MAJOR ISSUES

Over $1 Billion in Proposed State Savings Depends on Federal Action. The budget proposes numerous changes in the health and social services area that depend on enactment of federal legislation ($1 billion in General Fund savings) or federal waiver of regulations ($254 million in General Fund savings). To the extent these actions are not taken at the federal level, there will be a budgetary hole in these programs. (See page C-14.)

Budget Proposes to Realign State-County Responsibilities. The budget proposes to increase the county share of cost for various social services programs, thereby shifting $1.9 billion in spending from the state General Fund to the counties. This would be accompanied by a shift of $1.6 billion in state resources to the counties. In order to compensate counties for the net cost of $241 million, the Governor proposes legislation to provide the counties with relief from state mandates in the General Assistance, mental health, and indigent and public health programs. (See page C-15 and our companion volume, The 1995-96 Budget: Perspectives and Issues.)

Proposal to Eliminate Medi-Cal Optional Benefits Has Fiscal and Program Implications. The budget proposal to eliminate nine optional benefits is estimated to result in net General Fund savings of $143 million in 1995-96, but could place additional fiscal burdens on county indigent health programs. We recommend that if the Legislature chooses to reduce benefits, it consider an approach based on prioritizing treatments or diagnoses rather than eliminat-
ing entire categories of benefits. Such an approach would reduce cost-shifting and better target the service reductions. (See page C-46.)

%Federal Decision Jeopardizes State Savings and County Revenues. A recent federal decision calls into question $400 million in state savings and $2 billion in potential county revenues from the federal government. The Department of Health Services is in the process of negotiating with the federal administration regarding its decision to deny claims submitted by the counties for reimbursement of administrative costs associated with the Medi-Cal Program. (See page C-49.)

%Budget Proposes to Expand Health Services for Children. The budget proposes to establish a program that would provide outpatient care to children from birth through age five who are in families with incomes from 133 percent to 200 percent of the poverty level, at a General Fund cost of $56 million in 1995-96. We raise a number of questions concerning this proposal in our analysis of public health programs. (See page C-70.)

%Budget Proposes Major AFDC Changes. One of the Governor's stated reasons for proposing to reduce Aid to Families with Dependent Children (AFDC) grants and place a time limit on their availability is to make work an attractive alternative to the AFDC Program. We conclude that some families will be able to compensate for the grant reductions through work. Other families, however, probably will not be able to fully offset the grant reductions due to low levels of education and employment experience, as well as a potential lack of job opportunities. (See page C-106.)

%Budget Proposes SSI/SSP Grant Reductions and Eligibility Changes. The budget proposes to reduce SSI/SSP grants by 8 percent for individuals and 10 percent for couples (General Fund savings of $429 million in 1995-96). The budget also proposes to eliminate drug and alcohol addiction as a qualifying disability (General Fund savings of $52 million in 1995-96). Both of these proposals require federal legislation. (See page C-127.)
# Table of Contents

Overview ............................................... C-5
Expenditure Proposal and Trends .................. C-5
Caseload Trends ....................................... C-7
Spending by Major Programs ....................... C-9
Major Budget Changes ............................... C-10
Crosscutting Issues ................................... C-19
  Developmental Center/State Hospital Plan
      Should Be Developed .......................... C-19
  Transfer of Developmentally Disabled Clients .... C-27
  Integration of Long Term Care
      Services Initiative ............................ C-29
  Additional Federal Emergency Assistance
      Funding Available ............................. C-32
  Adults With Special Health Care Needs .......... C-34
  Information Needed for Youth Pilot
      Program Staffing Increases .................... C-35
Departmental Issues ................................. C-37
  Department of Alcohol and
      Drug Programs (4200) ......................... C-37
California Medical Assistance  
(Medi-Cal) Program (4260) ................. C-40
Public Health ............................... C-70
Managed Risk Medical Insurance Board (4280) . C-86
Department of Developmental Services (4300) . C-93
Department of Mental Health (4440) ............ C-95
Employment Development Department (5100) . C-98
Department of Rehabilitation (5160) .......... C-100
Aid to Families With 
Dependent Children (5180) ................. C-103
Supplemental Security Income/
State Supplementary Program ............... C-127
County Administration of Welfare Programs . C-133
Child Welfare Services ....................... C-141
In-Home Supportive Services ............... C-147
Adoptions Programs ....................... C-149
Community Care Licensing Division .......... C-151
List of Findings and Recommendations .... C-155
OVERVIEW

General Fund expenditures for health and social services programs are proposed to decrease significantly in the budget year. Most of the net reduction is due to (1) shifting state costs to the counties and federal government and (2) welfare grant reductions.

EXPENDITURE PROPOSAL AND TRENDS

The budget proposes General Fund expenditures of $11.4 billion for health and social services programs in 1995-96, which is 27 percent of total proposed General Fund expenditures. The budget proposal represents a reduction of $2.7 billion, or 19 percent, from estimated expenditures in the current year. The savings would be achieved primarily by:

- Shifting some of the state's costs of certain welfare programs to the counties, partially funded by a transfer of revenues to the counties and county savings from state assumption of a higher share of trial court costs.
- Shifting some of the state's costs of certain programs for refugees and undocumented persons to the federal government.
- Reducing grants provided under the Aid to Families with Dependent Children (AFDC) Program and the Supplemental Security Income/State Supplementary Program (SSI/SSP).
- Eliminating certain Medi-Cal benefits.
Figure 1 shows that General Fund expenditures for health and social services programs are relatively flat between 1988-89 and 1995-96, increasing by $76 million, or less than 1 percent. General Fund expenditures increased significantly until 1991-92, when realignment legislation shifted $2 billion of health and social services program costs from the General Fund to the Local Revenue Fund, which is supported through state sales taxes and vehicle license fees. This shift in funding accounts for the significant increase in special funds starting in 1991-92, as shown in Figure 1. General Fund spending declined in 1992-93, due to various program reductions (the largest being welfare grant reductions). The budget proposes further significant General Fund reductions in 1995-96, partly offset by a sharp increase in special funds expenditures.

Combined General Fund and special funds spending is projected to increase by 32 percent between 1988-89 and 1995-96. This increase is due to the growth in special funds, which results from the Governor’s realignment proposal to shift certain welfare costs to the counties, accompanied by a transfer of state revenues and cost shifts to the state to offset most of the county costs.

Figure 1 also displays the spending for these programs adjusted for inflation. On this basis, General Fund expenditures are estimated to
decrease by 19 percent between 1988-89 and 1995-96. Combined General Fund and special funds expenditures are estimated to increase by 6.2 percent during the same period, on a constant dollar basis. This is an average annual rate of increase of less than 1 percent.

**CASELOAD TRENDS**

Figures 2 and 3 (see next page) illustrate the caseload trends for the largest health and welfare programs. In both the health and welfare areas, significant increases coincide with the onset of the recession in 1990. Figure 2 shows the Medi-Cal caseload growth, broken out by “traditional” eligibility categories—primarily AFDC and SSI/SSP recipients—and “newer” eligibility groups—persons recently made eligible by state and federal law, including newly legalized immigrants, undocumented persons, and pregnant women.

Figure 2 shows there was a significant upswing in the rate of increase in the Medi-Cal caseload, beginning in 1989-90. This occurred primarily because of rapid growth in both the AFDC Program and in the “newer” eligibility categories of Medi-Cal recipients. In 1995-96, one out of every
six Californians will be eligible for the Medi-Cal Program. (For a more detailed discussion of caseload growth, please refer to our *Analysis of the 1992-93 Budget Bill*, page V-90.)

Figure 3 shows the caseload trend for the AFDC (Family Group and Unemployed Parent [FG&U]) and SSI/SSP Programs. While the number of cases in the SSI/SSP Program is greater than in the AFDC Program, there are more persons in the AFDC Program—about 2.8 million compared to about 1 million for SSI/SSP. (SSI/SSP cases are reported as individual persons, while AFDC cases are primarily families.)

Figure 3

**AFDC and SSI/SSP Caseloads**

**Average Monthly Cases**

**1986-87 Through 1995-96**

<table>
<thead>
<tr>
<th>(In Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases</td>
</tr>
<tr>
<td>11</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>6</td>
</tr>
</tbody>
</table>

AFDC and SSI/SSP Caseloads

**Average Monthly Cases**

**1986-87 Through 1995-96**

*SSI/SSP cases are reported as individual persons.*

Caseload growth in these two programs is due, in large part, to the growth of the eligible target populations. The increase in the rate of growth in the AFDC caseloads in 1990-91 and 1991-92 was partly due to the effect of the recession. Since then, the caseload has continued to increase but at a slower rate of growth. This slowdown, according to the Department of Finance, was due partly to (1) certain population changes, including lower migration from other states, and (2) a lower rate of increase in “child-only” cases (including citizen children of undocumented and newly legalized persons), which was the fastest growing segment of the caseload until 1993-94. (For a discussion of
other factors affecting the AFDC caseload, please see our report on the program in The 1991-92 Budget: Perspectives and Issues, page 189.)

The SSI/SSP caseload can be divided into two major components: the aged and the disabled. The aged caseload generally increases in proportion to increases in the eligible population—age 65 or older. This component of the caseload accounts for about one-third of the total. The larger component—the disabled caseload—has been growing faster than the rate of increase in the eligible population group (primarily ages 18 to 64). This is due to several factors, including (1) the increasing incidence of AIDS-related disabilities, (2) changes in federal policy that liberalized the criteria for establishing a disability, (3) a decline in the rate at which recipients leave the program (perhaps due to increases in life expectancy), and (4) expanded state and federal outreach efforts in the program.

**SPENDING BY MAJOR PROGRAMS**

Figure 4 shows expenditures for the major health and social services programs in 1993-94 and 1994-95, and as proposed for 1995-96. As shown in the figure, the three major benefit payment programs—Medi-Cal, AFDC, and SSI/SSP—account for a large share of total spending in the health and social services area.

**Figure 4**  
Major Health and Welfare Programs Budget Summary\(^a\)  
1993-94 Through 1995-96

(Dollars in Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Medi-Cal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>$5,549.6</td>
<td>$6,047.5</td>
<td>$5,697.7</td>
<td>-349.9</td>
<td>-5.8%</td>
<td></td>
</tr>
<tr>
<td>All funds</td>
<td>15,042.7</td>
<td>15,439.5</td>
<td>15,424.8</td>
<td>-14.7</td>
<td>-0.1</td>
<td></td>
</tr>
<tr>
<td><strong>AFDC (FG&amp;U)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>2,757.2</td>
<td>2,858.5</td>
<td>1,299.1(^b)</td>
<td>-1,559.4</td>
<td>-54.6</td>
<td></td>
</tr>
<tr>
<td>All funds</td>
<td>5,735.9</td>
<td>5,927.4</td>
<td>5,150.2</td>
<td>-777.2</td>
<td>-13.1</td>
<td></td>
</tr>
<tr>
<td><strong>AFDC (FC)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>266.9</td>
<td>290.8</td>
<td>—(^b)</td>
<td>-290.8</td>
<td>-100.0</td>
<td></td>
</tr>
<tr>
<td>All funds</td>
<td>924.0</td>
<td>1,007.0</td>
<td>1,052.9</td>
<td>45.0</td>
<td>4.5</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Continued
### C - 10 Health and Social Services

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SSI/SSP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>2,031.3</td>
<td>2,056.4</td>
<td>1,636.8</td>
<td>-419.6</td>
<td>-20.4</td>
</tr>
<tr>
<td>All funds</td>
<td>5,109.7</td>
<td>5,435.8</td>
<td>5,358.5</td>
<td>-77.3</td>
<td>-1.4</td>
</tr>
<tr>
<td><strong>County welfare administration</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>377.7</td>
<td>446.3</td>
<td>491.2</td>
<td>44.9</td>
<td>10.1</td>
</tr>
<tr>
<td>All funds</td>
<td>1,583.0</td>
<td>1,732.8</td>
<td>1,923.6</td>
<td>190.8</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>In-Home Supportive Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>232.3</td>
<td>244.5</td>
<td>252.8</td>
<td>8.3</td>
<td>3.4</td>
</tr>
<tr>
<td>All funds</td>
<td>866.7</td>
<td>899.4</td>
<td>954.8</td>
<td>55.4</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Regional centers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>525.7</td>
<td>543.1</td>
<td>446.7</td>
<td>-96.4</td>
<td>-17.7</td>
</tr>
<tr>
<td>All funds</td>
<td>743.2</td>
<td>835.2</td>
<td>945.9</td>
<td>110.7</td>
<td>13.3</td>
</tr>
<tr>
<td><strong>Developmental centers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>31.2</td>
<td>34.8</td>
<td>33.6</td>
<td>-1.2</td>
<td>-3.4</td>
</tr>
<tr>
<td>All funds</td>
<td>584.7</td>
<td>591.6</td>
<td>571.9</td>
<td>-19.7</td>
<td>-3.3</td>
</tr>
<tr>
<td><strong>Child welfare services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>185.6</td>
<td>147.7</td>
<td>12.4</td>
<td>-135.3</td>
<td>-91.6</td>
</tr>
<tr>
<td>All funds</td>
<td>698.8</td>
<td>726.8</td>
<td>797.5</td>
<td>70.7</td>
<td>9.7</td>
</tr>
<tr>
<td><strong>State hospitals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>150.1</td>
<td>160.1</td>
<td>195.3</td>
<td>35.2</td>
<td>22.0</td>
</tr>
<tr>
<td>All funds</td>
<td>395.7</td>
<td>422.2</td>
<td>433.4</td>
<td>11.2</td>
<td>2.7</td>
</tr>
</tbody>
</table>

*a* Excludes departmental support.

*b* The budget proposes to increase the county share of nonfederal costs of the AFDC (FG&U), AFDC-Foster Care, and Child Welfare Services Programs.

### MAJOR BUDGET CHANGES

Figures 5 and 6 (see page 12) illustrate the major budget changes proposed for health and social services programs in 1995-96.
### Health Services Programs
#### Proposed Major Changes for 1995-96

<table>
<thead>
<tr>
<th>General Fund</th>
<th>Requested: $5.7 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medi-Cal</strong></td>
<td>Decrease: $350 million (-5.8%)</td>
</tr>
<tr>
<td>- $221 million for caseload increase</td>
<td></td>
</tr>
<tr>
<td>- $102 million due to higher utilization of services and other cost increases</td>
<td></td>
</tr>
<tr>
<td>- $310 million by assuming additional federal funds for federally required services for undocumented persons</td>
<td></td>
</tr>
<tr>
<td>- $156 million by eliminating nine optional benefits</td>
<td></td>
</tr>
<tr>
<td>- $79 million by eliminating the state-only program for prenatal care for undocumented persons</td>
<td></td>
</tr>
<tr>
<td>- $46 million by assuming federal funds for services provided to refugees</td>
<td></td>
</tr>
<tr>
<td>- $37 million by barring sponsored aliens from receiving services for five years</td>
<td></td>
</tr>
<tr>
<td>- $30 million by establishing a higher reimbursement rate for nursing homes to accept patients from hospitals who would otherwise remain in the hospital</td>
<td></td>
</tr>
<tr>
<td>- $26 million by reducing rates for “distinct part” skilled nursing facilities</td>
<td></td>
</tr>
<tr>
<td>- $20 million by implementing copayments for certain services</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Health</th>
<th>Requested: $365 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase: $86 million (+38%)</td>
<td></td>
</tr>
<tr>
<td>- $56 million to expand access for health care for children 0-5 years in families with incomes up to 200 percent of poverty level</td>
<td></td>
</tr>
<tr>
<td>- $14 million to expand the Access for Infants and Mothers (AIM) Program</td>
<td></td>
</tr>
<tr>
<td>- $12 million to implement teen pregnancy prevention initiatives</td>
<td></td>
</tr>
</tbody>
</table>
## Figure 6

Social Services Programs
Proposed Major Changes for 1995-96
General Fund

<table>
<thead>
<tr>
<th>Program</th>
<th>Requested: $1.3 billion</th>
<th>Decrease: $1.7 billion (-53%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFDC</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$142 million for AFDC (FG&amp;U) caseload increase</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1.5 billion from realignment: increasing county share of cost</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$102 million (net) by assuming more efficient county administration due to incentives resulting from the realignment proposal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$167 million due to a 7.7 percent grant reduction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$87 million (net) from a 15 percent grant reduction after six months on aid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$39 million by assuming federal funds for services to refugees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$27 million by barring sponsored aliens from receiving services for five years</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SSI/SSP</th>
<th>Requested: $1.6 billion</th>
<th>Decrease: $420 million (-20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$110 million for caseload increase</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$354 million due to an 8 percent grant reduction for individuals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$80 million due to a 10 percent grant reduction for couples</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$50 million by assuming elimination of the federal fee for administration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$25 million (and $27 million in Medi-Cal) due to eliminating eligibility for drug or alcohol disability</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$18 million by barring sponsored aliens from receiving services for five years</td>
<td></td>
</tr>
</tbody>
</table>
Summary of Major Changes

Generally, the major changes can be grouped into the following categories:

1. The Budget Proposes to Fund Caseload Increases. This includes funding for projected caseload increases of 4.5 percent in the Medi-Cal Program and 3.6 percent in the AFDC Program. The budget projects a decline (0.8 percent) in the SSI/SSP Program due to proposed grant reductions and eligibility changes, but the budget proposes to fund the estimated caseload growth for the remainder of the caseload.

2. The Budget Proposes to Shift $1.9 Billion of State Costs to the Counties. This would be accomplished as part of the Governor’s realignment proposal ($1.9 billion General Fund savings in social services programs, partially offset by state special fund costs for social services and General Fund costs for trial courts).

3. The Budget Proposes to Shift $453 Million of State Costs to the Federal Government. These costs would be for:
   - Medi-Cal services to undocumented immigrants.
   - Medi-Cal, AFDC, and SSI/SSP services provided to refugees during the first 36 months of residence.
   - Administration of SSP cases in the SSI/SSP Program.

4. The Budget Proposes Major Program Reductions in the Medi-Cal, AFDC, and SSI/SSP Programs ($1 Billion General Fund Savings):
   - Eliminate nine optional Medi-Cal benefits (net state savings of $143 million in 1995-96, after accounting for offsetting costs to maintain these benefits for developmentally disabled persons served by the regional centers). Most of the savings would result from elimination of adult dental services.
   - Eliminate the state-only Medi-Cal program for prenatal care for undocumented persons (state savings of $79 million in 1995-96).
   - Implement grant reductions in the AFDC and SSI/SSP programs (net state savings of $254 million for the AFDC proposals and $429 million for the SSI/SSP proposals).
   - Deny Medi-Cal and AFDC benefits to sponsored aliens for five years ($62 million state savings).
   - Deny SSI/SSP benefits for drug- and alcohol-related disabilities ($52 million state savings).
5. The Budget Proposes to Expand Health Services for Pregnant Women and Children. This would be accomplished by the following actions:

- Expand coverage for children aged zero through five years in families with incomes up to 200 percent of the federal poverty level (General Fund cost of $56 million).

- Expand the Access for Infants and Mothers (AIM) Program—which provides health insurance to pregnant women and their infants—by increasing the eligibility limit from 250 percent of the poverty level to 300 percent and securing federal matching funds (General Fund cost of $14 million).

Savings Would Require Federal Action

The budget proposes numerous changes in the health and social services area that would be dependent on federal legislation ($1 billion in proposed General Fund savings) or federal waiver of regulations ($254 million General Fund savings). Figure 7 lists these proposals.

![Figure 7](image.png)

**Proposed State Savings Dependent on Federal Action**

<table>
<thead>
<tr>
<th>Health and Social Services Programs</th>
<th>1995-96</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget Proposal</strong></td>
<td><strong>Federal Legislation</strong></td>
</tr>
<tr>
<td>Reimburse Medi-Cal for undocumented persons</td>
<td>$310</td>
</tr>
<tr>
<td>Reimburse Medi-Cal, AFDC, SSI/SSP for refugees</td>
<td>103</td>
</tr>
<tr>
<td>Bar Medi-Cal, AFDC to sponsored aliens</td>
<td>64</td>
</tr>
<tr>
<td>Medi-Cal—nursing facility rate reduction</td>
<td>26</td>
</tr>
<tr>
<td>SSI/SSP grant reductions</td>
<td>429</td>
</tr>
<tr>
<td>SSI/SSP alcohol/drug elimination</td>
<td>52</td>
</tr>
<tr>
<td>Eliminate SSP administration fee</td>
<td>50</td>
</tr>
<tr>
<td>AFDC 7.7 percent grant reduction</td>
<td>—</td>
</tr>
<tr>
<td>AFDC 15 percent grant reduction</td>
<td>—</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$1,034</strong></td>
</tr>
</tbody>
</table>

* Excludes $422 million in proposed federal reimbursements for the costs of incarcerating undocumented persons.
State and County Realignment

The Governor’s realignment proposal involves a shift of $1.9 billion in spending for various social services programs from the state General Fund to the counties. To offset most of the increased county costs, the budget proposes a shift to the counties of sales tax revenues and trial court fines and penalties revenues, and state assumption of a higher share of trial court costs.

As shown in Figure 8, the spending shift would be accomplished by increasing the county share of costs for the AFDC Program, the Child Welfare Services Program, adoptions programs, and the Child Abuse Prevention Program. This proposal differs from the Governor’s restructuring proposal for 1994-95 in that it is smaller in scope and excludes some programs (primarily Medi-Cal and the In-Home Supportive Services Program) while adding others (mainly Child Welfare Services).

Figure 8
State and County Realignment Proposal
1995-96

(Dollars in Millions)

<table>
<thead>
<tr>
<th>Program</th>
<th>1994-95</th>
<th>1995-96</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost shifts to counties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFDC (FG&amp;U)</td>
<td>5%</td>
<td>50%</td>
<td>$1,157.3</td>
</tr>
<tr>
<td>AFDC (FC)</td>
<td>60%</td>
<td>100%</td>
<td>308.3</td>
</tr>
<tr>
<td>Foster Care Administration</td>
<td>30%</td>
<td>100%</td>
<td>20.4</td>
</tr>
<tr>
<td>Child Welfare Services</td>
<td>30%</td>
<td>100%</td>
<td>289.5</td>
</tr>
<tr>
<td>Adoptions Assistance Program (AAP)</td>
<td>25%</td>
<td>100%</td>
<td>61.3</td>
</tr>
<tr>
<td>AAP Administration</td>
<td>—</td>
<td>100%</td>
<td>1.1</td>
</tr>
<tr>
<td>Other Adoptions Programs</td>
<td>—</td>
<td>100%</td>
<td>20.8</td>
</tr>
<tr>
<td>Child Abuse Prevention</td>
<td>—</td>
<td>100%</td>
<td>8.8</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td>$1,867.6</td>
</tr>
<tr>
<td>Revenues/savings to counties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trial Courts Funding</td>
<td>64%</td>
<td>30%</td>
<td>$605.0</td>
</tr>
<tr>
<td>Trial Courts Fines and Forfeitures</td>
<td>NA</td>
<td>NA</td>
<td>311.0</td>
</tr>
<tr>
<td>Sales Tax Revenues</td>
<td>NA</td>
<td>NA</td>
<td>710.2</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td>$1,626.2</td>
</tr>
<tr>
<td>Net county costs/state savings</td>
<td></td>
<td></td>
<td>$241.3</td>
</tr>
</tbody>
</table>

* Excluding certain program components.
* Includes the Independent Adoptions Program and the Agency (Relinquishment) Adoptions Program.
* Deposited into social services realignment subaccount for children’s programs (foster care, child welfare services, adoptions, child abuse prevention).
Another significant difference is that the 1995-96 proposal is not “fiscally neutral.” The budget estimates that there would be a net shift of $241 million in costs from the state to the counties. In recognition of this, the Governor proposes legislation to provide the counties with relief from state mandates in the General Assistance, indigent and public health, and mental health programs. Details of these proposals have not been presented by the administration.

We discuss the realignment proposal in more detail in our companion volume, *The 1995-96 Budget: Perspectives and Issues.*

**Elimination of Medi-Cal Optional Benefits**

The budget assumes that the Legislature will enact legislation to eliminate 9 of the 28 optional service categories in the Medi-Cal Program, for a General Fund savings of $156 million in the program in 1995-96. These savings would be partially offset by additional costs of $13 million in the Department of Developmental Services in order to maintain these services for regional center clients.

The services that would be eliminated are adult dental, nonemergency transportation, medical supplies (excluding incontinence), speech and audiology, psychology, acupuncture, podiatry, chiropractic, and independent rehabilitation centers. The budget proposes to continue these services for children under age 21, persons in long-term care facilities, and developmentally disabled clients.

**AFDC Welfare Reform Proposals**

The Governor proposes legislation to implement the components of his 1994-95 AFDC welfare reform proposal that were not adopted:

- **Across-the-Board Grant Reductions.** The budget proposes a 7.7 percent reduction in the AFDC maximum grant levels and an additional 15 percent reduction for families that have an able-bodied adult and are on aid more than six months. The impact of the reductions would be primarily on nonworking recipients—those who currently get the maximum grants. The grant reductions for families, which require a waiver of federal regulations, would be partially offset by increases in federally funded food stamps.

- **Teen Parent Provisions.** The budget proposes to require parents under age 18, with some exceptions, to reside with their parents, legal guardian, or adult relative in order to receive AFDC.

- **Time-Limited Aid.** The budget proposes legislation to provide that AFDC grants for families with an able-bodied adult will be re-
duced by the amount of the grant associated with the adult, once the family has been on aid for more than two years cumulative time. These grant reductions would not affect the 1995-96 budget year but would be implemented beginning July 1, 1997.

SSI/SSP Proposals

The budget proposes legislation to reduce SSI/SSP grants for individuals by 8 percent (General Fund savings of $354 million) and to reduce the grants for couples by 10 percent (General Fund savings of $80 million). The amount of the grant reduction for couples is derived by setting the grant for aged and disabled couples at an amount equal to 1.75 times the grant for individuals. In addition to state legislation, implementation of this proposal will require federal legislation to eliminate or waive the current federal maintenance of effort requirement for California's SSI/SSP grant levels.

The budget also assumes federal legislation to eliminate drug and alcohol abuse as qualifying disabilities for SSI/SSP, for a General Fund savings of $25 million in grants and $27 million in Medi-Cal benefits.
We recommend that the Departments of Developmental Services and Mental Health develop a joint proposal on developmental center and state hospital facility utilization and report at budget hearings on the proposal. The proposal should include (1) closing at least two facilities in the budget year, (2) creating at least one additional dual facility (serving developmentally disabled and mentally disabled individuals) to allow the state to maximize federal reimbursements, and (3) accommodating the projected caseload increase in Penal Code and judicially committed mental health patients.

Individuals with developmental disabilities reside in developmental centers (DCs) or receive services in the community through regional centers (RCs). As shown in Figure 9 (see next page), approximately 37 percent of the department’s total expenditures support clients residing in developmental centers, while about 61 percent of the funds support clients in the community. The budget proposes expenditures of $572 million ($34 million General Fund) in 1995-96 for support of 5,025 individuals residing in developmental centers, or approximately $113,800 per resident. For community clients, the budget proposes expenditures of $945 million ($447 million General Fund) in 1995-96 for support of 129,555 clients, or approximately $7,300 per individual.
Significant Population Reductions at Developmental Centers

Due primarily to the Coffelt v. Developmental Services lawsuit settlement in January 1994, there has been an increase in the placement of DC residents in the community and a significant decrease in admissions to DCs. The department indicates that the DC population will decrease from 6,544 residents at the end of 1991-92 to an estimated 5,265 residents at the end of 1994-95, a reduction of 20 percent in three years.

The Coffelt settlement agreement requires the state to achieve a net reduction of 2,000 residents in the DC population by the end of 1997-98. The DDS indicates that 45 percent of the required reduction has been achieved. Thus, the DC population decline can be expected to continue for the next few years.

Figures 10 and 11 show the location, licensed capacity, projected population, vacancy rate and number of staff for each facility in the developmental center/state hospital system (both DDS and the Department of Mental Health). Based on the department's estimates, three DC facilities are projected to have vacancy rates in excess of 40 percent at the end of 1995-96—Agnews, Porterville, and Stockton.
## Figure 11

### Developmental Centers and State Hospital Facilities 1995-96

<table>
<thead>
<tr>
<th></th>
<th>Licensed Capacity</th>
<th>Projected Population</th>
<th>Vacancy Rate</th>
<th>Staffing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developmental Centers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agnews</td>
<td>1,239</td>
<td>665</td>
<td>46%</td>
<td>1,466</td>
</tr>
<tr>
<td>Camarillo</td>
<td>532</td>
<td>452</td>
<td>15%</td>
<td>1,303(^b)</td>
</tr>
<tr>
<td>Fairview</td>
<td>1,228</td>
<td>828</td>
<td>33%</td>
<td>1,353</td>
</tr>
<tr>
<td>Lanterman</td>
<td>1,286</td>
<td>788</td>
<td>39%</td>
<td>1,236</td>
</tr>
<tr>
<td>Porterville</td>
<td>1,234</td>
<td>670</td>
<td>46%</td>
<td>1,177</td>
</tr>
<tr>
<td>Sonoma</td>
<td>1,422</td>
<td>1,015</td>
<td>29%</td>
<td>1,773</td>
</tr>
<tr>
<td>Stockton</td>
<td>601</td>
<td>347</td>
<td>42%</td>
<td>619</td>
</tr>
<tr>
<td><strong>State Hospitals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atascadero</td>
<td>1,001</td>
<td>908</td>
<td>9%</td>
<td>1,527</td>
</tr>
<tr>
<td>Camarillo</td>
<td>865(^c)</td>
<td>340</td>
<td>61%</td>
<td>—(^b)</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>960</td>
<td>660</td>
<td>31%</td>
<td>1,305</td>
</tr>
<tr>
<td>Napa</td>
<td>1,364</td>
<td>829</td>
<td>39%</td>
<td>1,546</td>
</tr>
<tr>
<td>Patton</td>
<td>1,309</td>
<td>1,249</td>
<td>5%</td>
<td>1,798</td>
</tr>
</tbody>
</table>

\(^a\) Year-end 1995-96.

\(^b\) Dual facility. Mental Health staff are included in the Developmental Center total.

\(^c\) Part of this capacity currently is not usable due to facility deficiencies. Actual capacity is 448.
As the DC population decreases, the average cost of providing services to the remaining residents increases because fixed or indirect costs (such as administration and facility maintenance) do not decrease at the same rate as the reduction in population. The department estimates that the average cost per resident will rise from $106,791 in 1994-95 to $113,809 in 1995-96, an increase of 6.6 percent. The Agnews and Stockton facilities have the highest total cost per resident.

Due to the declining population and increasing average costs in the DCs, the DDS has recognized the need to close facilities and consolidate clients and services. The DDS released a draft proposal, in January 1995, outlining a plan to accomplish this. The department plans to submit a comprehensive proposal, including fiscal details, to the Legislature by April 1, 1995.

**Department’s Proposal**

The department’s proposal consists of three parts:

*Closure of Stockton DC and Consolidation at Other Centers.* The DDS proposes to close Stockton DC in the budget year. The department estimates that the closure of Stockton DC—with a budget of $44 million—would result in full-year savings of $14.1 million in all funds. (These projected savings represent the facility’s fixed costs, including administration and maintenance.) Stockton residents would be individually assessed for the most appropriate placement and provided with placement options. Those not placed in the community would be transferred to Porterville DC, or another DC of their choice. The DDS would contract with the Department of Mental Health to transfer approximately 235 of the 270 judicially committed individuals to Napa State Hospital. The proposal does not identify possible savings at other DCs due to client/service consolidation.

*Further Closures.* The department proposes to convene an advisory group to review its proposal and provide advice concerning future use of the six remaining DCs. Although not included in the draft proposal, the department indicates that it will likely propose closure of up to two additional DCs over the next three to four years.

*Savings.* The department indicates that it will develop legislation to allow it to retain 50 percent of the savings realized from reducing operating expenses and 50 percent of the proceeds from the sale, lease, or rental of the state properties. Current law requires that proceeds from the sale or lease of state properties be deposited in the General Fund.
Comments on the Department’s Proposal

We believe that the department’s draft proposal is a good starting point for discussions; however, we have the following suggestions:

*Aggressive Plan Is Needed.* As Figure 11 shows, there are three facilities with vacancy rates of 40 percent or more and another two facilities with vacancy rates above 30 percent. In view of this and given the likelihood of continued significant population reductions, we believe that the closure of at least two facilities is justified in the budget year. This could be achieved with an aggressive long-range plan to manage the impact on clients, families, and employees and control rising operational costs.

*Coordination with the Department of Mental Health (DMH).* Because the DMH facilities serving civil commitment patients under contract with county mental health departments are also experiencing population declines, the two departments should work together to develop a long-range plan which maximizes the use of the developmental center/state hospital resources.

*Department Does Not Need Share of Savings.* The DDS proposes to retain a share of the savings to create an incentive for reducing operating costs and eliminating surplus property and to finance new (unspecified) programs and services. We do not believe the department should be provided funds for unallocated spending, nor should it need an “incentive” to operate efficiently.

In the following section, we present an overview of the Department of Mental Health’s state hospital system and key issues affecting coordination for 1995-96. We believe that the Legislature should consider these issues when reviewing any facility closure proposal submitted by the DDS.

**DEPARTMENT OF MENTAL HEALTH**

The Department of Mental Health operates four state hospitals (Atascadero, Metropolitan, Napa, and Patton) and manages treatment services for the mentally disabled at Camarillo State Hospital (operated by the DDS) and the California Medical Facility at Vacaville (under contract with the Department of Corrections). The state hospitals provide inpatient treatment services for (1) Lanterman-Petris-Short (LPS) (or “civil commitment”) patients under contract with county mental health departments, (2) judicially committed clients, and (3) mentally disordered offenders and mentally disabled clients transferred from the Departments of Corrections and the Youth Authority.
The budget proposes expenditures of $453 million ($215 million General Fund) in 1995-96 for support of the state hospital system. As noted above, Figures 10 and 11 provide data for each facility in the system.

**Significant Population Reductions at State Hospitals**

The state hospital (SH) population has decreased significantly since 1991-92, when counties were given a greater share of costs for mental health programs and more flexibility to determine both the number of hospital bed-days they purchase from the state and the type of unit (acute, subacute, etc.) in which their patients are placed. For example, the total number of beds purchased by the counties for “civil commitment” or LPS patients (supported by county funds) has decreased from 2,423 in 1991-92 to 1,500 in 1994-95—a reduction of 38 percent in three years. During this same period, the Penal Code/judicially committed (PC/JC) caseload remained relatively stable.

**Comments and Recommendations**

Below we discuss options for reducing costs by closing state hospitals and consolidating facilities to achieve efficiencies and increase federal revenues. We also discuss the need to account for projected increases in one component of the state hospital population in developing a facility utilization plan.

*Actions to Reduce Costs and Increase Federal Revenues.* Camarillo, Metropolitan, and Napa SHs provide services to “civil commitment” or LPS patients. Metropolitan and Napa are classified as institutions for mental diseases (IMDs). These institutions are not eligible for federal Medicaid funds, except for certain types of care for patients who are under 22 years of age and over 64.

Camarillo is a “dual facility,” serving both mentally disabled and developmentally disabled individuals. The DMH has been able to increase its federal Medicaid reimbursements on the basis that the facility’s primary purpose is providing care for individuals with developmental disabilities. In order to demonstrate this, the DMH indicated that the mental health portion of the Camarillo facility is operated by the DDS and the mentally disabled patients account for less than 50 percent of the total hospital population. As a result of this action, the department estimates federal reimbursements of up to $11 million in the budget year.

Because of the declining population in the developmental center/state hospital system, sufficient vacancies exist in the developmental centers to allow for creation of additional dual facilities which, in turn, would per-
mit the state to maximize federal reimbursements for mental health treatment expenditures. For example, given current federal funding requirements and the location of state facilities, we believe that the DMH should explore the possibility of closing Metropolitan SH (in Los Angeles County) and moving the programs to one or two developmental centers in southern California. Consolidation of services would enable the state to close a facility (potential revenues from the sale, rental or lease of the property), operate the remaining facilities at lower vacancy rates and therefore more efficiently, and increase federal reimbursements for mentally disabled patients.

**Increase in PC/JC Caseload Projected for Budget Year.** The DMH budget proposes expenditures of $194 million (all General Fund) in 1995-96 for support of the Penal Code/judicially committed population, which is an increase of $35 million or 22 percent. This increase is due primarily to a projected increase of 439 beds ($28.3 million) in this caseload.

In an attempt to better understand this significant caseload growth, two state hospitals (Atascadero and Patton) conducted telephone surveys of district attorneys, prosecutors, county mental health directors, and others involved with the criminal justice system. Although the responses to this informal survey are only anecdotal, most individuals believe the increase in court-ordered state hospital admissions may be due indirectly to recent changes in sentencing laws.

Atascadero and Patton SHs are high security facilities which accommodate the majority of the Penal Code and judicially committed patients for the state. Napa SH is a low security facility and accepts some PC/JC patients. Under the DDS draft proposal, most of the Penal Code commitments from Stockton DC would be transferred to Napa SH. Under the DMH budget proposal, the Atascadero and Patton facilities will become almost completely occupied.

Any proposal developed by the two departments to consolidate services and close facilities should include accommodating the projected caseload increase in Penal Code and judicially committed mental health patients.

**CONCLUSION**

Given the complexity of a decision to consolidate services and close state facilities, we recommend that the DDS and the DMH (1) develop a joint proposal on facility utilization in order to use state hospital resources in the most cost-effective manner, and (2) report at budget hearings on the proposal. The proposal should include (1) closing at least two facilities in the budget year, (2) creating at least one additional dual facil-
ity to allow the state to maximize federal reimbursements for mental health treatment expenditures, and (3) accommodating the projected caseload increase in Penal Code and judicially committed mental health patients.
TRANSFER OF DEVELOPMENTALLY DISABLED CLIENTS

We recommend a reduction of $11.4 million proposed from the General Fund for support of the Day Training Activity Center (DTAC) Program of the Department of Developmental Services (DDS) to account for anticipated state savings due to the increase in federal funds resulting from the transfer of clients from the DDS to Department of Rehabilitation (DR) programs. (Reduce Item 4300-101-001 by $11,364,035 and Increase Item 5160-001-890 by $8,225,535.)

Day Training Activity Center Program

Both the Department of Developmental Services (DDS) and the Department of Rehabilitation (DR) administer Day Training Activity Center (DTAC) Programs for developmentally disabled clients, upon referral by the DDS’ regional centers. Both department’s programs provide structured educational, training, and support services to promote development of independent living skills, but the DR programs place somewhat more emphasis on vocational and employment skills and services.

The DR budget proposes expenditures of $12.1 million in federal funds to provide services to regional center clients transferred from the DDS’ DTAC Programs to those funded by the DR in 1995-96. The DDS’ budget, however, does not reflect this client transfer and instead includes General Fund expenditures for these clients in the DDS’ programs. Budget Bill language provides that the DDS shall transfer part of its budgeted General Fund support for these individuals as they are moved to DR programs, in an amount sufficient to meet DR’s costs.

Potential State Savings

Because the DDS program is fully funded by the state General Fund and the DR’s vocational programs are eligible for federal funds (with only a 21.3 percent state match), transferring DDS clients to the DR should result in significant state savings. The DDS budget does not reflect these savings but continues the current-year practice that allows the DDS to retain the General Fund monies budgeted for these clients (net of the amount transferred to DR for the state match). This amounts to a windfall for the DDS. Consequently, we recommend that the General Fund budget for the DDS be reduced by $6.8 million to reflect the savings anticipated
Our analysis also indicates that the budget underestimates the number of clients that will be transferred from the DDS to the DR programs, based on the most recent trends. The budget proposal for the DR projects a DTAC caseload of 1,200 clients in 1995-96. Based on our review of recent caseload trends, the caseload is increasing by an average of 3.4 percent monthly. While this is a high rate of growth, we believe that it can be sustained through the end of the budget year. This conclusion is based on our analysis of the number of clients currently in the DDS' DTAC Programs who could be transferred to the DR.

Given an actual caseload of 1,261 clients in October 1994, we estimate that the caseload will increase to 2,014 clients by mid-year 1995-96, which is 814 clients above the DR's projection. Adjusting for this increased caseload transferred to the DR would result in a General Fund savings of $4.6 million to the DDS.

The net General Fund effect of our recommended change in budgeting for these transfers and the adjustment in caseload is a savings of $11.4 million in the DDS budget for 1995-96.
INTEGRATION OF LONG TERM CARE SERVICES INITIATIVE

We recommend that the Health and Welfare Agency, rather than the Department of Health Services, be designated as the lead agency responsible for coordinating state level implementation of the Governor’s integration of long term care services initiative.

Long term care includes a broad array of services for the elderly, chronically ill, and persons with disabilities. Services range from institutional care to domestic assistance, and are provided in nursing homes, community facilities, or homes.

Governor’s Proposal

The Governor’s Budget proposes to implement pilot projects in counties to consolidate and integrate the administration and financing of long term care services at the local level. The administration indicates that the specific projects will be identified during the next few months, and will be implemented in up to four counties.

In addressing the increasing costs of long term care services and fragmentation of responsibility for services, the Governor’s initiative is intended to increase local flexibility, identify and remove barriers to effective and efficient service delivery, and control costs. The budget, however, does not assume there will be savings associated with the initiative in 1995-96.

The Governor’s initiative represents a positive step towards improving the long term care service delivery system. We believe, however, that a modification to the proposal would make it more effective.

Modification Needed to Improve Proposal

The Governor’s proposal to consolidate and integrate service delivery at the local level recognizes that there are multiple programs that serve clients with long term care needs. In order to facilitate integration at the local level, the state is expected to help identify barriers and obtain any necessary waivers for these programs. However, as Figure 12 (see next page) shows, these programs are administered by several departments
Programs That Provide Long Term Care Services

Health and Welfare Agency

Department of Mental Health
- State Hospitals
- Community Based Residential Programs
- Counseling/Treatment
- Caregiver Resource Centers

Department of Developmental Services
- Developmental Centers
- Day Programs
- Community Based Residential Programs

Department of Social Services
- In-Home Supportive Services
- Adult Protective Services
- Information and Referral

Department of Aging
- Nutrition
- Supportive Services
- Ombudsman
- Adult Day Health Care
- Multi-purpose Senior Services Program
- Linkages
- Respite Care
- Alzheimer’s Program
- Information and Referral

Department of Health Services
- Skilled Nursing Facilities
- Home Health Agencies
- AIDS Case Management

Department of Rehabilitation
- Independent Living Center

Figure 12
at the state level. Thus, there must be coordination among the state departments in order to effectively assist local governments in developing and implementing projects.

The Governor's proposal designates the Department of Health Services (DHS) as the lead state agency for implementation of the Governor's long term care services initiative. The department will be responsible for identifying and selecting projects, pursuing federal waivers, and developing an evaluation process.

Because the initiative involves the participation of numerous departments, we believe that the Health and Welfare Agency (HWA) would be a more appropriate choice as the lead agency. First of all, coordination is one of the main roles of the HWA. The agency, for example, has been designated as the lead agency for state-level implementation for a similar project—the Youth Pilot Program. Secondly, we note that a department, in administering its programs, may adopt a perspective that differs from other departments that administer similar or inter-related programs. This could lead to conflicts in efforts to integrate these programs, resulting in the need for a neutral party to resolve problems of this nature. The HWA is in a position to fill this role. Consequently, we recommend that the HWA, rather than the DHS, be designated as the lead agency for the long term care initiative.
ADDITIONAL FEDERAL EMERGENCY ASSISTANCE FUNDING AVAILABLE

We recommend (1) the budget reflect anticipated federal Emergency Assistance (EA) funds in the Child Welfare Services (CWS) Program for state savings of $6.7 million, (2) the Department of Social Services (DSS) report during budget hearings on the feasibility of developing a county claiming system in order to secure additional EA funds in the CWS Program, and (3) the Health and Welfare Agency report during budget hearings on the feasibility of obtaining additional EA funds for other programs. We estimate that additional EA funds for other programs could result in General Fund savings in the tens of millions of dollars annually. (Reduce amount of sales tax transfer to counties by $6.7 million, per realignment proposal.)

Under Title IV-A of the Social Security Act, federal funds are provided for aid to families in emergency situations. The state currently claims these EA funds for certain services provided by county probation and welfare departments, and is expected to begin claiming for county mental health departments in 1994-95.

Budget Does Not Assume Savings From Increased Federal Funds

The budget includes savings from anticipation of federal EA funds for certain activities in the CWS Program in 1995-96. However, the budget does not include federal funds for federally eligible activities related to the “emergency response” component of the program. These federal funds would reduce the amount of state monies needed to support these activities. The DSS indicates that state savings were not included because a precise estimate was not available at the time the budget was prepared. Based on data which has recently become available, however, we estimate that this would result in state savings of approximately $6.7 million in 1995-96. Consequently, we recommend that federal funds of this amount be reflected in the budget. (Because the CWS Program is included in the Governor’s realignment proposal, our recommendation would reduce the General Fund costs to be shifted to the counties by $6.7 million and reduce the sales tax transfer by the same amount.)
Additional Federal Funds Available in the CWS Program

The budget also does not assume state savings resulting from federal EA funds for federally eligible CWS services provided directly by the social worker. This is because the state currently lacks a system for counties (who administer the CWS Program) to appropriately claim these costs for federal EA funding. In order to secure these federal funds as soon as possible, we recommend that the DSS report during the budget hearings on (1) the feasibility of developing a county claiming system which allows the state to claim these costs for federal funding and (2) the estimated savings that would result.

Potential Federal Funds for Other Programs

There are currently other state programs that serve children and families that may be eligible for federal EA funding, such as certain activities in the Department of Developmental Services and the Department of the Youth Authority. Consequently, we recommend that the Health and Welfare Agency report during budget hearings on the feasibility of obtaining additional EA funds for these and other programs.

We estimate that these efforts to maximize the use of available federal funds could lead to state savings in the tens of millions of dollars annually.
ADULTS WITH SPECIAL HEALTH CARE NEEDS

We recommend the enactment of legislation to allow adults with “special health care needs” to reside in licensed community care facilities in order to provide more residential options at a potential savings to the state.

Chapter 1137, Statutes of 1991 (AB 760, Bates) allows children with “special health care needs” to reside in licensed community care facilities such as foster care homes. These children may have a developmental disability and be receiving services through a regional center in the Department of Developmental Services. “Special health care needs” include medical conditions requiring in-home health care assistance with a ventilator, oxygen support, and feeding tubes. As a condition for placement, an individualized health care plan must be developed and providers of care must be adequately trained.

Current law, however, does not specifically allow adults with developmental disabilities and such health care needs to reside in licensed community care facilities such as adult residential facilities and residential facilities for the elderly. These adults (less than 1,000 statewide) would also be provided services through the regional centers, which contract to place these individuals in various residential settings. Generally, residential settings include skilled nursing facilities, intermediate care facilities, and developmental centers.

We believe that allowing adults with special health care needs to reside in licensed community care facilities would provide an option that is less institutionalized and less costly to the state, compared to the facilities currently available. Therefore, we recommend the enactment of legislation permitting such adults to reside in licensed community care facilities.
INFORMATION NEEDED FOR YOUTH PILOT PROGRAM STAFFING INCREASES

We withhold recommendation on General Fund expenditures totaling $494,000 for staffing increases for the Youth Pilot Program in the Departments of Social Services, Mental Health, and Health Services, pending receipt of workload information.

The budget requests General Fund expenditures of $494,000 for increased staffing in the Departments of Social Services (DSS), Mental Health (DMH), and Health Services (DHS) for the Youth Pilot Program, established by Chapter 951, Statutes of 1993 (AB 1741, Bates). The program allows selected counties to combine categorical funds in order to encourage integrated service delivery at the local level to better serve the needs of children and families. Proposed staff activities include providing technical assistance to counties, identifying any necessary federal and/or state law waivers, and facilitating state interagency coordination.

The budget proposes General Fund expenditures of $247,000 and six positions for the DSS, $179,000 and two positions for the DHS, and $68,000 and one position for the DMH in 1995-96.

We believe that this program has the potential to improve the delivery and coordination of services to children and families. However, at the time this analysis was prepared, the DSS had not provided the necessary workload justification to support its request. Because the Youth Pilot Program staffing proposal includes workload across several departments, we are also reviewing the proposed distribution of staff among the departments. Thus, we withhold recommendation on the entire proposal, pending receipt and review of the information from the DSS.
The Department of Alcohol and Drug Programs (DADP) directs and coordinates the state’s efforts to prevent or minimize the effect of alcohol-related problems, narcotic addiction, and drug abuse.

The budget proposes $335 million from all funds for support of DADP programs in 1995-96, which is a decrease of 5.4 percent from estimated current-year expenditures. The budget proposes $83 million from the General Fund in 1995-96, which is identical to estimated current-year expenditures from this funding source.

General Fund Impact of Changes in Drug/Medi-Cal Policies Is Uncertain

We withhold recommendation on the department’s General Fund appropriation, pending submission and review of Drug/Medi-Cal (D/MC) utilization and expenditure data for 1994-95 and revised expenditure estimates for 1995-96, which the DADP expects to provide in April 1995.

A recent court decision (Sobky v. Smoley) found the state to be out of compliance with federal Medicaid law and ordered the state to expand methadone maintenance services so that no person eligible for Medi-Cal will be placed on waiting lists for such services due to budgetary constraints. In response to the court ruling and to comply with Medicaid
requirements, the DADP has changed certain policies and procedures regarding the use of General Fund monies and federal D/MC funds by the counties.

In the past, state funds and federal block grant funds were generally used to provide a diverse range of prevention and alternative treatment services, while federal D/MC funds reimbursed outpatient, day treatment, and methadone services. Because of the court decision and the policy changes implemented by the DADP, the primary role of General Fund monies will be to satisfy D/MC funding requirements. This decision, as well as expansion of D/MC utilization in the current year, have resulted in shifts in the distribution of funds among programs at the local level. As a result of these events, the methodology used by the department to allocate the General Fund monies to counties will be changing from a formula-based to a D/MC utilization-based system in 1995-96.

At this time, the DADP does not have sufficient data on the fiscal impact of these changes to adequately estimate D/MC utilization and expenditures for 1994-95 or 1995-96. The department expects to provide, in April, better estimates of current-year and budget-year expenditures, including any needed adjustments in programs or resources to meet the needs of the D/MC clients.

Since Medi-Cal is an entitlement program, changes in D/MC utilization and expenditures in the current or budget year may significantly affect the need for, and the allocation of, General Fund support for county alcohol and drug programs. Consequently, we believe it is premature to make a recommendation on the department’s budget at this time. Therefore we withhold on the department’s proposed General Fund appropriation of $83 million for 1995-96.

Legislative Oversight: The Movement Towards “Managed Care”

We recommend that the department report at the budget hearings on the status of the department’s efforts to develop a managed care proposal. The department should address issues related to the fiscal viability of a managed care system.

California has steadily increased its commitment to the managed care approach to providing healthcare, changing the service delivery focus from episodic treatment of illness to the planned provision of care. The basic principles behind managed care is the control of utilization and
cost, while at the same time maintaining or improving access and quality of care. The DADP is developing its own managed care model for the delivery of treatment and recovery services.

**DADP’s Plan Differs From Other Managed Care Programs in the State.** The more traditional managed care models, such as those found in the Departments of Health Services and Mental Health, attempt to control Medi-Cal costs by generally reimbursing providers on a “capitated,” or per-person basis regardless of the number of services any given individual uses.

The DADP’s model does not rely on a capitated reimbursement rate mechanism to control costs. Rather, it focuses on improving treatment management and clinical practices to ensure that clients receive the most appropriate and effective level of care. Consolidation of funding sources and use of case management (a “gatekeeper” approach) are the primary techniques used by the model. These approaches would be applied to programs funded by both Drug/Medi-Cal (D/MC) and federal Substance Abuse Prevention and Treatment (SAPT) block grant funds. We note, however, that these two approaches (capitated reimbursement and case management) are not mutually exclusive.

**Recommendation.** To facilitate legislative oversight of this issue, we recommend that the DADP report at budget hearings on the status of the department’s efforts to develop a managed care plan. The department should address the following issues: (1) eligibility and access criteria, (2) benefits and services, (3) the possibility of combining a capitated reimbursement approach with the “gatekeeper” approach, (4) the role of prevention at the local level, and (5) coordination with other publicly funded services, such as health, mental health, and criminal justice.
CALIFORNIA MEDICAL ASSISTANCE
(MEDI-CAL) PROGRAM (4260)

The California Medical Assistance Program (Medi-Cal) is a joint federal-state program to provide health care services to public assistance recipients and to other individuals who cannot afford to pay for these services themselves.

The budget proposes Medi-Cal expenditures of $17 billion ($5.7 billion General Fund) in 1995-96. This represents a General Fund decrease of $350 million, or 5.8 percent, below estimated current-year expenditures.

At the state level, the Department of Health Services (DHS) administers the Medi-Cal Program. Other state agencies, including the California Medical Assistance Commission (CMAC) and the Departments of Social Services, Developmental Services, Alcohol and Drug Programs, and Mental Health perform Medi-Cal-related functions under agreements with the DHS. At the local level, county welfare departments determine the eligibility of applicants for Medi-Cal and are reimbursed for those activities. The federal Health Care Financing Administration oversees the program to ensure compliance with federal law.

Generally, program expenditures are supported on a 50 percent General Fund, 50 percent federal funds basis.

CASELOADS AND EXPENDITURES

Who Is Eligible for Medi-Cal?

Persons eligible for Medi-Cal fall into four major categories:

- **Categorically Needy.** Families or individuals who receive cash assistance under two programs—Aid to Families with Dependent Children (AFDC) and Supplemental Security Income/State Supplementary Program (SSI/SSP)—comprise the “categorically needy.” These individuals automatically receive Medi-Cal eligibility cards and pay no part of their medical expenses.

- **Medically Needy.** This category includes (1) families with dependent children and (2) aged, blind, or disabled persons with incomes
higher than the June 1991 AFDC payment level ($694 for a family of three). These individuals pay no part of their medical expenses if their incomes are between 100 percent and 133\% percent of the AFDC payment level for their household size. Individuals with higher incomes can become eligible for Medi-Cal if their medical expenses require them to “spend down” their incomes to 133\% percent of the June 1991 AFDC payment level. These persons are said to have a “share of cost.” (Medically needy beneficiaries who reside in long-term care facilities are required to pay all but $35 of their monthly income toward the costs of their care.)

- **Medically Indigent.** Under this category, the Medi-Cal Program provides services to pregnant women and children under the age of 21. Also, these services are available to persons in long-term care facilities who (1) do not belong to families with dependent children and are not aged, blind, or disabled but (2) meet income and share-of-cost criteria that apply to the medically needy category.

- **Newer Eligibles.** Federal and state law extend coverage under the Medi-Cal Program to undocumented persons and pregnant women and children who meet various income criteria.

Figure 13 (see next page) summarizes the various eligibility categories for the Medi-Cal Program for the current year. The first three categories are required by federal law—that is, the Medi-Cal Program must provide services to individuals meeting these criteria in order for the program to receive federal funds. The remaining eligibility categories are optional—the state has discretion over whether to provide services to individuals in these categories, though it receives federal funds to the extent it chooses to do so.

**What Benefits Does Medi-Cal Provide?**

Federal law requires the Medi-Cal Program to provide a core of basic services, including hospital inpatient and outpatient care, skilled nursing care, doctor visits, laboratory tests and X-rays, family planning, regular examinations for children under the age of 21, and services in rural health clinics. Many Medi-Cal services require prior state authorization and may not be reimbursed unless the service is determined by the department’s field offices to be medically necessary.
## Figure 13
### Who Is Eligible for Medi-Cal?

**Figure 13**

**Who Is Eligible for Medi-Cal?**

*(Dollars in Millions)*

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Other Characteristics</th>
<th>Number Eligible</th>
<th>1994-95 General Fund Expenditures</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federally Required Categories</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Categorically Needy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFDC or SSI/SSP income standard</td>
<td>Families with dependent children</td>
<td>4,088,100</td>
<td>$3,807</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aged, blind, or disabled persons</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Women and Children</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of federal poverty level:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 185%</td>
<td>Pregnant women and their infants</td>
<td>182,600</td>
<td>155.8</td>
<td></td>
</tr>
<tr>
<td>Up to 133%</td>
<td>Children ages 1 to 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 100%</td>
<td>Children ages 6 to 12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Undocumented Persons and Refugees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 133% of June 1991 AFDC payment level</td>
<td>Persons meeting any Medi-Cal criteria receive emergency and pregnancy related services only</td>
<td>316,700</td>
<td>297.8</td>
<td></td>
</tr>
<tr>
<td>Persons with higher incomes may “spend down” to this level</td>
<td>Refugees who are aged, blind, or disabled persons, or children to age 19, receive all services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Additional Categories in California</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Long-Term Care</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Persons of any income must “spend-down” to $35 per month</td>
<td>Require skilled nursing care</td>
<td>71,600</td>
<td>1,058</td>
<td></td>
</tr>
<tr>
<td><strong>Medically Needy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 133% of June 1991 AFDC payment level</td>
<td>Families with dependent children</td>
<td>543,800</td>
<td>751</td>
<td></td>
</tr>
<tr>
<td>Persons with higher incomes may “spend down” to this level</td>
<td>Aged, blind, or disabled persons</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Medically Indigent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Same as medically needy</td>
<td>Pregnant women</td>
<td>277,600</td>
<td>217</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Children to age 21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Women and Children</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>186% to 200% of federal poverty level</td>
<td>Pregnant women and their infants</td>
<td>4,000</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td><strong>Undocumented Persons</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Same as medically needy</td>
<td>Prenatal services</td>
<td>NA</td>
<td>79</td>
<td></td>
</tr>
</tbody>
</table>

* Figure reflects current law. Budget reflects $324 million less than amount shown due to assumed receipt of intergovernmental transfers from counties and other factors.*
In addition, the federal government provides matching funds for optional services. California currently provides 28 of 31 optional services, but the budget proposes to eliminate nine of them. We discuss this proposal in more detail below.

Proposed Changes for 1995-96

The major General Fund changes proposed for the Medi-Cal Program in 1995-96 include: (1) $322.7 million for caseload, utilization, and cost increases; and (2) a net decrease of $665 million in various program changes.

The proposed program changes include the following:

- **Assumed Receipt of Federal Funds (Savings of $366 Million General Fund).** The budget assumes receipt of $366 million in additional federal funds to offset state expenditures. Specifically, the budget assumes receipt of (1) $310 million in federal funds to offset the state’s share of expenditures for services to undocumented persons, and (2) $45.8 million to fully cover the costs of serving refugees who are eligible for Medi-Cal.

- **Savings from Assumed Federal Law Changes (Savings of $63 million General Fund).** The budget assumes congressional action to restrict eligibility for Medicaid (Medi-Cal in California) that would result in a General Fund savings of $63 million. Specifically, the budget assumes federal law changes to (1) bar sponsored aliens from Medi-Cal eligibility for five years (a savings of $36.8 million), and (2) eliminate alcohol or drug abuse as a qualifying disability for SSI/SSP, and therefore for Medi-Cal (a savings of $26.5 million).

- **Elimination of Optional Services (Net Savings of $143 Million General Fund).** The budget proposal assumes enactment of legislation to eliminate nine optional services—adult dental, nonemergency transportation, psychology, podiatry, acupuncture, independent rehabilitation centers, chiropractor, speech and audiology, and certain medical supplies.

- **Elimination of Prenatal Services for Undocumented Women (Savings of $79 Million General Fund).** The budget proposal assumes that the Legislature will enact legislation to eliminate prenatal services for undocumented women effective July 1, 1995.

- **Skilled Nursing Reimbursement Rate Reductions (Savings of $46 Million General Fund).** The budget proposes two rate reductions for skilled nursing facilities. Specifically, the budget proposes
to (1) lower the minimum requirement for nursing hours per patient when determining staffing levels (General Fund savings of $20.2 million); and (2) impose a 20 percent rate reduction for nursing facilities that are a “distinct part” of a hospital (General Fund savings of $25.7 million).

- **Subacute Care Rate for Nursing Facilities (Savings of $30 Million General Fund).** The budget proposes to establish a higher reimbursement rate category for nursing facilities, thereby allowing these facilities to accept patients who would otherwise remain in hospitals at a higher cost.

- **Establish Copayments for Services (Savings of $20 Million General Fund).** The budget proposes to reduce provider reimbursement rates by up to $3 per service, and authorize the collection of copayments from beneficiaries.

**Medi-Cal Program Growth**

Growth in California’s Medi-Cal Program over the last few years has been dramatic. As background for the recommendations that follow, we review some of the principal reasons for growth in the program and the department’s efforts to control Medi-Cal expenditures.

As Figure 14 indicates, Medi-Cal General Fund expenditures have increased from $3.5 billion in 1989-90 to an estimated $6 billion in 1994-95, reflecting an increase of about $2.5 billion over the five-year period, or about 11 percent annually. Federal funding for the program has increased at a significantly higher rate largely due to the “SB 855” Program, which provides payments to disproportionate-share hospitals, begun in 1991-92. The purpose of these payments is to recognize the financial burden of uncompensated care on those hospitals that serve a high number of indigent persons. These payments, and the required county match, comprise about $2 billion of the total expenditure figures from 1991-92 through 1994-95.

In addition, federal funding is budgeted in the current year and for 1995-96 for the “SB 910 Program,” which reimburses counties for case management and administrative activities. These funds, and the required county match, comprise about $1.5 billion of total expenditures for 1994-95 and the budget year.
Figure 14

Medi-Cal Expenditures\(^a\)
1989-90 Through 1994-95

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$3.5</td>
<td>$4.1</td>
<td>$5.8</td>
<td>$5.4</td>
<td>$5.5</td>
<td>$6.0</td>
</tr>
<tr>
<td>All funds</td>
<td>7.2</td>
<td>8.8</td>
<td>13.8</td>
<td>13.9</td>
<td>16.9</td>
<td>17.3</td>
</tr>
</tbody>
</table>

\(^a\) Figures for 1991-92 have been adjusted to eliminate one-time costs for change from cash to accrual accounting. Figures for 1994-95 are estimated.

Reasons for Increased Medi-Cal Expenditures

The dramatic increase in Medi-Cal expenditures over the last five years has resulted largely from caseload increases (which in turn reflect economic and societal changes), medical care inflation, and court decisions. We discuss these factors below.

Caseload Increases. The largest single factor driving program expenditures is the significant increase in the number of persons eligible for Medi-Cal. In 1985-86, 2.9 million persons (one out of ten persons in the state) were eligible for the program, while in the current year the number of eligibles is estimated to reach 5.5 million persons (more than one out of every six residents). As a point of comparison, the number of persons who receive health care coverage through Medi-Cal is now greater than the number of children enrolled in California’s public school system, and the Medi-Cal Program is the single largest health-insurer in the state.

In general, three factors account for the increase in the number of eligible participants. The “traditional” recipients of Medi-Cal services—primarily AFDC and SSI/SSP recipients—have been increasing significantly during the last few years, largely as the result of economic and demographic changes. In addition, the Medi-Cal Program caseload has increased as a result of state and federal changes that have expanded eligibility to “newer eligibility groups” of recipients. Specifically, the federal government has mandated that the state provide medical services to undocumented persons and expand eligibility for pregnant women and children. Similarly, the state has elected to extend coverage to pregnant women and their infants beyond the federal requirements. Expenditures due to these state and federal policy changes account for about one-third of total expenditure growth since 1989-90.
Medical Care Inflation. Medical care costs increase at rates that generally exceed other types of inflation—though there is evidence that they have moderated in recent years. Medi-Cal payment levels for some services (such as for physician services) are discretionary, while others are automatically adjusted pursuant to statute (such as for generic drugs and nursing facilities). Hospital inpatient rates generally are negotiated, but the state has little practical alternative to recognizing at least a portion of the cost increases that hospitals experience. Accordingly, because expenditures for hospital inpatient services, long-term care, and drugs account for the vast majority of Medi-Cal expenditures, medical care inflation has played a significant role in the program's expenditure growth over the last several years.

Court Decisions Concerning Provider Rates. Under federal law, the state must offer access to services comparable to those which are available in the community. The courts have interpreted this provision to require rate increases for certain services. For example, the state recently was ordered to increase rates substantially for dental services, because the courts found that low Medi-Cal rates had the effect of denying access to those services. The administration estimates that this court decision will result in additional General Fund expenditures of about $200 million in the current year. (Similar court cases are pending that could affect rates for all outpatient services.)

Societal Changes. Various demographic and societal changes over the last several years have contributed to Medi-Cal expenditure growth. One societal change that has affected the Medi-Cal Program is the emergence of the AIDS epidemic. Medi-Cal expenditures for AIDS-related illnesses were estimated to be $140 million during 1992-93. In addition, the growth in the number of unmarried teenage women having children, citizen children born to undocumented women, and children born to substance-abusing mothers also has increased Medi-Cal eligibility and expenditures.

Optional Benefits

Elimination of Optional Services

With respect to the department's proposal to eliminate certain optional services, we find that: (1) the proposal could place an additional burden on county indigent health programs; and (2) although the department's estimate does attempt to account for potential cost shifts resulting from the proposal, its savings estimate probably is still somewhat optimistic, due to the federal requirement that Medi-Cal provide necessary transportation.
We recommend that if the Legislature chooses to ration services, as the administration effectively proposes, the Legislature consider basing its approach on identifying specific medical diagnoses or treatments that will no longer be covered, rather than eliminating entire categories of benefits.

The budget assumes that the Legislature will enact legislation that will result in savings of $311.2 million ($155.6 million General Fund) in the budget year by eliminating the following optional service categories from coverage through Medi-Cal for most beneficiaries:

- Adult dental services.
- Medical supplies, excluding incontinence supplies. (Examples are bandages and syringes for diabetics.)
- Outpatient psychology services.
- Chiropractic services.
- Acupuncture services.
- Podiatry services.
- Speech and audiology services.
- Nonemergency transportation.
- Services provided at independent rehabilitation centers, including audiology, speech, occupational, and physical therapy.

The budget proposal would continue to provide these services for developmentally disabled regional center clients, children to age 21, and persons in long-term care. The department indicates that it is proposing elimination of these services solely to reduce Medi-Cal costs. (An identical proposal was included in last year's budget, and was rejected by the Legislature.)

Figure 15 (see next page) lists the department's estimate of the Medi-Cal savings from eliminating each of these services and an estimate of the average number of Medi-Cal beneficiaries who currently use these services each month. These savings are partially offset by a General Fund cost of $13.1 million in the budget of the Department of Developmental Services to continue the benefits for regional center clients.

*Necessary Transportation* Is Required. Even if optional benefits are eliminated, federal law requires Medi-Cal to provide “necessary transportation” to Medi-Cal beneficiaries. Accordingly, we do not believe the budgeted savings attributable to the elimination of medical transportation provided in vans can be achieved. Absent legislative action to augment
the budget, we estimate that this will result in a General Fund deficiency of at least $14 million for 1995-96.

**Costs May Shift to Other Services.** Actual savings from elimination of the proposal’s remaining eight optional benefits would depend on behavioral changes on the part of Medi-Cal beneficiaries. In some cases, elimination of optional services clearly will result in savings. In other cases, the savings may be offset because beneficiaries may substitute other Medi-Cal services for the service being eliminated or they may delay receiving treatment and ultimately require more acute care. The budget assumes cost shifts such as these ranging from 0 to 90 percent, depending on the service. The extent to which cost shifts will actually occur, however, is unknown.

![Figure 15](image)

**Figure 15**

Proposed Elimination of Optional Medi-Cal Services

General Fund Savings

1995-96

(Dollars in Millions)

<table>
<thead>
<tr>
<th>Service</th>
<th>Average Monthly Users</th>
<th>Estimated Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult dental</td>
<td>135,000</td>
<td>$123.3</td>
</tr>
<tr>
<td>Nonemergency transportation</td>
<td>10,500</td>
<td>14.0</td>
</tr>
<tr>
<td>Medical supplies</td>
<td>46,100</td>
<td>12.9</td>
</tr>
<tr>
<td>Psychology</td>
<td>7,100</td>
<td>2.2</td>
</tr>
<tr>
<td>Acupuncture</td>
<td>16,800</td>
<td>1.4</td>
</tr>
<tr>
<td>Podiatry</td>
<td>21,400</td>
<td>1.3</td>
</tr>
<tr>
<td>Speech and audiology</td>
<td>6,600</td>
<td>0.3</td>
</tr>
<tr>
<td>Chiropractic</td>
<td>3,600</td>
<td>0.2</td>
</tr>
<tr>
<td>Independent rehabilitation centers</td>
<td>80</td>
<td>0.02</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>—</strong></td>
<td><strong>$155.6</strong></td>
</tr>
</tbody>
</table>

* Total monthly users cannot be estimated, since one beneficiary may use more than one optional service.

**Cost Shifts to Counties May Result.** We note that counties are the provider of last resort for health services. Accordingly, they may experience increased demand for services they provide, to the extent that beneficiaries are unable to receive care under the Medi-Cal Program. This is most likely to occur with respect to adult dental services.

**Rationing Services.** Finally, we note that by proposing to eliminate optional benefits, the administration is effectively proposing to limit services for Medi-Cal beneficiaries. If the Legislature chooses to limit services in order to achieve a given level of General Fund savings, we recommend that it instead consider adopting an approach based on iden-
tifying specific medical diagnoses or treatments that will no longer be covered, rather than eliminating entire categories of benefits. Such an approach has been implemented in Oregon.

We believe that such an approach has important advantages over that proposed by the administration. First, we note that the administration’s approach indiscriminantly affects beneficiaries with greatly different levels of illness. For example, the proposal to eliminate medical supplies applies equally to both diabetics who require syringes to inject insulin, and a beneficiary who needs to purchase bandages. In contrast, a proposal to limit services based on diagnoses could cover medically necessary care for the treatment of diabetes, but exclude coverage for minor injuries.

In addition, the administration’s approach will result in some unknown amount of cost-shifting, as discussed above. By eliminating coverage for certain diagnoses, the Legislature could more effectively achieve a given level of General Fund savings because the potential for cost-shifting would be significantly reduced.

COUNTY ADMINISTRATIVE CLAIMS

Federal Ruling Casts Doubt on $400 Million For the State and Potentially $2 Billion for Counties

A recent decision by the federal Health Care Financing Administration (HCFA) places at serious risk $400 million in General Fund savings assumed in the budget and potentially $2 billion in net federal revenues to counties over the course of the current year and 1995-96. We recommend that the department report at budget hearings on the status of its negotiations with the HCFA to (1) allow reimbursement for some Medi-Cal administrative claim activities during 1995-96, and (2) establish an expedited appeal of the HCFA denial regarding claims already submitted.

The federal Health Care Financing Administration (HCFA), which oversees the Medicaid Program (Medi-Cal in California), informed the department in January 1995 that it intends to deny payment for “Medi-Cal Administrative Claiming” (MAC), citing a number of concerns regarding the appropriateness of recent claims. This decision casts serious doubt on the likelihood that the General Fund will receive $400 million in reimbursements assumed in the budget in 1994-95 and 1995-96. Similarly, the decision jeopardizes potentially as much as $2 billion in federal revenues to counties that were anticipated from MAC reimbursement over the same time period.
Background. Chapter 1179/91 (SB 910, McCorquodale) established the MAC Program, whereby counties are reimbursed for case management and other administrative activities associated with the Medi-Cal Program and performed by various county and non-profit agencies.

Examples of MAC activities claimed by counties include:

- Referrals by county hospital public health nurses for family planning services or drug treatment.
- County sheriff’s office personnel engaged in drug and alcohol abuse education in public schools.
- County clinic pharmacists explaining the side effects of prescribed medication.
- Public Guardians or Conservators scheduling medical appointments on behalf of a disabled person and ensuring transportation to the appointment.

Under the program, counties transfer to the state the required 50 percent match to receive federal reimbursement for MAC activities.

HCFA Action. Following an audit of a sample of MAC claims, the HCFA notified the department in December 1994 that it was deferring payment of all claims submitted for reimbursement of MAC activities. The HCFA cited a number of concerns in deferring payment of the claims. These include the agency’s view that:

- The state may not be reimbursed for case management activities unless they are part of “targeted care management” for specific groups of beneficiaries.
- Some of the services for which reimbursement was sought were “general public health functions,” rather than Medi-Cal services.
- Administrative functions in clinical settings (generally hospitals and hospital outpatient clinics) may not be billed separately as administrative claims. Rather, the HCFA believes that reimbursement for these services should be included as part of provider rates for direct services.

In January 1995, the HCFA indicated to the department that it intends to deny payment of all of the claims due to these concerns.

The department indicates that it intends to appeal the HCFA decision, and is currently negotiating with the HCFA regarding (1) the possibility of reimbursing some MAC activities in 1995-96, and (2) an expedited appeal process regarding the denied claims.
Budget Implications. The budget assumes dramatically higher federal reimbursements for MAC activities in 1994-95 and 1995-96, based on claims submitted by counties. Specifically, the budget assumes MAC reimbursements would increase from a total of approximately $17 million in 1992-93 and 1993-94 to about $850 million in 1994-95 and $750 million in 1995-96. Recognizing this increase, the 1994 Budget Act also required counties to transfer to the state $200 million annually to offset General Fund costs for the Medi-Cal Program— if federal reimbursements for MAC activities were received. The budget proposal continues to assume receipt of these revenues by counties—and the associated offset of $200 million annually to the General Fund—for 1994-95 and 1995-96.

Based on the HCFA action and the length of time necessary to complete an appeal of the HCFA denial, it appears improbable that MAC claims will be reimbursed to the extent anticipated. As a result, it appears similarly doubtful that the state will receive from the counties the offsets assumed in the budget, thereby increasing the General Fund cost for the Medi-Cal Program by up to $400 million over the course of the current and budget years.

Figure 16 (see next page) shows the total federal revenues that may be lost by counties as a result of the HCFA denial. The amount of revenue that may be lost varies considerably by county. As the figure indicates, Los Angeles County is particularly affected by the HCFA action. Note that the figure shows the department’s estimate of potential revenue losses (rather than actual claim amounts) for the current and prior years because the counties are still in the process of submitting claims for these years. (Similarly, the figure provides only an estimate of revenues at stake for 1995-96 because these claims have yet to be submitted.)

Due to the magnitude of the potential revenue loss to counties and the General Fund offsets that are in doubt, we recommend that the department report at budget hearings on the status of its negotiations with the HCFA to (1) allow reimbursement for some MAC activities during 1995-96, and (2) establish a process to expedite the state’s appeal of the HCFA denial regarding claims already submitted.
### Figure 16

**Potential Federal Revenue Loss**

**Medi-Cal Administrative Claims**

*(In Millions)*

<table>
<thead>
<tr>
<th>County</th>
<th>1992-93 to 1994-95</th>
<th>1995-96</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda</td>
<td>$32.6</td>
<td>$17.0</td>
<td>$49.6</td>
</tr>
<tr>
<td>Amador</td>
<td>0.2</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Butte</td>
<td>4.3</td>
<td>2.5</td>
<td>6.8</td>
</tr>
<tr>
<td>Calaveras</td>
<td>0.4</td>
<td>0.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Colusa</td>
<td>0.3</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>24.0</td>
<td>8.0</td>
<td>32.0</td>
</tr>
<tr>
<td>Del Norte</td>
<td>1.3</td>
<td>0.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Eldorado</td>
<td>1.3</td>
<td>0.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Fresno</td>
<td>13.5</td>
<td>4.5</td>
<td>18.0</td>
</tr>
<tr>
<td>Glenn</td>
<td>0.5</td>
<td>0.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Humboldt</td>
<td>1.6</td>
<td>0.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Imperial</td>
<td>2.5</td>
<td>1.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Inyo</td>
<td>0.3</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Kern</td>
<td>12.8</td>
<td>7.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Kings</td>
<td>0.6</td>
<td>0.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Lake</td>
<td>0.9</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Lassen</td>
<td>0.8</td>
<td>0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>1,320.0</td>
<td>600.0</td>
<td>1,920.0</td>
</tr>
<tr>
<td>Madera</td>
<td>0.5</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Marin</td>
<td>5.2</td>
<td>1.5</td>
<td>6.7</td>
</tr>
<tr>
<td>Mendocino</td>
<td>1.1</td>
<td>0.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Merced</td>
<td>3.1</td>
<td>1.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Monterey</td>
<td>7.1</td>
<td>3.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Napa</td>
<td>4.9</td>
<td>1.8</td>
<td>6.7</td>
</tr>
<tr>
<td>Nevada</td>
<td>1.2</td>
<td>0.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Orange</td>
<td>36.0</td>
<td>17.1</td>
<td>53.1</td>
</tr>
<tr>
<td>Placer</td>
<td>2.5</td>
<td>1.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Plumas</td>
<td>0.7</td>
<td>0.3</td>
<td>1.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>County</th>
<th>1992-93 to 1994-95</th>
<th>1995-96</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riverside</td>
<td>39.8</td>
<td>18.6</td>
<td>58.4</td>
</tr>
<tr>
<td>Sacramento</td>
<td>10.7</td>
<td>2.7</td>
<td>13.4</td>
</tr>
<tr>
<td>San Benito</td>
<td>0.3</td>
<td>0.3</td>
<td>0.6</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>36.9</td>
<td>20.8</td>
<td>57.7</td>
</tr>
<tr>
<td>San Diego</td>
<td>53.6</td>
<td>32.0</td>
<td>85.6</td>
</tr>
<tr>
<td>San Francisco</td>
<td>27.4</td>
<td>0.0</td>
<td>27.4</td>
</tr>
<tr>
<td>San Joaquin</td>
<td>5.4</td>
<td>2.4</td>
<td>7.8</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>1.8</td>
<td>0.8</td>
<td>2.6</td>
</tr>
<tr>
<td>San Mateo</td>
<td>12.2</td>
<td>5.9</td>
<td>18.1</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>11.6</td>
<td>4.9</td>
<td>16.5</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>35.5</td>
<td>13.2</td>
<td>48.7</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>10.5</td>
<td>4.2</td>
<td>14.7</td>
</tr>
<tr>
<td>Shasta</td>
<td>2.1</td>
<td>0.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Siskiyou</td>
<td>0.9</td>
<td>0.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Solano</td>
<td>9.6</td>
<td>4.6</td>
<td>14.2</td>
</tr>
<tr>
<td>Sonoma</td>
<td>20.0</td>
<td>5.3</td>
<td>25.3</td>
</tr>
<tr>
<td>Stanislaus</td>
<td>15.0</td>
<td>5.1</td>
<td>20.1</td>
</tr>
<tr>
<td>Sutter</td>
<td>2.9</td>
<td>1.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Tehama</td>
<td>0.4</td>
<td>0.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Trinity</td>
<td>0.5</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Tulare</td>
<td>24.5</td>
<td>23.0</td>
<td>47.5</td>
</tr>
<tr>
<td>Tuolumne</td>
<td>1.5</td>
<td>0.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Ventura</td>
<td>20.7</td>
<td>8.0</td>
<td>28.7</td>
</tr>
<tr>
<td>Yolo</td>
<td>1.8</td>
<td>0.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Yuba</td>
<td>0.7</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td>City of Berkeley</td>
<td>2.2</td>
<td>1.3</td>
<td>3.5</td>
</tr>
<tr>
<td>City of Long Beach</td>
<td>0.8</td>
<td>0.6</td>
<td>1.4</td>
</tr>
<tr>
<td>City of Pasadena</td>
<td>0.7</td>
<td>0.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**Totals**

$1,830.2$  $829.6$  $2,659.8$

---

*Alpine, Mariposa, Modoc, Mono, and Sierra Counties have not submitted Medi-Cal administrative claims.*

*Figures represent estimated maximum revenues and do not correspond to budget estimates.*
COPAYMENTS AND DRUGS

Beneficiary Copayments Proposal Should Be Modified

We recommend modifying the proposal to charge copayments for services to certain Medi-Cal beneficiaries by (1) reducing the pharmacy dispensing fee for all prescriptions, irrespective of whether copayments can be collected and (2) exempting from the copayment requirement outpatient clinic and physician services, thereby reducing the potential for primary care access problems and cost-shifting that might otherwise result. This will result in a net General Fund savings of $8.4 million in 1995-96. (Reduce Item 4260-101-001 by $8.4 million.)

The budget assumes enactment of legislation that will result in savings of $40.2 million ($20.1 million General Fund) by requiring some Medi-Cal beneficiaries to pay copayments for certain Medi-Cal services.

Background. Current state law permits Medi-Cal providers to collect copayments for certain services. However, prior budgets have not assumed collection of the copayments because federal law prohibits providers from refusing services to a beneficiary if he or she cannot make a copayment.

Federal law also requires Medi-Cal to exempt beneficiaries in the following categories from copayment requirements:

- Children under the age of 21.
- Persons who are inpatients in a hospital or nursing facility.
- Women receiving perinatal care.
- Persons receiving emergency care or family planning services.
- Persons receiving Medi-Cal services from a health maintenance organization.

Budget Proposal. The budget proposes to (1) require that providers charge copayments (unless the beneficiary indicates that he or she is unable to pay it), and (2) reduce Medi-Cal reimbursement rates to providers by the amount of the copayment required. The budget proposal would exempt from copayment requirements those categories of Medi-Cal beneficiaries that are exempted under federal law. Accordingly, the proposed copayments would apply to beneficiaries who are:

- Aged, blind, or disabled individuals residing at home.
- Adult parents of dependent children who are seeking routine (non-pregnancy-related, non-emergency) care.
Figure 17 lists the services for which copayments would be charged, the amount of the copayments, and the department’s estimate of the General Fund savings that will result in 1995-96 from reducing provider rates by the amount of the copayments.

<table>
<thead>
<tr>
<th>Service</th>
<th>Copayment Amount</th>
<th>General Fund Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prescription drugs</td>
<td>$0.50 to $3</td>
<td>$13,876</td>
</tr>
<tr>
<td>Physician services</td>
<td>2</td>
<td>4,042</td>
</tr>
<tr>
<td>Clinic services</td>
<td>1 to 3</td>
<td>784</td>
</tr>
<tr>
<td>Optometry services</td>
<td>2 to 3</td>
<td>709</td>
</tr>
<tr>
<td>Home health services</td>
<td>3</td>
<td>324</td>
</tr>
<tr>
<td>Durable medical equipment</td>
<td>3</td>
<td>219</td>
</tr>
<tr>
<td>Prosthetics and orthotics</td>
<td>3</td>
<td>81</td>
</tr>
<tr>
<td>Hearing aids</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>—</strong></td>
<td><strong>$20,076</strong></td>
</tr>
</tbody>
</table>

Proposal Has Potential Drawbacks. The proposed legislation will not change the requirements in current federal law that prohibits providers from refusing to provide services to Medi-Cal beneficiaries if they cannot pay the copayment. Thus, to the extent beneficiaries are unwilling to make the copayment, providers must accept a lower level of net reimbursements.

Most providers who would face reduced Medi-Cal rates under this proposal have not received Medi-Cal rate increases since 1985-86. Accordingly, even though the copayments are small, some providers (such as physicians and outpatient clinics) may respond to the rate reductions by refusing to provide services to Medi-Cal beneficiaries, thereby reducing access to primary care under the Medi-Cal Program. (We note, for example, that the number of physicians participating in the Medi-Cal Program has remained essentially unchanged between 1988 and 1993, whereas the program’s caseload increased at an average annual rate of about 10 percent during that period.) This, in turn, could result in additional costs to Medi-Cal, to the extent that beneficiaries do not receive primary care (or do not seek it due to the copayment requirement) and develop more serious illnesses that require emergency or inpatient services.
Given these potential drawbacks, we recommend that the Legislature modify the budget proposal, as discussed below.

**Expand Pharmacist Rate Reduction.** First, as Figure 17 shows, most of the savings from copayments are attributable to reducing the “dispensing fee” that is paid to pharmacists each time they fill a prescription. The current Medi-Cal reimbursement for each prescription is $3.55, plus ingredient costs for the drug. We note that this amount is significantly higher than the amount paid by other “third-party” payers. For example, the state’s Public Employees’ Retirement System, reimburses pharmacists $2.65 per prescription (plus drug ingredient costs)—90 cents below the Medi-Cal reimbursement rate.

Accordingly, we believe the administration’s proposal should be modified to eliminate the additional amount currently being paid to pharmacists. Specifically, because the pharmacy dispensing fee is above the rate paid by other third-party payers, we recommend that the Legislature authorize copayments on drugs and reduce the dispensing fee paid to pharmacists by $1 per prescription for all beneficiaries, irrespective of whether the pharmacist can charge a copayment, and that the reduced rate take affect on July 1, 1995 rather than in October as the budget proposes.

We note that the per-prescription reimbursement we recommend ($2.55) essentially conforms the Medi-Cal reimbursement rate to the level currently paid by non-Medi-Cal providers—even if pharmacists are unable to collect any copayments. Thus, we do not believe the proposal would adversely affect beneficiary access to prescription drugs. We estimate that this action, together with the earlier implementation date, would result in General Fund savings of $13.2 million above the savings proposed in the budget.

**Exempt Physician and Clinic Services.** We also recommend that a portion of these savings be redirected to eliminate the proposed copayments in those cases where, in our judgment, the potential for primary care access problems and cost-shifting is most clearly an issue—specifically, for physician and clinic services. This component of our recommendation would reduce the budgeted level of savings by $4.8 million from the General Fund.

**Impact of Recommendation.** The net result of these recommendations would be an additional reduction of $16.7 million ($8.4 million General Fund) beyond the amount assumed in the budget. In summary, our recommendation would (1) fully conform the Medi-Cal pharmacy dispensing fee to levels paid by other payers, (2) reduce the potential for primary care access problems and cost-shifting, and (3) achieve an additional General Fund savings of $8.4 million.
Medi-Cal Drug Ingredient Costs Should Be Reduced

We recommend that the Legislature lower the reimbursement rate ceiling for prescription drug ingredient costs from Average Wholesale Price (AWP) minus 5 percent to AWP minus 10 percent, for a General Fund savings of $14.9 million, because the existing reimbursement level exceeds rates paid by other high-volume purchasers of drugs. (Reduce Item 4260-101-001 by $14,900,000.)

The Medi-Cal Program provides coverage for about 50 million drug prescriptions annually for its beneficiaries. The budget proposes about $500 million from the General Fund to reimburse pharmacists for this purpose. Of this amount, about $425 million is for the ingredient cost of the drug, while the remainder is for the pharmacists' dispensing fee. (Due to a lack of data, the figures exclude prescription drug costs for Medi-Cal beneficiaries enrolled in commercial prepaid health plans and county-organized health systems.)

Under current law, the Medi-Cal Program uses various methods to determine how much it will reimburse pharmacists for drug ingredient costs. Generally, the program uses as a benchmark the “Average Wholesale Price” (AWP), which is the estimated average price that wholesalers charge to retailers, less 5 percent (unless the pharmacist’s charges are below this amount). This benchmark has been in place since 1989 and, until January 1995, federal law prohibited states from reducing their reimbursement levels.

Our review indicates that the AWP minus 5 percent reimbursement benchmark is higher than the rate paid by other major purchasers of drugs, as well as by many other state Medicaid programs. For example, the Public Employees’ Retirement System (PERS), which provides health insurance for state employees, reimburses pharmacists at AWP minus 10 percent. Because the current Medi-Cal reimbursement rate is higher than the rate paid by other major health insurers, we believe the Medi-Cal rate should be reduced. Accordingly, we recommend that the Legislature establish a new reimbursement ceiling at AWP minus 10 percent, which is the rate paid by the PERS. We estimate that this action would result in General Fund savings of $14.9 million in 1995-96.

Nursing Facility Rates

The budget proposes several major changes involving nursing facility reimbursement rates. In our view, these proposals could be more effectively implemented through a contracting program for nursing facilities. We discuss these proposals below.
Minimum Nursing Hours and Distinct Part Rate Reductions

We recommend that, in lieu of the budget proposals to reduce (1) hospital-based “distinct part” nursing facility rates, and (2) freestanding facility minimum staffing levels and reimbursement rates, the Legislature implement a contracting program for nursing facilities similar to the one currently in place for hospitals.

“Distinct Part” Nursing Facility Rate Reduction. The budget proposes to reduce by an average of 20 percent, the reimbursement rates it pays to nursing facilities that operate as a “distinct part” of a hospital for a General Fund savings of $25.6 million in 1995-96. Currently, these facilities receive, on average, nearly three times the reimbursement rate paid to freestanding nursing facilities. This is due to a number of factors, including much higher overhead and labor costs associated with a large hospital.

However, under federal law (specifically, a provision commonly referred to as the “Boren amendment”), hospital and nursing facility reimbursement rates paid by Medi-Cal must be “reasonably sufficient to cover the costs of an efficiently and economically operated facility.” In general, this requirement has been interpreted to require reimbursement of facilities, including “distinct part” nursing facilities, on the basis of reported actual costs. Thus, in order to reduce distinct part reimbursement rates, the department would need to demonstrate that existing rates exceed the costs to operate these facilities. At the time this analysis was prepared, the department had not indicated how it intends to achieve the proposed 20 percent reduction, given the requirements of the Boren amendment.

Minimum Nursing Hours Reduction. The budget also proposes to reduce reimbursement rates for freestanding nursing facilities by rescinding a legal settlement the department entered into in August 1993 in the case of Valdivia v. Department of Health Services. In the suit, the nursing facility industry alleged that the federal Omnibus Budget Reconciliation Act of 1987 (OBRA) effectively required increased facility staffing levels due to a number of its provisions, including a requirement that facilities assist patients in attaining their “highest practicable level of functioning.”

Under the settlement, the department agreed to increase nursing facility reimbursement rates by about $2 per day (or 2.5 percent) and to raise nursing staff requirements from a minimum of 3 to 3.2 nursing hours per patient per day. The settlement expires in August 1996, but the administration proposes to lower reimbursement rates and the minimum staffing requirement for freestanding facilities, effective August 1995, to their
prior levels for a General Fund savings of $20.2 million. According to the department, this proposal requires the agreement of the nursing home industry.

**Impact of Proposal On Quality of Care Is Unknown.** The department indicates it does not have data regarding the extent to which nursing facilities have increased their staffing levels in response to the higher reimbursement rate and the higher minimum hours of care. In the absence of these data, it is difficult for the Legislature to determine what impact the department’s proposal would have on the quality of care provided to Medi-Cal beneficiaries residing in nursing facilities.

**Analyst’s Recommendations.** The budget proposal involves considerable uncertainty regarding (1) the likelihood of the freestanding nursing facility industry’s willingness to agree to the department’s proposal to reduce minimum nursing hours in those facilities, (2) the potentially adverse effects on quality of care associated with that proposal, and (3) for the distinct part proposal, the potential complications due to the requirements of the Boren amendment. This uncertainty, and the risk it creates, could be avoided through an alternative approach that would still achieve significant General Fund savings. Specifically, in the *Analysis of the 1994-95 Budget Bill*, we recommended that nursing facility rates be determined on a negotiated basis through the California Medical Assistance Commission (CMAC)—the process by which most hospital reimbursement rates are determined currently.

We believe that if such a system were implemented, the freestanding nursing facility rate reductions could be achieved without violating the terms of the settlement with the industry. Moreover, it may be possible to achieve rate reductions of the magnitude proposed in the budget without lowering minimum staffing requirements for these facilities. This is because (1) Medi-Cal Program reimbursement provides nursing facilities approximately 65 percent of the revenues they receive, and (2) occupancy rates in nursing facilities have declined over the last several years. As a result, the Medi-Cal Program may be able to take advantage of a “buyer’s market” for nursing facility services through contracting.

Similarly, for the distinct part proposal, the federal Health Care Financing Administration, has determined that the Boren amendment does not apply with regard to facilities that agree to a rate on the basis of voluntary negotiations. Accordingly, most hospitals in California have negotiated rates that are significantly lower than the “cost-based” rate in order to (1) attract the volume of patients who are eligible for Medi-Cal and (2) in many cases, gain access to federal disproportionate share (DSH) payments. Therefore, we believe similar reductions could
be achieved in distinct part reimbursement rates—just as the CMAC currently achieves savings on hospital inpatient rates.

The contracting approach has an additional advantage with regard to distinct part facilities, in that the amount of the reduction would not need to be uniform across the state. This is particularly important because approximately one-third of distinct part reimbursements are paid to county-operated facilities and those in rural areas of the state. As a result, under contracting, the state would have flexibility to achieve lower reimbursement rates in many cases, while retaining the ability to pay higher rates in cases where other policy objectives—such as maintaining access to acute care hospitals in rural areas—are considered to outweigh the need to achieve Medi-Cal Program savings.

Accordingly, we recommend that the Legislature adopt a contracting system for both distinct part and freestanding nursing facility rates in lieu of the budget proposals. We further recommend that the department and the CMAC report at budget hearings on the fiscal impact of adopting this alternative.

Subacute Care Proposal Should Be Modified

We recommend that the department report at budget hearings on several aspects of its proposed nursing facility subacute care program. In addition, to maximize savings, we recommend that if this program is established, the Legislature (1) adopt “per discharge” rather than “per diem” reimbursement rates in certain cases, and (2) limit the new subacute rates to patients referred from hospitals.

**Subacute Reimbursement Rate.** The budget proposes to increase nursing facility reimbursement rates for facilities that agree to provide “subacute” care to patients who would otherwise be treated in hospitals. Subacute rates currently are provided to a limited number of nursing facilities for a small number of Medi-Cal beneficiaries with specific diagnoses. According to the department, the practice of discharging patients at an earlier date from hospitals to nursing facility settings has become increasingly common in the federal Medicare program and in the private sector, and should be incorporated on a wider scale in the Medi-Cal Program.

The department has not yet determined how much it would increase reimbursements to nursing facilities. However, the budget assumes that the rates will average approximately $500 per day less than hospital inpatient rates. Accordingly, the proposal would result in a net General Fund savings of $30 million in 1995-96 through shorter hospital stays.
**Analyst’s Comments and Recommendations.** At the time this analysis was prepared, many details regarding the department’s proposal were unclear. For example, the department is currently evaluating which groups of Medi-Cal patients and nursing facilities may participate in the new program, and what level of reimbursement will be provided. We recommend that the department report on these issues at budget hearings.

In concept, however, we believe the proposal has considerable merit. First, we agree with the department’s assertion that the practice of moving patients from hospital to nursing home settings for recuperation has become increasingly common. Moreover, a recent report prepared by a private consulting firm found significantly longer average lengths of stay among Medi-Cal patients when compared to Medicare and other third-party payer patients with identical diagnoses.

As with the nursing facility proposals discussed above, we believe that the proposed subacute rate program could be more effectively established through a contracting process. This is because of the highly competitive nature of the nursing facility industry in California. In effect, the state may be able to take advantage of a “buyer’s market” in negotiating the new higher rates, thereby increasing the potential for program savings.

We believe it is important to recognize, however, that the proposal could result in significant cost increases to the Medi-Cal Program, rather than savings, if the assumed reductions in average hospital stays do not occur. We note, for example, that the shorter average hospital stays that have been identified for the Medicare program and for private payers have occurred in an environment where hospitals generally are reimbursed on a “per discharge,” rather than on a per diem basis (the current practice in the Medi-Cal Program in most cases).

In the *Analysis of the 1994-95 Budget Bill*, we recommended that the Medi-Cal Program move toward a per discharge system for all hospital reimbursements. Under this approach, hospitals would receive a fixed payment for each patient, irrespective of how long the patient is hospitalized, thereby creating an incentive for patients to be discharged earlier.

We believe it would be particularly important that a per discharge system be adopted for those hospitals and patient diagnoses where savings under the proposed subacute program are expected to occur. If such a change is not adopted, the Legislature has no assurance that the department’s proposal will result in the shorter lengths of stay that have
been achieved by other payers. In contrast, under a per-discharge approach, the savings would be automatic because the shorter length of stay could be assumed “up front,” and reflected in the rate.

Finally, we recommend that the proposal be limited to those cases where a Medi-Cal beneficiary is being discharged from a hospital setting, rather than for patients already residing in nursing homes. This is because it would be difficult to monitor whether patients already in nursing facilities require the higher level of care (and associated higher reimbursement rate) in order to remain there.

**Certificate Of Need Program Should Be Considered**

We recommend that the department report at budget hearings on the merits of a “Certificate of Need” requirement for new distinct part facilities, and the potential savings such a requirement would achieve in 1995-96.

Prior to 1987, California required all health facilities to apply for a “Certificate of Need” (CON) in order to expand their facilities, including “distinct part” nursing facilities. In 1987, the state eliminated the CON requirement due to concerns that it was an overly regulatory approach to cost containment. Similar programs were also eliminated in 10 other states in the mid-1980s.

Since the repeal of California’s CON requirement, the number of hospital-based nursing facility beds has more than doubled, increasing from about 5,000 licensed beds in 1986 to nearly 11,000 beds in 1993, as shown in Figure 18 (see next page). In contrast, the number of freestanding nursing facility beds has remained fairly steady, increasing by about 1 percent annually over the seven-year period. (Put differently, hospital-based nursing facility capacity has grown at 10 times the rate of freestanding facilities.) Similarly, the volume of Medi-Cal patients served in distinct part nursing facilities has increased by an average of 6 percent annually, whereas the volume of Medi-Cal patients served in freestanding facilities has declined slightly.

As noted previously in our analysis, Medi-Cal reimburses distinct part facilities at a rate nearly three times the amount it pays for services provided to beneficiaries who receive care in freestanding facilities (about $210 per day in distinct part facilities versus about $75 per day for freestanding facilities). This higher reimbursement rate for distinct part facilities almost certainly explains some of the growth in these facilities. (Other factors include declining hospital occupancy rates and the federal Medicare program’s practice of reimbursing hospitals on a
per-discharge basis, which encourages hospitals to discharge patients sooner—in many cases to the hospital’s “distinct part” nursing facility.)

We acknowledge that the CON requirement represents a greater reliance on a regulatory approach to cost containment and, as such, may result in inefficiencies. However, we believe this approach should be reevaluated primarily because its repeal appears to be at least partly responsible for the proliferation of higher-cost facilities and the increase in the number of Medi-Cal patients served in them. Moreover, we are not aware of any indication that the care they receive would be diminished in less costly freestanding facilities.

Accordingly, we recommend that the department report at budget hearings on the merits of a CON requirement that would apply only to new distinct part facilities, and the potential savings such a requirement would achieve in 1995-96.
MANAGED CARE

Strategic Plan Implementation Proceeds

The department’s strategic plan to dramatically expand managed care services for Medi-Cal beneficiaries is scheduled to be implemented in late 1995-96, but reimbursement rates for county-operated “local initiatives” and commercial HMOs have not yet been determined.

In 1993, the department released a “strategic plan” intended to rapidly move the Medi-Cal Program toward a “managed care” approach for providing services to Medi-Cal beneficiaries. In this section, we make several recommendations regarding the department’s proposed expansion.

Background. The Legislature and the department have, for several years, attempted to increase the number of Medi-Cal beneficiaries enrolled in managed care arrangements. In particular, legislation accompanying the 1992 Budget Act gave the department broad authority to expand managed care in California, with the goals of improving beneficiary access to care and making the Medi-Cal Program more cost-effective. Approximately 1 million out of 5.5 million Medi-Cal beneficiaries will be enrolled in a managed care arrangement by the end of 1994-95. The department anticipates this number will increase to a total of 2.5 million by the end of 1995-96.

Under managed care arrangements, the Medi-Cal Program attempts to control costs by generally reimbursing providers on a “capitated,” or per-person basis regardless of the number of services any given individual uses. In addition, the use of specialists and high-cost services requires a physician referral. This approach contrasts with the fee-for-service system, where Medi-Cal pays providers for each service they provide, and the beneficiary has his or her choice in selecting providers. In fee-for-service, utilization is controlled by requiring prior authorization from the Medi-Cal field offices for the more expensive medical services.

The principal managed care arrangements are:

- **Prepaid Health Plans (PHPs).** Medi-Cal contracts with private PHPs to provide care to AFDC-linked beneficiaries. The PHPs are paid a monthly capitation payment, based on an estimate of the costs of serving beneficiaries in the fee-for-service system. CIGNA Health Plan, Foundation Health, and Kaiser Permanente are among the PHPs that have existing Medi-Cal contracts. The department generally has not entered into contracts to enroll SSI/SSP-linked beneficiaries in PHPs.
- **County-Organized Health Systems (COHS).** Under this approach, the county acts as a prepaid plan, serving all Medi-Cal beneficiaries in the county. The COHS receive a capitated rate for each beneficiary in the county, and assume full financial risk. Currently, Santa Barbara, San Mateo, and Solano Counties have fully implemented this approach, and two additional counties—Orange and Santa Cruz—will begin operations in July 1995. Federal law prohibits additional county-organized systems in California beyond these five.

- **Geographic Managed Care (GMC).** Under this approach, the Medi-Cal Program negotiates contracts directly with providers to accept beneficiaries within a specified area, again paying a monthly rate based on the estimated cost of providing services to similar beneficiaries under the fee-for-service system. The department implemented this approach in Sacramento County in April 1994, and will implement a second project in San Diego County in December 1995.

- **Primary Care Case Management (PCCM).** PCCM plans are paid a fixed monthly fee (per person) to manage the care of the Medi-Cal beneficiaries enrolled in the plan. They approve referrals to specialists, nonemergency hospitalizations, and other high-cost procedures. If the costs of care for enrollees in a PCCM plan are less than the estimated fee-for-service cost would have been for similar beneficiaries, the PCCM plan receives a payment equal to half the estimated savings.

**Principal Components of the Strategic Plan.** The department’s strategic plan and the budget propose to enroll nearly half of all beneficiaries (2.5 million out of an estimated 5.7 million) in a managed care arrangement by late 1995-96.

The plan proposes to expand the number of beneficiaries served under managed care arrangements primarily by:

- Implementing COHS in Orange and Santa Cruz Counties, and the GMC project in San Diego County. These three efforts will serve approximately 450,000 beneficiaries.

- Requiring the expansion of managed care in 12 additional counties, by a combination of (1) a “local initiative” to serve up to 70 percent of most AFDC-linked Medi-Cal beneficiaries (and medically indigent children) and (2) a single prepaid health plan to serve the remaining AFDC-linked beneficiaries. Additional eligibility categories (such as SSI/SSP beneficiaries) may enroll on a voluntary basis.
The counties identified for mandatory expansion during 1995-96 are shown in Figure 19.

![Figure 19](image_url)

**Counties Designated for Mandatory Implementation of Managed Care in 1995-96**

<table>
<thead>
<tr>
<th>County</th>
<th>Affected Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda</td>
<td>118,600</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>39,200</td>
</tr>
<tr>
<td>Fresno</td>
<td>146,100</td>
</tr>
<tr>
<td>Kern</td>
<td>83,400</td>
</tr>
<tr>
<td>Riverside</td>
<td>108,100</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>187,200</td>
</tr>
<tr>
<td>San Diego</td>
<td>157,800</td>
</tr>
<tr>
<td>San Francisco</td>
<td>43,200</td>
</tr>
<tr>
<td>San Joaquin</td>
<td>80,700</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>112,300</td>
</tr>
<tr>
<td>Stanislaus</td>
<td>55,900</td>
</tr>
<tr>
<td>Tulare</td>
<td>68,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,201,000</strong></td>
</tr>
</tbody>
</table>

The department plans to implement managed care in Los Angeles County in 1996-97.

**Targeting AFDC-Linked Beneficiaries Ignores Demonstrated Savings Potential**

We recommend enactment of legislation requiring that managed care expansion in 12 counties include newly enrolled SSI/SSP-linked beneficiaries, rather than be at the counties’ option as the department proposes.

The department’s strategic plan focuses on services provided to AFDC-linked beneficiaries and medically indigent children. Additional eligibility categories may enroll at the beneficiary’s option, including SSI/SSP-linked beneficiaries.

The department has provided information demonstrating that SSI/SSP-linked beneficiaries are among the eligibility groups where counties are most likely to achieve savings through managed care. According to the department, capitation
rates paid to both San Mateo and Santa Barbara Counties in 1992-93 for their county-organized health systems exceeded the fee-for-service equivalent for AFDC-linked beneficiaries, but were significantly below the fee-for-service equivalent for SSI/SSP-linked beneficiaries. This suggests that these counties have been able to achieve savings among the higher-cost beneficiaries—generally those who are linked to the SSI/SSP Program.

Accordingly, we believe that the department’s efforts to expand managed care have neglected an area where savings potential exists: the high-cost groups of recipients. We recommend, therefore, the enactment of legislation requiring the inclusion of newly enrolled SSI/SSP-linked beneficiaries in the 12 counties. By limiting the requirement to new beneficiaries, concerns that managed care arrangements would disrupt established beneficiary relationships with a primary care physician would be largely avoided.

Rates to Be Issued This Spring

We recommend that the department report at budget hearings on how forthcoming reimbursement rates for both new and existing managed care contractors compare to regional fee-for-service equivalent costs, and what adjustments, if any, are proposed. We also recommend that the Legislature evaluate whether it should require that all managed care contractors be reimbursed at 97 percent of the fee-for-service equivalent, as is the case for existing prepaid health plans.

The budget assumes that expansion of managed care in 1995-96 will not change Medi-Cal Program expenditures. Thus, the department assumes that in total, the capitated reimbursement rates Medi-Cal will pay to county-organized health systems, the 12 local initiatives, and new prepaid health plans will be equal to the “fee-for-service equivalent”—what Medi-Cal would have spent if the fee-for-service system continued.

The department indicates it will release proposed rates for the various contractors in February, and that these rates may include adjustments regarding regional cost variations and other factors. Accordingly, we recommend that the department report at budget hearings on how the proposed reimbursement rates compare to regional fee-for-service equivalent costs for both new and existing managed care contractors, and what adjustments, if any, are proposed.

In addition, we note that the original legislation granting the department broad authority to implement managed care assumed that savings would result. Moreover, the 1992-93 Budget Act assumed substantial General Fund savings would occur due to the department’s proposal to expand the use of prepaid
health plans. Although the savings were not achieved, this approach was reaffirmed in the 1994-95 Budget Act, which assumed an $18 million General Fund savings by requiring a reduction in prepaid health plan rates. The department implemented this reduction in October 1994.

In contrast, the budget does not assume savings from managed care expansion in 1995-96. This is because the administration believes that any savings achieved by the counties through managed care should be used to improve beneficiaries' access to health care—particularly for primary and preventive care. The administration has stated this view on several occasions over the last few years.

In addition, we note that if a reduction to all managed care contractors were imposed, much of it would be felt by county-operated delivery systems, which are also obligated to serve indigent persons who are not eligible for Medi-Cal and have no other form of health insurance. Counties typically rely on Medi-Cal reimbursements to assist them in providing care to such indigent persons.

While the administration's goal to improve access clearly is meritorious, the budget proposal to reimburse managed care contractors in the 12 counties at 100 percent of fee-for-service costs represents a departure from a policy of achieving modest savings (3 percent) through managed care—at least as provided by prepaid health plans. We also note that, as a result of the managed care approach based on capitated payments, counties have an incentive to become more efficient in the delivery of health care—for example, through better access to primary care.

Because the managed care approach is designed to effect savings, counties should be able to accommodate payment levels that are lower than fee-for-service rates. Thus, we believe the Legislature should revisit the issue of overall reimbursement rates for managed care contractors. Specifically, we recommend that the department report at budget hearings on the General Fund savings that would occur in 1995-96 and in 1996-97 if all managed care contractors were reimbursed at 97 percent of the fee-for-service equivalent, as the Legislature has required for existing prepaid health plans. Based on 1992 data, we estimate this approach could achieve General Fund savings in the tens of millions of dollars in 1995-96 and in the range of $50 million to $100 million in 1996-97.
Court Blocks Implementation of Dental Managed Care

Up to $5.3 million in total General Fund savings ($1.1 million in the current year and $4.2 million in the budget year) from implementation of a managed care pilot project for dental services may not be realized due to a recent court order blocking mandatory enrollment in the program. In addition, General Fund savings of $85 million that were assumed to occur through statewide implementation of the project in 1995-96 (as part of the state’s two-year budget plan) are effectively precluded by the order.

In April 1994, the department began implementation of dental managed care in Sacramento County as part of its Geographic Managed Care project. Under the program, AFDC-linked beneficiaries in the county were required to select one of four contracting clinics to receive dental services. The department reimburses these contractors on a capitated, rather than a fee-for-service basis at rates negotiated by the California Medical Assistance Commission. The budget assumes General Fund savings for this program of $2.2 million in the current year and $4.2 million for 1995-96 because the reimbursement rates negotiated by the Commission were lower than estimated fee-for-service payment levels.

In November 1994, the department sought permission from a federal court to implement the Sacramento County program, as well as to expand dental managed care to AFDC-linked Medi-Cal beneficiaries statewide. The state proposed to expand dental managed care statewide in response to the Clark vs. Coye dental access case, which specifies reimbursement levels for fee-for-service dental payments. (At the time of the Clark decision, most Medi-Cal beneficiaries received dental care on a fee-for-service basis.)

In a ruling issued in December 1994, the court denied the department’s request to continue operating the Sacramento program on a mandatory basis, and effectively barred implementation of dental managed care statewide.

As a result of the court’s decision, up to $5.3 million of the savings assumed in the budget for the Sacramento program in the current and budget years may not be achieved. In addition, as part of the state’s two-year budget plan, the Legislature and the administration assumed a General Fund savings of $85 million would occur in 1995-96 through expansion of dental managed care statewide. The court’s decision precludes this savings. The state has filed an appeal of the decision.
Staffing Expansion Proposed

We withhold recommendation on the department’s request for 126.5 positions to oversee managed care expansion, pending further review.

The budget proposes 126.5 positions and $6.1 million from the General Fund for additional staff to oversee managed care expansion and implement a computerized management information system for the program. (The Legislature recommended approval of 30 positions through the deficiency process for the current year.)

While we believe some additional staff may be warranted, we have not had sufficient time to review the proposal in detail.

In addition, we note that the department has not yet proposed staffing reductions in its field offices, where treatment authorization requests for fee-for-service beneficiaries are reviewed. Given that the number of Medi-Cal beneficiaries served in managed care arrangements in the current year has increased by 300,000 beneficiaries, and that nearly half of Medi-Cal beneficiaries will be enrolled in managed care arrangements by the end of 1995-96, we believe it is reasonable to assume that some of the Field Office workload will be reduced. Accordingly, we recommend that the department report prior to budget hearings on its plans to reduce field office staffing levels.

We will comment on the department’s proposed staffing increase, and its plans for field office staffing levels, during budget hearings. Accordingly, we withhold recommendation on the department’s request, pending further review.
The Department of Health Services administers a broad range of public health programs, including (1) programs that complement and support the activities of local health agencies controlling environmental hazards, preventing and controlling disease, and providing health services to populations who have special needs and (2) state-operated programs such as those which license health facilities and certain types of technical personnel.

The budget proposes $1.6 billion for public health local assistance. This represents a decrease of $26 million, or 1.7 percent, from estimated current-year expenditures. The proposal includes a $351 million General Fund appropriation for public health local assistance, which is $86 million, or 32 percent, above estimated current-year expenditures. This increase is due primarily to a proposed expansion of health care services for children.

For state operations, the budget proposes $391 million, which is an increase of $23 million, or 6.3 percent, over estimated current-year expenditures. This includes $93 million from the General Fund for state operations in 1995-96, which is $6 million, or 6.1 percent, below estimated current-year expenditures.

The Governor’s Budget proposes three significant initiatives in the public health arena. These proposals are discussed below.

**REACH Proposal Raises Questions**

We identify several issues related to the Governor’s proposed Reaching Early Access for Children’s Health (REACH) Program, and recommend that the department be prepared to discuss them during budget hearings.

The budget proposes $206.1 million ($56.1 million General Fund) to establish the REACH Program in 1995-96. The new program would replace part of the existing Child Health and Disability Prevention (CHDP) Program, which provides health screening services to children.
The administration indicates that the purpose of the REACH Program is to provide health screening and outpatient services to uninsured children, through age five, in low-income families. The children would be in families with incomes between 133 percent and 200 percent of the federal poverty level. Program participants would have to be residents with legal immigration status. The department estimates that the program would provide services to 612,000 children annually.

The program would use provider networks in the existing CHDP Program, and would use the CHDP administrative structure for enrolling beneficiaries.

**Funding and Costs.** As noted above, the budget proposes total expenditures of $206.1 million for the program in 1995-96. This consists of $56.1 million in new General Fund monies, $50.6 million in redirected funds from the CHDP Program ($22.2 million General Fund, $21.6 million Cigarette and Tobacco Surtax Fund, and $6.3 million federal funds), and $100 million in new federal funds which will require federal legislation. Funding would be capped by the amount of appropriations. In other words, the program would not be an entitlement.

The department proposes that program costs be allocated as follows:

- $10.1 million for local provider/county administration.
- $50.6 million (redirected from the CHDP Program) for health screening services.
- $145.3 million for follow-up outpatient treatment (pursuant to the health screens) and other outpatient treatment.

In order to understand the effect of the proposal, it is necessary to briefly review what services are provided to the eligible REACH population under current law.

**How Does REACH Change Current Services?** Under current law, the following health care services are provided for children in the REACH age and income groups:

- **Medi-Cal Program**—comprehensive health care is provided at a “share of cost,” in which families that incur medical expenses must pay for them by “spending down” their incomes to 133 percent of the June 1991 AFDC payment level ($694 per month for a family of three).
- **CHDP Program**—health screening services.
- **County Health Departments**—(1) outpatient treatment based on CHDP screens, and (2) episodic outpatient
treatment and inpatient care for emergencies, provided to persons who are not eligible for Medi-Cal and cannot afford to pay for these services. Counties may charge patients with income for part or all of the cost, and the scope of treatment varies by county.

The REACH Program would change current law by providing the following to children in the eligible age and income group:

- Outpatient treatment services would be provided at no cost to children in families who currently pay a “share of cost” for these services under Medi-Cal. These are families with incomes between 133 percent and 200 percent of the poverty level.

- Outpatient treatment for non Medi-Cal children (mainly families that do not qualify because of excessive assets) would be shifted from county to state responsibility. Thus, non Medi-Cal families with incomes up to 200 percent of the poverty level would be able to get outpatient care for children below age six through the new state program, rather than having to rely on the county if they have no insurance or other means to pay for it.

In summary, the principal effects of the REACH Program would be to provide (1) outpatient treatment to Medi-Cal beneficiaries who would otherwise have to pay a share of cost and (2) outpatient treatment to non Medi-Cal children who would otherwise have to obtain these services from county health departments or private providers.

**Problems With the Budget Proposal.** We have the following concerns related to the proposal to establish the REACH Program:

- **Funding is Uncertain.** The $100 million in federal matching funds would require enactment of federal legislation. Thus, there is no assurance that these funds will be provided. In addition, the $21.6 million in Cigarette and Tobacco Fund monies (proposed to be redirected from the CHDP Program) is in jeopardy. As we discuss in our analysis of Proposition 99, a Superior Court ruling has prohibited the use of Cigarette and Tobacco Fund monies from the Health Education account for the CHDP Program. Thus, it is uncertain that the state can bank on the use of $21.6 million in Cigarette and Tobacco Fund monies for the REACH Program.

More broadly speaking, we also note that Proposition 99 prevents the state from using Cigarette and Tobacco Fund monies in federally-supported programs. Modification of this provision requires a four-fifths vote of the Legislature, under the terms of the proposition.
Costs Are Uncertain. The costs of the proposal are subject to considerable uncertainty, due to several factors. Four of these factors concern overbudgeting. First, we find no basis for the $10.1 million in new funding for local administration. There is no indication that the local administrative workload would exceed the current level in the CHDP Program; therefore, these costs should be funded entirely from the proposed redirection ($50.6 million) from the CHDP Program. Second, the budget proposal is based on full-year funding of the services, whereas the administration indicates that program implementation of the services component will not take place until some time between October 1995 and January 1996. Third, the administration indicates that dental care is not part of the benefit package, but the budget is based on a Medi-Cal cost estimate that includes dental benefits. Fourth, we note that the caseload could be less than projected due to the potential impact of a new foundation-supported program (“California Kids”) that offers similar services.

While these factors suggest the possibility of overbudgeting in 1995-96, costs in 1996-97 and thereafter will increase because of the proposed expansion of the program to children formerly in the Access for Infants and Mothers (AIM) Program, as discussed below. The department does not have an estimate of these costs.

Proposal Represents a Cost Shift from Counties to State. As indicated above, the proposal would make services available to eligible children who, under current law, can receive these services from county health departments. Due to a lack of data, the amount of this shift of costs is unknown but could account for a significant part of the total program costs because, potentially, it involves a large segment of the new services that would be provided by the REACH Program. More specifically, the amount of the shift would depend on the extent to which (1) eligible families use outpatient care on referral based on the results of the health screens (currently a county requirement) and (2) non Medi-Cal eligible families use outpatient care under the REACH Program when they would otherwise use county-provided services.

Program Would Give Preference to Former AIM Enrollees. Beginning in 1996-97, the program would be expanded to children ages one through five who are in families between 200 and 300 percent of the poverty level, provided the family was enrolled in the existing AIM health insurance program when the child was born. Thus, these children would be covered by the provisions of REACH, whereas other children from the
same age and income group but who were not AIM enrollees (from families that have no insurance or are insured through their employers, for example) would not be eligible for REACH services.

We can find no policy rationale for giving preferential treatment on the basis of whether a family in this income group has been enrolled in the AIM Program. The department has indicated that non-AIM families were excluded to keep the cost of the program down. We note, however, that this could have been accomplished in a more equitable manner by lowering the income threshold and providing access to all eligible families.

**Conclusion.** While the general objectives of the Governor’s initiative are reasonable, the proposal raises a number of significant issues and questions. We believe that in evaluating the REACH proposal, the Legislature should give consideration to these issues. To facilitate the Legislature’s deliberations, we recommend that the department be prepared to discuss the issues during budget hearings.

**No Budget Plan for Governor’s Teen Pregnancy Prevention Initiative**

We recommend that (1) the administration submit, prior to budget hearings, an expenditure plan for the $12 million proposed for the Governor’s Teen Pregnancy Prevention initiative and (2) the plan include a provision for evaluation of the initiative. We further recommend that the department report on the findings of the University of California study regarding the effectiveness of the Education Now and Babies Later (ENABL) program.

**Background.** California has the highest teenage pregnancy rate in the nation. Between 1988 and 1993, the birth rate in California rose from 58 births per 1,000 women aged 15-19 years to 71 births per 1,000 women in this age group. In efforts to reduce the teen pregnancy and birth rates, the administration proposes a $12 million increase in General Fund support to develop and expand teen pregnancy prevention strategies aimed at three target populations: (1) teen women, (2) men, and (3) welfare recipients.

**Budget Proposal Lacks Detail.** At the time this Analysis was prepared, the department did not have information regarding what types of programs it plans to develop or expand, or how it plans to reach the three target populations. The department, however, has indicated that it will meet with advisory groups in February 1995 to determine funding priorities. By March 1995, the department’s Office of Family Planning (OFP), the lead agency for this initiative, expects to develop plans for new
programs and expansion of existing ones based on the advisory groups' recommendations. The OFP expects to implement these strategies by the beginning of the budget year.

**Existing State Programs.** The state currently employs a variety of teen pregnancy prevention programs. These include (1) the Expanded Teen Counseling Program, which offers sex education and teen counseling to older teens, (2) Education Now and Babies Later (ENABL), which stresses abstinence among young teens, and (3) efforts to provide and promote contraceptive use among sexually active teens.

**Model Programs.** In 1994, the California Family Impact Seminar (CAFIS), sponsored by the California State Library, conducted a series of seminars on teen pregnancy and published a report on the subject. Included in the report is a review of several model programs, including the following:

- **Reducing the Risk Program.** This program uses a specific curriculum (emphasizing role playing) to teach students how to avoid unprotected sex. The program was found to be successful in delaying sexual initiation.

- **Johns Hopkins School-Linked Health Clinic.** This is a pregnancy prevention program in which staff from two clinics provide information and certain medical care, including contraceptive services, to pupils in neighborhood schools. The program was found to reduce sexual activity and increase the use of contraception methods among participants.

- **Maryland’s Campaign for Our Children.** This is a comprehensive program consisting of the following components: secondary school instruction on sexual development, family ties, and personal relationships; sex education for younger teens that focuses on abstinence; a pregnancy prevention program in school-based youth clinics; “drop-in” clinics that provide counseling and contraceptives to teens; community-based programs; and a media campaign that emphasizes abstinence and personal responsibility. Because of the breadth of the program, evaluation is difficult. The CAFIS notes that the state reported a decrease in the birth rate of single teens in 1994, but it is not known whether this can be attributed to the program.

- **Partnership Academies.** The primary purpose of this program is school dropout prevention, and therefore represents an indirect approach to teenage pregnancy prevention by focusing on the underlying problems that are related to teenage pregnancy. The program operates as a school within a school, with small class sizes and a
curriculum built around a particular industry or career. The effects of this program on teenage pregnancy prevention have not been evaluated.

- **The Teen Outreach Program.** This program features small groups of students meeting weekly, with an adult facilitator who leads discussions on topics such as interpersonal and family relationships, cultural diversity, problem solving, and parenting. Students are also expected to participate in a volunteer activity. An evaluation of the program indicated that participants had a lower rate of pregnancy than a control group of nonparticipants.

- **The Perry Preschool Early Prevention Program.** This program is the model for the federal Head Start Program. Program components include a low child/teacher ratio, home visits, parent meetings, and a curriculum that emphasizes creativity development and individual decision-making. A 20-year evaluation showed positive results, including a lower rate of teenage childbearing.

We present this summary of the programs identified as successful models by the CAFIS in order to facilitate discussion of the Governor’s proposal, with the caveat that we have not reviewed the program evaluations to determine whether they are methodologically sound. We also note that the Department of Health Services has contracted for an evaluation of California’s ENABL program by the University of California. The report is due in March 1995.

**Recommendation.** To facilitate the Legislature’s review of the Governor’s proposal, we recommend that the administration submit an expenditure plan to the Legislature prior to budget hearings. We further recommend that the plan include provision for an evaluation. Finally, we recommend that the department report, at budget hearings, on the evaluation of the ENABL program.

**Legislature Needs More Information on Governor’s Immunization Initiative**

We withhold recommendation on the $20 million proposed from the General Fund for the Governor’s Immunization Initiative, pending submission of an expenditure plan to the Legislature.

**Background.** The Omnibus Budget Reconciliation Act (OBRA) of 1993 initiated a federal Vaccine for Children (VFC) program to provide no-cost vaccines for children with limited or no health insurance coverage. Subsequently, the federal administration proposed to establish a national bulk distribution system from which free vaccines would be delivered to health care providers serving VFC-eligible children. VFC im-
plementation would result in state savings through the provision of the free vaccines.

Much of the General Fund savings would be used to comply with Chapter 1110, Statutes of 1992 (AB 3351 Gotch), which requires the department to raise immunization levels through increased provider participation, community outreach, and access to services. To meet the requirements of Chapter 1110, the Budget Act of 1994 appropriated $20 million of the expected General Fund savings for the following activities:

- Immunization tracking system—$3.5 million.
- Expansion of immunization service—$3 million.
- Collaborative effort grants to improve outreach—$3.5 million.
- Provider rate increase—$10 million.

**Federal Delays in Vaccine Distribution Prevent General Fund Savings in 1994-95.** Although it was scheduled to distribute vaccines in October, 1994, the federal government did not implement a vaccine distribution system. The state, therefore, will not realize the budgeted General Fund savings in the current year.

The federal government, however, has recently agreed to finance a statewide vaccine distribution system proposed by the administration. Negotiations with a contractor currently are underway, and the department believes vaccine distribution to CHDP and Medi-Cal providers will begin by May 1995.

**Budget Proposal Lacks Detail.** The Governor’s Budget assumes that state receipt and distribution of free federal vaccines will result in $30.5 million in General Fund savings in 1995-96. The budget proposes to redirect $20 million of these savings to the same four areas identified in the 1994 Budget Act, but does not indicate whether the amounts will be distributed in the same proportions. At the time this Analysis was prepared, the department had not provided this information.

In order to facilitate legislative oversight of this issue, we withhold recommendation on the proposed $20 million from the General Fund for the Governor’s Immunization Initiative, pending submission of an expenditure plan to the Legislature.
OTHER PUBLIC HEALTH ISSUES

Court Ruling Would Require Changes in Current-And Budget-Year Spending of Proposition 99 Funds

We recommend that the department report during budget hearings on the administration’s plans for addressing the court ruling prohibiting the use of Proposition 99 (Cigarette and Tobacco Tax) funds allocated for specific programs from certain accounts.

Background. Proposition 99 of 1988, the Tobacco and Health Protection Act, established a surtax on cigarette and tobacco products, and allocates proceeds from the surtax to six accounts within the Cigarette and Tobacco Products Surtax Fund (C&T Fund). Figure 20 identifies these accounts, the percentage of total revenues each account is mandated to receive, and the statutory restrictions on the use of revenues.

![Figure 20](image)

### Proposition 99 Programs Distribution of Revenues

<table>
<thead>
<tr>
<th>Account</th>
<th>1995-96 Estimated Revenues</th>
<th>Percent of Total Revenues</th>
<th>Use of Revenue by Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Education</td>
<td>$86.7</td>
<td>20%</td>
<td>Programs for prevention and reduction of tobacco use</td>
</tr>
<tr>
<td>Hospital Services</td>
<td>151.7</td>
<td>35</td>
<td>Payment to public and private hospitals for patients who cannot afford treatment</td>
</tr>
<tr>
<td>Physician Services</td>
<td>43.4</td>
<td>10</td>
<td>Payment to physicians for patients who cannot afford services</td>
</tr>
<tr>
<td>Research</td>
<td>21.7</td>
<td>5</td>
<td>Tobacco-related disease research</td>
</tr>
<tr>
<td>Public Resources</td>
<td>21.7</td>
<td>5</td>
<td>In equal amounts for (1) wildlife habitat programs and (2) recreation resources</td>
</tr>
<tr>
<td>Unallocated</td>
<td>108.4</td>
<td>25</td>
<td>Any of the uses identified above</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$434.4</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Excludes $870,000 allocated to the State Board of Equalization.
Chapter 195, Statutes of 1994 (AB 816, Isenberg) appropriates the C&T Fund monies to specific programs for the current and budget years. The measure also requires the Director of the Department of Finance (DOF) to reduce program funding on a pro rata basis if revenues are insufficient, except for the following “protected” programs: (1) Access for Infants and Mothers (AIM) Program, (2) Major Risk Medical Insurance Program, (3) Medi-Cal Perinatal Program, (4) Child Health and Disability Program (CHDP), and (5) County Medical Services Program. (Prior law appropriating Proposition 99 funds protected all of these programs.)

**Court Ruling Bars C&T Fund Support for Certain Health Programs.** On December 22, 1994, the Sacramento Superior Court, in the case of *American Lung Association v. Belshé*, ruled that use of tobacco tax monies from the Health Education Account (HEA) and the Research Account (RA) to fund various health programs violated the provisions of Proposition 99. The court has barred further spending on these programs from these accounts. Figure 21 lists the programs affected by this decision.

<table>
<thead>
<tr>
<th>Program</th>
<th>Account</th>
<th>1994-95 $</th>
<th>1995-96 $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinic grants</td>
<td>Research</td>
<td>$3.0</td>
<td>$3.0</td>
</tr>
<tr>
<td>Local lead agencies (perinatal services)</td>
<td>Health Education</td>
<td>5.7</td>
<td>5.1</td>
</tr>
<tr>
<td>Children's Medical Services (CMS)</td>
<td>Research</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Genetic Handicapped Persons (GHPP)</td>
<td>Research</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>CHDP health screens¹</td>
<td>Health Education</td>
<td>29.9</td>
<td>31.7</td>
</tr>
<tr>
<td>CHDP health screens¹</td>
<td>Research</td>
<td>3.3</td>
<td>—</td>
</tr>
<tr>
<td>Oversight committee</td>
<td>Health Education</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Oversight committee</td>
<td>Research</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Access for Infants and Mothers (AIM)²</td>
<td>Research</td>
<td>11.0</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td><strong>$65.0</strong></td>
<td><strong>$62.9</strong></td>
</tr>
</tbody>
</table>

¹ Amounts shown are full-year appropriations. Court ruling affects only unspent monies (not known at this time).

² Protected programs.

The final order of the court will be presented in February 1995. At the time this *Analysis* was prepared, it was unknown whether the state would appeal the decision.
Court Decision Could Lead to Reductions in Programs Not Directly Affected. As indicated above, current law protects certain programs from reductions if revenues in the C&T Fund are insufficient. In this event, Chapter 195 requires the Director of Finance to make pro rata reductions to nonprotected programs in order to free-up funds for the protected programs.

Generally, this provision is applied if revenues fall below projections. At this time, however, it is unclear whether the provision would be triggered by the court ruling to suspend specified appropriations from the HEA and RA. If it is, the AIM and CHDP programs would be protected from reductions, presumably by funding them from other C&T Fund accounts by making pro rata reductions to the nonprotected programs.

Because the protected programs could be funded by more than one of the Proposition 99 accounts, it is not known how such pro rata reductions would affect the nonprotected programs. However, to illustrate the potential impact, Figure 22 shows the 1995-96 spending plan for the nonprotected programs in the three accounts that probably would be affected.

Figure 22 shows that the 1995-96 budget proposes to spend $177 million on nonprotected programs from the three accounts listed. Given the recent court decision, spending for these nonprotected programs would have to be reduced by $43 million in the budget year in order to free-up funds to support the protected programs.

Table: 1995-96 Statutory Appropriations of Proposition 99 Fund For Nonprotected Programs

<table>
<thead>
<tr>
<th>Category</th>
<th>Hospital Services Account</th>
<th>Physician Services Account</th>
<th>Unallocated Account</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinic grants</td>
<td>—</td>
<td>$1,904</td>
<td>$8,227</td>
<td>$10,131</td>
</tr>
<tr>
<td>Children’s hospitals</td>
<td>$1,078</td>
<td>—</td>
<td>—</td>
<td>1,078</td>
</tr>
<tr>
<td>CHS managed counties</td>
<td>2,551</td>
<td>—</td>
<td>—</td>
<td>2,551</td>
</tr>
<tr>
<td>Rural health services/ uncompensated care</td>
<td>1,370</td>
<td>658</td>
<td>738</td>
<td>2,766</td>
</tr>
<tr>
<td>California Healthcare for Indigents Program</td>
<td>116,595</td>
<td>12,090</td>
<td>31,797</td>
<td>160,482</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$121,594</strong></td>
<td><strong>$14,652</strong></td>
<td><strong>$40,762</strong></td>
<td><strong>$177,008</strong></td>
</tr>
</tbody>
</table>
**Recommendation.** To facilitate legislative oversight of this issue, we recommend that the department report during budget hearings on the administration’s plans for addressing the court ruling prohibiting the use of Proposition 99 funds allocated for specific programs from certain accounts. Specifically, the department should advise the Legislature whether pro rata reductions are required in situations other than declining revenues (for example, the current court case which has essentially prohibited the use of certain Proposition 99 funds for protected programs). And, if such reductions are required, how will they be made. If pro rata reductions are not required, the department should address (1) the potential impact of the court ruling on the affected programs, (2) whether alternative sources of funding can be identified, and (3) what proposals the administration has to address the loss of funding in these programs.

**Delays Impede Progress on Battered Women Shelter Program**

*We make the following findings regarding the Battered Women Protection Act: (1) implementation delays may cause up to $5 million of the current-year appropriation to be carried over for expenditure in 1995-96, thus increasing funding available in the budget year, and (2) a similar program is administered by the Office of Criminal Justice Planning, suggesting the possibility for program consolidation.*

*Background.* Chapter 140, Statutes of 1994 (AB 167, B. Friedman) established the Battered Women Protection Act, which required the department's Maternal and Child Health (MCH) Branch, in conjunction with an advisory council, to develop a grant program for battered women's shelters. Chapter 140 appropriated $11.5 million from the General Fund to the DHS (and $3.5 million to the Department of Justice) for the program in 1994-95 and indicated the Legislature's intent that the same amount be appropriated in the budget year.

Chapter 599, Statutes of 1994 (AB 801, B. Friedman) provided that half of the 1994-95 appropriation augment the existing 86 state-supported shelters. The remaining $5.7 million (less state operation's expenses) is for a grant program to expand existing services or create new ones. These services include (1) emergency shelter for women and children, (2) transitional housing programs that could offer counseling, classes, job training and placement, (3) legal advocacy and other types of representation, and (4) other support services as identified by the advisory council.

Consistent with the intent of Chapter 140, the budget proposes $11.5 million for the DHS (and $3.5 million to the Department of Justice) for the program in 1995-96. This consists of
$10.9 million for local assistance and $0.6 million for state operations.

**Current-Year Funding May Carry Over To Budget Year.** Of the $11.5 million appropriated for the program in the current year, $5.8 million has been awarded to 86 state-supported shelters and about $5 million has not been allocated for expenditure. The department indicates that the $5 million will be awarded as grants, but also indicates that it may be difficult to encumber all of the monies or complete contract negotiations by May 1, 1995, as required by Chapter 140. The funds will revert to the General Fund if this deadline is not met. If the deadline is met, however, some or all of the $5 million may not be expended in the current year and will carry over into the budget year, thus increasing program funding availability in 1995-96.

**Similar Program In Place Since 1985.** The Office of Criminal Justice Planning (OCJP) has administered a domestic violence assistance program through its Sexual Assault and Domestic Violence Branch since 1985. This branch provides state and federal funds to shelters and programs for victims of family violence. In 1994-95 the OCJP awarded over $5 million to the same 86 shelters that received DHS grants pursuant to Chapter 140. Like the DHS, the OCJP develops a Request for Proposal for grant awards, offers technical assistance, and monitors and evaluates local programs. The OCJP currently administers its sexual assault, child abuse and domestic violence programs with seven staff positions.

The existence of two programs with similar objectives suggests the possibility of effecting administrative savings through consolidation. Given the OCJP’s experience, one option would be to transfer the DHS program into the OCJP. Based on our review of the workload, we believe that the OCJP would need two positions if this option were adopted, rather than the nine positions proposed for the DHS, thereby permitting a redirection of $450,000 to local assistance for the program.

While we believe such a consolidation has merit, we note that the Legislature just recently enacted Chapter 140 which placed this program in the DHS.

**WIC Program**

The Special Supplemental Program for Women, Infants and Children (WIC) offers food supplements and nutrition education to low-income pregnant and postpartum women and their children, aged 0-5 years. The WIC Program is federally funded and administered at the state level by the Department of Health
Services (DHS). The DHS contracts with 40 public and 40 non-profit agencies, which provide WIC services through 550 clinics statewide.

The program’s purpose is to prevent poor birth outcomes and provide preventive care through nutrition services. The WIC providers give monthly food vouchers to participants, who redeem the vouchers through a system of 3,500 approved vendors. Program providers also offer education programs promoting proper diet, breastfeeding, and healthy lifestyles.

**Significant Growth in Recent Years.** The WIC Program has grown significantly in recent years, increasing its caseload from 538,383 participants in 1992-93 to an expected 1,087,624 participants for 1995-96—an 86 percent increase over the three years. In that same period, total expenditures are estimated to increase by 78 percent.

The budget proposes total expenditures of $789 million in 1995-96 ($606 million in federal funds and $184 million in reimbursements from food rebates). This is an increase of 12 percent over estimated current-year expenditures and 48 percent over 1993-94 expenditures.

**Automation Project Has Been Delayed**

*We withhold recommendation on the proposed $9.6 million in federal funds to continue implementation of the Integrated Statewide Information System project for the WIC Program, pending submission and approval of a revised Special Project Report for the project.*

The budget proposes $9.6 million in federal funds, including 26 positions, to continue implementation of the Integrated Statewide Information System (ISIS), an automated system designed to improve program operations, monitoring, and record keeping for local WIC agencies.

Our review of the ISIS indicates that the project has been delayed and therefore will not achieve full implementation by May 1996 as projected in the August 1994 revised Special Project Report (SPR) prepared by the department. For example, the SPR projected that site reviews for all WIC clinics would be completed by February 1995; however, the department now indicates that less than 40 percent of the clinics have been reviewed. In addition, under the SPR plan, 18 of the 80 WIC agencies were to be ready for ISIS implementation by January 1995; currently only seven agencies are equipped with the ISIS, and none have reached roll-out status due to several technical problems. These technical problems, furthermore, have led the WIC Program to revise its site installation process, which the department indicates will now cost more than projected in the SPR.
The State Administrative Manual requires the department to submit a revised SPR if costs, schedule, or benefits deviate or are anticipated to deviate by 10 percent. Our review of the ISIS indicates that its costs and implementation schedule have deviated by over 10 percent. Accordingly, we withhold recommendation on the $9.6 million proposed for the ISIS pending submission and approval of a revised SPR.

WIC Program Needs to Integrate Service Delivery

We recommend that the department submit at budget hearings a plan to encourage and reward local WIC clinics that have integrated, or plan to integrate, service delivery with other health providers.

Chapter 278, Statutes of 1991 (AB 99, Isenberg) formed the “AB 99 Steering Committee,” which produced a report recommending greater integration and coordination of health services. The department subsequently convened the WIC Growth and Integration Task Force (GITF), which produced in 1994 its own report offering 17 “top recommendations” (from a total of 84) regarding WIC’s growth and integration needs. Of these 17 recommendations, five directly addressed the need to integrate WIC clinics with other health service providers to deliver health services.

Although the WIC Program has promoted the concept of co-location with local agencies and indicates that some agencies have done this, the department has not developed an incentive system to encourage agencies to integrate their services with other health providers. For example, the department could earmark part of the local assistance allocation for a grant program that would reward providers that have integrated or assist providers that intend to do so. Accordingly, we recommend that the department submit at budget hearings an incentive plan to encourage and reward local WIC clinics that have integrated, or plan to integrate, with other health service providers through co-location, outstationing, or sub-contracting with these providers.

Proposed Staffing and Training Programs Lack Expenditure Plan

We withhold recommendation on the $4.6 million in federal funds proposal for local WIC staff recruitment and training programs, pending receipt of an expenditure plan and implementation schedule.

The budget proposes $4.6 million in federal funds (including six positions) to initiate a (1) statewide training program, (2) statewide outreach program, (3) dietetic internship program, (4) job recruitment hotline, and (5) student mentoring program.
These funds would be used by the department to meet local staffing and training needs identified in the GITF report.

At the time this analysis was prepared, the department had not provided details on how it would spend these funds. Without this information, the Legislature cannot evaluate whether these expenditures are cost-effective. Accordingly, we withhold recommendation on the $4.6 million and six positions, pending submission of an expenditure plan and implementation schedule for these programs.
MANAGED RISK MEDICAL INSURANCE BOARD (4280)

The Managed Risk Medical Insurance Board (MRMIB) administers (1) the Major Risk Medical Insurance Program (MRMIP), which provides health insurance to California residents unable to obtain it for themselves or their families because of pre-existing medical conditions; (2) the Health Insurance Plan of California (HIPC), which operates a health insurance purchasing pool for small employers; and (3) the Access for Infants and Mothers (AIM) Program, which provides coverage for women seeking pregnancy-related and neonatal medical care.

The budget proposes $195.3 million from all funds for support of MRMIB programs in 1995-96, which is an increase of 61 percent from estimated current-year expenditures. This is due primarily to an increase of $81 million in federal funds and $14 million from the General Fund to expand the AIM Program.

AIM PROGRAM

The AIM Program is a health insurance program under which the state enters into contracts with private insurance plans to provide health services to pregnant women, and their infants to age one who (1) have no health coverage for their pregnancy, and (2) have incomes between 201 and 250 percent of the federal poverty level. (The Medi-Cal Program provides coverage to pregnant women and their infants in families with incomes of up to 200 percent of the federal poverty level.)

Women enrolled in the AIM Program receive health coverage from the time of enrollment until 60 days after birth. Currently, program participants pay a fee of 2 percent of their family income toward the costs of services received by the mother and the infant. In 1994, for example, a single pregnant woman with an annual income of $19,780 (201 percent of the federal poverty level) would pay a fee of $396.

Under current law, the AIM Program is funded through revenues from the Cigarette and Tobacco Products Surtax (C&T) Fund established by Proposition 99.
The AIM Program’s caseload is estimated to be 7,800 cases in the current year. This is projected to increase to 19,000 cases in the budget year due to caseload growth (5,400 cases) and the Governor’s proposal to expand program eligibility (5,800 cases).

**Proposed Expansion Problematic**

We recommend that the administration report at budget hearings regarding the prospects for enactment of a federal law that would provide $81 million in federal reimbursements to fund an expansion of the AIM Program. We also recommend that the administration pursue, as a back-up, the necessary federal waivers to expand the Medi-Cal Program in lieu of AIM, and report at hearings on the potential savings that would result.

Finally, we recommend that the proposed family contribution for the AIM Program be increased to 4 or 5 percent of family income (depending on income level) for a General Fund savings of $5 million. (Reduce Item 4280-101-001 by $5,000,000.)

The budget proposes various changes associated with an expansion of the AIM Program. These changes include:

- A General Fund augmentation of $14.3 million and assumed increases in federal reimbursements of $80.9 million in 1995-96.

- Expanding coverage under the program to include women (and their infants) with family incomes of up to 300 percent of the federal poverty level (or about $28,300 annually for a single mother and $44,400 for a married couple with one child). The administration estimates this expansion will serve an additional 5,800 women annually.

- Increasing the required contribution from 2 percent of a family’s gross monthly income to between 3 and 4 percent, depending on income.

- Discontinuing coverage for the infant’s second year, and instead making the infant eligible for the proposed “REACH” Program through age five. (The REACH Program would provide health services to children through age five in families with incomes of up to 200 percent of the federal poverty level.)

**New Federal Law Required.** In order to expand AIM, the administration indicates it will seek a new federal law to authorize the $81 million in new federal reimbursements assumed in the budget. Although the budget reflects these reimbursements as Medi-Cal expenditures, the administration acknowledges that the funding would need to be distinct
from the existing federal Medicaid Program. This is because the AIM Program, as it is currently structured, does not conform to a number of federal Medicaid requirements. The key elements of the Medi-Cal and AIM Programs are summarized in Figure 23.

### Figure 23

Comparison of AIM (As Proposed) And Medi-Cal Programs

<table>
<thead>
<tr>
<th>AIM</th>
<th>Medi-Cal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coverage</strong></td>
<td></td>
</tr>
<tr>
<td>- Covers pregnant women and infants in families with incomes between 201 and 300 percent of federal poverty level.</td>
<td>- Covers pregnant women and infants in families with incomes up to 200 percent of federal poverty level.</td>
</tr>
<tr>
<td>- Coverage begins within ten days of application.</td>
<td>- Coverage begins when application is approved, or immediately if provider participates in “presumptive eligibility” program.</td>
</tr>
<tr>
<td><strong>Eligibility Process</strong></td>
<td></td>
</tr>
<tr>
<td>- Participants receive application materials at physician’s office or by 1-800 telephone number; return by mail to MRMIB.</td>
<td>- Participants apply at county welfare office, or at physician office if “outstationed” eligibility workers are present.</td>
</tr>
<tr>
<td>- Participants “self-certify” that they are state residents, but do not have to submit documentation.</td>
<td>- Participants must document that they are state residents, for example, with a rent receipt or utility bill.</td>
</tr>
<tr>
<td>- Participants document income by one of several means, including most recent tax return.</td>
<td>- Participants must provide verification of current income, such as a paycheck stub.</td>
</tr>
<tr>
<td><strong>Controls on Enrollment</strong></td>
<td></td>
</tr>
<tr>
<td>- Enrollment is stopped if caseload exceeds funding.</td>
<td>- Federal funds for some beneficiaries would be eliminated if enrollment above specified level were stopped.</td>
</tr>
<tr>
<td><strong>Family Contribution</strong></td>
<td></td>
</tr>
<tr>
<td>- Participants pay 3 to 4 percent of family income.</td>
<td>- No contribution is required.</td>
</tr>
<tr>
<td><strong>Average Cost/Reimbursement Rates</strong></td>
<td></td>
</tr>
<tr>
<td>- Cost per case is about $9,300 (including family contribution).</td>
<td>- Cost per case is about $6,800.</td>
</tr>
<tr>
<td>- Reimbursement rates higher than Medi-Cal.</td>
<td>- Reimbursement rates may not be set arbitrarily.</td>
</tr>
</tbody>
</table>
As the figure indicates, there are a number of differences between the Medi-Cal Program (which must meet requirements in federal law), and the AIM Program. The most significant differences are (1) the eligibility determination process, (2) provider reimbursement rates, and (3) provisions regarding caseload increases.

- **Differences in Eligibility Process.** Under the AIM Program, applicants do not need to visit a county welfare office to apply for services, are not required to document their current family income, and do not need to document that they are California residents. The AIM participants are required to pay a family contribution to offset a portion of the cost of services they receive. Federal Medicaid law does not authorize these more liberal eligibility determination procedures, nor does it allow California to charge a family contribution to offset a portion of the cost of services for this group of participants. Thus, the state would need to receive a waiver of federal law to continue these aspects of the AIM Program and receive Medicaid reimbursement. (Alternatively, the state could modify the AIM Program to conform its eligibility procedures to those for Medi-Cal, and drop the requirement for a family contribution.)

- **Differences in Reimbursement Rates.** Under federal Medicaid law, the state may not pay significantly different reimbursement rates for similar services. However, under the AIM Program, the state pays significantly higher reimbursement rates to service providers than it does for very similar services under Medi-Cal. Thus, if the state were to seek reimbursement under the Medicaid program without conforming AIM reimbursement levels to those paid under Medi-Cal, the federal government would have little basis on which to approve the two rates. Moreover, we note that if the higher reimbursement rates were allowed, the state could be subject to legal challenge from Medi-Cal providers who would continue to receive the lower reimbursement rate. These providers could contend that the two reimbursement rates were set arbitrarily, and that they have as much basis to receive the higher rate as do AIM Program providers.

- **Caseload Increases.** Finally, the AIM Program can cut off enrollment during the fiscal year if actual caseload exceeds the amount funded in the Budget Act. While the Legislature could authorize the Medi-Cal Program to do the same for optional eligibility groups (such as pregnant women at AIM income levels), federal funding would be discontinued for these beneficiaries, including those already enrolled in the program.
As a result of these conflicts with Medicaid law, the administration seeks a new provision of federal law that would provide the state with $81 million in federal reimbursements to expand the AIM Program, and would allow the state to operate a federally funded program that differs from Medi-Cal by doing the following:

- Verify current income and residency only through post-enrollment surveys of a sample of program participants.
- Process applications through the mail.
- Pay higher reimbursement rates to AIM providers.
- Charge a family contribution.
- If necessary, cut off enrollment while continuing to receive federal funds for current enrollees.

We have no basis on which to evaluate the ultimate prospects for federal enactment of these provisions and securing the additional federal funds that would be required to support the AIM expansion. However, we note that, given the timing of the federal budget process, the prospects for a law to be passed by Congress and signed by the President prior to the proposed July 1 implementation date appears remote.

**Suggested Alternative and Recommendation.** In the *Analysis of the 1994-95 Budget Bill*, we recommended that the Legislature eliminate the AIM Program and instead expand the Medi-Cal Program. We believe the necessary modifications to the program would be modest, and are well worth the federal funding that would be received. We also believe federal waivers could be sought to (1) continue the family contribution and (2) effectively cap participation at budgeted levels by authorizing the administration to adjust the income ceiling for the program (annually, or during the course of the fiscal year) in the event that caseload exceeded projections. Because these waivers fit within the parameters of existing law and can be issued administratively, it is more likely that they could be issued at an early date.

The administration indicated it strongly opposes this approach. Accordingly, we recommend that the administration pursue the federal law it has proposed and report to the budget committees this spring regarding the prospects for favorable action by Congress and the federal administration. We also recommend, however, that the administration seek the waivers that would be necessary to implement our suggested alternative as a back-up plan in the event that its preferred course is unsuccessful.
Finally, we recommend that the administration report at budget hearings on the amount of savings that would result from implementation of our suggested alternative. (On a preliminary basis, we estimate that the need for a General Fund augmentation, or the use of C&T Fund Research Account monies would be substantially reduced, or eliminated.)

Other Issues. If the Legislature adopts the administration's proposed expansion of the AIM Program, we note the following additional issues that will need to be addressed:

- **Proposal to Match Proposition 99 Funds Requires Four-Fifths Vote.** The budget proposes $66 million from the C&T Fund as the source for the 50 percent matching funds needed to receive federal reimbursement. Under the provisions of Proposition 99 however, these funds could not be used as a match for federal funds without a four-fifths vote of the Legislature.

- **Court Ruling Jeopardizes $11 Million In Proposition 99 Funds.** In a ruling issued in December 1994, a Superior Court invalidated the use of Research and Health Education Account funds for support of indigent health programs, including the AIM Program. Under the court's decision (in the case of American Lung Association v. Belshé), $57.8 million in C&T Funds appropriated by statute for 1995-96, including $11 million for the AIM Program, may not be spent for the programs as appropriated. Accordingly, presuming that the court's decision is not overturned before 1995-96, the administration will need to identify another funding source (or redirect other Proposition 99 funds) for the AIM Program—irrespective of whether the program is maintained at existing service levels or expanded. (As we discuss in our analysis of Proposition 99, current law may require that Proposition 99 funds be redirected to the AIM Program in response to the court decision.)

- **Family Contribution Should Be Increased.** The budget proposes to increase the family contribution from 2 percent to 3 or 4 percent, depending on family income. In light of the income levels of program participants and the state's fiscal situation, we believe a further increase is warranted. Specifically, we recommend that the required contribution be set at 4 or 5 percent of family income, again depending on the proposed income levels. The AIM Program staff have expressed their concern that a contribution level higher than that proposed by the Governor may deter women from enrolling in the program, or cause them to wait until later in their pregnancy. To address this concern, we note that if the contribution level we recommend is collected over 24 months, rather than the current practice of 19 months, the amount of the monthly fee
would be essentially unchanged despite the increase in the total fee. Figure 24 shows a comparison of the family contributions under current law, as proposed by the administration, and under our recommendation.

**Figure 24**
**Comparison of AIM Family Contribution Rates 1995-96**

<table>
<thead>
<tr>
<th>Family Size / Income Level</th>
<th>Percent of Poverty Level</th>
<th>Current Law Monthly</th>
<th>Total</th>
<th>As Proposeda Monthly</th>
<th>Total</th>
<th>LAO Recommendationb Monthly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single mother/ $19,780</td>
<td>201%</td>
<td>$21</td>
<td>$396</td>
<td>$31</td>
<td>$593</td>
<td>$33</td>
<td>$791</td>
</tr>
<tr>
<td>Two-parent family/ $27,720</td>
<td>225</td>
<td>29</td>
<td>554</td>
<td>44</td>
<td>832</td>
<td>46</td>
<td>1,109</td>
</tr>
<tr>
<td>Two-parent family/ $30,920</td>
<td>251</td>
<td>NA</td>
<td>NA</td>
<td>65</td>
<td>1,237</td>
<td>64</td>
<td>1,546</td>
</tr>
<tr>
<td>Two-parent family with one child/ $44,400</td>
<td>300</td>
<td>NA</td>
<td>NA</td>
<td>93</td>
<td>1,776</td>
<td>93</td>
<td>2,220</td>
</tr>
</tbody>
</table>

*a* Figures reflect the proposed contribution of 3 or 4 percent of family income and the current practice of authorizing payments over 19 months.

*b* Figures reflect a contribution of 4 or 5 percent of family income collected over 24 months.

We estimate that this recommendation, in conjunction with the correction for technical errors in the budgeted reimbursement levels, would increase reimbursements from program participants by about $10 million in 1995-96. Accordingly, we recommend a reduction of $5 million from the General Fund and $5 million in federal funds.
DEPARTMENT OF DEVELOPMENTAL SERVICES (4300)

The Department of Developmental Services (DDS) administers services in the community through regional centers and in state developmental centers for persons with developmental disabilities. A developmental disability is defined as a disability related to certain mental or neurological impairments originating before a person’s eighteenth birthday that is expected to continue indefinitely and that constitutes a substantial handicap. In addition, the department administers a prevention program that serves children under age three with developmental delays or who are at risk of having developmental disabilities.

The budget proposes $1.5 billion from all funds for support of the DDS programs in 1995-96, which is an increase of 6.3 percent over estimated current-year expenditures. The budget proposes $503 million from the General Fund in 1995-96, which is $98 million, or 16 percent, below estimated current-year expenditures from this funding source. This reduction in state costs is primarily due to a $111 million increase in federal reimbursements for the regional centers, thereby reducing General Fund support.

Funds to Continue Medi-Cal Optional Benefits Overbudgeted

We recommend a reduction of $3.3 million from the General Fund to correct a technical error in estimating the cost of the proposed continuation of Medi-Cal optional benefits to regional center clients. (Reduce Item 4300-101-001 by $3,274,000.)

The budget assumes enactment of legislation to eliminate certain Medi-Cal optional benefits, effective October 1, 1995. (Please see our analysis of the Medi-Cal Program.) The budget, however, proposes to continue these services (at 100 percent state costs) for developmentally disabled regional center clients, at a cost of $13.1 million from the General Fund in 1995-96.

While the budget proposes to eliminate optional benefits on October 1, 1995, the DDS budget incorrectly assumes that federal funds would terminate July 1, thereby requiring additional state funds for the full year to continue the benefits for regional center clients. To correct
this technical error, we recommend a General Fund reduction of $3.3 million.

**Budget Does Not Reflect General Fund Savings From Anticipated Federal Funds**

We recommend reducing the Department of Developmental Services (DDS) budget to reflect anticipated savings by claiming for services eligible for federal reimbursement under a recent federal Medicaid waiver amendment, for a net General Fund savings of $6.3 million. (Reduce Item 4300-101-001 by $12,670,840 and increase Item 4260-101-001 by $6,335,420.)

The Medicaid waiver program allows federal financial participation for a broad array of home and community-based services to eligible individuals who, without such services, would be in an intermediate care facility for the mentally retarded (ICF/MR) or a more restricted setting. In a recent waiver amendment, effective October 1, 1993, the federal administration expanded the number and type of participants and services eligible for reimbursement.

The department has initiated the process for submitting claims under the new waiver amendment. The budget reflects the increase in the number and type of program participants eligible for the waiver; however, it does not account for the savings anticipated from claiming for the services authorized under the waiver.

Based on data provided by the department, we estimate that additional expenditures of $12.7 million would be eligible for federal reimbursement, for a net General Fund savings of $6.3 million. Accordingly, we recommend that the budget be revised to reflect those savings.
The Department of Mental Health (DMH) directs and coordinates statewide efforts for the treatment of mental disabilities. The department's primary responsibilities are to (1) administer the Bronzan-McCorquodale and Lanterman-Petris-Short Acts, which provide for the delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled, (2) operate four state hospitals, (3) manage treatment services at Camarillo State Hospital and the California Medical Facility at Vacaville, and (4) administer seven community programs directed at specific populations.

The state hospitals provide inpatient treatment services for mentally disabled county clients, judicially committed clients, and mentally disordered offenders and mentally disabled clients transferred from the Departments of Corrections and the Youth Authority.

The budget proposes $956 million from all funds for support of DMH programs in 1995-96, which is an increase of 6 percent over estimated current-year expenditures. The budget proposes $413 million from the General Fund in 1995-96, an increase of $97 million, or 31 percent, above estimated current-year expenditures from this funding source. The increase is primarily due to a shift of $114 million from the Department of Health Services to the DMH for county administration of Medi-Cal funded mental health inpatient services through managed care.

**School-Based Prevention Program**

**Augmentation Should Be Redirected**

We recommend deleting the proposed General Fund augmentation of $2 million (Proposition 98) in the Early Mental Health Initiative (EMHI) Program in order to redirect the funds to meet stated legislative priorities to (1) begin repaying the Proposition 98 loans and (2) provide a full cost-of-living adjustment to most K-12 programs. (Reduce Item 4440-102-001 by $2,000,000.)

The EMHI Program awards three-year grants to local education agencies for projects that provide school-based early mental health intervention and prevention services for K-3 pupils. The program is supported by a $10 million "base" amount and a $1.5 million one-time augmentation from the General Fund (Proposition 98 funds) in the current year. The
budget proposes a $2 million increase in support for the program from Proposition 98 funds in 1995-96.

In the K-12 education section of this Analysis, we recommend an alternative budget plan for Proposition 98 funds that meets legislative priorities as stated in prior years' trailer bills to (1) begin repaying the Proposition 98 loans made in 1992-93 and 1993-94 and (2) provide a full cost-of-living adjustment to most K-12 programs.

With respect to the DMH budget, the $10 million “base” funding is sufficient to support continuing projects into their second and third year and to enable the department to award over $3 million in new projects in the budget year—more than twice the amount of funding awarded to new projects in the current year. Although the EMHI proposal has merit, we believe that other legislative funding commitments should take priority over most specific program augmentations. Therefore, we recommend deletion of the proposed $2 million (Proposition 98) augmentation for expansion of the EMHI Program.

Legislative Oversight: Budget Proposes to Modify The Sex Offender Treatment and Evaluation Project

The Governor proposes the termination of the inpatient treatment component of the Sex Offender Treatment and Evaluation Project (SOTEK). We note that continuation of the treatment portion is not necessary to complete the project evaluation.

The budget proposes to eliminate the inpatient treatment component of the Sex Offender Treatment and Evaluation Project, for a General Fund savings of $1.9 million in 1995-96. The budget proposes to continue $618,000 ($386,000 General Fund) for one year of outpatient treatment services for newly paroled project participants and for project evaluation in 1995-96.

**Background.** Section 1365 of the Penal Code required the DMH to establish a project “according to a valid experimental design in order that the most effective, newest, and promising methods of treatment of sex offenders may be rigorously tested.” The treatment program began in 1985. Selected inmates enter the intensive treatment program during their last two years of incarceration, cannot be released prior to their determinate sentence date, and are required to attend outpatient treatment for one year as a condition of parole. The goals of this project are to reduce recidivism among sex offenders who are released to the community and to provide statistically valid results for determining future policy regarding this problem. In order to measure treatment effectiveness, evaluators follow the progress of released offenders in the community for at least five years. Recent legislation, Ch 1190/94 (SB 728, Presley), extended the
sunset date for SOTEP to January 1, 1998.

**Preliminary Results Are Mixed.** Early findings released by the evaluators in 1993 indicated a lower recidivism rate for treated offenders. However, more recent data show a comparable recidivism rate among treated and untreated offenders. Conclusive results on treatment effectiveness will not be available until completion of the study in about five years; however, the department expects to release an interim report in the summer of 1995.
EMPLOYMENT DEVELOPMENT DEPARTMENT (5100)

The Employment Development Department (EDD) is responsible for administering the Employment Service (ES), the Unemployment Insurance (UI), and the Disability Insurance (DI) Programs. The ES Program (1) refers qualified applicants to potential employers; (2) places job-ready applicants in jobs; and (3) helps youth, welfare recipients, and economically disadvantaged persons find jobs or prepare themselves for employment by participating in employment and training programs.

In addition, the department collects taxes and pays benefits under the UI and DI Programs. The department collects from employers (1) their UI contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The budget proposes expenditures totaling $6.8 billion from various funds for support of the EDD in 1995-96. This is an increase of $9.4 million, or less than 1 percent, over estimated current-year expenditures. Of the total amount proposed, $5.3 billion is for UI and DI benefits, and $1.5 billion is for various other programs and administration. The budget proposes $24.2 million from the General Fund in 1995-96, which is $239,000, or 1 percent, above estimated current-year expenditures from this funding source. This increase is due to the full-year cost of the 3 percent general salary increase effective January 1, 1995.

Budget Should Reflect Additional Revenue

We recommend that the budget reflect an additional $2.1 million ($1.5 million General Fund) in revenues from the estimated impact of the proposed expansion of the department’s tax compliance consulting project. (Increase General Fund revenues by $1,488,000.)

The department’s tax compliance consulting project has been operational in Ventura County since November 1993. In this program, the department identifies employers that have a high risk of noncompliance with tax reporting requirements and schedules them for a consultation. The department indicates that this project has the effect of increasing the level of tax compliance. Although the consultations do not result in assessments for back taxes or audit leads (except in cases of fraud), employ-
ers are encouraged to come into compliance voluntarily. Most businesses respond by either paying tax liabilities or changing their operations to come into compliance.

**Project Expansion.** The budget proposes to expand the project by redirecting administrative savings (39.2 personnel-years) anticipated from the implementation of Ch 1049/94 (AB 3086, Frazee). This act simplifies employer tax reporting responsibilities by substituting an annual tax reconciliation report for employers for the current quarterly report. (Employers still make quarterly payments.) Eliminating the quarterly reports will result in savings to both employers and the department.

**Revenues From Project Expansion.** Our analysis indicates that the Governor’s Budget does not reflect the additional revenue that will be generated by the proposed redirection of the Chapter 1049 savings to the tax compliance consulting project. The department estimates that expansion of the project by 39.2 personnel-years will result in approximately $2.1 million in additional revenue ($1,488,000 General Fund and the remainder to various special funds). Accordingly, we recommend that the budget reflect the additional $2.1 million ($1,488,000 General Fund) in revenues anticipated from the expansion of the department’s tax compliance consulting project.
The Department of Rehabilitation (DR) assists disabled persons to achieve social and economic independence by providing vocational rehabilitation and habilitation services and support for community based rehabilitation facilities. Vocational rehabilitation services seek to place disabled individuals in suitable employment, while habilitation services help those individuals who are unable to benefit from vocational rehabilitation function at their highest levels. The DR provides assistance to rehabilitation facilities, such as independent living centers, rehabilitation workshops, halfway houses, and alcoholic recovery homes.

The budget proposes $344 million from all funds for support of DR programs in 1995-96, which is an increase of 1.9 percent over estimated current-year expenditures. The budget proposes $109 million from the General Fund in 1995-96, which is $2 million, or 1.6 percent, above estimated current-year expenditures from this funding source.

Caseload Projections Do Not Reflect Trends

We recommend a net reduction of $4.3 million from the General Fund for the Work Activity Program (WAP) and the Vocational Rehabilitation/WAP so that caseload funding will better reflect recent trends. (Reduce Item 5160-101-001 by $7,071,300, increase Item 5160-001-001 by $2,738,098, and increase Item 5160-001-890 by $10,116,791.)

The budget proposes expenditures of $117 million in total funds ($80 million General Fund) in 1995-96 to support vocational rehabilitation and habilitation programs for clients with developmental disabilities. This is an increase of $3.2 million from the General Fund, or 4 percent, to add 347 clients to the caseload.

Our analysis of the department’s caseload projections indicates that the projections for the Work Activity Program (Base WAP) and the Vocational Rehabilitation/Work Activity Program (VR/WAP) do not adequately account for recent caseload trends. This is shown in Figure 25.
**Base WAP Projection Too High.** The budget proposal projects a Base WAP caseload of 9,170 clients in 1995-96. Based on our analysis of the most recent six months of caseload data available (May 1994 through October 1994), the actual caseload is decreasing by an average of 1 percent monthly. Given an actual caseload of 8,880 clients in October 1994, we estimate that the caseload will decrease to 7,715 clients in 1995-96, which is 1,455 consumers below the DR’s projection. This caseload adjustment would result in a General Fund savings of $7.1 million in 1995-96.

**VR/WAP Projection Too Low.** The budget proposal projects a VR/WAP caseload of 2,700 clients in 1995-96. Based on the recent trend, the actual caseload is increasing by an average of 3.9 percent monthly. Given an actual caseload of 2,903 clients in October 1994, we estimate that the caseload will increase to 4,960 clients in 1995-96, which is 2,260 clients above the DR’s projection. This caseload adjustment results in an increase of $12.9 million ($2.7 million General Fund) in 1995-96.

**Conclusion.** We recommend adjusting caseload-related funding based on recent trends, for a net reduction of $4.3 million from the General Fund.

**Legislative Oversight: Department Should Report On Federal Process for Program Eligibility**

We recommend that the department report at budget hearings on the status of its efforts to comply with the federally mandated “order of selection” process to determine client eligibility for services.
The department serves disabled individuals who apply for services and are found to be eligible. The federal Rehabilitation Act of 1973, as amended in 1992, requires that if the DR cannot provide services to all eligible individuals who apply, an “order of selection” process must be established to assign priority to the “most severely disabled,” as defined by the department. The DR anticipates the need to move to an order of selection process by the end of the current year.

The department has developed and field tested an assessment instrument to determine an individual's level of severity of disability. This instrument considers the impact of a disability on an individual's functional capacities, the number of vocational services the individual needs, and the length of time needed to deliver vocational services. All eligibility counselors are being trained in the use of this instrument, in anticipation of the move to an order of selection process.

The order of selection process could have a significant impact on who receives services, particularly during periods of limited resources. Consequently, we recommend that the department report at budget hearings on (1) the criteria developed to determine the level of severity of a disability, (2) the results of the field tests conducted in 1994 to measure the impact of order of selection on client eligibility, (3) state regulations to be amended, and (4) the timeline for state implementation.

**Legislative Oversight: Department Should Report On Fees for Vocational Rehabilitation Services**

*We recommend that the department report at budget hearings on the feasibility and impact of expanding the use of fees for vocational rehabilitation services.*

Federal law permits the state to apply a means test and charge fees for most vocational rehabilitation services (except for assessment, counseling, guidance, and work-related placement services.) The department currently applies a means test and charges fees in three service areas: physical restoration (which includes corrective surgeries, prosthetic devices, and eyeglasses), living allowance for additional costs incurred while participating in rehabilitation, and vehicle purchases.

In order to examine alternatives for reducing state costs, we recommend that the department report at budget hearings on the feasibility, desirability, and fiscal effects of expanding the use of fees for vocational rehabilitation services, taking into account the client’s ability to pay. Fees, for example, could be implemented for college tuition, supported employment services, and transportation.
AID TO FAMILIES WITH DEPENDENT CHILDREN (5180)

The Aid to Families with Dependent Children (AFDC) Program provides cash grants to families and children whose incomes are not adequate to meet their basic needs. Families are eligible for the AFDC-Family Group (AFDC-FG) Program if they have a child who is financially needy due to the death, incapacity, or continued absence of one or both parents. Families are eligible for grants under the AFDC-Unemployed Parent (AFDC-U) Program if they have a child who is financially needy due to the unemployment of one or both parents. Children are eligible for grants under the AFDC-Foster Care (AFDC-FC) Program if they are living with a foster care provider under a court order or a voluntary agreement between the child’s parent and a county welfare or probation department.

The budget proposes expenditures of $6.4 billion ($1.4 billion General Fund, $1.8 billion county funds, and $3.2 billion federal funds) for the AFDC Program in 1995-96. This is a decrease of 10 percent (57 percent General Fund) below estimated expenditures for the current year. This decrease is due to proposed grant reductions and to the Governor’s state and county realignment proposal.

CURRENT-YEAR UPDATE OF AFDC PROGRAM

Statutory Changes in 1994-95

**Maximum Aid Payments (MAPs) Reduced by 2.3 Percent.** The 1994-95 budget trailer bill legislation—Chapter 148, Statutes of 1994 (AB 836, Goldsmith)—reduced AFDC grants by 2.3 percent, effective September 1, 1994. The 1994 Budget Act assumed that the 2.3 percent reduction would generate a nine-month General Fund savings of $56.3 million in 1994-95.

In August 1994, a state superior court ruled (in *Welch v. Anderson*) that the 2.3 percent grant reduction could not be implemented because it was based on a federal waiver that was invalidated by a previous court decision. The Department of Social Services (DSS) has submitted a revised waiver request, and the budget assumes that the 2.3 percent reduction
will be implemented in March 1995. The revised waiver proposes to exempt certain cases (in which children reside with a non-needy caretaker or parents receiving SSI/SSP) from the grant reductions. The budget reflects a General Fund savings of $17.2 million in 1994-95 and $52.8 million in 1995-96 from the 2.3 percent reduction.

**Pregnancy Benefits Reduced by One-Third.** Current law provides for a monthly special needs payment to all pregnant women who are receiving AFDC. The purpose of this payment is to ensure that these women have adequate resources to support their nutritional and other health needs arising from the pregnancy. Chapter 148 reduced from $70 to $47 the monthly special needs payment, for a General Fund savings of $2.6 million in 1994-95 and $3.3 million in 1995-96.

**Work Requirement.** Chapter 148 requires adult recipients who have been on AFDC for two years from the date of their GAIN assessment to participate in a work preparation assignment, if made available by the county, unless the recipient is already working at least 15 hours per week. (The Greater Avenues for Independence (GAIN) Program assessment is designed to identify the appropriate mix of services to meet the participant’s employment plan.) Recipients affected by the work requirement include those adults required to enroll in GAIN who have had an opportunity to complete training and education. Participants who refused a work preparation assignment would be subject to the current GAIN sanction (a reduction in the family’s grant). Implementation of this requirement is subject to approval of a pending federal waiver request.

The budget does not reflect any fiscal effect from this proposal on the assumption that counties will not create additional work slots in 1995-96.

**Expansion of Transitional Benefits.** Chapter 148 expanded eligibility for transitional child care and health benefits to include families who are no longer eligible for AFDC due to marriage. The budget assumes any AFDC grant savings would be completely offset by child care costs. Implementation of this change is subject to approval of a pending federal waiver request.

**Sponsored Aliens.** The 1994-95 budget also assumes enactment of federal legislation to prohibit sponsored aliens from receiving Medi-Cal or AFDC benefits for five years. Federal legislation has not been enacted, but the 1995-96 budget assumes enactment of such legislation by October 1995, resulting in General Fund savings of $27 million in the AFDC Program.
**Maximum Family Grant.** Additional 1994-95 budget legislation—Chapter 196, Statutes of 1994 (AB 473, Brulte)—enacted the Maximum Family Grant Program. This program prohibits increases in any family's AFDC grant due to children conceived while on aid, except in cases of rape, incest, or failure of certain contraceptives, unless there has been a break in aid of at least 24 consecutive months. The department anticipates that implementation of this policy will begin in March 1995, pending approval of a federal waiver request. The budget assumes that this provision will result in General Fund savings of $8.6 million in 1995-96.

**GOVERNOR’S 1995-96 WELFARE PROPOSALS**

**Governor Proposes State/County Realignment**

*The budget assumes AFDC grant savings from improved county administration of the program. This creates a potential General Fund and county funds shortfall of $128 million if efficiencies do not materialize.*

**County Share of AFDC Program Costs To Increase.** The Governor's Budget contains a major proposal for realigning the relationship between the state and county governments in the funding and administration of social services programs. The proposal increases county shares of cost in the social services programs and balances most of these increased costs with resources transferred to the counties from various funding sources. Specifically, the proposal would increase the counties' share of the nonfederal cost of AFDC (FG&U) grant payments from 5 percent to 50 percent and increase the counties' share of nonfederal AFDC-Foster Care payments from 60 percent to 100 percent.

We discuss the proposal in detail in our companion volume, *The 1995-96 Budget: Perspectives and Issues.* In this report, we agree that counties should assume full programmatic and financial responsibility for the Foster Care Program; but we do not recommend adoption of the proposal to increase the county share of cost for the AFDC (FG&U) Program.

**Assuming Improved County Administration Creates Budgetary Risk.** The budget assumes $122 in General Fund AFDC grant savings and $6 million in grant savings to counties from improved program efficiency and reduced fraud resulting from the realignment of the nonfederal grant sharing ratio. In addition, the budget proposes a General Fund augmentation of $20 million for county administration “seed” money for program enhancements.
The administration indicates that the savings would result because of (1) projects implemented with the “seed” money and (2) the additional incentives counties would have to reduce grant costs because the realignment proposal increases the counties’ share of these costs.

We agree that the “seed” money and additional “incentives” could have some effect in inducing counties to take administrative actions that would reduce grant costs; but in our judgement, the ability of counties to achieve significant grant reductions by operating more efficiently is rather limited. Thus, we believe that the budget proposal represents a budgetary risk that could result in a combined state/county shortfall of $128 million. Because the budget proposes to increase the county share of the nonfederal AFDC grant costs from 5 to 50 percent, the realignment proposal would increase the counties’ share of this risk from $6 million to $64 million if the savings do not materialize.

**Budget Proposes AFDC Aid Payment Reductions**

_The Governor proposes legislation to make several changes that would reduce grants in the AFDC Program, for a net General Fund savings of $254 million in 1995-96. Most of these savings would result from a 7.7 percent grant reduction and an additional 15 percent reduction after six months on aid. We review the Governor’s proposals and comment on them._

The Governor’s Budget proposes several major changes that would reduce grants in the AFDC Program. As Figure 26 shows, these changes would result in an estimated net General Fund savings of $254 million in 1995-96.

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Grants</th>
<th>Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.7 percent MAP reduction</td>
<td>-$167</td>
<td>—</td>
</tr>
<tr>
<td>15 percent additional MAP reduction</td>
<td>-100</td>
<td>$13</td>
</tr>
<tr>
<td>Teen Pregnancy Disincentive</td>
<td>-2</td>
<td>2</td>
</tr>
<tr>
<td>Two-year time limit</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>-$269</strong></td>
<td><strong>$15</strong></td>
</tr>
</tbody>
</table>

*a Savings begin in 1997-98.*
The budget contains four separate proposals that would have the effect of reducing AFDC grants below the levels required by current law for non-exempt cases. (As noted above, exempt cases are those in which children reside with a non-needy caretaker or parents receiving SSI/SSP.) These proposals are (1) a 7.7 percent reduction in the MAP for AFDC recipients, effective September 1, 1995, (2) an additional 15 percent MAP reduction for able-bodied AFDC recipients who have been on aid for more than six months, (3) a requirement that parents under age 18 who receive AFDC live in the home of their parent, legal guardian, or adult relative, and (4) a two-year limit on AFDC eligibility for able-bodied adults.

**Budget Proposes to Reduce MAPs by 7.7 Percent.** The budget proposes legislation to reduce the MAPs by 7.7 percent for non-exempt AFDC recipients, for a savings of $348 million ($167 million General Fund) in 1995-96. This reduction would require a federal waiver because it would reduce the maximum grant level below the federally required maintenance of effort level. The reduction would be effective September 1, 1995.

Assuming the current-year 2.3 percent reduction in the MAP is in effect, the additional 7.7 percent MAP reduction would reduce monthly grants by $47 for a family of three. These grant reductions would be partially offset by an increase in food stamps of $14. Because the Governor’s proposals affect only the maximum aid payment, recipients who have grants below the maximum—due to employment earnings, for example—would experience no grant reduction or only a partial reduction.

**Proposal to Reduce MAP by 15 Percent After Six Months.** The budget proposes legislation to reduce the MAP by an additional 15 percent for AFDC recipients (with some exceptions) after they have been on aid for six months, for a net savings of $172 million ($87 million General Fund) in 1995-96. This would require a federal waiver due to the federal maintenance of effort requirement.

The additional 15 percent reduction would occur after a family (1) has been on assistance for more than 6 months or (2) went off aid after 6 months and returned to the program within 24 months. This reduction would not occur if all parents or caretaker relatives in the home are age 60 or over, disabled (receiving SSI/SSP or In-Home Supportive Services), pregnant, the caretaker is a non-needy relative, or all parents in the family (assistance unit) are under age 19 and attending high school or other equivalent schooling.

**Teen Pregnancy Disincentive.** The budget anticipates enactment of state legislation to require parents under age 18 who receive AFDC to live in the home of their parent, legal guardian, or adult relative. The proposal
includes exceptions under which the teen could maintain a separate residence, including when the physical or emotional health or safety of the teen and/or her children would be jeopardized by residing with the teen’s parents. The budget assumes that savings associated with this proposal would be offset by administrative costs and the cost of investigations by social workers assessing the safety of the teen’s living arrangement. This program requirement is optional under the federal Family Support Act of 1988 and would not require any federal approval other than acceptance of an amended state plan.

**Proposal to Limit Eligibility to Two Years.** The budget proposes legislation to limit AFDC eligibility of able-bodied adults to two years, effective July 1, 1997. This would require a federal waiver. The proposal would also give priority for GAIN services to individuals affected by the time limit.

Under the proposal, able-bodied adults on aid for more than two years would be excluded from the family unit for purposes of calculating the AFDC grant. Their children would continue to be eligible to receive aid, and the adults would still be eligible for Medi-Cal and food stamps. Participants in the GAIN Program subject to the two-year limit would also have their grants reduced but would be able to complete the program. The DSS indicates that adults affected by the time limit could return to AFDC after 24 months. The department estimates that 424,000 able-bodied adult AFDC recipients will be subject to the two-year limit upon implementation of the proposal. We estimate that this proposal would result in annual General Fund savings of about $290 million in AFDC grants, beginning in 1997-98.

Figure 27 summarizes the effect of the Governor’s proposals on monthly grants for a family of three persons in the AFDC-Family Group Program. As the figure shows, the impact of the two-year limit would be mitigated by provisions of current law that restore 1992-93 grant reductions and resume cost-of-living adjustments for grants, effective July 1, 1996. Assuming current law requirements, the net effect of the Governor’s proposals in 1997-98 on a three-person family subject to the two-year limit would be a reduction of $177, or 30 percent, from current-law monthly grant levels. This reduction would be partially offset by an increase of $53 in food stamps.
Figure 27
AFDC Maximum Grant and Food Stamps
Family of Three
Current Law and Governor’s Proposals

<table>
<thead>
<tr>
<th></th>
<th>Maximum Grant</th>
<th>Food Stamps</th>
<th>Total</th>
<th>Change From Current Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current law</td>
<td>$594</td>
<td>$235</td>
<td>$829</td>
<td>—</td>
</tr>
<tr>
<td>7.7 percent reduction</td>
<td>547</td>
<td>249</td>
<td>796</td>
<td>-$33</td>
</tr>
<tr>
<td>15 percent/six months</td>
<td>465</td>
<td>274</td>
<td>739</td>
<td>-90</td>
</tr>
<tr>
<td>1997-98 Changes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current law b</td>
<td>517</td>
<td>258</td>
<td>775</td>
<td>-54</td>
</tr>
<tr>
<td>Two-year time limit c</td>
<td>417</td>
<td>288</td>
<td>705</td>
<td>-124</td>
</tr>
</tbody>
</table>

a Assumes an AFDC-Family Group case.
b Current law provides for restoration of 1992-93 AFDC grant reductions and resumption of annual cost-of-living-adjustments (COLAs) effective July 1, 1996. Figure assumes an estimated 1.92 percent COLA effective July 1, 1996, and 2.87 percent COLA effective July 1, 1997. (These grant levels assume the 7.7 percent and 15 percent reductions have been implemented.)
c Assumes current law restoration of grants, as indicated in preceding note. Without these restorations, the two-year reduction would bring the monthly grant to $375.

Evaluating the Proposals to Reduce AFDC Grants

The Governor’s proposed grant reductions will result in significant savings and increase the financial incentives for recipients to work. We conclude that while some families will be able to compensate for the grant reductions through work, others will find this difficult due to low levels of education and employment experience, as well as a potential lack of job opportunities.

In presenting his proposals, the Governor has offered several reasons why these changes are needed, including (1) the need to promote personal responsibility, (2) the need to reinforce the premise that AFDC is a temporary program, and (3) the need to make work an attractive alternative to AFDC. These are reasonable premises; but in evaluating the proposals, the Legislature needs to weigh the identified budgetary savings to government against its policy objectives for the AFDC Program and the potential impact of the proposed changes on needy families.

Fiscal Impact on Government. The budget estimates that the proposed reforms will result in significant savings to the federal, state, and county levels of government. Net General Fund savings are estimated to be
$254 million in 1995-96. These savings would increase in subsequent years due to the two-year limit. The savings would be offset, by an unknown amount, to the extent that the reductions in the MAPs lead to a reduction in family incomes, which, in turn, leads to an increase in the use of other public services such as health and foster care.

**Impact on Families.** The grant reductions proposed by the Governor would reduce the resources available to many families. As discussed, Figure 2 shows how the proposals could affect a family of three—the most common family size. We note that under current law, the combined maximum monthly grant and food stamps benefit ($829) is equal to about 81 percent of the poverty guideline. Those families subject to both the 7.7 percent and additional 15 percent reductions would have their resources reduced to $721, or about 70 percent of the guideline if they do not have other income. Those families subject to the two-year limit would have their resources reduced to $705 if they do not have other income.

**Increasing the Percentage of Recipients Who Work.** The impact of the Governor’s proposals will depend largely on the degree to which they increase the percentage of recipients who are employed, thereby avoiding the financial loss that would result from the grant reductions. An evaluation of the work incentives from prior years’ grant reductions and other policy changes is currently underway. However, as we note later in our analysis of County Administration, it appears that many of the recipients are either unaware or do not understand the current work incentives. In that discussion we provide the Legislature with several options to increase recipients’ knowledge of the work incentives that exist in current law.

**Increasing the Work Incentive.** In the 1991-92 *Budget Perspectives and Issues*, we concluded that the AFDC Program, as structured at the time, offered relatively little financial incentive to work. There were two main sources of the work disincentives: (1) the grant levels when combined with food stamps often were higher than what could be earned by recipients through low-wage employment and (2) program rules allowed working recipients to retain, at best, only a small part of each increment of income. In addition, recipients who worked were likely to weigh the possible loss of Medi-Cal benefits (after a transition period) if they lost AFDC eligibility. Since then, the combination of grant reductions (14 percent since 1990-91), rule changes, and an increase in the federal earned income tax credit have, to some extent, mitigated these problems; and the additional grant reductions proposed by the Governor could further increase the financial incentive to work.
It is impossible to predict with accuracy, however, the degree to which these proposals will induce more AFDC recipients to work. Those nonworking recipients who do not compensate for the MAP reductions through an increase in earnings will suffer a reduction in their standard of living, which will be significant recognizing that these families’ incomes are currently below the federal poverty guidelines. It is therefore important, in assessing the impact of the budget proposal, to consider the extent to which AFDC recipients can obtain employment given their education levels and employment experience.

**Are AFDC Recipients Work-Ready?** In spite of the increased work incentives provided under the Governor’s proposals, AFDC recipients are likely to face several obstacles to employment, including lack of training, low education levels and work experience.

Lack of employment-related skills, including low educational attainment, is often cited as a major impediment to AFDC recipients returning to the labor force. Some studies show that low educational attainment is associated with a higher probability of staying longer on assistance.

The GAIN Program is California’s primary employment training program for AFDC recipients. It is a more complex program and is more expensive per participant than most previous programs. The program, however, is not funded at a level sufficient to accommodate all “mandatory” and voluntary participants.

An independent evaluation of the GAIN Program found it to be the most successful welfare to work program ever studied, both from the standpoint of increasing earnings for long-term AFDC recipients as well as from a cost-benefit perspective. However, the evaluation found that even in the most successful county, 47 percent of the AFDC-FG GAIN participants were still on aid after two years and 37 percent had not been employed at any time during the first two years of the evaluation. (We discuss the GAIN Program and the evaluation later in this Analysis.)

Finally, we note that the economy plays an important role in the ability of AFDC recipients to obtain jobs. The significant loss of jobs and sluggish turnaround in job growth from the recent recession suggests that AFDC recipients may find it difficult to obtain employment if the economy’s recovery is not sustained.

In summary, the relatively low level of education and employment experience of the typical AFDC parent, combined with limited job opportunities, suggests that it may not be possible for most nonworking
adult AFDC recipients to fully compensate for the proposed MAP reductions by obtaining a job in the private sector.

**Comments on Time-Limited Aid Proposal**

The Governor’s proposed two-year time limit on AFDC would not eliminate a family’s eligibility for aid but, in conjunction with his other proposed changes, would reduce grants substantially for those affected.

The Governor’s proposal for two-year time-limited aid is essentially an extension of his proposal to reduce grants by 7.7 percent and 15 percent. In other words, the grant would be reduced, not eliminated altogether because only that part of the grant associated with the adult would be eliminated. The reduction would be partially offset by an increase in food stamps. In combination with the other proposed grant reductions, it would result in a substantial loss of income to recipients, unless offset by employment earnings. Because of this, the proposal would tend to increase the financial incentive for recipients to work.

Underlying the concept of time-limited aid proposals is the premise that, after a certain period of time, able-bodied AFDC adults should be able to find employment and earn enough to offset any grant reduction that would be imposed or, ideally, to become self-sufficient. In this respect, it is reasonable to ensure that if such a proposal were to be implemented, recipients are given the opportunity to participate in, and complete, the GAIN Program, as the Governor proposes. This still leaves several questions unanswered, however:

- **Will sufficient funding be made available for the GAIN Program?** The DSS estimates that the amount proposed for the program in 1995-96, if continued at that level in 1996-97, will be sufficient to accommodate all those who subsequently would be affected by the two-year limit and who desire GAIN services. The estimate, however, rests on assumptions that are uncertain because the percentage of recipients who will choose to take a grant reduction rather than enter the GAIN program is unknown.

- **Will employment be available for those who seek it?** This depends, in part, on the state of the economy. The Governor’s proposal does not make provision for alternatives—such as placement in community service jobs—for those unable to find employment through normal channels. Although the work requirement in current law assumes that counties will provide for long-term work slots in the GAIN program, it is not clear how many additional slots, if any, will actually be made available. In this respect, we
note that the President’s welfare reform proposal—which includes a two-year time limit on AFDC eligibility—would fund mandatory community service jobs for those unable to find employment through other means after two years on aid.

At the time this analysis was prepared, Congress was conducting hearings on the Personal Responsibility Act (H.R. 4), which would, at the state’s option, provide welfare program block grants to the states, or maintain the existing AFDC Program with modifications. The modifications include (1) allowing states to limit eligibility to two years as long as the parent spends one of the years in a work program, and (2) placing a lifetime limit of five years on AFDC eligibility.

- **What will be the impact on families who do not compensate for grant reductions with additional income from other sources?** The department, for example, estimates that 22,000 persons subject to the two-year limit will refuse GAIN services, based on the number who currently choose to take the existing sanctions (grant reductions) because of refusal to participate. In addition, the recent GAIN evaluation indicates that, in all the counties combined, 50 percent of the single parents who participated in the program did not obtain employment within two years.

### Budget Proposes to Limit Homeless Assistance Benefits

*The budget proposes legislation that would (1) limit eligibility for Homeless Assistance (HA) benefits to once in a lifetime and (2) require all benefits to be paid as a voucher, for a net General Fund savings of $10.1 million.*

The budget assumes a General Fund savings of $13.5 million in the AFDC Program in 1995-96 from limiting eligibility for the Homeless Assistance Program. This amount would be offset by increased costs of $3.4 million from the General Fund in the Child Welfare Services Program to investigate the family’s homelessness and ongoing case management.

Current law provides that AFDC Program recipients and eligible applicants can receive emergency HA shelter benefits for up to three days, during which time the family’s homelessness is verified by the county. (The three day limit can be extended up to a total of 16 days). After verification, regular HA benefits are provided. Eligibility for HA
is limited to once every two years. Temporary shelter payments currently average $329 and permanent housing assistance averages $682 in addition to the regular AFDC grant and food stamp allotment.

The budget proposal is based on the contention that many recipients are abusing HA benefits. The department indicates that approximately 35 percent of the recipients are found to be repeat clients who reapply shortly after the expiration of the two-year limit.

Comments on the Remedy for Abuse. The department’s data do not permit distinctions between repeat applicants who are abusing the system and those who are not. We note, however, that providing vouchers instead of a lump-sum cash benefit may reduce the incidence of abuse (to the extent that it exists) while still providing recipients with the means to obtain housing. Consequently, we believe that the concept of vouchers has merit.

Budget Funds Full-Year Costs of the Cal Learn Program

The Cal Learn Program, designed for AFDC parents under age 19 who have not completed high school, provides intensive case management, support services such as child care and transportation, and fiscal incentives to stay in school. If these parents remain in school and maintain satisfactory progress, they receive a $100 bonus per report card period, and a $500 bonus upon graduation. However, participants not making satisfactory progress are subject to a sanction of $100 per report card period.

The budget proposes expenditures of $90 million ($45.5 million General Fund) for the program in 1995-96. This is an increase of $39.7 million ($20 million General Fund), or 78 percent above estimated current-year expenditures. The current-year expenditures reflect start-up costs and partial implementation of the program; therefore, a large part of the budget-year increase reflects the full-year effect of the program.

AFDC CASELOADS

AFDC-FG Caseload Projection is Overstated

We recommend (1) reducing the General Fund amount proposed for AFDC grants by $13 million, and (2) reducing the proposed transfer of sales tax revenues to the counties for realigning AFDC by $11.7 million, for a net state savings of $24.7 million, because the AFDC-FG caseload is overstated. (Reduce Item 5180-101-001 by $13,014,000 and reduce realignment sales tax transfer by $11.7 million.)
The proposed expenditures for AFDC grants in 1995-96 are based on actual caseloads and costs through June 1994, updated to reflect the department's projections of caseload and the Governor's proposed policy changes. Based on more recent information, our analysis indicates that the department's caseload projections for the current year are overstated by about 1.2 percent. Adjusting for the effect on the 1995-96 projections, we estimate that the proposed General Fund expenditures are overstated by $24.7 million. Because of the interaction with the realignment proposal the resulting state savings would be two-fold: decreased General Fund costs from the lower caseload projection and a reduction in the transfer of sales tax revenues to the counties. Accordingly, we recommend that (1) $13 million from the General Fund be deleted from the budget, and (2) the sales tax revenues transferred to the counties under realignment be reduced by $11.7 million.

**CHILD SUPPORT ENFORCEMENT PROGRAM**

**Automation Project Will Miss Federal Deadline For Enhanced Funding**

We recommend that the department report during budget hearings on the anticipated delay in the implementation of the Statewide Automated Child Support System (SACSS) and how the loss of enhanced federal matching funds will impact the General Fund in 1995-96.

**Background.** The SACSS is a federal and state mandated automated system to provide a comprehensive, integrated, child support enforcement tracking and monitoring system statewide. The SACSS will interface with a Los Angeles County automated system being implemented according to a federally approved plan. The ten-year project cost is estimated to be $152 million. Under current law, the system must be implemented and certified as meeting all the federal requirements by September 30, 1995. Enhanced federal funding for SACSS development is available at 90 percent until September 30, 1995, after which the project will be funded at the regular sharing ratio of 66 percent federal and 34 percent state-county.

**Project Delayed.** The department indicates that the SACSS is experiencing delays in implementation and therefore will not meet the September 30, 1995 implementation date to qualify for enhanced federal funds. At the time this analysis was prepared, a revised timetable for implementation and an estimate of the resulting loss of enhanced federal funding was unavailable because the department was in the process of reviewing additional options to minimize the impact on General Fund costs in 1995-96. Accordingly, we recommend that the department report during budget hearings on the anticipated delay in the implementation of the
SACSS and how the loss of enhanced federal matching funds will affect General Fund costs in 1995-96.

**GAIN Program**

The Greater Avenues for Independence (GAIN) Program provides basic education and job search and training for adults on AFDC. The budget proposes expenditures in 1995-96 of $260 million, including $76.6 million from the General Fund and $20 million from the Employment Training Fund. This is a decrease of $6.5 million, or 2 percent, below estimated expenditures for the current-year. The decrease reflects an adjustment for the loss of enhanced federal funding.

**Carry-Over Funds Could Result in Program Expansion**

We recommend that the department report at budget hearings on the criteria it will use to allocate carry-over funds that could provide up to $40 million for GAIN Program expansion.

The Budget Bill includes language that would authorize the Department of Finance to augment the GAIN Program from unexpended GAIN funds from prior year budgets, subject to approval of county plans by the DSS. The department indicates that at least $20 million in prior year unexpended General Fund balances would be available in 1995-96. If expended, these funds would be matched by $20 million in federal funds. Thus, up to $40 million could be available for program expansion in 1995-96.

The budget indicates that various recommendations made by the Governor's GAIN Advisory Council, such as early participation in job club and job search activities, will be the basis for approving county plans to receive these additional funds. However, at the time this analysis was prepared, the department had not completed the specific criteria to evaluate the plans. Accordingly, in order to facilitate legislative oversight, we recommend that the department report during budget hearings on the criteria that will be used to allocate these funds.

**State Should Be Receiving More Federal Matching Funds for GAIN**

We recommend that the department report during the budget hearings on the potential for securing additional federal matching funds for the GAIN Program by reporting state funds currently spent for services to AFDC recipients in adult education programs and the community col-
The community colleges and adult education programs provide educational and training services to GAIN participants, and AFDC recipients who are eligible for GAIN but not enrolled in the program because of limited county resources or because they are currently deferred from the program (for example, a mother with a child under age three).

The state currently claims federal matching funds for some of these services. Our analysis indicates, however, that the state could claim additional federal matching funds for these educational and training services provided to GAIN and GAIN-eligible AFDC recipients. Any additional claims would have to satisfy federal maintenance of effort provisions that prohibit the use of these federal funds from supplanting state funds allocated for these purposes. The department indicates that it will attempt to estimate the amount of the state spending that would be eligible for matching federal funds. Accordingly, we recommend that the department report during budget hearings on the extent to which additional federal funds could be obtained.

State-Only Child Care Allocation Not Needed

We recommend eliminating funding for the state-only component of child care for GAIN and Cal Learn Program participants because (1) the federally-supported child care allocation should be sufficient, and (2) this would allocate child care benefits to all AFDC recipients on the same basis, for a General Fund savings of $5.9 million. (Reduce Item 5180-151-001 by $5,899,000.)

In the AFDC Program, funds are provided to working recipients to cover their child care costs up to the 75th percentile of the regional costs for such care. The federal government provides matching funds on a 50 percent basis. In the GAIN and Cal Learn programs, however, the state supplements these allowances by reimbursing costs up to approximately the 93rd percentile.

The DSS and the counties indicate that most GAIN and Cal Learn participants find child care within the 75th percentile. Those participants who obtain such care at a higher cost are reimbursed by the state-only program at a proposed cost of $5.9 million from the General Fund in 1995-96.

While in some of these cases, it may be difficult for the participants to secure child care within the 75th percentile of the regional market, we believe that, given limited state resources, it is reasonable to expect participants who use relatively high-cost care to pay for the extra costs. As indicated previously, we note that the existing system gives preferential
treatment to GAIN and Cal Learn participants. Accordingly, we recom-
 mend deletion of funding for the state-only program for a General Fund
 savings of $5.9 million.

**GAIN Evaluation Shows Positive Results**

A recent evaluation found that an employment-oriented approach
adopted by Riverside County was the most effective of the six counties
studied.

In September 1994, the Manpower Demonstration Research Corpora-
tion (MDRC) submitted its final report on a three-year evaluation of the
GAIN Program. The evaluation is based on a six-county study. It found
that on average for the six counties the program increased employment
earnings and reduced AFDC grant payments; however, the program’s
costs exceeded its savings for the government (federal, state, and county
combined).

**AFDC-FG Participants.** Figure 28 shows the impacts on earnings and
reduced grants for AFDC-FG participants. On average across all six coun-
ties, AFDC-FG participants in the GAIN Program had three-year earnings
that were 22 percent ($1,414) higher than the average earnings in the
control group. Over the same period, AFDC-FG grant payments per
program participant were 6 percent ($961) lower than in the control
group. Riverside County experienced the largest impact among the
AFDC-FG participants with 49 percent ($3,113) higher average earnings
and 15 percent ($1,983) lower grant payments than in the control group.
This finding is notable because it provides evidence of the importance of
using an employment-focused approach (up-front job search and job
development activities), as adopted by Riverside.

**AFDC-U Participants.** Figure 29 shows the impacts on earnings and
reduced grants for AFDC-U participants. The earnings for AFDC-U par-
ticipants were 12 percent ($1,111) higher than in the control group. Grant
payments per AFDC-U program participant were 6 percent ($1,168) lower
than in the control group. Again, Riverside County had greater success
on balance than the other counties. (Results for AFDC-U participants in
Alameda County are not included in the evaluation because of a small
sample size.)
Figure 28
GAIN Three-Year Impact
AFDC-FG
(In Thousands)

Figure 29
GAIN Three-Year Impact
AFDC-U
(In Thousands)
Cost-Effectiveness. Figure 30 shows the cost-effectiveness of the program for the six counties combined and individually for each county. The figure shows that overall for every dollar spent on the program, the government saved less than a dollar (as measured by lower AFDC grant payments and increased tax revenues). However, the program generated net benefits to the government in some counties, with Riverside County experiencing the highest returns ($2.84) for every dollar spent for AFDC-FG participants. The higher net benefits, particularly in Riverside, can be attributed to relatively higher earnings and higher AFDC grant savings combined with lower costs per program participant than in the other counties.

Cost-Effectiveness Varies by Level of Government. Subsequent to submission of the report, we requested that the evaluator provide a breakdown of the cost-effectiveness results by level of government. Figure 31 provides this information for AFDC-FG participants, using current program sharing ratios. While the federal government receives a net return ($1.17) for each government dollar spent, the net return to state and county government is less than one dollar. In Riverside County, the net returns to the federal government ($3.31) and the state government ($2.79) exceeded one dollar; but, each dollar spent from county funds generated a net return of less than one dollar.
This finding is significant in that counties are responsible for determining how much of the appropriated state and federal funds they will match with county funds. In fact, counties have not matched all of the available state and federal funds in the program. This suggests that consideration should be given to changing the fiscal structure of the program.

As indicated, even in Riverside the GAIN Program is not cost-effective from the individual perspective of the county. We estimate, however, that the net return in Riverside County is $2.32 for every combined state/county dollar spent on GAIN Program services. Therefore, if the state were to share some of its savings with the county, both levels of government could realize net returns greater than one dollar expended.

In this respect, we note that the DSS has recently initiated a statewide demonstration project testing the ability of counties to increase program performance. Under the demonstration project, counties that (1) operate the GAIN Program cost-effectively or (2) improve program performance, as measured by increased AFDC grant savings, receive a fiscal incentive equivalent to 50 percent of the state savings resulting directly from the county’s improved performance. In these counties, the net return on county funds expended would increase.
We also note that the Governor’s proposed realignment of the nonfederal AFDC grant costs would significantly increase the net return to the counties from the GAIN Program (and decrease the net return to the state). This would occur because the counties would assume a higher share of the grant costs.

**AFDC—Foster Care**

State Regulations Discourage Adoption Of Certain Foster Care Children

We recommend that the Legislature direct the Department of Social Services (DSS) to revise foster care regulations to allow continuation of AFDC-FC payments for foster children who are awaiting adoption by their relative foster parents.

Once a relative foster parent initiates adoption procedures, the parental rights of the natural parent are terminated. When this occurs, the foster parent is no longer considered a “relative” and is therefore subject to state regulations for nonrelative foster parents. This means the home must be licensed for continuation of AFDC-FC payments. In these cases, if the home does not meet licensing standards, counties must either terminate the grant, continue payments with county funds, or remove the children and place them in nonrelative licensed homes until the adoption is finalized. (During the adoption process, the home of the relative foster parent is reviewed by the adoption agency.)

These regulations have several negative consequences: they may be (1) administratively cumbersome to the county and disruptive to the foster child (temporary removal from the home), (2) costly to the county (continuation of the grant), or (3) a hardship to the foster parent (loss of the grant until adoption assistance payments begin). Because of these effects, moreover, the regulations could have the effect of discouraging relative foster parents from adopting.

These adverse effects stem more from the technical definition of a “relative” than from a policy directive. Consequently, in order to allow for eligible children placed with relative foster parents to continue receiving AFDC-FC payments while awaiting adoption, we recommend that the Legislature direct the DSS to revise foster care regulations to
allow for continuation of payments. We estimate that our recommendation would result in minor costs, but would allow the receipt of federal matching funds.

**Rate Setting System for Foster Family Agencies Should Be Revised**

*We recommend that (1) legislation be enacted to expand the Intensive Treatment Foster Care pilot program statewide, and (2) the department report during budget hearings on an estimate of savings that would result from program expansion. We further recommend adoption of supplemental report language requiring the department to convene a working group to develop and recommend a new or revised rate setting system for foster family agencies.*

**Background.** Foster family agencies (FFAs) recruit and certify foster homes and provide training and support services to the foster parents. Their objectives are to provide (1) placement settings for children who have special needs and require a higher level of care than provided in a foster family home and (2) less costly alternative placements to group homes. As of June 1994, there were approximately 173 licensed FFAs with 6,000 certified homes.

**Pilot Program Tests Different FFA Rate System.** Chapter 1250, Statutes of 1990 (SB 2234, Presley) established the Intensive Treatment Foster Care pilot program in Alameda and Yolo Counties. The program allows children residing in high level-of-care group homes to be placed in FFAs. These FFAs provide intensive support services to the child and foster family. The rates for these FFAs are higher than standard FFA rates and range from about $2,000 to $4,000, based on the level of services provided to the child. If the service level needed by the child changes, the rates are adjusted accordingly. The placements result in savings since the higher rates paid to these FFAs are still less costly than the alternative group homes placements. The pilot program is scheduled to sunset on January 1, 1999.

Our review of the pilot programs indicates that the FFAs have been able to provide a stable, alternative placement to group homes. According to preliminary evaluation findings, most of the children in the program have been able to remain in a family home setting, rather than a group home.

We believe that more children in group home care could be placed in more family-like settings by expanding the Intensive Treatment Foster Care pilot program. Therefore, we recommend that the program be expanded statewide, with county participation voluntary. We further recommend that the depart-
ment report during budget hearings on an estimate of savings that would result, based on a survey to determine which counties would participate in 1995-96. We note, however, that the pilot program approach, while it is estimated to result in net savings, has relatively high administrative costs because rates are determined on a case by case basis. As discussed below, we believe that other approaches should be explored to develop a more cost effective rate structure.

**Limited Availability of Placement Options.** Counties are responsible for the placement of foster care children. The availability of appropriate placement options, however, varies in each county, often resulting in the inefficient use of resources. In some cases, for example, a county may have to decide between placing a child in a group home or an FFA, when neither placement offers the appropriate level of services for the child. In other cases, a county that cannot find an available foster family home may decide to place a child in an FFA that has an available home, even though FFA services are not needed.

**Rate Setting System Does Not Support Role of FFAs.** Current state regulations require that a foster care child be placed in the least restrictive, most family-like setting. The FFA rate structure, however, does not adequately facilitate this objective. While group home rates range from $1,183 to $5,013 a month, depending on the level of care provided, the FFA rates generally range from $1,283 to $1,515 a month, depending on the age of the child. Therefore, it is difficult for FFAs to meet the needs of children who require the level of services provided in the medium and high cost group homes.

**Rate Setting System Could Be Improved.** The current FFA rate setting structure could be revised to offer a greater range of placement options for foster children. For example, if FFAs were paid higher rates, they could serve some children who are currently residing in more costly group home placements. In order to provide for a greater range of service levels and foster care placement options through FFAs, we recommend the adoption of the following supplemental report language (in Item 5180-001-001) requiring the department to convene a working group to develop a new or revised rate setting structure for FFAs:

The department shall convene a working group to review and recommend to the Legislature a new or revised rate setting system for foster family agencies, and report its recommendations to the Legislature by March 1, 1996. The working group shall include representatives from the department, counties, providers, consumers, and the Legislature.
State Family Preservation Program

The state Family Preservation Program was established by Ch 105/88 (AB 558, Hannigan) as a pilot program to provide intensive short-term family maintenance and family reunification services designed to avoid out-of-home placement of children or reduce the length of stay of such placements. Services include counseling, substance abuse treatment, respite care, parent training, crisis intervention, and teaching and demonstrating homemaking. In fact, the services provided through the Family Preservation Program are essentially the same as services provided under the family maintenance and family reunification components of the CWS Program.

Under the Family Preservation Program, counties are authorized to “draw down” a portion of the state share of the projected foster care costs in order to fund family preservation services. If counties are successful at reducing their actual foster care costs, they receive a share of the General Fund savings; if not, they pay for the excess costs. As discussed below, these provisions would be inoperable under the Governor’s restructuring proposal.

The amount advanced for family preservation services is budgeted as a separate expenditure in the Foster Care Program. Savings due to family preservation services will be reflected in the foster care caseloads, to the extent these services prevent foster care cases.

Two Alternatives for Achieving Savings
In the Family Preservation Program

We recommend that if the Governor’s realignment proposal is adopted, funding proposed for expansion of the state Family Preservation Program be eliminated because the realignment proposal makes the program, as authorized by current law, inoperable. This would result in state savings of $9 million in 1995-96. (Reduce amount of sales tax transfer to counties by $9,024,000.)

We recommend that if the Governor’s realignment proposal is not adopted, the budget be reduced by $2.3 million from the General Fund for the Foster Care Program to reflect anticipated savings due to the proposed expansion of the state Family Preservation Program. (Reduce Item 5180-101-001 by $2.3 million.)

If the Foster Care Program Is Realigned, the State Family Preservation Program Should Not Be Funded. Under the Governor’s state/county realignment proposal, counties would assume 100 percent of the nonfederal share of costs of the Foster Care Program, including $39 million for the state’s Family Preservation Program. Of this amount, $9 million represents additional funding
over the current year for expansion of the program in Los Angeles County. The statutory provisions governing the Family Preservation Program, however, would not be applicable under the realignment plan because costs and savings in foster care would accrue entirely to the counties, making the “draw down” and the rewards/penalties concepts inoperable. In other words, if the state has no share of foster care costs, it is impossible for counties to “draw down” part of the state share or to be rewarded with part of the state savings.

As part of realignment, each county would have the opportunity to invest any amount of the nonfederal share of foster care dollars into family preservation activities. If the Family Preservation Program is as effective as has been argued, counties should be willing to invest in this in order to achieve potentially substantial savings in the Foster Care Program. In order to provide for continuation of family preservation activities in the counties currently receiving funds under the program, we recommend that $30 million of the $39 million proposed for the state Family Preservation Program be appropriated in 1995-96 as part of the realignment transfer of funds. Because the draw-down feature of the program would be moot under realignment, we recommend elimination of the $9 million proposed for expansion of the state Family Preservation Program. This would result in a reduction of $9 million in sales tax revenue to be transferred to the counties for the Foster Care Program under the realignment proposal.

*If the Foster Care Program Is Not Realigned, Budget Should Reflect Savings From Expansion of State Family Preservation Program.* As noted above, the budget includes an additional $9 million from the General Fund for the expansion of the state Family Preservation Program in Los Angeles County. The budget, however, does not assume any foster care savings that would result from preventing children from entering into foster care placements or returning children in foster care placements to their families. Based on data from Los Angeles County’s experience with the existing Family Preservation Program, we estimate General Fund savings of approximately $2.3 million in the Foster Care Program in 1995-96. Accordingly, we recommend that the budget be reduced to reflect those savings, in the event that the Foster Care Program is not realigned.
SUPPLEMENTAL SECURITY INCOME/
STATE SUPPLEMENTARY PROGRAM

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The budget proposes an appropriation of $1.6 billion from the General Fund for the state's share of the SSI/SSP in 1995-96. This is a decrease of $420 million, or 20 percent, from estimated current-year expenditures. This decrease is due primarily to the Governor's proposal to reduce the SSI/SSP grant levels for most recipients. The proposal requires both federal and state legislative approval.

In January 1995, there were 330,318 aged, 22,257 blind, and 658,261 disabled SSI/SSP recipients.

Assumed Federal Law Changes Create a General Fund Risk

The budget assumes that legislation will be enacted by Congress to (1) allow California to reduce SSI/SSP grants below federally mandated levels, (2) exclude drug addiction and alcoholism as qualifying disabilities, and (3) eliminate the requirement for California to pay a fee for SSP administration, creating a potential General Fund shortfall of $530 million in 1995-96 if federal action does not occur.

Background. Federal law allows states the discretion to set the level of the SSP grant (the state-funded component of SSI/SSP) as long as the payment remains at or above the federally-mandated maintenance-of-effort (MOE) level. The MOE level is the SSP grant level in effect July 1983. The federal Social Security Administration (SSA) administers both the SSI and SSP components of the program, computes the grants, and disburses the combined monthly payments to recipients.

Budget Assumes Reductions in SSP Payment Standards Below Federally Mandated Levels. The budget proposes a reduction in the combined SSI/SSP grant of 8 percent for individuals and 10 percent for couples, exempting those in Non-Medical Out of Home Care living arrangements. (Because the federally funded SSI portion of the grant would not be affected, the SSP portion of the grant would be reduced by 31 percent for individuals and 27 percent for couples.) The proposal would result in a General Fund savings of $433.6 million in 1995-96. This amount would be partially offset by $4.8 million from the General Fund in the Medi-Cal
Program to continue no-cost coverage for those persons whose SSP grant is eliminated by the proposed reductions and who therefore would otherwise be ineligible for Medi-Cal.

As Figure 32 shows, the budget proposal would reduce monthly grants for aged and disabled individuals (the largest category or recipients) by $49 and by $110 for aged or disabled couples. The reductions proposed in the budget would drop the monthly SSP payment levels below the July 1983 MOE requirements. Accordingly, this proposal requires a change in federal law.

**Figure 32**

**SSI/SSP Monthly Payment Standards**

**Current Law and Governor’s Proposal**

<table>
<thead>
<tr>
<th>Recipient Category</th>
<th>1995-96</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current Law</td>
</tr>
<tr>
<td><strong>Aged or Disabled</strong></td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
<td>$614</td>
</tr>
<tr>
<td>Couples</td>
<td>1,102</td>
</tr>
<tr>
<td><strong>Blind</strong></td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
<td>669</td>
</tr>
<tr>
<td>Couples</td>
<td>1,258</td>
</tr>
</tbody>
</table>

* Effective July 1995.

**Budget Assumes Elimination of Substance Abuse as Qualifying Disability.** Existing SSI/SSP disability criteria provide for disability payments to individuals on the grounds of drug addiction or alcoholism (DA/A). In January 1995, there were roughly 30,000 DA/A recipients of SSI/SSP in California. The number of persons considered disabled due to drug addiction and alcoholism and eligible for SSI/SSP has increased significantly in the last four years. This is consistent with the national trend. Since 1988, California’s share of the nationwide caseload in this category has remained about the same (see Figure 33). Congress imposed new requirements and time limits on DA/A recipients in 1994. The Social Security Independence and Improvements Act of 1994 restricts the length of eligibility for DA/A recipients to 36 months, suspends benefits for non compliance with treatment requirements, and requires the SSA to monitor and test individuals.
The budget assumes that legislation will be enacted by Congress to eliminate DA/A as an allowable disability in the SSI/SSP Program. The department assumes 40 percent of the cases affected would qualify for the program under other disability criteria, while the remainder would be ineligible. This proposal would result in General Fund savings of $24.8 million in SSI/SSP grants and $26.5 million in the Medi-Cal Program in 1995-96.

*Budget Assumes Termination of Federal Fees.* Under the federal Omnibus Budget Reconciliation Act (OBRA) of 1993, the federal SSA charges states a fee for administering SSP benefits. The budget assumes that legislation will be enacted by Congress to eliminate the fee for California for a General Fund savings of $50 million in 1995-96. This is identical to last year’s proposal in the Governor’s Budget.

The budget assumes that the three proposals above will be effective beginning October 1, 1995, pursuant to changes to federal law. (There are no provisions for administrative waivers.) Thus, adoption of these proposals entails the risk of a $530 million General Fund shortfall if legislation is not enacted and approved by the President.
Additional Comments on the Governor’s Proposals

The Governor’s proposed SSI/SSP grant reductions would reduce the grants for individuals to 92 percent of the federal poverty level. The grants for couples, on the other hand, would be 21 percent above the poverty level after the proposed reduction. We discuss some policy issues in order to assist the Legislature in its consideration of these proposals.

State Comparisons. As Figure 34 shows, in January 1994, California’s SSI/SSP grant levels were 13 percent greater for aged or disabled individuals and 44 percent higher for aged or disabled couples than those in New York, the state with the second highest grants. Of the ten largest states, California, New York, Pennsylvania, Michigan, and New Jersey provide a state supplemental payment. (Under the Governor’s proposal, the grant levels proposed for 1995-96 would continue to be higher than the 1994 grant levels in the other large states.)

Individuals’ Versus Couples’ Payment Standards. The Governor’s Budget indicates that the grant for couples is reduced by a larger percentage in order to achieve a more reasonable relationship between the two groups. As Figure 34 shows, California has the largest difference between the individual and couples in SSI/SSP grants. California is the only state
where the SSI/SSP grant for couples exceeds 1.5 times the grant for individuals. The Governor’s proposal would reduce the ratio from 1.79 to 1.75.

**Relationship to Poverty Level.** As Figure 35 shows, the SSI/SSP grant for an aged or disabled individual was above the federal poverty level until 1994, when the monthly SSI/SSP grant for an individual was 98 percent of the poverty level. Figure 36 (see next page) shows that the grant for aged or disabled couples has exceeded the poverty level by a greater amount.

![Figure 35](image)

**Elimination of the DA/A Disability.** According to data from the Department of Alcohol and Drug Programs (DADP), approximately half of those persons who receive substance abuse treatment either successfully completed treatment or made satisfactory progress. Specifically, in 1993-94 (1) approximately 25 percent successfully completed treatment; (2) 17 percent left treatment early and, in the opinion of program counselors, made satisfactory progress; (3) 47 percent left treatment early and made unsatisfactory progress; and (4) 11 percent were transferred to other programs.
The proposal could result in shifting costs to other state and local funded programs to the extent that individuals are unable to compensate for the effects of the loss of benefits. These programs include AFDC, General Assistance, Homeless Assistance, Child Welfare Services, Medical and indigent health, and the criminal justice system.

We also note that this SSI/SSP proposal differs from the Governor’s two-year time limit proposed in the AFDC Program—in which priority for the GAIN Program is given to AFDC recipients who would experience a grant reduction. The SSI/SSP proposal does not give priority for treatment to substance abuse recipients who would no longer be eligible for benefits but may seek treatment to overcome their addictions.

**Conclusion.** The SSI/SSP grant reductions would, if authorized by Congress and adopted by the Legislature, result in a loss of income to recipients. Other than the federal poverty level, which serves only as a general guideline, there is little empirical data to determine what constitutes an “adequate” amount of support. In evaluating these proposals, the Legislature will need to consider them in the context of competing needs for the limited resources available to the state.
COUNTY ADMINISTRATION OF
WELFARE PROGRAMS

The budget appropriates funds for the state and federal share of the costs incurred by counties for administering the following programs: (1) Aid to Families with Dependent Children (AFDC); (2) Food Stamps; (3) Child Support Enforcement; (4) Special Adults, including emergency assistance for aged, blind, and disabled persons; (5) Refugee Cash Assistance; and (6) Adoption Assistance.

The budget proposes an appropriation of $490 million from the General Fund for the state’s share of the costs that counties will incur in administering welfare programs in 1995-96. This represents an increase of $44 million, or 10 percent, over estimated current-year expenditures. The increase is due to increased caseload, an augmentation for AFDC administration improvements, the costs of implementing proposed welfare reform provisions, and increased costs for various automation projects.

Counties Should Inform AFDC Recipients
Of Work Incentive Provisions

We recommend that the Department of Social Services comment at budget hearings on the alternatives we have presented to increase AFDC recipients’ knowledge of the work incentives in current law.

As part of the last three Budget Acts, the state enacted various welfare reform measures designed to provide incentives for recipients to enter or return to the workforce and become self-sufficient. The work incentives include (1) enabling welfare recipients to work and receive more cash benefits, (2) providing supplemental child care, and (3) providing transitional health and welfare benefits to those leaving AFDC because of increased earnings or marriage.

An AFDC recipient’s primary contact with the welfare system is through the county eligibility worker. Currently, the primary role of the eligibility worker is to determine initial program eligibility, review monthly income reports, verify continuing eligibility during an annual redetermination, and determine the amount of the grant.
Media Campaign Used to Deliver “Work Pays” Message. In late 1993, the department conducted a media campaign targeted to eligibility workers, welfare recipients, and the public using a “Work Pays” theme. This effort included meetings with editorial boards, a letter to all eligibility workers, brochures, posters, and public service radio and TV announcements, all designed to provide information about the recent work incentive changes in welfare policy. In early 1994, the department surveyed welfare recipients to assess the effectiveness of the Work Pays campaign. The survey found 52 percent of the respondents did not know about the new welfare rules. In addition, 48 percent of the respondents claimed not to have received the brochure that was provided by the department to the county welfare departments for distribution in the monthly mailing of AFDC checks.

Knowledge of Work Incentives and Transitional Benefits. Additional research and data collected by an independent evaluator suggests that many clients are not receiving information about the work incentives and transitional benefits available under current law. For example, eligibility workers and supervisors alike said that the worker’s job description does not include anything other than qualifying clients for income assistance. In addition, a survey of AFDC recipients in the four welfare reform demonstration counties where the effects of the work incentives are being tested found that many AFDC recipients did not understand the work incentives (see Figure 37). The data also show that there is no significant difference in knowledge of the new rules between the experimental group recipients (those subject to the new rules) and the comparison group (subject to the old rules).

If work incentives and policy changes are going to have their intended effects, applicants and recipients must be made aware of these provisions and how they operate. The evidence suggests that “notices of action” mailers, brochures, and media campaigns may not be sufficient. Below we present several options that, while resulting in additional costs in the short run, should enhance the dissemination of information on the work incentives and transitional benefits, potentially resulting in significant long-term savings:

- Require clients to participate in a mandatory “You Can Work on Welfare” presentation during the intake and redetermination process. The presentation could be held in a separate area of the welfare office by specialized staff or viewed independently on video. The subject matter should include information on work incentives, child care options available to clients, and transitional benefits.
• Develop specialized staff, such as a GAIN employment counselor, to provide work-related counseling and information to all AFDC clients by phone (toll-free number) or appointment.

• Modify messages about reporting income in the “rights and responsibilities” portion of the application process to include positive information about work in addition to the consequences of failure to report earnings.

• Require county welfare departments to disseminate state-developed brochures to clients instead of allowing distribution to be at the counties’ option.

We present these options for consideration by the Legislature during the budget hearings. To facilitate these deliberations, we also recommend that the department be prepared to comment on the alternatives during the hearings.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answered “Don’t Know”</th>
</tr>
</thead>
<tbody>
<tr>
<td>What happens to your grant if you work next month?</td>
<td>33.2%</td>
</tr>
<tr>
<td>What happens to your grant if you work the next six months?</td>
<td>42.7</td>
</tr>
<tr>
<td>What happens to your grant if you earn $500 in a single month?</td>
<td>24.5</td>
</tr>
<tr>
<td>What happens to your grant if you earn $500 every month for six months?</td>
<td>33.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question</th>
<th>Answered “Yes”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the AFDC Program limit the number of hours you can work?</td>
<td>67.1%</td>
</tr>
</tbody>
</table>

*a Random sample of AFDC cases in Alameda, Los Angeles, San Bernardino, and San Joaquin Counties. Sample size: 2,214 cases.

Budget Exceeds Projected Spending Based on Recent Trends

We recommend that the amount proposed as an “offset to savings” in county administration be deleted, for a General Fund savings of $14.3 million, because this amount is in excess of projected county spending in 1995-96, based on past trends adjusted for caseload growth, inflation, and policy changes. (Reduce Item 5180-141-001 by $14,295,000.)
The current methodology used to budget for county administration is based on the amount counties actually spend in the past year, adjusting this amount for caseload changes and inflation. This amount is also adjusted for program and policy changes. Because of recent economic conditions, the counties have not matched all the state and federal monies available in recent years. In effect, this inability to match is reflected in actual expenditures, and therefore in the basis used to project budget-year spending.

The budget reflects county administrative savings in 1995-96 from various fraud activities, legislation barring sponsored aliens from AFDC eligibility, and the consolidation of eligibility determination in the AFDC and Food Stamp Programs. The budget, however, proposes “offsetting” these savings with $14.3 million from the General Fund to allow the counties to redirect the savings to other unidentified activities. The department’s rationale for these funds is that the trend used to project 1995-96 requirements understates the amount counties would spend because, in recent years, the counties cut back on spending due to their limited resources.

By adding $14.3 million from the General Fund to the baseline projection, the budget is assuming that counties will be willing to increase their match beyond the level reflected in recent years. We find no basis for this assumption. If anything, county fiscal resources are coming under more pressure, not less. Moreover, the department has not justified the request on the basis of programmatic needs.

Accordingly, we recommend that the amount proposed as an “offset to savings” in county administration be deleted, for a General Fund savings of $14.3 million in 1995-96. Counties would still have sufficient funds to cover the baseline projected expenditures, adjusted for caseload growth and inflation.

Report on the Cost-Effectiveness of AFDC Fraud Programs Due in March 1995

We recommend that the department be prepared to discuss, during budget hearings, the findings of a cost-effectiveness study of the AFDC fraud programs.

The Budget Act of 1994 included language requiring the Bureau of State Audits to contract with an independent consultant to evaluate the cost-effectiveness of the major components of the AFDC fraud detection and prevention programs. The study will be based on a sample of small, medium, and large counties, in addition to any available statewide data. The evaluator’s report is due to be submitted on March 15, 1995.
quently, we recommend that the department be prepared to discuss the findings during the budget hearings.

**SAWS Budget Proposal Incomplete**

We withhold recommendation on $47.6 million ($23.9 million General Fund) proposed for the Statewide Automated Welfare System (SAWS) and the Interim SAWS (ISAWS) project in 1995-96 because (1) the proposal is incomplete and inconsistent with other assumptions in the budget, (2) the department has not provided supporting documentation for part of the proposed expenditures, (3) the department has encountered difficulty in maintaining the existing system, and (4) the Bureau of State Audits will be reporting to the Legislature in April on the findings of an independent evaluation of SAWS. We recommend that the Department of Social Services (DSS), at budget hearings, address the issues raised in this Analysis and address the findings of the independent evaluation.

**Background.** The SAWS is a major project of the DSS to establish a statewide computer-based system for administering various health and welfare programs. The project is estimated to eventually cost over $800 million over a 12-year period. It is the largest and most costly computer-based system ever undertaken by the state. The DSS has proposed to base the SAWS on an automated welfare system developed in Napa County, called NAPAS. Los Angeles County, however, is authorized to implement its own automated welfare system, called LEADER.

**Interim SAWS.** In early 1994, the department began implementation of an interim system (ISAWS) in 14 small to medium-sized counties that have approximately 10 percent of the state’s welfare caseload. The 14 counties are Butte, Colusa, Glenn, Kern, Kings, Lassen, Madera, Marin, Mendocino, Plumas, San Joaquin, Shasta, Tehama and Yuba. The ISAWS project was originally estimated to cost $78 million over 58 months and generate $68 million in benefits resulting from reduced error rates and maintenance and administrative savings, thus resulting in a net cost of $10 million.
Costs Increase by $31 Million. In January 1995, the Department of Finance approved the latest set of changes to ISAWS proposed by DSS in a Special Project Report (SPR). According to the SPR, the costs will increase by $31 million (40 percent) resulting in a revised cost of $109 million, and the net project costs will grow by $21 million, from $10 million to $31 million. Some increase in the ISAWS project cost is attributable to a net reallocation of certain components from “SAWS” costs to “ISAWS” costs. However, our analysis indicates that the primary reason for the increase in the projected ISAWS costs are various errors in planning for the 14-county implementation of the project. Based on the increased costs to ISAWS, we estimate that the 12-year costs of SAWS, as currently proposed, will exceed $1 billion. Based on our review, we have identified the following problems with the projected ISAWS costs.

Problems With Initial SPR. We’ve identified two major issues with the department’s initial SPR.

- **Outdated Information Used to Make Budget Requests.** The 14-county caseload estimate has been increased by 45 percent from 207,000 to 300,000. (This adjustment also applies to the statewide SAWS caseload.) This occurred because in the initial SPR, the department used outdated (1990-91) caseload counts and did not adjust for caseload growth.

- **Critical Needs Not Considered in Original Planning Documents.** The latest SPR includes a 100 percent increase in computing capability and a 146 percent increase in disk storage space at the HWDC. Much of the increased capacity is proposed because of the revision to the caseload estimate. The remainder of the request for new capacity is the result of the failure, in the initial SPR, to account for various activities associated with ISAWS expansion, such as training, testing system changes, and software changes needed for application to additional counties. This has also resulted in a 94 percent increase in the contract for maintenance and system support.

Problems With the Most Recent SPR and Budget Proposal. We have several concerns with the department’s budget proposal, as well as the latest SPR.

- **Current Plan Inconsistent with Budget Assumptions.** In contrast to the initial SPR, the latest revision overestimates future caseload growth and associated computer costs. Specifically, the SPR assumes a 10 percent annual increase. This is inconsistent with the assumptions in the Governor’s Budget for caseload growth in AFDC (3.6 percent) and Medi-Cal (4.5 percent) for 1995-96. Thus, the SPR now overstates anticipated caseload and the associated
demand for computer resources and storage needs.

- **Additional Costs.** The budget does not include all of the department's anticipated ISAWS costs for 1995-96, including (1) the replacement of resources that have been redirected from the required project evaluation and completion of user manuals to support implementation activities and (2) an increase in the number of workstations.

- **New Positions.** The department has not provided the workload justification or documentation to support 35 new positions proposed in the budget—21 additional state/county positions for maintenance, 12 positions for quality control, one attorney position for legal support, and one Foster Care analyst position in the Welfare Programs Division. In this regard, we understand that the department is reviewing the need to reclassify some of its positions in order to ensure that it has the necessary expertise for this project. Given the complexity of the project and the concerns which have been identified regarding current implementation, it is critical that the department assure the Legislature that it has the resources and expertise required for successful implementation.

- **Warrant Issuance.** The budget does not address the need to provide system capabilities to issue grant payments in some of the ISAWS counties.

- **System Response.** Napa County has been experiencing significant degradation in system response time by its users. The vendor recently reduced the response time by about one-half, but the average still exceeded the tolerance level in the original system specifications by three-fold. The current SPR and the budget do not address this problem.

**Problems With System Maintenance.** At the time this analysis was prepared, the department had accumulated a backlog of over 100 high-priority Major Change Requests (MCRs) from the ISAWS counties. Some were technical in nature; however, a large part of the backlog consisted of law and regulation changes that could affect a client's program eligibility or grant level. Furthermore, some of these MCRs had been on the list for two years or more. The department acknowledges that it has had problems in this area and indicates that it has modified the process to address MCRs by providing for more county involvement. At the time this analysis was prepared, however, it was unclear whether the department's response to the backlog would enable the MCRs to be addressed in a timely fashion and ensure that the changes are made by the vendor. We also note that it is unclear if the department has sufficient staff, or staff in appropriate classifications, to address this issue.
Independent Evaluation Due in April. During its deliberations on the 1994 Budget Bill, the Legislature expressed concerns with the increases in estimated costs of the SAWS, the technical solution adopted by the department, and the statewide procurement strategy. As a result, the Budget Act appropriated $475,000 for the Bureau of State Audits to contract for an independent evaluation of the state’s approach for SAWS. The evaluator is required to determine whether one computer hardware or software system for all the counties is the most cost-effective choice for welfare automation. In addition, the evaluation will include a review of the NAPAS, MAGIC (the Merced County automated welfare system) and LEADER systems, and a review of a centralized state-operated system versus a decentralized county-operated system. The evaluator is also required to review a pilot project which would test an alternative method to implement SAWS. The bureau indicates that the findings will be available in April 1995.

Conclusion. Because of the issues noted above, and the need to consider the evaluation findings, we withhold recommendation at this time.
CHILD WELFARE SERVICES

The Child Welfare Services (CWS) Program provides services to abused and neglected children and children in foster care and their families. The CWS Program provides:

- Immediate social worker response to allegations of child abuse and neglect.
- Ongoing services to children and their families who have been identified as victims, or potential victims, of abuse or neglect.
- Services to children in foster care who have been temporarily or permanently removed from their families because of abuse or neglect.

State-County Realignment Proposal

The Governor's realignment plan proposes to give counties responsibility for 100 percent of the nonfederal share of costs for the CWS Program, beginning in 1995-96. The budget proposes expenditures of $797 million ($12 million General Fund, $376 million federal funds, and $409 million county funds) for local assistance for the CWS Program in 1995-96. This represents a shift of $289 million in General Fund costs to the counties. The proposal does not, however, shift funding responsibility for the Child Welfare Training Program, Case Management System implementation, or the federal IV-B audit payment.

The realignment plan also proposes to give counties 100 percent of the nonfederal share of costs for the Child Abuse Prevention Program. The budget proposes expenditures of $23 million ($11 million General Fund, $3 million federal funds, and $9 million county funds) for local assistance for the program in 1995-96. This represents a shift of $9 million in General Fund costs to the counties. The plan does not propose to shift General Fund costs for the Juvenile Crime Prevention initiative or for contracts administered by the state. (For an analysis of the realignment proposal, please see our companion document The 1995-96 Budget: Perspectives and Issues.)
Further Delays and Increased Costs for CMS Project

We withhold recommendation on proposed funding for the Child Welfare Services Case Management System ($2.5 million General Fund) and recommend that the department report, during budget hearings, on the concerns raised in this analysis.

Background. Chapter 1294, Statutes of 1989 (SB 370, Presley), requires the implementation of a single statewide child welfare services case management system (CMS). The primary goal of the CMS is to provide a statewide data base, case management tool, and reporting system for the program.

The budget proposes $9.9 million ($2.5 million General Fund and $7.4 million federal funds) for state operations to develop the CMS in 1995-96. The budget also proposes $2.7 million ($0.8 million General Fund and $1.9 million federal funds) for local assistance for the ongoing costs of pilot implementation in 1995-96.

New Special Project Report (SPR) Approved. In June 1994, the Department of Finance approved a new SPR for the CMS project. The latest approved SPR makes several changes to the previous SPR, including:

- Enhancements to meet federal and state requirements, such as the collection of adoptions information and health and education information for children in foster care.

- Establishing a share of cost for counties for additional changes to support county operations.

- Transfer of the wide area network (WAN) component from the vendor contract to the Health and Welfare Agency Data Center, and increased funding for the WAN.

- Expansion of functions, especially those associated with case management, because the system requirements were found to be more complex than originally planned.

- A reduction in the vendor’s contract obligations for ongoing (maintenance and operations) support by 17 months (48 to 31 months).

Needs Not Considered in Original Plan. While some of the changes were due to new federal and state requirements, many were included to address needs that had not been accounted for in the previous SPR. These changes were related to case management, county support, integration of state and county systems, implementation, and other areas.
Costs Higher Than Reflected in the SPR. The previously approved SPR estimated total project costs to be approximately $90 million for a nine-year period. Statewide implementation was scheduled to be completed in January 1994. The new SPR estimates total project costs to be approximately $119 million (an increase of 32 percent), with statewide implementation to be delayed 30 months, to July 1996.

We believe that the $119 million estimate contained in the most recent SPR understates the costs of the project. This is because the SPR fails to include the increased state costs which will occur due to the vendor’s contract obligations being reduced by 17 months. Adjusting for this factor, the project will cost $140 million, or $21 million higher than reflected in the latest SPR.

Ongoing Vendor Dispute. The vendor is asking for $147 million (75 percent over the amount included in the new SPR for the vendor’s component of the project) to complete the CMS as proposed in the SPR. The department indicates that the vendor’s position is without justification. Additionally, the department states that it is pursuing this issue through negotiations.

Delays Could Jeopardize “Enhanced” Federal Funding. Federal law allows states to claim 75 percent federal funding for the planning, design, development, and installation of a statewide automated child welfare system, effective for federal fiscal years 1994, 1995, and 1996. In subsequent years, the federal match decreases to 50 percent.

The new SPR schedule assumes statewide implementation of the CMS by July 1996, which would allow the state to receive enhanced federal funding at 75 percent for these costs. The General Fund costs proposed for the CMS in 1995-96 are based on this assumption. To the extent that the project is delayed beyond this schedule, the state could lose anticipated federal funds which could result in further increases in General Fund costs for the project. The department has indicated that it is considering seeking a federal waiver to extend the time limit on enhanced funding.

Difficulties in Contract Management. The department has experienced difficulties in managing the vendor contract. In addition to the dispute over the contract price, the department has indicated that the vendor has failed to meet certain obligations. The department has acknowledged the need for assistance in managing the contract by including in the new SPR funding for a Quality Assurance Advisor who will help ensure that the vendor complies with all the terms and requirements of the contract. We believe that this assistance would be beneficial.
Recommendation. Depending on the outcome of the vendor dispute, the costs for the CMS in the budget year may differ significantly from the amount proposed. Consequently, we withhold recommendation on the proposed funding for the project and recommend that the department report during budget hearings on the concerns raised in this analysis, including (1) the status of the vendor dispute, (2) the impact of the vendor dispute on the budget, (3) the likelihood of securing federal approval to extend the time period to claim enhanced federal funding, and (4) steps that will be taken to improve contract management of the project.

Federal Waivers Would Allow State More Flexibility

We recommend that the Department of Social Services (1) report during budget hearings on its intent to apply for federal approval to conduct a waiver demonstration project to blend federal foster care and child welfare services funds and (2) comment on the options we present to the Legislature.

Background. The federal government provides matching funds for states to provide various services to abused and neglected children and their families. The Social Security Act (Title IV-E) provides cash grant payments to maintain children in foster care and payments for families who adopt “difficult-to-place” children. These payments cover costs such as food and shelter. Title IV-B of the act provides limited funding for child welfare services, such as family preservation and family reunification, to children and their families. A child must be AFDC-eligible to receive Title IV-E funds, but there are no income eligibility requirements for Title IV-B funds.

Federal Waiver Demonstration Project. Recent amendments to the Social Security Act allow up to ten states to conduct demonstration projects whereby the states may seek waivers to federal requirements (with some exceptions) on the use of Title IV-B and IV-E funds. The demonstration project must promote the objectives of the federal programs and be “cost-neutral” to the federal government.

At the time this Analysis was prepared, federal regulations governing the demonstration project had not been released. The department, however, has indicated that it plans to submit a proposal to conduct a project.

Options. We believe that this waiver authority could be used to improve the cost-effectiveness of child welfare services while helping families stay together. To facilitate legislative input in the waiver application process, we present the following options.
• **Increase Availability of Treatment Services to Families to Help Reduce Foster Care Placements.** During our field visits, CWS social workers indicated that if more treatment services were available to families, more children could remain in their homes instead of being placed in foster care. For example, 42 percent of social workers we surveyed in 1989-90 indicated that they had, on at least one occasion, placed a child in foster care because they were unable to find appropriate services that would have allowed the child to remain in the home. Accordingly, in our 1991 report, *Child Abuse and Neglect in California: A Review of the Child Welfare Services Program,* we recommended that the Legislature give priority to approaches that (1) increase the availability of community resources, such as drug treatment and mental health services, and (2) increase the ability of social workers to purchase additional services.

Currently, Title IV-E funds may not be used to provide social services to children and families. By using the newly authorized waiver authority, however, the state could allocate these funds for increased treatment services in the CWS Program.

• **Provide Services so Children in Long-Term Foster Care Can Return Home.** When family reunification efforts fail, the children are usually placed in long-term foster care. In some cases, children in long-term foster care could return home if ongoing support services, such as counseling, were provided to the child's family. However, Title IV-E funds cannot be used to provide services to support a child living with his or her own family. Thus, under the waiver, these funds could be used to provide any necessary long-term services to children and their families who could be reunified.

• **Increase Support for Foster Family Homes.** The state could also seek federal waivers to use Title IV-E funds to pay for services, such as mental health services and respite care, to provide greater support to foster family home placements. With increased supportive services, more children could reside in a family-like setting rather than in more restrictive and costly group homes.

**Recommendation.** We believe that the department should consider these options in developing its proposal for the demonstration project. Consequently, we recommend that the department (1) report during budget hearings on its intent to apply for the waiver demonstration project and (2) comment on the options that we presented in this *Analysis.*
Department Should Submit Claims for Additional Federal Reimbursements

We recommend that the budget reflect the availability of federal funds for eligible activities in the Options for Recovery program. This would result in state savings of $589,000 in 1995-96. (Reduce amount of sales tax transfer to counties by $589,000, per realignment proposal.)

Chapter 1385, Statutes of 1989 (SB 1173, Royce), established the Options for Recovery pilot project to promote the recruitment, support, and training of foster family parents to care for substance-exposed and HIV-positive children. Phase I of the project included four counties—Alameda, Sacramento, San Diego, and Los Angeles. Phase II of the project included six counties—Contra Costa, Butte, Glenn, Shasta, Tehama, and Siskiyou. The pilot phase of the project has ended, and the budget proposes to continue funding the existing programs and to expand the program statewide. The budget proposes total expenditures of $4.8 million for the program in 1995-96. Of this amount, $3.7 million in state General Fund costs would be shifted to counties under the Governor’s realignment proposal.

State Is Not Claiming Federally Eligible Costs. Federal regulations allow states to claim federal funds for foster parent recruitment and training activities. Currently, the state is not claiming federal funds for these eligible costs in the Options for Recovery program, but the department acknowledges that federal funds could be claimed. Therefore, we recommend that the department submit the appropriate claims and that the budget reflect the availability of federal funds for the program. We estimate that this would result in state savings of $589,000 in 1995-96. (Because the Options for Recovery program is included in the Governor’s realignment proposal, our recommendation would reduce the General Fund costs to be shifted to the counties in the proposal by $589,000 and reduce the sales tax transfer by the same amount.)
IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) Program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance. While this implies that the program prevents institutionalization, eligibility for the program is not based on the individual’s risk of institutionalization. Instead, an individual is eligible for IHSS if he or she lives in his or her own home—or is capable of safely doing so if IHSS is provided—and meets specific criteria related to eligibility for the Supplemental Security Income/State Supplementary Program (SSI/SSP) for the aged, blind, and disabled.

The IHSS Personal Care Services Program (PCSP) includes personal care services as a federally reimbursable service under the Medicaid Program. The PCSP limits eligibility to categorically eligible Medi-Cal recipients (AFDC and SSI/SSP recipients) who satisfy a “disabling condition” requirement. Personal care services include activities such as (1) assisting with the administration of medications and (2) providing needed assistance with basic personal hygiene, eating, grooming, and toileting.

The budget for 1995-96 proposes funding the IHSS Program at $955 million ($253 million General Fund, $479 million federal funds, and $223 million county funds). This represents a General Fund increase of $8.4 million, or 3.4 percent, above current-year expenditures. The average monthly caseload is projected to be approximately 195,000 in 1995-96.

State Law Change Could Increase Eligibility for Federal Funding

We recommend enactment of legislation to eliminate the “advance pay” option in the IHSS Program because this would secure additional federal funds without reducing the level of services to recipients. This action would result in General Fund savings of approximately $4 million in 1995-96. (Reduce Item 5180-151-001 by $4 million.)

Background. In the IHSS Program, each county may choose to deliver services in one or a combination of ways: (1) by individual providers (IPs) hired by the recipients, (2) by private agencies under contract with the counties, or (3) by county welfare staff. Under the IP delivery mode,
provider payments are sent directly to the recipient’s provider in most cases, after services are rendered. However, state law also provides that, for severely impaired recipients, payments may be sent to the recipient at the beginning of each month, before services are rendered. This is known as the “advance pay” option. Under this option, the recipient gives the payment to the provider. There are approximately 1100 “advance pay” cases in an average month—less than 1 percent of the total IHSS caseload.

**Advance Pay Cases Not Eligible for Federal Funding.** The “advance pay” cases are excluded from the IHSS Personal Care Services Program and therefore do not receive 50 percent federal funding. (Rather, the state has to pay 65 percent of the costs of services for these cases.) This is because federal Medicaid regulations do not allow (1) payments on an “advance pay” basis or (2) payments to the recipient rather than the provider of services.

**Recommendation.** Elimination of the “advance pay” option would not reduce the level of services to recipients. It would require that all payments be made to the provider on an arrears basis, which is how virtually all IHSS cases are paid. Therefore, in order to secure additional federal funding, we recommend legislation to eliminate the “advance pay” option in the IHSS Program. We estimate that this would result in General Fund savings of $4 million in 1995-96.
ADOPTIONS PROGRAMS

The department administers a statewide program of services to parents who wish to place children for adoption and to persons who wish to adopt children. Adoptions services are provided through state district offices, county adoption agencies, and a variety of private agencies. Counties may choose to operate the Adoptions program or to turn the programs over to the state for administration. Currently, the state operates the program for 30 counties.

There are two components to the Adoptions program: (1) the Relinquishment (or Agency) Adoptions program, which provides services to children in foster care, and (2) the Independent Adoptions program which provides adoption services to birth parents and adoptive parents when both agree on placement and do not need the extensive assistance of an adoption agency.

In addition to the Adoptions program, the Adoptions Assistance Program provides grants to parents who adopt “difficult to place” children. State law defines these children as those who, without assistance, would likely be unadoptable because of their age, racial or ethnic background, handicap, or because they are a member of a sibling group that should remain intact.

STATE-COUNTY REALIGNMENT PROPOSAL

The Governor’s realignment plan proposes to give counties 100 percent of the nonfederal share of local assistance costs for the Adoptions program (for county operated programs only). The budget proposes expenditures of $32 million ($0.8 million General Fund, $10.4 million federal funds, and $20.8 million county funds) for local assistance in 1995-96. This represents a shift of $20.8 million in state General Fund costs to the counties. The budget does not propose to shift General Fund costs to the counties for the Private Agency Adoption and Minority Home Recruitment programs.

The realignment plan also proposes to give counties responsibility for 100 percent of the nonfederal share of costs for the Adoptions Assistance Program (AAP) beginning in 1995-96. The budget proposes expenditures of $117 million ($35 million federal funds and $82 million...
county funds) for AAP grants in 1995-96. This represents a shift of $61 million in state General Fund costs to the counties.

**Realignment Plan Should Include Transfer of State Operated Adoptions Programs**

We recommend that if the Legislature adopts the proposed realignment of "children's services" programs, the state operated adoptions programs be included in the transfer of adoptions programs to the counties. This would result in a transfer of General Fund costs of $4.6 million to the counties, offset by a corresponding transfer of sales tax revenues.

While the realignment proposal would shift funding responsibility for county operated adoptions programs, it does not address the realignment of state operated adoption programs. This omission appears to have been inadvertent and we are not aware of any programmatic reason for distinguishing between the two components. Thus, transfer of the state operated programs to the counties would provide the same benefits as would the transfer of the county operated programs. Specifically, this would recognize the linkages between the Adoptions program and other programs proposed for transfer by the Governor to the counties, such as Foster Care and Child Welfare Services. Consequently, we recommend that if the proposal to realign the Adoptions program is adopted, the state operated programs be included. This would result in a shift of $4,625,000 in General Fund costs to the counties, offset by a corresponding shift of sales tax revenues.

For a discussion and review of the Governor’s realignment proposal, please see our companion document *The 1995-96 Budget: Perspectives and Issues.*
COMMUNITY CARE LICENSING DIVISION

The Community Care Licensing Division (CCLD) develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. Licensed facilities include day care, foster family homes and group homes, adult residential facilities, and residential facilities for the elderly.

The budget proposes expenditures of $63 million ($10.2 million General Fund) for the CCLD in 1995-96. This represents a 13 percent decrease in General Fund expenditures from the current year.

Special Fund Needed for Oversight Of Technical Assistance Spending

We recommend the enactment of legislation that (1) establishes a special fund for currently authorized fee revenues for the purpose of providing technical assistance to licensees in order to facilitate implementation of current law and (2) provides that the amount of these funds to be expended annually shall be subject to appropriation by the Legislature. We further recommend that, prior to budget hearings, the Department of Social Services (DSS) submit to the Legislature an expenditure plan to use these fee revenues to provide technical assistance in 1995-96.

Law Requires Use of Fee Revenues for Technical Assistance. Under current law, the DSS collects annual fees for licensing community care facilities. The fee revenues are deposited in the General Fund. Current law also provides that for each year, fee revenues exceeding $6 million (after deducting administrative costs) shall be expended to establish and maintain new licensing staff to provide technical assistance to licensees. Since this provision was established in 1992-93, however, the fee revenues in excess of $6 million have not been expended for this purpose. We estimate that the “excess” fee revenues will be approximately $1.5 million in 1995-96.

Technical Assistance Could Result in Savings Through Improved Compliance With Licensing Regulations. The primary role of the licensing program is the enforcement of regulations. When a facility is out of compliance, there are various corrective and enforcement actions that the CCLD may pursue, depending on the level and severity of the violation.
Enforcement actions may be costly since they can involve significant staff hours and resources. For example, a case referred to legal staff can create substantial attorney workload associated with the filing of an administrative action, especially if the case is brought to a hearing.

Technical assistance could provide early prevention and intervention services to providers who may otherwise become or remain out of compliance. The CCLD currently provides very limited technical assistance to licensed providers of care. Based on our review of the program, we believe that increased technical assistance could reduce the number of facilities which are out of compliance. As a result, savings would be achieved through decreased workload associated with avoidance of costly enforcement actions.

**Recommendation.** In order to help ensure that the specified fee revenues are used for the purpose of providing technical assistance to licensees, as required by current law, we recommend the establishment of a special fund consisting of these “excess” revenues. We believe, however, that the statutory requirement that all of the excess revenues be expended for technical assistance precludes legislative oversight and may result in spending that is not cost-effective. Consequently, we recommend that this provision be amended so that expenditures from this fund be subject to appropriation by the Legislature. Finally, we recommend that the DSS submit an expenditure plan (for part or all of the funds) to the Legislature for review prior to the budget hearings, including justification for any proposed staff. Although these actions would result in the loss of approximately $1.5 million General Fund revenues in 1995-96, this could be offset by future General Fund savings resulting from the technical assistance—more specifically, decreased workload in other areas of the licensing program. In addition, we note that allocating these revenues for technical assistance is consistent with current law.

**Administrator Certification Program Should Be Funded Through a Special Fund**

We recommend that (1) legislation be enacted to establish a special fund for the new administrator certification program in order to facilitate legislative oversight and (2) the $134,000 proposed from the General Fund be appropriated as a loan to this fund in 1995-96 because fee revenues should be sufficient to repay the loan in subsequent years.

**Background.** Chapter 1258, Statutes of 1994 (SB 1368, Peace) established a certification program for administrators of Adult Residential Facilities. The program is designed to ensure that administrators have appropriate training to provide the care and services for which the facility
is licensed. Chapter 1258 authorizes the Department of Social Services to charge a fee for the issuance and renewal of administrator certificates and to certify vendors who will conduct training programs. Thus, the program is expected to generate revenues on an ongoing basis after implementation. Under current law, these fee revenues would be deposited into the General Fund.

**Funding for Program Should Be Separate.** In order to track program spending and revenues and thereby facilitate legislative oversight of the program, we recommend the establishment of a special fund for the program. This will help determine whether fee revenues and spending are in line with each other, and what adjustments would be needed if they are not. We estimate that future fee revenues will be sufficient to cover the ongoing costs of the program.

**Proposed Positions Should Be Funded Through General Fund Loan.** The budget proposes $134,000 from the General Fund for 2.9 positions to implement and administer the program in 1995-96. Based on our review, we find that the 2.9 positions requested to meet the legislative mandate are justified. However, if the special fund is established, we recommend that the $134,000 from the General Fund be appropriated as a loan to the special fund in 1995-96, to be repaid in subsequent years. We project that future fee revenues will be sufficient to cover this cost.

We note that these recommendations are similar to the funding mechanism created for the administration of another certification program, the Residential Care Facilities for the Elderly Certification program, established in 1992.
## Crosscutting Issues

1. **Developmental Center/State Hospital Plan Should Be Developed.** Recommend that the Departments of Developmental Services and Mental Health develop a joint proposal on developmental center and state hospital facility utilization, and report at budget hearings on the proposal.

2. **Transfer of Developmentally Disabled Clients Results in State Savings.** Reduce Item 4300-101-001 by $11,364,035 and increase Item 5160-001-890 by $8,225,535. Recommend a General Fund reduction of $11.4 million to account for anticipated state savings due to the increase in federal funds resulting from the transfer of clients from the Department of Developmental Services to the Department of Rehabilitation programs.

3. **Long Term Care Initiative Could Be Improved.** Recommend that the Health and Welfare Agency, rather than the Department of Health Services, be designated as the lead agency responsible for state level implementation.

4. **Additional Federal Emergency Assistance (EA) Funds Available.** Recommend that (1) the budget reflect the availability of increased federal EA funds for state savings of $6.7 million, (2) the DSS report on the feasibility of developing a county claiming system to secure additional federal EA funds for the Child Welfare Services Program, and (3) the Health and Welfare Agency report on the feasibility of obtaining additional federal EA funds for other programs.

5. **Residential Options Should Be Increased for Adults With Special Health Care Needs.** Recommend legislation to allow adults with “special health care needs” to reside...
in licensed community care facilities in order to expand residential options and reduce state costs.

6. **Information Needed for Staffing Increases for Youth Pilot Program.** Withhold recommendation, pending receipt of workload justification for increased staffing request.

**Department of Alcohol and Drug Programs**


8. **Legislative Oversight: Movement Towards “Managed Care.”** Recommend that the DADP report at budget hearings on the status of the department’s efforts to develop a managed care plan for California.

**California Medical Assistance (Medi-Cal) Program**

9. **Elimination of Optional Services.** The department’s savings estimate is optimistic because federal law requires that necessary transportation services be provided. Recommend that the Legislature consider eliminating services for certain medical treatments or conditions as an alternative approach if it wishes to achieve General fund savings through rationing.

10. **Federal Ruling Casts Doubt on $400 Million for the State and Potentially $2 Billion for Counties.** Recommend the department report at hearings on status of negotiations with federal Health Care Financing Administration to (a) allow the state to submit some Medi-Cal administrative claims in 1995-96 and (b) establish an expedited appeals process for claims already submitted.
11. **Beneficiary Copayments Proposal Should Be Modified.** Reduce Item 4260-101-001 by $8.4 Million. Recommend that the Legislature modify budget proposal to assume collection of beneficiary copayments by (a) reducing the dispensing fee for all prescriptions, irrespective of whether copayments can be collected, and (b) exempting physician and outpatient clinic services from copayments to avoid potential primary care access and cost-shifting problems.

12. **Medi-Cal Drug Ingredients Costs Should Be Reduced.** Reduce Item 4260-101-001 by $14.9 Million. Recommend that the Legislature reduce the drug ingredient cost reimbursement level from Average Wholesale Price (AWP) minus 5 percent to AWP minus 10 percent because the current level is above that of other major purchasers of prescription drugs.

13. **Minimum Nursing Hours and Distinct Part Rate Reductions.** Recommend that, in lieu of the budget proposals to reduce (a) hospital-based “distinct part” nursing facility rates, and (b) freestanding facility minimum staffing levels and reimbursement rates, the Legislature implement a contracting program for nursing facilities similar to the one currently in place for hospitals.

14. **Subacute Care Proposal Should Be Modified.** Recommend that the department report at budget hearings on several aspects of its proposed nursing facility subacute care program. Further recommend that if this program is established, the Legislature (a) adopt “per discharge” hospital reimbursement rates in certain cases, and (b) limit the new subacute rates to patients referred from hospitals.

15. **Certificate of Need Program Should Be Considered.** Recommend that the department report at budget hearings on the merits of a “Certificate of Need” requirement for new distinct part facilities, and the potential savings such a requirement would achieve in 1995-96.

16. **Strategic Plan Implementation Proceeds.** Department's
strategic plan to dramatically expand managed care services will be implemented in late 1995-96, enrolling nearly half of Medi-Cal beneficiaries in a managed care arrangement.

17. **Targeting AFDC-Linked Beneficiaries Ignores Demonstrated Savings Potential.** Recommend that the Legislature include newly enrolled SSI/SSP-linked beneficiaries in managed care expansion being implemented in 12 counties to maximize savings potential.

18. **Rates to Be Issued This Spring.** Recommend that the department report at budget hearings on how forthcoming reimbursement rates for both new and existing managed care contractors compare to regional fee-for-service equivalent costs, and what adjustments, if any, are proposed. Also note that General Fund savings in the range of $50 million to $100 million could be achieved in 1996-97 if all managed care contractors were reimbursed at 97 percent of the fee-for-service equivalent, as is the case for existing prepaid health plans.

19. **Court Blocks Implementation of Dental Managed Care.** Up to $5.3 million in General Fund savings budgeted in the current and budget years from implementation of managed care for dental services may not be realized due to a recent court order. In addition, General Fund savings of $85 million that were assumed to occur in 1995-96 as part of the state’s two-year budget plan are effectively precluded by the order.

20. **Staffing Expansion.** Withhold recommendation on 126.5 positions to oversee managed care expansion, pending further review.

**Public Health**

21. **REACH Proposal Raises Questions.** We identify several issues related to the Governor's proposed Reaching Early Access for Children’s Health (REACH) Program, and rec
ommend that the department be prepared to discuss them during budget hearings.

22. **No Budget Plan for Governor's Teen Pregnancy Prevention Initiative.** Recommend that the administration submit, prior to budget hearings, an expenditure plan for the $12 million proposed for the Governor's Teen Pregnancy Prevention initiative. We further recommend that the department report on the findings of the University of California study regarding the effectiveness of Education Now and Babies Later (ENABL) program.

23. **Legislature Needs More Information on the Governor's Immunization Initiative.** Withhold recommendation on $20 million in General Fund support for the Governor’s Immunization Initiative, pending submission of an expenditure plan to the Legislature.

24. **Court Ruling Would Require Changes in Current- and Budget-Year Spending of Proposition 99 Funds.** Recommend that the department report during budget hearings on the administration’s plans for addressing the court ruling prohibiting the use of Proposition 99 (Cigarette and Tobacco Tax) funds from certain accounts in the current and budget years.

25. **Delays Impede Progress on Battered Women’s Shelter Program.** We make the following findings regarding the Battered Women Protection Act: (1) up to $5 million of the current-year appropriation may be carried over for expenditure in 1995-96, thus increasing funding available in the budget year, and (2) a similar program is administered by the Office of Criminal Justice Planning, suggesting the possibility for program consolidation.

26. **Automation Project Has Been Delayed.** Withhold recommendation on the proposed $9.6 million in federal funds to continue implementation of the Integrated Statewide Information System project for the WIC Program, pending submission and approval of a revised Special Project Report.

27. **WIC Program Needs to Integrate Service Delivery.** Rec-
ommend that the department submit at budget hearings a plan to encourage and reward local WIC clinics that have integrated, or plan to integrate, service delivery with other health providers.

28. Proposed Staffing and Training Programs Lack Expenditure Plan. Withhold recommendation on $4.6 million in federal funds proposed for local WIC staff recruitment and training programs, pending receipt of an expenditure plan and implementation schedule.

Managed Risk Medical Insurance Board

29. AIM Program Expansion Problematic. Reduce Item 4280-101-001 by $5 Million. Recommend that the administration report at budget hearings regarding prospects for enactment of federal legislation needed for expansion. Also recommend the administration report on suggested alternative. Further recommend that family contribution be increased, for a General Fund savings of $5 million.

Department of Developmental Services

30. Funds to Continue Medi-Cal Optional Benefits Overbudgeted. Reduce Item 4300-101-001 by $3,274,000. Recommend a reduction of $3.3 million to reflect 9 months rather than 12 months of costs to the DDS during 1995-96 to be consistent with the proposed implementation date.

31. Budget Does Not Reflect General Fund Savings Anticipated from Federal Funds. Reduce Item 4300-101-001 by $12,670,840 and increase Item 4260-101-001 by $6,335,420. Recommend a net reduction of $6.3 million to reflect anticipated savings by claiming reimbursement for services eligible under a recent Medicaid waiver amendment.

Department of Mental Health

32. School-Based Prevention Program Augmentation Should Be Redirected. Reduce Item 4440-102-001 by $2,000,000.
Recommend deleting the proposed General Fund augmentation of $2 million (Proposition 98 funds) in the Early Mental Health Initiative Program and redirecting these funds to meet stated legislative priorities to (a) begin repaying the Proposition 98 loans and (b) provide a full cost-of-living adjustment to most K-12 programs.

33. Legislative Oversight: Status of the Sex Offender Treatment and Evaluation Project (SOTEP). The Governor proposes the termination of the inpatient treatment component of the SOTEP project. We note that continuation of the treatment portion is not necessary to complete the project evaluation.

Employment Development Department

34. Budget Should Reflect Additional Revenue. Increase General Fund Revenues by $1,488,000. Recommend that the budget reflect an additional $2.1 million ($1.5 million General Fund) in revenues anticipated from the expansion of the department’s tax compliance consulting project.

Department of Rehabilitation

35. Caseload Projections Do Not Reflect Recent Trends. Reduce Item 5160-101-001 by $7,071,300, increase Item 5160-001-001 by $2,738,098, and increase Item 5160-001-890 by $10,116,791. Recommend a net reduction of $4.3 million from the General Fund to adjust caseload projections to reflect recent trends in the Work Activity Program (WAP) and the Vocational Rehabilitation /WAP.

36. Legislative Oversight: Status of Complying With Federal “Order of Selection” Process for Program Eligibility. Recommend that the department report at budget hearings on the status of efforts to comply with the federally mandated “order of selection” process to determine consumer eligibility for services.

37. Legislative Oversight: Potential for Expanding Use of
**Fees for Vocational Rehabilitation Services.** Recommend that the department report at budget hearings on the feasibility and impact of expanding the use of fees for vocational rehabilitation services.

**Aid to Families With Dependent Children**

38. **Assuming Improved County Administration Creates Budgetary Risk.** The assumed AFDC grant savings from realignment create a potential shortfall of $128 million to the state and counties if efficiencies do not materialize.

39. **Governor Proposes Several Changes That Would Reduce Grants in the AFDC Program.** These changes would result in a General Fund savings of $254 million in 1995-96. We review the Governor's proposals and comment on them.

40. **Evaluating the Proposals to Reduce AFDC Grants.** The Governor's proposed grant reductions will result in significant savings and increase the financial incentives for recipients to work. We conclude that while some families will be able to compensate for the grant reductions through work, others will find this difficult due to low levels of education and employment experience, as well as a potential lack of job opportunities.

41. **Governor's Proposed Two-Year Limit on AFDC Would Reduce Grants Substantially.** We discuss some of the advantages and disadvantages of the proposal.

42. **Budget Proposes to Limit Homeless Assistance to Deter Abuse of Emergency Benefits.** The budget proposes legislation that would limit eligibility for Homeless Assistance and require benefits to be paid as vouchers, for a net General Fund savings of $10.1 million. We comment on the proposal.

43. **AFDC-FG Caseload Projection Is Overstated.** Reduce Item 5180-101-001 by $13,014,000 and reduce realignment sales tax transfer by $11.7 million. Recommend (a) reducing the General Fund amount proposed for AFDC grants
by $13 million and (b) reducing the proposed transfer of sales tax revenues to the counties for realigning AFDC by $11.7 million, because the AFDC-FG caseload is overstated.

44. **Automation Project Will Miss Federal Deadline for Enhanced Funding.** Recommend that the department report during budget hearings on the anticipated delay in the implementation of the Statewide Automated Child Support System (SACSS) and how the loss of enhanced federal matching funds will impact General Fund costs in 1995-96.

45. **Carry-Over Funds Could Result in GAIN Program Expansion.** Recommend that the department report at budget hearings on the criteria it will use to allocate carry-over funds that could provide up to $40 million for GAIN Program expansion.

46. **State Should be Receiving More Federal Matching Funds for GAIN.** Recommend that the department report during the budget hearings on the potential for securing additional federal matching funds for the GAIN Program.

47. **State-Only Child Care Allocation Not Needed.** Reduce Item 5180-151-001 by $5,899,000. Recommend eliminating funding for the state-only component of child care for GAIN and Cal Learn Program participants because (1) the federally supported child care allocation generally should be sufficient, and (2) this would allocate child care benefits to all AFDC recipients on the same basis, for a General Fund savings of $5.9 million.

48. **GAIN Evaluation Shows Positive Results.** The evaluation indicates that an employment-oriented approach adopted by Riverside County was the most effective of the six counties studied.

49. **State Regulations Discourage Adoption of Certain Foster Care Children.** Recommend that the Legislature direct the department to revise foster care regulations to allow continuation of AFDC-FC payments for foster children who are awaiting adoption by their relative foster parents.
50. **Rate Setting System for Foster Family Agencies Should Be Revised.** Recommend (a) enactment of legislation to expand the Intensive Treatment Foster Care pilot program statewide, (b) that the department report during budget hearings on an estimate of savings that would result from expanding this program statewide, and (c) adoption of supplemental report language requiring the department to convene a working group to develop and recommend to the Legislature a new or revised rate setting system for foster family agencies.

51. **Two Alternatives for Savings in the State Family Preservation Program:**

(a) **If the Foster Care Program Is Realigned, the Family Preservation Program Should Not Be Expanded.** Reduce Amount of Sales Tax Transfer to Counties by $9,024,000. If the Governor’s realignment proposal is adopted, recommend that funding proposed for expansion of the state Family Preservation Program be deleted because the program would not be operable under the realignment configuration.

(b) **If the Foster Care Program Is Not Realigned, the Budget Should Reflect Savings From Expansion of the Family Preservation Program.** Reduce Item 5180-101-001 by $2.3 Million. If the realignment proposal is not adopted, recommend reduction in the Foster Care Program to reflect savings from the proposed expansion of family preservation services.

**Supplemental Security Income/ State Supplementary Program**

52. **Assumed Federal Law Changes Create a General Fund Risk.** The budget assumes that federal legislation will be enacted to (1) reduce payment standards below federally mandated levels, (2) exclude drug addiction and alcoholism as qualifying disabilities, and (3) eliminate the fee for SSP administration, creating a potential General Fund shortfall of $530 million.
53. **Governor's Proposed Grant Reductions Would Result in a Loss of Income to Recipients.** The proposed grants for individuals would be below the federal poverty level, while the grants for couples would remain above the poverty level. We discuss some policy issues in order to assist the Legislature in its consideration of these proposals.

### County Administration of Welfare Programs

54. **Administration of AFDC Should Include Dissemination of Work Incentive Provisions to Clients.** Recommend that the department comment on alternatives we have presented in order to increase AFDC recipients' knowledge of the work incentives in current law.

55. **Budget Exceeds Projected Spending Based on Recent Trends.** Reduce Item 5180-141-001 by $14,295,000. Recommend that the amount proposed as an “offset to savings” in county administration be deleted, for a General Fund savings of $14.3 million, because this is in excess of projected county spending in 1995-96 based on past trends adjusted for caseload growth, inflation, and policy changes.

56. **Report on the Cost Effectiveness of AFDC Fraud Programs Due in March 1995.** Recommend that the department be prepared to discuss, during the budget hearings, the findings of a cost-effectiveness study of the AFDC fraud programs.

57. **SAWS Budget Proposal Incomplete.** Withhold recommendation on $47.6 million ($23.9 million General Fund) for the Statewide Automated Welfare System (SAWS) and the Interim SAWS (ISAWS) project, and recommend the department be prepared to report, during budget hearings, on the issues raised in this analysis.

### Child Welfare Services

58. **Further Delays and Increased Costs for the Case Manage-**
ment System (CMS) Project. Withhold recommendation on proposed funding for the CMS, pending resolution of several issues discussed in our analysis.

59. Federal Waiver Project Would Give State More Flexibility. Recommend that the department (1) report during budget hearings on its proposal to apply for a demonstration project to blend federal foster care and child welfare services funds and (2) comment on the options we present to the Legislature.

60. Department Should Submit Claims for Additional Federal Reimbursements. Recommend that the budget reflect the availability of federal funds for eligible costs in the Options for Recovery program. This would result in state savings of $589,000 in 1995-96.

In-Home Supportive Services

61. State Law Change Could Increase Eligibility For Federal Funding. Reduce Item 5180-151-001 by $4 Million. Recommend legislation to eliminate the “advance pay” option because this would secure additional federal funding without affecting the level of services to recipients.

Adoptions

62. Realignment Should Include Transfer of State Operated Adoptions Programs. Recommend that if the proposed realignment of children’s services programs is adopted, the state operated adoptions programs be included in the transfer of adoptions programs to the counties.

Community Care Licensing

63. Special Fund Needed for Oversight of Technical Assistance Spending. Recommend legislation to (1) establish a special fund consisting of currently authorized revenues for purposes of providing technical assistance to licensees and (2) provide that the amount of expenditures be subject to
appropriation by the Legislature.

64. **Administrator Certification Program Should Be Funded Through a Special Fund.** Recommend legislation to establish a special fund to administer this new program and to appropriate the $134,000 proposed from the General Fund for the program as a loan to the new special fund in 1995–96.