced by visits from two inspectors—one for Medicare certification and state licensure and the other for Medi-Cal certification—where previously one person had handled three programs.

Division of Administration—Medi-Cal Management System Project

We recommend approval of the three professional positions and one-half clerical position request for this project.

All of these positions were administratively established pursuant to the provisions of Section 28 of the Budget Act of 1969. Personnel occupying these jobs will guide the implementation of the management systems prototype project which will test the concepts proposed in a contractor's study on the administration of the Medi-Cal program.

California Medical Assistance Program—Continued

The proposed staff is needed to oversee the work of the project contractor, develop work agreements, set up project timetables, develop cost estimates, identify participants in the project, define these participants' roles in the project, and make reports on the projects' progress.

The positions for this project are located in the following units of the Division of Administration:

Office of the Assistant Director—

One Associate Data Processing Systems Analyst

Management Analysis Bureau—

One Health Care Services Administrator I

One Associate Management Analyst

One-half Clerk-Typist II

Nationwide Demonstration Program

We recommend approval of the three professional positions requested in the DHCS budget for this program.

All of these positions which were administratively established during the current budget year are a part of the personnel complement for the Nationwide Demonstration Program which is discussed in detail on page 1015 of this analysis.

The DHCS positions for this program which include one health care services administrator I, one staff data processing systems analyst, and one associate management analyst are located for budgetary purposes in the office of the assistant director, Division of Administration.

Special Audits Bureau

We recommend approval of two general auditor II positions, one auditor I position, and one clerk-typist II position.

Four positions are requested for the purpose of performing field audits on the Medi-Cal portion of county welfare administrative cost claims.

The state advances funds to counties to administer various programs through the county welfare department. Advances to counties for the Medi-Cal program are authorized under Section 14653 of the Welfare and Institutions Code for the purpose of covering salaries and wages, operating costs and purchased services and are made monthly by the Department of Health Care Services based on actual prior quarter costs.

Counties report costs of administration of the Welfare Department, including the costs of Medi-Cal, to the State Department of Social Welfare (SDSW) on an 11-page claim form. Three positions are currently located at the Welfare Department's Sacramento headquarters office for the purpose of performing desk audits on the Medi-Cal portion of these claims.

There are two functions performed by the counties which are charged to the medical assistance program. One reimbursable function is that performed by the Medi-Cal consultants. The other function involves determining who is eligible to receive Medi-Cal benefits. The cost of these functions has increased very rapidly from approximately \$6,-

California Medical Assistance Program—Continued

000,000 in 1966-67 to a budgeted amount of over \$13,000,000 for 1969-70. The need to closely examine and control the components of such a rapidly rising expenditure is obvious.

The four proposed positions will be engaged in these control activities. One position will handle the workload involved in writing a manual, preparing circular letters, and other administrative tasks. Two positions will initially perform field audits on the estimated \$15 million in administrative claims for the medical assistance programs which the counties have submitted since July 1, 1969. One clerical position will provide support for the above three professional positions. These four positions are to be funded from General Fund moneys through the Health Care Deposit Fund with a 50-percent reimbursement from the federal government.

In another section of this analysis we have stated that we are going to review the merits of transferring the audit function currently performed by the Department of Social Welfare to the Controller's office. It would appear appropriate that the field audit conducted by the Department of Health Care Services might also be transferred to the Controller if federal funding can be retained.

Division of Intermediary Contract Administration—Investigation Bureau

We recommend approval of two senior special investigator positions.

Both of these positions are proposed on a limited term basis with each terminating on June 30, 1971. Under provisions of the Budget Act of 1969 these two positions were established on a limited-term basis. At that time the exact workload of this bureau could not be anticipated. Therefore, these positions were established to be continued beyond the current year only if workload justified such action. Based on current projections of the 1970-71 investigations caseload a continuation of these jobs is justified.

Intermediary Operations Bureau

We recommend approval of one health care services administrator I position, two general auditor III positions, five general auditor II positions, and two stenographer II positions.

These 10 positions are of a limited-term nature with each terminating on June 30, 1971. Personnel occupying these jobs serve as on-site certifying officers in the three fiscal intermediaries' offices. These positions historically have been of a limited term nature due to the month-to-month contractual arrangement with all of the fiscal intermediaries. These personnel act as liaison agents and coordinators of activities between the Department of Health Care Services and the fiscal intermediaries. They also perform spot batch audits of claims processed.

During the current fiscal year one general auditor III position was reclassified to health care services administrator I to improve supervision in this bureau. Also, one general auditor II position, in a move to improve internal program management, was transferred from the Investigations and Intermediary Audits Bureau to the Intermediary Operations Bureau. One stenographer II position was also transferred into this bureau for management improvement reasons.

California Medical Assistance Program—Continued
Fiscal Intermediaries

Table 6
Medi-Cal Fiscal Intermediary Services
Program Costs Estimated 1969-70 and Requested 1970-71

<i>Fiscal intermediary</i>	<i>1969-70 Estimated expenditure</i>	<i>1970-71 Requested expenditure</i>
California Blue Shield----	\$14,400,000	\$15,686,000
	Claims paid: 26,874,000	Number of claims:
	Cost per paid claim:	31,353,000
	\$.53	Cost per paid claim:
		\$.50
Blue Cross North -----	\$2,750,000	\$2,925,000
	Claims paid: 1,320,000	Number of claims:
	Cost per paid claim:	1,650,000
	\$2.10	Cost per paid claim:
		\$1.77
Blue Cross South -----	\$3,184,600	\$3,187,000
	Claims paid: 2,000,000	Number of claims:
	Cost per paid claim:	2,400,000
	\$1.39	Cost per paid claim:
		\$1.33
TOTAL FISCAL INTERMEDIARY SERVICES PROGRAM COST -----	\$20,335,100	\$21,798,000

As is shown in Table 6, the cost of the fiscal intermediary services element of the Medi-Cal administration program is estimated at \$21,798,000 or 7.2 percent over the current fiscal year estimated expenditure of \$20,335,100. Funds for the payment of these fiscal intermediary costs come out of the Health Care Deposit Fund and are paid approximately 50 percent by the General Fund and 50 percent by the federal government.

County Administration

Table 7
Medi-Cal County Administration Program Costs
Estimated 1969-70 and Requested 1970-71

<i>Administrative category</i>	<i>1969-70 Estimated expenditure</i>	<i>1970-71 Requested funding</i>	<i>Percentage increase or decrease over current fiscal year</i>
County administration ---	\$13,013,969	\$16,734,792	28.6%

As is shown in Table 7 the cost of county Medi-Cal administration in fiscal year 1970-71 is estimated to be \$16,734,792. This is an increase of \$3,720,823, or 28.6 percent over the current fiscal year estimated expenditure of \$13,013,969. This requested funding increase can be attributed to two factors. Almost one-half of the requested increase is caused by a projected increase in caseload and increased costs. The other half of the increase is caused by a request for an administrative augmentation of \$1,867,792 in order to effect gross program savings of \$38,000,000. These savings are outlined on page 1001 of this analysis.

California Medical Assistance Program—Continued
Proposed Administrative Fund Augmentation to
Effect Medi-Cal Program Savings

We withhold a recommendation on this request for an additional \$1,867,792 (\$933,896 state funds, \$933,896 federal funds) in administration funding until the Department of Health Care Services can document a plan for the use of funds and, in addition, can show that the expenditure of these funds will in fact result in the program savings claimed.

The budget contains \$1,867,792 (\$933,896 state funds and \$933,896 federal funds) as the administrative cost for the proposed program adjustments which are designed to result in \$38,000,000 in savings.

The department has not supported its statements that the expenditure of a certain additional amount of money in administration will in fact result in the program savings outlined. For instance, no detail is offered on how the expenditure of \$500,000 in additional administration funds will actually result in a 2-percent cut in the amount of program funds expended for hospital care. The claim is made but no supporting documentation is offered. The limited supporting documentation received indicated that the \$500,000 would be added to the Department of Health Care Services budget. However, the budget has it in the county administration category.

It is clear that the department has not adequately planned exactly how the program savings are to result. Unless specific plans are presented the state runs the risk of greatly increasing administrative expenditures without being able to measure the results.

As outlined previously, one of the department's proposals for controlling program expenses involves establishment of state certification-recertification and tightening of eligibility requirements for medically needy persons. While proposing state certification and recertification of Medi-Cal eligibility, the department provides for \$1,000,000 to be spent for this purpose by the counties. No funds are provided for state support. It would seem only logical that a proposal for a new state service would be followed with a request for additional state instead of county fiscal support.

The language in this item would allow the Department of Health Care Services, with Department of Finance approval, to transfer up to \$1,800,000 to Item 112 (state support) for the purpose of carrying out the four administrative proposals to reduce program expenditures. This language is in the budget bill because of a recognition that very basic decisions had not been made as to who would be spending the funds requested in the administrative enrichment request and for what purpose. The authorization for the transfer of \$1,800,000 from this item would result in total expenditure of \$3,600,000 in state and federal funds.

Department of Mental Hygiene**SUBVENTIONS TO LOCAL MENTAL HEALTH PROGRAMS****Item 273 from the General Fund****Budget page 588**

Requested 1970-71 -----	\$172,616,872
Estimated 1969-70 -----	152,252,647
Actual 1968-69 -----	29,956,332
Requested increase \$20,364,225 (13.4 percent)	
Total recommended reduction -----	None

ANALYSIS AND RECOMMENDATIONS

For analysis see Item 123.

Department of Public Health**CRIPPLED CHILDREN SERVICES****Item 274 from the General Fund****Budget page 633**

Requested 1970-71 -----	\$13,618,400
Estimated 1969-70 -----	15,577,550
Actual 1968-69 -----	8,128,963
Requested decrease \$1,959,150 (12.6 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

The Crippled Children Services (CCS) element of the Preventive Medical Program provides corrective services to children born with congenital deformities serious enough to endanger life or result in permanent deformity. The services provided under the program are diagnosis, treatment and therapy.

Services are administered "independently" by 23 counties under standards and procedures developed by the Department of Public Health. For the remaining 35 "dependent" counties, the department administers the program directly. Each county is required to appropriate funds to support the cost of the program. County funds are matched on a 3:1 basis by state and federal funds. In addition, families are required to contribute to the cost of treatment services based on standards and formulas developed by the department.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes a total program expenditure of \$21,680,578 including state, county and federal funds, and family repayments. The General Fund appropriation is \$13,618,400, which is \$1,959,150 less than the amount estimated to be expended in the current year. The General Fund decrease can be explained for two reasons: In past years the CCS program has overestimated its actual needs, resulting

Crippled Children Services—Continued

in substantial amounts of unexpended funds at the end of the fiscal year. For fiscal year 1968-69 the actual unexpended balance was \$3,524,646. Another reason for the decrease in the General Fund appropriation for the budget year is an estimated increase of \$716,668 in federal funds available to the program.

The budget proposes to continue 2.5 clerk-typist II positions which were administratively added in the current year, and further proposes to add an additional two clerk-typist II positions in the budget year. These positions are justified on a workload basis and will be supported entirely from federal funds.

In our analysis of this program for the current year we recommended that the Department of Public Health strengthen its regulations so as to maximize family repayments. Prior to fiscal year 1968-69, individual counties developed financial eligibility and family repayment standards. The Budget Act of 1968 contained language to require the department to develop a uniform eligibility and repayment formula for the CCS program. Pursuant to this language the department developed such a formula which was implemented by January 1, 1969. The new statewide formula was more liberal than most of the previous county formulas and resulted in a reduction of family repayment reimbursements.

Subsequent to our recommendation of last year, the department on August 1, 1969, revised its standards for the determination of financial eligibility and instructed all counties to enforce these revisions. The revised statewide regulations overcome the previous objections.

The budget estimates that \$1,240,000 will be collected from family repayments in the budget year. This represents an increase of \$30,017 over the \$1,209,983 estimated to be collected in the current year, and \$332,513 over the \$907,487 actually collected in fiscal year 1968-69.

Department of Public Health**TUBERCULOSIS SANITORIA****Item 275 from the General Fund****Budget page 632**

Requested 1970-71	\$1,021,424
Estimated 1969-70	2,501,780
Actual 1968-69	2,099,997
Requested decrease \$1,480,356 (59.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Section 3298 of the Health and Safety Code requires the state to provide grants-in-aid to local agencies for the care and treatment of persons suffering from tuberculosis. The specified amount of such aid is \$2.60 per patient-day for the first 36,500 patient-days, \$2.30 for the second 36,500 patient-days, and \$1.75 for all additional days, plus

Tuberculosis Sanatoria—Continued

an additional supplemental amount specified in each budget act. The supplemental amount specified for the budget year is \$5.16 per patient-day, which is the same as the amount specified for the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of \$1,021,424 to support the tuberculosis sanatoria program. This represents a decrease of \$1,480,356 from the \$2,501,780 estimated to be expended in the current year. This major decrease can be accounted for by two factors:

(1) The continuing decline in the number of patient-days of care which are reimbursable under the program.

(2) The enactment of Chapter 811, Statutes of 1969 (AB 632) which requires those counties electing the county option program under Medi-Cal to receive reimbursement for tuberculosis patients under the provisions of that program rather than the tuberculosis subsidy program.

The budget request includes \$31,942 to reimburse the Department of Mental Hygiene for the care of recalcitrant tuberculosis patients under the provisions of Section 3295 of the Health and Safety Code.

Department of Public Health**ASSISTANCE TO COUNTIES WITHOUT HEALTH DEPARTMENTS**

Item 276 from the General Fund	Budget page 647
Requested 1970-71 -----	\$721,227
Estimated 1969-70 -----	710,706
Actual 1968-69 -----	645,418
Requested increase \$10,521 (14.8 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

The contract county program furnishes basic, minimal public health services, under contractual arrangements, to counties with populations under 40,000. At the present time 15 counties receive such services. Services are provided by the Bureau of Contract County Services under the authority of Section 1157 of the Health and Safety Code. This section requires each participating county to contribute a minimum of 55 cents per capita to help support the program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total support for the contract county program of \$1,281,227. This amount includes an appropriation of \$721,227 from the General Fund, \$460,000 as the counties' share, and \$100,000 in

Assistance to Counties Without Health Departments—Continued

federal funds. The General Fund amount proposed for the budget year represents an increase of \$10,521 over the \$710,706 estimated to be expended in the current year.

The counties currently receiving services under this program are Alpine, Amador, Calaveras, Glenn, Lake, Lassen, Mariposa, Modoc, Mono, Nevada, Sierra, Siskiyou, Tehama, Trinity, and Tuolumne. Their combined estimated resident population as of July 1, 1969 was 226,900, or an average of 15,127 per county.

Although the burden imposed on the General Fund by this program has not significantly increased in the past several years, we believe certain activities are supported from the General Fund which alternatively could be developed through the mechanism of Public Law 89-749, Section 314(d), the Comprehensive Health Planning Act.

Department of Public Health**ASSISTANCE TO LOCAL HEALTH DEPARTMENTS**

Item 277 from the General Fund

Budget page 646

Requested 1970-71	-----	\$4,797,545
Estimated 1969-70	-----	4,743,172
Actual 1968-69	-----	4,701,076

Requested increase \$54,373 (1.1 percent)

Total recommended reduction	-----	None
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GENERAL PROGRAM STATEMENT

This program allocates state and federal funds to 42 qualified local health agencies. The state funds are allocated in accordance with the provisions of Section 1141 of the Health and Safety Code. Federal funds are allocated by the state department to local agencies after a review of the local plan to determine conformance with the provisions of the state plan and in accordance with the provisions of Section 314 (d) of Public Law 89-749.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes \$9,261,526 in total support for this program. This includes \$4,797,545 from the General Fund and \$4,463,981 in federal funds. The General Fund support in the budget year is \$54,373 above the amount estimated to be expended in the current year and comprises approximately 9 percent of the total amount which goes to support local health departments. The General Fund amount includes a basic allowance plus an amount equal to 20.5 cents per capita to be apportioned on the basis of the population residing in the participating counties.

Department of Public Health

ASSISTANCE TO LOCAL AGENCIES FOR MENTAL
RETARDATION SERVICES

Item 278 from the General Fund

Budget page 640

Requested 1970-71 -----	\$6,309,813
Estimated 1969-70 -----	5,016,718
Actual 1968-69 -----	2,270,347
Requested increase \$1,293,095 (25.7 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

Chapter 1242, Statutes of 1965, authorized the creation of a network of regional diagnostic, counseling and service centers for mentally retarded persons and their families. These regional centers were authorized primarily to provide an alternative to state hospitalization.

Through the regional centers, assistance is provided to families with retarded individuals in the form of diagnosis, counseling, continuing evaluation, and assistance in purchasing appropriate health and social services in the community. Regional centers are operated by local non-profit agencies under contract with the State Department of Public Health.

The program is administered by the Bureau of Mental Retardation Services which has the responsibility for providing professional and administrative guidance to the regional centers, negotiating contracts, developing standards, reviewing activities for conformity to contracts and standards, authorizing vendors, and establishing equitable rates. The bureau also assists in the selection and placement of regional center personnel.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a total expenditure of \$7,238,859 to support the regional center program. This includes a General Fund appropriation of \$6,309,813 and \$1,095,000 estimated to be collected in family repayments. The General Fund amount requested for the budget year represents an increase of \$1,293,095 above the \$5,016,718 estimated to be expended in the current year. This increase of over 25 percent can be accounted for by several factors.

Since 1965, the regional center program has been one of the most rapidly developing programs of assistance in state government, and represents a major departure in the treatment of the mentally retarded. Based on the concept of community-based treatment with services being purchased by local agencies under contract with the state, the program was initiated to provide feasible and desirable alternatives to state hospitalization. Prior to the initiation of the regional center program, the only alternatives to placement in already overcrowded state hospitals for the mentally retarded were a confusing and frag-

Assistance to Local Agencies for Mental Retardation Services—Continued

mented array of state and local services, or expensive placement in private facilities.

The result was that most families with retarded individuals needing services turned to the state hospital system for aid. Most often this in turn resulted in the placement of the retarded person in one of the four state hospitals for the mentally retarded, often at great distances from the individual's home and family.

By 1965, the overcrowded state hospitals had received so many applications for admission that a waiting list developed. Over 1,000 retarded persons were on the waiting list and were receiving little or no services. In that year, to alleviate the pressure on the hospitals for the retarded, the Legislature authorized the Department of Mental Hygiene to establish units for the mentally retarded at hospitals for the mentally ill, and established the regional center program in the Department of Public Health.

The regional center program began with the establishment of two centers, one in San Francisco and one in Los Angeles. These two centers began to attack the problem of state hospital waiting list until, in 1967, the majority of those persons on the waiting list had received community-based services which were felt to be more appropriate than hospitalization. The Budget Act of 1968 authorized the establishment of four additional centers, and funds were provided for their operation.

Fragmentation and duplication of services for the retarded continued, however, and the need for a coordinated program of services became acute.

In our analysis of the 1969 Budget Bill we included a comprehensive inventory of the various state-supported services available to the retarded, together with estimated expenditures. We recommended that all programs be "reassessed and reevaluated with the specific goal of creating a genuine program approach with more efficient and coordinated delivery services." Conforming largely to a special study undertaken by the California Assembly, the Legislature at its last session enacted Chapter 1594, Statutes of 1969 (AB 225), the California Mental Retardation Act of 1969.

This act, which does not become completely effective until July 1, 1971, requires the Secretary for Human Relations to develop a total program budget which includes all expenditures of state funds for the provision of services to the mentally retarded. The legislation further requires that all funds previously allocated to other agencies for the provisions of out-of-home, prehospital, hospital and posthospital care be allocated to regional centers to contract with appropriate agencies for the out-of-home placements.

The legislation further requires the state to be divided into mental retardation service areas, with at least one regional center serving each area, and that planning for mental retardation services be done on an areawide basis.

The regional center program, therefore, is to assume a much greater importance in the treatment of the mentally retarded. Although the full effects of AB 225 will not be manifested until July 1, 1971, efforts

Assistance to Local Agencies for Mental Retardation Services—Continued

are presently underway to provide for a smooth implementation of this legislation. In September 1969, the Human Relations Agency appointed seven task forces to aid in the implementation of AB 225. Staff members of the Bureau of Mental Retardation are participating on all seven task forces.

The Budget Act of 1969, together with Chapter 1476, Statutes of 1969, authorized the establishment of three additional regional centers in the current year to bring the total number of authorized centers to nine. These nine centers service 46 of the 58 counties and approximately 90 percent of the state's population. The budget proposes to continue support to these nine centers in fiscal 1970-71 at a total cost of \$7,404,813. This includes a General Fund appropriation of \$6,309,813 made by this item, \$165,954 in salaries and wages for the Bureau of Mental Retardation Services, and \$1,095,000 estimated to be collected in family repayments under the provisions of AB 225.

The budget proposes to continue the positions of health program advisor II, public health social work consultant II, and clerk-typist II which were added administratively to the bureau in the current year. Assembly Bill No. 225 requires the Secretary for Human Relations to submit to the Legislature a proposed schedule of parental fees to be charged persons whose children are receiving services under the regional center program. Such schedule is to be submitted by the fifth legislative day of the 1970 Regular Session. We have been informed that the Secretary for Human Relations has asked the Legislature for a 90-day extension on the submission of a fee schedule due to difficulties in meeting the original deadline. This, combined with the fact that AB 225 does not require mandatory parental repayment until after July 1, 1971, would appear to make the estimated collection of \$1,095,000 in family repayments somewhat overoptimistic. The regional center program has to date experienced a voluntary parental repayment figure of between 7 and 10 percent of total program costs. We do not anticipate this to rise to the 15 percent figure represented by the \$1,095,000 estimated in the 1970-71 budget.

We are, nevertheless, recommending approval as budgeted for the regional center program, believing that this program has demonstrated a workable alternative to higher cost state hospitalization.

DEPARTMENT OF SOCIAL WELFARE**Item 279 from the General Fund****Budget page 701**

Requested 1970-71	\$599,846,200
Estimated 1969-70	514,185,300
Actual 1968-69	456,638,398
Requested increase \$85,660,900 (16.7 percent)	
Total recommended reduction	Pending

Department of Social Welfare—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We withhold recommendation on this item pending receipt of the May revised caseload and cost estimates.

GENERAL PROGRAM STATEMENT

The Welfare and Institutions Code provides for prompt, humane, nondiscriminatory aid and services to qualified applicants for public assistance on the basis of a statement of facts supporting their eligibility. Public assistance programs provide:

1. Income to supplement the resources of needy persons and thus enable them to secure the necessities of life, and
2. Those social and medical services needed to promote their physical and social well-being and enable them, insofar as possible, to remain active members of the community.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on this item pending receipt of the revised May estimates of caseloads and costs.

The budget proposes an appropriation of \$599,846,200 from the General Fund as the state share of the cost of the various categorical aid programs. The public assistance increase of \$85,660,900, or 16.7 percent, over the estimated expenditures for 1969-70 is due to the anticipated increase in welfare caseloads and statutory cost-of-living increases in the various programs. During the 1970-71 fiscal year, the public assistance programs will serve a monthly average of 1,875,170 persons. This is an increase of 275,170 or 17 percent over the 1969-70 estimated monthly average.

Table 1
Public Assistance by Source of Funds

Programs	Total	Federal	General Fund	County
Aid to the Blind-----	\$22,702,600	\$10,858,400	\$8,948,600	\$2,895,600
Aid to Needy Disabled...	239,836,500	114,369,400	107,543,200	17,923,900
Aid to Families with Dependent Children---	957,705,400	432,639,700	320,648,000	204,417,700
Old Age Security-----	378,419,000	188,594,900	162,706,400	27,117,700
Total -----	\$1,598,663,500	\$746,462,400	\$599,846,200	\$252,354,900

The 1970-71 proposed appropriation of \$599,846,200 in this item is the first time that the categorical aid public assistance expenditures have been subject to closed end budget act appropriation. In the past, public assistance grants to recipients were provided for by continuous or open end appropriations. This meant that there was no limit to state expenditures for welfare purposes for any fiscal year except in the Aid to Needy Disabled category, which is limited to a maximum based on a statewide average per month per fiscal year. Social welfare expenditures could exceed the proposed subvention estimates by an amount limited only by the solvency of the state treasury. The closed end appropriation method used in the budget bill will require state funds to be appropriated after legislative review in the same way as other General Fund appropriations.

Department of Social Welfare—Continued

Aid to Families with Dependent Children (AFDC)

The 1970-71 General Fund appropriation for the Aid to Families with Dependent Children (AFDC) program is \$320,648,000, an increase of \$69,857,700 or 27.8 percent over that estimated to be expended during the current year.

This is a public assistance program for needy children up to the age of 21. A person between 18 and 21 years of age may be aided if in need and attending school or a training program regularly, or employed and contributing to the family. There are three basic elements of this program; one for the aid to dependent children who are in need and lack parental support and care because of death, continued absence from the home, or incapacity of one or both parents. The second element is for aid to children who are in need and lack parental support and care because of unemployment of one or both parents. The latter families are defined as AFDC-Unemployed, while the former are defined as AFDC-Family Groups. The third element is for aid to children living outside their own home. These are children living in 24-hour foster care homes.

In general, the requirements for AFDC are that the family's income or resources are insufficient to meet needs and the family does not own real property over \$5,000 of assessed value or personal property valued at over \$600. The average payment for the 915,322 Family Group persons in October 1969 was \$50.65. The average payment per recipient for the 130,264 persons in the Unemployed Parent program was \$43.49. The average payment for the 30,937 children living in boarding homes and institutions was \$133.38.

Except for the foster home element, the AFDC program, both Family Group and Unemployed, is the fastest growing public assistance program. It is expected to serve a monthly average of 1,317,660 persons in 1970-71. This is an increase of 210,560 or 19 percent over the 1969-70 estimated monthly average. The AFDC foster care program is expected to increase 7.6 percent during the same period for an expected monthly 1970-71 average of 34,500.

Old Age Security (OAS)

The proposed 1970-71 General Fund appropriation for the Old Age Security (OAS) program is \$162,706,400, an increase of \$2,075,500 or 1.3 percent over that estimated to be expended during the current year.

This is a public assistance program for needy persons 65 years of age or older who do not own real property, other than their own home, of over \$5,000 of assessed value or liquid assets of over \$1,200. For married couples, liquid assets cannot be over \$2,000. Eligible persons are entitled to a minimum income (public assistance grant plus outside income) of \$129 and a maximum income of \$194. The average payment for the 311,691 OAS recipients in October 1969 was \$110.36. The OAS program is expected to serve a monthly average of 320,750 persons in 1970-71. This is an increase of 7,190 or 2.3 percent over the 1969-70 estimated monthly average.

Department of Social Welfare—Continued
Aid to the Needy Disabled (ATD)

The proposed General Fund appropriation for the Aid to the Needy Disabled (ATD) is \$107,543,200, an increase of \$14,598,900, or 15.7 percent over that estimated to be expended during the current year.

Aid to the Needy Disabled is a program which provides financial aid and other services to needy persons between the ages of 18 and 64 who are permanently and totally disabled. In addition to meeting the same real and personal property eligibility limitations as OAS recipients, ATD applicants must be examined by various physicians in order to qualify for aid. The 1970-71 statutory maximum grant cannot exceed \$122 for July 1970 through November 1970 and \$128 for December 1970 through June 1971. The average payment for the 157,091 ATD recipients in October 1969 was \$125.68. The grants will either have to be reduced or the statutory maximums increased. This is the second fastest growing public assistance program with the caseload expected to increase 11.7 percent to 188,650 estimated average monthly persons in 1970-71.

Aid to the Blind (AB and APSB)

The proposed 1970-71 General Fund appropriation for the Aid to the Blind (AB) and Aid to the Partially and Self-Supporting Blind (APSB) programs is \$8,948,600, an increase of \$548,700, or 6.5 percent over that estimated to be expended during the current fiscal year.

This is a public assistance program for needy persons without sight or with impaired sight that are over 16 years of age. AB and APSB applicants must receive various eye examinations to determine the degree of blindness in addition to meeting the same real and personal property eligibility limitations as OAS recipients. Eligible persons are entitled to a minimum income (public assistance grant plus outside income) of \$150 and a maximum income of \$200. The average payment for the 13,173 AB and APSB recipients in October 1969 was \$150.94. The AB-APSB program is expected to serve 13,290 persons during 1970-71 which is an increase of 260, or two percent over the 1969-70 monthly average.

Department of Social Welfare

ATTENDANT AND OUT-OF-HOME CARE

Item 280 from the General Fund

Budget page 711

Requested 1970-71	\$40,820,700
Estimated 1969-70	37,177,000
Requested increase \$3,643,700 (9.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The out-of-home care element of this program is designed for the placement of adults in nonmedical out-of-home care facilities because their physical, mental, or social situation precludes them from living

Attendant and Out-of-Home Care—Continued

in their own homes. The attendant care element of this item is designed to provide assistance to adults living in their own homes and in need of personal care and homemaker services.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$40,820,700 for the attendant and out-of-home care program for the 1970-71 fiscal year. This is \$3,643,700 or 9.8 percent more than is estimated to be expended during the current year. The cost for out-of-home care and attendant care has been removed from the public assistance grant item of the Budget Bill and is proposed as a separate appropriation in this item. Prior to the 1969-70 fiscal year, these services were purchased through the recipient's grant-in-aid. Table 1 indicates the out-of-home and attendant care cost for 1969-70 and 1970-71. It is estimated that these funds will be required to meet the expected increase in caseload and enable persons in need to purchase adequate care.

Table 1
Out-of-Home and Attendant Care Cost by Fiscal Year
and Source of Funds

<i>Fiscal year</i>	<i>Total</i>	<i>Federal</i>	<i>State</i>	<i>County</i>
1969-70 Total -----	\$85,114,300	\$41,533,800	\$37,177,000	\$6,403,500
Out-of-home care ---	(\$48,263,000)	(\$23,461,400)	(\$21,181,500)	(\$3,620,100)
Attendant care ---	(\$36,851,300)	(\$18,072,400)	(\$15,995,500)	(\$2,783,400)
1970-71 Total -----	\$93,396,400	\$45,547,000	\$40,820,700	\$7,028,700
Out-of-home care ---	(\$53,019,200)	(\$25,752,000)	(\$23,291,400)	(\$3,975,800)
Attendant care ---	(\$40,377,200)	(\$19,795,000)	(\$17,529,300)	(\$3,052,900)

Department of Social Welfare**UNMET SHELTER NEEDS PROGRAM**

Item 281 from the General Fund

Budget page 714

Requested 1970-71 -----	\$1,500,000
Estimated 1969-70 -----	1,500,000
Actual 1968-69 -----	865,031

Requested increase—None

Total recommended reduction -----	None
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GENERAL PROGRAM STATEMENT

This program was established under the combined provisions of Chapter 1, Statutes of 1968, and Senate Constitutional Amendment 1, 1968 First Extraordinary Session, as approved by the electorate, for public assistance recipients. Funds are to be used to meet the critical housing needs of welfare recipients who are disqualified from receiving property tax relief through the exemption method.

Unmet Shelter Needs Program—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The total amount to be spent for 1970-71 on unmet shelter needs is \$3,814,482, of which \$1,500,000 is from the General Fund, \$1,907,241 from federal funds and \$407,241 from county funds. These funds will enable a limited number of public assistance recipients to purchase safety equipment or to repair or move from unsafe or unsanitary housing.

Department of Social Welfare

WORK INCENTIVE AND DAY CARE PROGRAMS

Item 282 from the General Fund

Budget page 700

Requested 1970-71 -----	\$1,168,381
Estimated 1969-70 -----	1,168,381
Actual 1968-69 -----	354,654
Requested increase—None	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

The cost of local administration of public assistance programs is borne by the county and federal governments except for certain case services costs in AFDC related to the Work Incentive Program (WIN) as provided by Chapter 1313, Statutes of 1968 which are paid by the state. The WIN program is designed to place appropriate AFDC recipients in regular employment through counseling, training and job placement, or to provide employment on special work projects to improve the communities in which they live. Currently the program is operated in the 27 counties having the larger AFDC caseloads and will be extended to other counties as federal funds become available. The responsibilities of county welfare departments are: (1) refer federally eligible AFDC recipients who are trainable or employable to the State Department of Human Resources Development; (2) provide social services to the families of those enrolled in the program as needed; and (3) provide for child care when needed and training or work-related expenses in addition to the normal public assistance grant. The State Department of Human Resources Development staff is responsible for assigning accepted recipients to counseling, tutoring orientation training, work experience training, or special work projects and for the eventual placement of the recipients.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

A total of \$1,168,381 is proposed to help pay for work or training related expenses of a recipient of Aid to Families with Dependent Children (AFDC). This is the same amount estimated to be expended during the current fiscal year. Training-related expenses might include such things as additional child care or transportation cost on the part of WIN trainees.

Work Incentive and Day Care Programs—Continued

The AFDC caseload has continued to increase since 1962, but has been more pronounced the last two years. Among the causes contributing to this trend are:

1. Publicity through the various news media of poverty in the country and the various assistance programs available to the poor.
2. The activity of community action programs (principally those funded through the Office of Economic Opportunity) including welfare rights organizations and legal assistance groups.
3. The Medi-Cal and food stamps programs which have increased the number of people contacting the county welfare departments who then learn of their eligibility for one of the maintenance programs and subsequently become recipients.
4. Court decisions which nullified the durational residency requirement.

To counteract the cost trend, California must emphasize, as did Congress in the 1967 Social Security Amendment, those activities which help reduce the welfare rolls or increase the earned income available to families, principally by providing recipients with the means to become fully or partially self-supporting. The Work Incentive Program, created by the 1967 Social Security Amendment, will need to continue to receive high priority and effective administration if it is to be successful in even a limited manner.

Department of Social Welfare**SPECIALIZED SOCIAL SERVICES PROGRAMS****Item 283 from the General Fund****Budget page 746**

Requested 1970-71	\$9,673,588
Estimated 1969-70	19,012,294
Actual 1968-69	15,589,854
Requested decrease \$9,338,706 (49.1 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We withhold recommendation of the requested General Funds regarding the Nationwide Demonstration Program for Social Information Systems until the departments involved clearly reconcile requirements of the state act and objectives of the federal projects.

GENERAL PROGRAM STATEMENT

The programs included in this group represent highly specialized social services, staff development, public assistance, and experimental and improvement programs. They include: (1) Self-Support Program, (2) Family and Child Development Program, (3) Child Protection Program, (4) Adoption Program, (5) Public Protection Program, (6) Public Welfare Manpower Program, (7) Demonstration Program, and (8) Nationwide Social Information System.

Specialized Social Services Programs—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an amount of \$9,673,588 for the 1970-71 fiscal year which is 49.1 percent below that which is estimated to be expended during the current fiscal year.

The reduction in the proposed General Fund appropriation primarily results from the federal assumption of 75 percent of the cost of the adoptions program. The 1967 amendments to the Social Security Act provided for federal participation in the funding of adoption costs. The 1970-71 budget proposes the 75-percent sharing for the first time. The estimated expenditure for the current year for the adoptions program (nonstate administrative costs) is \$11,710,782, all of which will come from the General Fund. The 1970-71 adoption costs are estimated to be \$13,895,770, of which \$10,421,827 will be federal money and only \$3,473,943 will be from the General Fund. The net reduction in General Fund support for the adoptions program is \$8,236,839. The balance of the \$9,673,588 reduction occurs in the remaining Specialized Social Services Programs.

The total number of man-years budgeted to carry out all programs relating to this item are shown in Table 1.

Table 1
Number of Man-Years—Special Social Services

<i>Fiscal year</i>	<i>Total man-years</i>	<i>Increase from prior year</i>
1968-69 -----	30.2	--
1969-70 (estimated) -----	98.3	68.1
1970-71 (proposed) -----	94.5	-3.8

The 1970-71 man-year decrease is to take place in the New Careers Demonstration Project. The General Fund decrease is a result of shifting the funding requirement from the state to the federal government as can be seen in Table 2.

Table 2
Expenditure for Special Social Services

<i>Fiscal year</i>	<i>Federal</i>	<i>State</i>	<i>Total</i>	<i>Increase from prior year</i>
1968-69 -----	\$18,864,948	\$15,589,854	\$34,454,802	--
1969-70 -----	17,310,439	19,012,294	36,322,733	\$1,867,931
1970-71 -----	27,492,020	9,673,588	37,165,608	842,875

NATIONWIDE DEMONSTRATION PROGRAM FOR SOCIAL INFORMATION SYSTEMS

We withhold recommendation of \$319,500 requested for the Nationwide Demonstration Program for Social Information Systems until the departments involved clearly reconcile requirements of the state act and the objectives of the federal project.

The Nationwide Demonstration Program (NDP) as stated in the original federal proposal is to develop a standardized state and local government computer based social information system. The Governor's 1970-71 Budget requests \$319,500 to continue state participation in the federal project. Although the budget shows an increase of \$211,500 over 1969-70, the actual increase is \$169,536 due to the 1969-70 reim-

Specialized Social Services Programs—Continued

bursments from the Department of Rehabilitation of \$41,964 being directly appropriated to the Department of Social Welfare in 1970-71. All General Fund costs are included in the State Department of Social Welfare budget for the 1970-71 fiscal year.

This project was authorized by the Intergovernmental Welfare Management and Information Systems Act of 1969 (Chapter 1818, Statutes of 1969) which provides that the California Department of Social Welfare undertake a program to improve the management and reduce the cost of welfare administration by the development of highly automated processes for determination of eligibility and the making of aid payments. The act identifies, among other things, legislative intent as an authorization to:

1. Provide local, state and federal agencies with information appropriate to effective management of welfare programs;
2. Evaluate the need, cost, and benefit of gathering, storing and distributing information pertinent to effective welfare management;
3. Integrate, to the extent feasible, local, state and federal data processing systems;
4. Integrate as feasible and appropriate the welfare information system with other state agency information systems;
5. Produce uniform model electronic data processing systems for general use and integration with all types of county information systems;
6. Encourage county development of systems outside the model system which do not damage the overall uniformity;
7. Provide orderly procedures conducive to a system capable of change or improvement;
8. Produce an electronic data processing system which can provide all county, state and federal reports, cost effectiveness data, and act as a clearing house for recipient data to improve the speed and accuracy of eligibility determination. Further, the system must be designed so that the department could provide programming and other services, under contract, to counties; and
9. Provide a means by which the information needs of the Legislature are met.

The act further specifies that a plan be formulated by the department "that shall integrate all programs . . . into a single program for making major reforms in welfare information collection and processing and in the determination of eligibility and payment of aid."

A Nationwide Demonstration Program

While state legislation was being formulated, the federal Department of Health, Education and Welfare (HEW) indicated to the Department of Social Welfare that California was being considered as a demonstration state for the design for a social service information system. Therefore, the 1969 statute reflects this contingency and authorizes the Department of Social Welfare to enter into an agreement with the Department of Health, Education and Welfare to become a dem-

Specialized Social Services Programs—Continued

onstration state for an intergovernmental program of systems development, with the provision that the Secretary of the Human Relations Agency act as coordinator of such a program.

Because of the possibility that California would be selected as a participant in the HEW project, the act also appropriated the sum of \$108,000. In addition annual reports to the Governor and Legislature detailing activities and recommendations were required.

Federal objectives of the demonstration program are defined as:

1. "High quality systems, suitable to state and local agencies, encompassing total information requirements on all three government levels for . . . program workload, and ease of management."
2. "Cooperation of state personnel and contractors to produce optimum systems at the most reasonable cost within a reasonable time period."
3. "Availability of best systems features for incorporation in other model state project systems."
4. "Definition and documentation of systems to allow comparative evaluation and economic translation to other systems structure."
5. "Systems design flexibility to respond to legislative and regulatory change."

Early in fiscal year 1969-70, California was selected as a project demonstration state by HEW, a project director was selected and initial preparations for the project got underway. The project is to be conducted in four phases: Phase I, Pre-project (September 1969-May 1970); Phase II, Systems Development and Design (May 1970-September 1971); Phase III, Program Evaluation (September 1971-February 1972); and Phase IV, Implementation (February 1972-January 1974). Table 1 is a summary of the projected budget and funding sources for the first three years of the project.

Table 1

<i>Fiscal year</i>	<i>Federal funds</i>		<i>State funds</i>	<i>Total</i>
	<i>50% matching</i>	<i>SS Act 1115</i>		
1969-70-----	\$250,000	\$100,000	\$150,000	\$500,000
1970-71-----	532,500	213,000	319,500	1,065,000
1971-72-----	140,000	100,000	150,000	500,000
Total-----	\$1,032,000	\$413,000	\$619,000	\$2,065,000

Note: State contribution is 30 percent of total project costs.

The project staff includes 21 state employees representing the Departments of Health Care Services, Rehabilitation, Social Welfare and Human Resources Development and six to eight county representatives. The various disciplines required include research analysts, management analysts, data processing systems analysts and program specialists. The staff is supervised by a project director who reports to the Human Relations Agency Secretary. Staff recruitment and training is nearly complete and a full staff is anticipated before the start of Phase II. It is anticipated that private consultants will be retained during each of the phases to provide additional technical expertise to supplement the state project staff.

Specialized Social Services Programs—Continued

Three intergovernmental committees, one made up of interstate representatives, one of county and state policy level members, and one of state agency representatives, provide the staff with advice and policy guidance in matters having significance on the interagency characteristics of the system development.

Because of the unclear relationship between the objectives of the state and those of the federal project, we withhold our recommendation for approval for the \$319,500 required for fiscal year 1970-71, and suggest that the Department of Social Welfare, the Human Relations Agency and the staff of the Nationwide Demonstration Program clearly reconcile requirements of the state act and the objectives of the federal project.

If the federal demonstration project is not intended to meet fully the requirements of the 1969 act, which are to improve the eligibility determination process and payment system rather than automating the existing system, the report should so specify and the Department of Social Welfare should outline its plans for implementing the automated systems requirements of the act. This report should be submitted prior to the approval of the Budget Act.

Department of Navigation and Ocean Development**BEACH EROSION CONTROL****Item 284 from the General Fund****Budget page 1032**

Requested 1970-71	\$125,000
Appropriated for 1969-70	442,500
Requested decrease \$317,500 (71.8 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Reorganization Plan No. 2 of 1969 transferred the beach erosion control functions and responsibilities of the Department of Water Resources to the new Department of Navigation and Ocean Development.

This item provides the state's contribution to a federal program, executed by the U.S. Army Corps of Engineers, to control dangerous erosion along the ocean beaches of the state. Project costs are generally financed on the basis of 50 percent by the federal government and 25 percent each by the state and the local agency involved.

One project is budgeted for next fiscal year for the beach at the City of Capitola in Santa Cruz County. The state's share of \$125,000 will be matched with \$125,000 from the City of Capitola and the State Department of Parks and Recreation.

Department of Navigation and Ocean Development**LOANS FOR PLANNING AND HARBOR DEVELOPMENT**

**Item 285 from Harbors and Watercraft
Revolving Fund**

Budget page 1023

Requested 1970-71	\$3,610,000
Amount appropriated in 1969-70	2,575,000
Amount appropriated in 1968-69	4,050,000
Requested increase \$1,035,000 (40.2 percent)	
Increase to improve level of service \$1,035,000	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Navigation and Ocean Development, as successor to the Department of Harbors and Watercraft, is responsible for developing boating facilities and small craft harbors throughout the state. The department meets this responsibility through a series of loan and grant programs to local agencies of government.

The main source of funding for most of the local assistance is the Harbors and Watercraft Revolving Fund. That fund receives most of its moneys from the annual transfer of \$4 million from the Motor Vehicle Fuel Fund and revenue from boat registration fees.

Decline in Federal Funds for Harbor Construction

In prior years, the department has requested appropriations for projects which have depended substantially on the appropriation of federal funds to the U.S. Army Corps of Engineers. Recently, federal appropriations for new projects have been almost eliminated. For the first time in many years the department's local assistance budget does not propose appropriations for projects dependent on financial participation by the Corps of Engineers. As a result of the lack of federal funds, the department has in some cases provided state financing of costs that would otherwise have been a federal responsibility.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department requests an appropriation to fund harbor development projects totaling \$3,610,000 in loans as follows:

1. Statewide Planning Loans	\$50,000
2. Channel Island Harbor, Ventura County	1,060,000
3. Crescent City Harbor, Del Norte County	950,000
4. Oceanside Harbor, San Diego County	300,000
5. Santa Cruz Harbor	1,250,000
Total	\$3,610,000

The proposed loan of \$1,060,000 for Channel Island Harbor finances the construction of 360 slips, automobile parking, restroom and office building and 32 berthing slips for transient boats.

The loan for the Crescent City Harbor project provides for the construction of a small craft harbor, boat berthing, parking areas and sani-

Loans for Planning and Harbor Development—Continued

tary and water supply facilities. The project depends upon participation by the U.S. Economic Development Agency. Total estimated project costs are \$2,374,700 including \$1,424,700 from EDA.

The budget includes an appropriation of \$1,250,000 for development of the upper harbor at Santa Cruz. The project provides for an addition to the existing Santa Cruz Harbor of 466 berthings, modification of highway and railroad bridge and other facilities.

This is the third appropriation for the Santa Cruz project. The 1967 Budget Act appropriated \$2,550,000. By a transfer of budget allotment the above funds were increased by \$225,000 to cover design changes. The 1968 Budget Act appropriated \$400,000 for the same project to make sure sufficient funds would be available in case the U.S. Corps of Engineers did not participate as expected. The department has not encumbered the \$400,000 from the 1968 appropriation and the funds have reverted and are part of the department's savings for the 1968-69 fiscal year.

So far only \$663,835 of the \$2,775,000 available from the 1967 Budget Act has been expended. The department is requesting reappropriation of the remaining balance of \$2,111,165, in the control section of the Budget Bill.

Construction of the project has not proceeded as rapidly as the department has requested appropriation of funds, and costs have escalated. The original project cost was estimated to be \$3,300,000. The same project is now estimated to cost \$4,301,179 to be funded as follows:

1. Appropriation request for 1970-71		\$1,250,000
2. Item 287. 1967 Budget Act	\$2,775,000	
Less Estimated Expenditure	-663,835	663,835
Requested reappropriation	2,111,165	2,111,165
3. 1964 Recreation Bond Fund local grant.....		125,000
4. Local participation		151,179
Total		\$4,301,179

The department indicates the project is still feasible and highly desirable even with the increased costs.

There is a degree of uncertainty surrounding some of the projects funded in this item. In most cases the department has not determined final feasibility. In the past, the Legislature has not wished to place restrictions on the projects by requiring evidence of feasibility prior to appropriation.

Department of Navigation and Ocean Development

LAUNCHING FACILITY GRANTS

Item 286 from Harbors and Watercraft
Revolving Fund

Budget page 1025

Requested 1970-71	\$424,000
Estimated 1969-70	959,600
Actual 1968-69	444,500
Requested decrease \$535,600 (55.8 percent)	
Total recommended reduction	100,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Environmental Quality Recommendation:

Delete \$100,000 to defer Albany Isles grant (Analysis page 1021).

ANALYSIS AND RECOMMENDATIONS

This item appropriates \$424,000 to finance three grants to local agencies for launching facilities. This amount compares with \$959,600 estimated expenditures in the current year for seven projects.

Launching facility grants are requested as follows:

1. Albany Isles, Alameda County	\$100,000
2. Chula Vista, San Diego County	259,000
3. Medicine Lake, Siskiyou County	65,000
Total	\$424,000

We recommend that the Albany Isles launching facility be removed from the budget on the basis that it is premature and that the Legislature should be in the position to make a policy determination whether the state should fund a project which may not be in conformity with the plan it has approved for conservation and development of San Francisco Bay.

The budget contains \$100,000 for a grant to the City of Albany to construct a launching facility in an area to be filled in San Francisco Bay. Normally this project would come within the jurisdiction of the San Francisco Bay Conservation and Development Commission which the Legislature established on a permanent basis last session and whose plan for controlling fill of San Francisco Bay the Legislature also approved. In approving the bay plan, the Legislature granted an exception to the City of Albany for its fill project.

A check with the staff of BCDC indicates that BCDC and the Attorney General are attempting to determine in coordination with Albany, the exact effect and extent of the exemption. However, at present the fill that would be used for this launching facility has not been placed. Therefore the appropriation appears to be premature. In addition, even though the Legislature granted an exemption to Albany for the city to proceed with a project which may not be in accord with the plan for the bay, this does not mean that the Legislature would wish the state to fund a project which may not be in accord with the bay plan. At

Launching Facility Grants—Continued

this time we cannot determine whether the proposed launching facility would be in accord with the plan. Since the appropriation seems to be premature, it would appear advisable for the Legislature to defer action on it until information is available to determine whether the launching facility is in accord with the plan. This deferment would be without prejudice to the project which could be approved next year.

Last year the department requested \$216,750 from the Harbors and Watercraft Revolving Fund and \$208,250 in federal Land and Water Conservation Fund money for a launching facility at Kings Beach on Lake Tahoe in Placer County. The project included purchase of about two acres of land by the department. Since the project was included as a grant in the local assistance item of the Budget Act, rather than in capital outlay, the department did not have the appropriation authority to proceed with land acquisition through General Services. We understand the Department of Navigation and Ocean Development will sponsor a separate bill in the current session of the Legislature to finance the project.

Department of Navigation and Ocean Development**BOATING LAW ENFORCEMENT****Item 287 from Harbors and Watercraft
Revolving Fund****Budget page 1030**

Requested 1970-71 -----	\$120,000
Estimated 1969-70 -----	50,000
Actual 1968-69 -----	None
Requested increase \$70,000 (140 percent)	
Increase to improve level of service \$70,000	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

Chapter 1354, Statutes of 1969, increased boat registration fees for undocumented vessels and provided for the allocation of the revenue from the increased fees to counties and to the State Department of Parks and Recreation for the support of boating safety and enforcement programs. The department estimates increased revenue of \$100,000 in the current year and \$200,000 in the budget year, and estimates added revenue will ultimately be about \$575,000 to \$600,000 annually for boating safety and enforcement programs.

The purpose of the assistance program is to allocate revenue for boating safety and enforcement programs to counties where nonresident vessels are used extensively. The statute provides that the amount of aid for which a county or other entity is eligible shall not exceed the total cost of its boating safety and enforcement program needs less the moneys derived from personal property taxes on boats and fees charged for boating activity as determined in accordance with a formula prescribed by the department. According to the department, about 20 counties will ultimately be eligible for financial aid.

Boating Law Enforcement—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department requests \$120,000 for local assistance in boating law enforcement for the budget year. The program is just beginning and as of the time of this writing, the department does not have specific requests from local agencies for funds. The department, however, estimates that there may be seven counties applying for a total of approximately \$120,000.

Chapter 1354, Statutes of 1969, also provides for reimbursement of the Department of Parks and Recreation for the cost of its boating safety and enforcement program conducted from January 1, 1970 to June 30, 1970, but not to exceed \$50,000. The statute also requires the Department of Harbors and Watercraft (now the Department of Navigation and Ocean Development) to conduct a study of the feasibility of placing with counties and other local government agencies the full responsibility of patrolling waterways presently being patrolled by the Department of Parks and Recreation and conducting law enforcement operations thereon. The department's report, due February 1, 1970, had not been completed as of the time of this writing. If the Department of Parks and Recreation retains the boating law enforcement functions, that department will be eligible for financial assistance from the Department of Navigation and Ocean Development under the 1969 Statutes.

Department of Navigation and Ocean Development**EMERGENCY HARBOR REPAIRS****Item 288 from Harbors & Watercraft Revolving Fund**

Requested 1970-71	\$100,000
Appropriated	100,000
Actual 1968-69	100,000
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation provides authority to spend \$100,000 from the Harbors and Watercraft Revolving Fund for repairs of damage at small craft harbor facilities constructed pursuant to Sections 70.2, 71.4 and 83 of the Harbors and Navigation Code when caused by emergency conditions such as severe storms. The purpose of this appropriation is to utilize the Harbors and Watercraft Revolving Fund as the direct source of moneys for these repairs rather than calling on the General Fund, which in turn would have to be repaid from the Revolving Fund.

In the 1968-69 fiscal year, \$100,000 was allocated for emergency harbor repairs at Ventura. In the same year, \$25,000 from the General

Emergency Harbor Repairs—Continued

Fund was advanced for emergency harbor repairs for Noyo in Mendocino County. Last year in the Budget Act, an appropriation of \$25,000 was made to repay the General Fund.

During the current year \$75,000 has been allocated thus far for emergency repairs to the harbor at Santa Barbara.

Department of Water Resources
SUBVENTIONS FOR FLOOD CONTROL

Item 289

Budget page 1119

Requested 1970-71 -----	\$2,026,000
Appropriated for 1969-70 -----	10,300,000
Actual 1968-69 -----	13,000,000

Requested decrease \$8,274,000 (408 percent)

Total recommended reduction -----	None
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ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This subvention item appropriates funds to the Department of Water Resources for allocation to local agencies of government to pay the costs of cooperation with the Corps of Engineers on levee and channel flood control projects outside of the Central Valley. The payments primarily are for acquisition of rights-of-way and relocation of utilities and bridges required for project construction. A complex fiscal transaction undertaken last year requires explanation before it is possible to evaluate the proposed reduction in appropriations from \$10,300,000 for the current year to \$2,026,000 in the budget year.

During July, 1969, the Department of Finance determined that the Los Angeles County Flood Control District had approximately \$4.5 million in claims for reimbursement on hand which had not been submitted to the department for approval and payment. Subsequently the Department of Finance requested the Controller to enter \$3,039,277.08 of these claims as expenditures against the remaining unexpended appropriation authority for last fiscal year. The result was to show the funds expended, although the money had not been expended and the claims had not even been received for necessary review and processing. The resulting increased 1968-69 expenditure decreased the General Fund surplus available in the current fiscal year for appropriation of the "free surplus" to the State School Fund under Item 321.5 of the 1969 Budget Bill.

With approximately \$3 million of the current year claims having been shown as expended last year, with the reduction in flood control expenditures by the federal government and with a reduction in project activities at the local level of government, the current year appropriation is probably too high. Therefore Section 10 of the 1970 Budget Bill will propose to reappropriate any remaining balance for the cur-

Subventions for Flood Control—Continued

rent year and make it available next fiscal year. This remaining balance is estimated to be in the order of \$3 to \$4 million. If the remaining balance is added to the new funds being requested for next fiscal year, amounting to \$2,026,000, the total available for disbursement next fiscal year will be in the order of \$5 million or more.

No information is available on the federal flood control program in the President's Budget for next fiscal year at the time of preparation of this analysis. Therefore the amount of the possible reduction in state funding needs for next fiscal year is not objectively determinable and, in view of the lateness of Congressional action on budgets in recent years, may not be finally known until after passage of the state's budget bill. On the basis of present limited information and the uncertainties involved in this item, we believe that the Legislature should approve the request for next fiscal year with the knowledge that some revision may be required because of events which cannot now be foreseen.

Public Utilities Commission**GRADE CROSSING PROTECTION WORKS****Item 290 from the State Highway Fund****Budget page 1261**

Requested 1970-71	\$1,100,000
Estimated 1969-70	1,100,000
Actual 1968-69	954,191
Requested increase—None	
Total recommended reduction	\$333,238

GENERAL PROGRAM STATEMENT

The Public Utilities Commission manages three interrelated railroad crossing safety programs, all supported by the State Highway Fund. Chapter 1302, Statutes of 1961, requires the commission to allocate to cities and counties such moneys as may be appropriated by the Legislature to assist local entities in financing the installation of automatic protection devices at grade crossings. The Budget Bill has been used subsequently as the appropriation mechanism, but only for this first railroad crossing safety program. The state contributes 25 percent of the cost of installing each crossing device, local government matches with 25 percent and the railroad company pays the remainder.

Chapter 1644, Statutes of 1965, amended the Public Utilities Code to provide support for maintenance of the grade crossing protection devices on the same cost-sharing basis. Prior to adoption of the 1965 amendment, the railroad companies were responsible for assuming the full cost of maintenance. The 1965 amendment provides for a continuous appropriation of the funds required, as determined by the Public Utilities Commission, up to a maximum of \$1 million per year for maintenance.

Senior Citizens' Property Tax Assistance—Continued

Table 1

State Senior Citizen Property Tax Assistance Payments for
the 1967-68 Fiscal Year

Household income class	Number of claimants	Percent of total	Averages		
			Household income	Property taxes	State assistance
\$0-\$1,000	3,562	6.2	\$743	\$241	\$229
1,000-1,500	9,823	17.1	1,249	252	210
1,500-2,000	13,547	23.6	1,759	261	167
2,000-2,500	13,936	24.3	2,247	273	122
2,500-3,000	11,737	20.5	2,741	286	71
3,000-3,350	4,749	8.3	3,142	308	27
Totals	57,354	100	\$2,048	\$270	\$136

Table 2 shows the variations in assistance payments among the 15 most populous counties. These payments range from a low of \$75 in Kern County to a high of \$178 in San Francisco County. The variations are directly attributable to the level of property taxes rather than differences in household income.

Table 2

Average Senior Citizen Property Tax Assistance Payments
by Counties, 1967-68 Data

County	Property tax	State assistance
Alameda	\$329	\$166
Contra Costa	317	157
Fresno	189	100
Kern	146	75
Los Angeles	290	147
Orange	260	128
Riverside	226	114
Sacramento	278	136
San Bernardino	199	98
San Diego	239	118
San Joaquin	222	110
San Mateo	232	157
Santa Clara	311	155
Sonoma	239	119
San Francisco	350	178
Statewide average	\$270	\$136

The second cycle of this program covered property taxes during 1968-69, and state payments were made to 66,000 claimants during the current fiscal year. Despite a 15-percent increase in the number of claimants, the total cost rose to only \$8.2 million, because part of the property tax of these claimants was reimbursed by the \$70 homeowners' rebate. A special sample by the Franchise Tax Board, however, indicates that only 77 percent of the senior citizens applied for and received this rebate even though practically all of them were eligible.

The third cycle will cover property taxes during the current fiscal year and state payments estimated at \$10 million will be made to 71,000 claimants in the budget year. Table 3 indicates that the average pay-

Senior Citizens' Property Tax Assistance—Continued

ment will be \$141, which is slightly less than 50 percent of the net property taxes on these homes after deducting the \$750 homeowners' exemption. This table also illustrates the growth in tax rates and assessed values on these homes.

Table 3
Senior Citizens Assistance
(All numbers are average figures)

	1967-68	1968-69	1969-70
Assessed valuation	\$2,919	\$3,128	\$3,353
Property tax rate	9.25	9.72	10.32
Gross property tax	\$270	\$304	\$346
Homeowners' exemption	0	54 ^a	60 ^b
Net property tax	270	250	286
Percent of assistance	50.4	49.2	49.3
Senior citizen assistance	\$136	\$123	\$141

^a A sample of 1,200 returns showed that only 77 percent of senior citizens claimed the \$70 rebate ($77\% \times \$70 = \54).

^b Assumes that only 77 percent also claimed the homeowners' exemption because the filing coincided with the rebate.

The Franchise Tax Board administers this program, at an estimated cost of \$606,000 in the budget year. Our discussion of the administrative aspects is part of the Franchise Tax Board analysis.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 292 from the General Fund

Budget page 1294

Requested 1970-71	\$213,000,000
Estimated 1969-70	200,000,000
Actual 1968-69	176,000,000

Requested increase \$13,000,000 (6.5 percent)

Total recommended reduction None

ANALYSIS AND RECOMMENDATIONS

We recommend approval as budgeted

This item provides state funds to reimburse local governments for property tax losses resulting from the \$750 homeowners' exemption. Last year homeowners received property tax relief through a \$70 direct rebate.

The data in Table 1 show the costs and number of claimants participating in this program since its inception.

Table 1
History of the Homeowners' Property Tax Rebate and Exemption

Detail	1968-69	1969-70	1970-71
Cost (in millions)			
Budget estimate	\$178.0	\$211.7	\$213.0
Actual	174.9	200.0	N/A
Savings	—\$3.1	—\$11.7	N/A
Number of claimants (thousands)	2,499	2,580	2,670
Average property tax relief	\$70.00	\$77.52	\$79.77

Homeowners' Property Tax Relief—Continued

The costs shown in the table do not include the Controller's administrative expenses or the one-time reimbursement granted to counties for administering the \$70 rebate.

Costs for the current year originally were estimated at \$183 million. However, the Department of Finance in its May 1969 budget revisions, increased this amount by \$28.7 million in anticipation that legislation (Chapters 899 and 900, Statutes of 1969) extending the filing period would increase the total costs. Only part of this increase materialized, and as a result there will be a \$11.7 million savings from the budgeted amount during the current fiscal year.

In the budget year, the cost of this program is expected to increase by \$13 million for three reasons:

1. Higher property tax rates applied to the same \$750 exemption will increase costs by \$6 million.
2. New construction will add 40,000 regular claimants at a cost of \$3.1 million.
3. About 50,000 veterans will transfer to this program because the wealth limits are making them ineligible for the \$1,000 veterans' exemption. This shift will cost \$3.9 million.

SALARIES OF SUPERIOR COURT JUDGES

Item 293 from the General Fund

Budget page 15

Requested 1970-71	\$9,533,772
Estimated 1969-70	8,837,376
Actual 1968-69	8,273,105
Requested increase \$696,396 (7.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This budget item provides the state's share of superior court judges' salaries under the provisions of the Government Code. The remainder of the superior court judges' salaries and other expenses of the courts are the responsibility of the counties. Government Code Section 68206 sets forth the counties' share based on county population within one of three groups as follows:

County population	State share	County share	Total salary
250,000 or more	\$22,316	\$9,500	\$31,816
40,000 to 250,000	24,316	7,500	31,816
40,000 or less	26,316	5,500	31,816

ANALYSIS AND RECOMMENDATIONS

The state's portion of salaries of 417 superior court judges totals \$9,533,772 for 1970-71. This represents an increase of \$696,396 or 7.9 percent over the 1969-70 expenditure level of \$8,837,376 for this item. The increase is due to full year salary costs for judges authorized in the 1969-70 fiscal year and a salary increase of 4.069 percent for superior court judges.

Salaries of Superior Court Judges—Continued

The salary increase is based on the formula set forth in Section 68203 of the Government Code as amended by the 1969 Legislature. Heretofore the judges, including appellate, municipal and superior court judges, were granted an increase each four years based upon the increase in per capita income in California during a like period of time. The cited code section now provides for an increase annually based on the prior calendar year increase in the California consumer price index.

CONTRIBUTIONS TO JUDGES' RETIREMENT FUND

Heretofore, the budget has contained a separate General Fund item to offset the annual deficit in this fund. The deficits result because benefits paid under the plan exceed the income to the fund from state and members' contributions and income derived therefrom.

In 1969 the Legislature authorized a special fee to be applied against first papers in all civil suits except adoptions filed in the municipal and superior courts. The revenue derived from these fees is deposited in this retirement fund, and this accounts for the fact that a deficit is not projected for the 1970-71 fiscal year.

The actual and projected condition of this fund is shown in Table 1.

Table 1
Judges' Retirement Fund

	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Beginning resources July 1 ¹ -----	\$116,135	\$362,732	\$1,015,237
Receipts:			
Contributions from members -----	1,832,155	2,024,944	2,178,837
Contributions from state -----	1,794,899	1,972,053	2,102,617
Budget Act appropriation -----	1,170,000	1,100,000	-0-
Filing fees -----	-0-	725,833	1,300,000
Investment income -----	37	3,750	45,000
Total receipts -----	\$4,797,091	\$5,826,580	\$5,626,454
Total resources -----	\$4,913,226	\$6,189,312	\$6,641,691
Less disbursements, retirement allowances, death benefits and refunds -----	\$4,550,494	\$5,174,075	\$5,620,525
Ending resources, June 30 ¹ -----	\$362,732	\$1,015,237	\$1,021,166

¹ Fund statement shown on an accrual basis.

Table 1 shows the impact of the new filing fee on the fund in the budget year. It will produce an estimated \$1,300,000. This income from fees will continue to increase in proportion to the increase in civil filings in the respective courts. The contributions of the state, as employer, and of the judges each represent 8 percent of the judges' salaries. These contributions will increase in relation to salary increases which occur automatically based on the annual increase in the California consumer price index. Whether the new fee income and increasing contributions due to salary increases will continue to meet the needs

Contributions to Judges' Retirement Fund—Continued

of the program is subject to several variables and must await further experience and subsequent evaluation.

The utilization of filing fees to offset the deficit between income from contributions and benefits paid shifts this burden from the General Fund taxpayer to those directly utilizing the courts for designated civil cases.

Need to Reduce Costs

1. Legislation should be enacted which would permit judges to remain on the bench beyond age 70 without a subsequent reduction of retirement benefits if requested by the Chief Justice as Chairman of the Judicial Council. Under the current incentive retirement plan benefits are reduced for judges who remain on the bench past age 70. The Controller estimates that a provision allowing all judges to remain on the bench to age 72, for example, would produce immediate annual savings in excess of \$100,000 for the retirement fund.

2. Legislation to base widows' or survivors' benefits on an actuarially determined computation is needed.

Any legislative changes reducing existing benefits would apply only to future appointees and present incumbents would not be affected. The proposed legislative changes are recommended as a means of improving the financial soundness and reducing the costs of the program to the taxpayer and/or litigant.

Under the current retirement system judges remaining on the bench beyond age 70 are penalized on subsequent retirement by a reduction in the rate of retirement benefits paid. There was more justification for such a system prior to the inception of the Commission on Judicial Qualifications as a means of retiring judges because of age which may have rendered them incompetent. Judges may now be retired by the Supreme Court on recommendation of the commission if incapacitated for any reason.

On the other hand, not only are the judges penalized who may wish to and are capable of adequate judicial performance beyond age 70, but the state loses their experience and services if they are forced to retire earlier. The Chief Justice should be able to request continued service without loss of benefits for qualified judges in the same way that retired judges can be assigned.

The current widows' and survivors' benefits are based on one-half of the judges' benefits and are not actuarially sound. Legislation remedying this would reduce the total fund costs.

State Disaster Office

WORKMEN'S COMPENSATION FOR DISASTER SERVICE WORKERS

Item 294 from the General Fund

Budget page 35

Requested 1970-71 -----	\$56,000
Estimated 1969-70 -----	54,500
Actual 1968-69 -----	73,856
Requested increase \$1,500 (2.8 percent)	
Total recommended reduction -----	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

Workmen's compensation for disaster service workers is provided by Chapter 10 of Part 1, Division 4 of the Labor Code. This appropriation is for the hospitalization and medical care of disaster service workers and for the services of the State Compensation Insurance Fund in cases where disaster service workers are injured. The budget appropriation for the current year was \$51,000. However, an allocation of \$3,500 from the Emergency Fund was required to pay the remaining claims resulting from the southern California flood and mud disasters in the winter of 1968-69.

ASSISTANCE TO CITIES AND COUNTIES FOR PEACE OFFICERS STANDARDS AND TRAINING

Item 295 from the Peace Officers Training Fund

Budget page 811

Requested 1970-71 -----	\$5,168,770
Estimated 1969-70 -----	4,927,400
Actual 1968-69 -----	2,717,266
Requested increase \$241,370 (4.9 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

This item provides assistance to cities and counties that qualify for state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. Each jurisdiction participating in the program is reimbursed from the Peace Officers Training Fund for up to 50 percent of the salaries and expenses of officers who are selected to participate in training programs. The Commission on Peace Officers Standards and Training approves the training programs and administers the reimbursements. Pursuant to Chapter 1640, Statutes of 1967, the commission also has responsibility for providing counseling services to local police agencies for the purpose of improving their administrative and operating procedures. The commission is supported by a separate appropriation from this fund (Budget Item 139).

Revenues accruing to the Peace Officers Training Fund are derived from a penalty assessment of \$5 for every \$20 of criminal fines and

Assistance to Cities and Counties for Peace Officers
Standards and Training—Continued

\$1 for every \$20 of traffic fines. Revenues for the current year are estimated at \$6,820,000.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The sum of \$5,168,770 is requested for the budget year from the Peace Officers Training Fund. This is an increase of \$241,370 or 4.9 percent above estimated expenditures of \$4,927,400 for the current year. For fiscal year 1970-71, estimated revenues of \$7,132,000 will exceed estimated expenditures by \$1,501,268, thus producing a projected surplus in the fund of \$6,048,508 on June 30, 1971.

ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS

Item 296 from the General Fund

Budget page 811

Requested 1970-71	\$775,000
Estimated 1969-70	\$775,000
Actual 1968-69	\$775,000
Requested increase—None	
Total Recommended Reduction	None

GENERAL PROGRAM STATEMENT

This item is a subvention to counties for providing legal assistance to indigents charged with violation of the state's criminal laws. The subvention is authorized under Section 987(b) of the Penal Code and is not to exceed 10 percent of county expenditures for such purposes.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The proposed 1970-71 appropriation of \$775,000 is identical to the amount authorized for the 1968-69 and 1969-70 fiscal years.

Section 987b of the Penal Code, as amended by Chapter 1514, Statutes of 1969, provides that from any state moneys made available to it for such purpose, the Department of Finance shall, pursuant to this section, pay to the counties an amount not to exceed 10 percent of the amounts actually expended by the counties in providing counsel to indigents charged with violations of state criminal law or involuntarily detained under the Lanterman-Petris-Short Act. Prior to the 1969 amendment, the section provided for payment to the counties on the basis of an amount not to exceed 10 percent of the amounts *annually budgeted* rather than actual expenditures. Also, it did not provide for reimbursement for expenditures made for persons involuntarily detained under the Lanterman-Petris-Short Act.

Payments are made quarterly, in arrears, on the basis of 10 percent of actual expenditures. If there are insufficient funds available to pay the full 10 percent for a particular quarter, the remaining funds are prorated among all claims filed for that quarter.

Item 297**Local Assistance****Assistance to Counties for Public Defenders—Continued**

As indicated below, sufficient funds have not been made available in the past to reimburse the counties for the full 10 percent of the amount budgeted. No claims were filed for the last quarter of the 1967-68 and 1968-69 fiscal years because state funds appropriated for these years had been exhausted in the third quarter of the fiscal year.

<i>Fiscal year</i>	<i>Amount budgeted by counties</i>	<i>10% of amount budgeted</i>	<i>Amount appropriated</i>
1965-66	\$6,677,114	\$667,711	\$500,000
1966-67	8,250,915	825,092	600,000
1967-68	10,042,638	1,004,264	600,000
1968-69	14,422,835	1,442,284	775,000

Item 363 of the Budget Act of 1969, appropriated \$775,000 for expenditure for the fiscal year 1969-70. The Office of Local Assistance estimates that claims filed for this year will exceed this amount by \$700,000 to \$800,000. Accordingly, based on past experience, it is estimated by that office that an appropriation of \$1.7 million would be needed for the fiscal year 1970-71 to reimburse the counties for the full 10 percent of their anticipated expenditures.

Department of Veterans Affairs**COUNTY VETERANS SERVICE OFFICERS****Item 297 from the Veterans Farm and Home
Building Fund****Budget page 1273**

Requested 1970-71	-----	\$500,000
Estimated 1969-70	-----	500,000
Actual 1968-69	-----	500,000
Requested increase—None		
Total recommended reduction	-----	\$500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We recommend that the state subvention to the county veterans service officers be terminated for a savings of \$500,000.

GENERAL PROGRAM STATEMENT

At the present time the department has two programs with respect to the county veterans service officers. One is the county subvention which provides state funds to help pay for the cost of operating the county offices in 54 of the 58 counties in California. The amount ranges from less than \$1,000 in the thinly populated counties to a maximum of \$30,000 in the populous counties. The other is a liaison program between the state veterans representatives and the county veterans service officers. The state representatives provide technical assistance, discuss reporting procedures concerning the activities and assistance relevant to the veterans and their dependents, and conduct training programs to familiarize county personnel with federal and state laws and regulations.

County Veterans Service Officers—Continued

The department proposes to continue its assistance to counties for county veterans service officers but to eliminate its liaison program. We recommend that the veteran's subvention also be terminated since we believe that the county veterans service office is, and ought, to be primarily a county function. An effective county office is a distinct asset to the county because it is instrumental in bringing into the county considerable federal and state money which might not otherwise be received. In the last year the veterans service offices were instrumental in obtaining for their veterans approximately \$46 million in pensions, educational benefits, insurance claims and certain other miscellaneous items. Additionally, we are informed by the department, they can save the county considerable sums in such areas as welfare and mental hygiene since in many instances the persons subsist on veterans pensions would otherwise become the responsibility of the county and a drain on its general fund.

We believe that all available funds in the County Veterans Farm and Home Building Fund ought to be utilized to provide Cal-Vet loans to eligible veterans. We believe that the \$500,000 now allocated for veteran's subventions ought properly to be utilized for Cal-Vet loans. *We recommend that the state's subvention of the county veterans service officers be terminated for a saving to the Veterans Farm and Home Building Fund of \$500,000.*