funds are available before grant applications can be processed for payment. The acceleration of grant processing should permit earlier payment for, and construction of sewage treatment plants. It is hoped thereby to reduce the effects of inflation on the amount of construction which can be undertaken with the fixed amount of grant funds available.

Grant administration fees are placed in the State Clean Water Grants Administration Revolving Fund. Chapter 804 specified that expenditures to be made by the board must be appropriated in Budget Act. This item makes that appropriation. According to the board, the amount requested in the budget is sufficient to meet the program needs in the budget year.

Health and Welfare Agency
OFFICE OF EDUCATIONAL LIAISON

Item 268 from the General Fund	Budget p. 653
Item 268	206,396
Available from Chapter 1176, Statutes of 1973	35,845
Requested 1975–76	$242,241
Estimated 1974–75	239,573
Actual 1973–74	216,708
Requested increase $2,668 (1 percent)	
Total recommended reduction	$242,241

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Transfer Functions. Delete $206,396 proposed in Item 268 and revert to the General Fund, $35,845 estimated to be available from Chapter 1176, Statutes of 1973.* Recommend transfer of functions of office to Departments of Health and Education. 448
2. Child Development. Recommend the $3,672,000 proposed in Item 269 for Child Development programs be appropriated to the Department of Education and the $1 million from Chapter 1173, Statutes of 1973, be allocated to Department of Health. 448

GENERAL PROGRAM STATEMENT

The Office of Education Liaison (OEL) within the Health and Welfare Agency was established by the Child Development Act of 1972 (Chapter 670, Statutes of 1972). It has served as the main contact for communication and coordination between the Health and Welfare Agency and the Department of Education for programs relating to comprehensive child development services.

Chapter 1176, Statutes of 1973, established the Song-Brown Family Physician Training Act which has as its intent the encouragement of a greater supply of competent family physicians. The OEL does this by providing

OFFICE OF EDUCATIONAL LIAISON—Continued

funds for contracts with accredited medical schools and hospitals and other health care delivery systems.

ANALYSIS AND RECOMMENDATIONS

We recommend the transfer of the functions of this office to the Departments of Health and Education and deletion of $206,396 proposed in Item 268 and the reversion to the General Fund of $35,845 estimated to be available from Chapter 1176, Statutes of 1973.

We further recommend that the $3,672,000 proposed in Item 269 for child care programs be appropriated to the Department of Education and that the $1 million from Chapter 1173, Statutes of 1973, be allocated to the Department of Health.

The budget proposes an appropriation of $206,396 plus the use of carryover funds available from Chapter 1176, Statutes of 1973, for a total expenditure of $242,241 for the 1975–76 fiscal year. This is an increase of $2,668, or 1.0 percent, above the amount estimated to be expended during the current fiscal year. The funds provide support for 8.3 positions plus operating expenses.

The budget proposes a $3,672,000 General Fund appropriation (Item 269) to be matched by federal funds for the Child Development program. The budget also proposes the expenditure of $1 million of $3 million which was originally appropriated by Chapter 1176, Statutes of 1973, for the Family Physician Training Program. This level of expenditure is the same level of funding as estimated for the current fiscal year.

Child Development

The Office of Educational Liaison (OEL) was established to coordinate the child care activities of the Departments of Education, Health, Benefit Payments, and Employment Development and particularly the transfer of responsibilities for child care from the former Department of Social Welfare to the Department of Education. OEL was also assigned budgetary responsibility for funds appropriated for expansion and development of innovative child care programs. Actual management of these programs has been assigned the Department of Education through an interagency agreement.

OEL has performed several useful functions by assisting in the negotiation of various interagency child care agreements, monitoring Department of Education policies regarding expenditures of funds appropriated for child care programs, and reporting on the Department of Education progress in developing a state plan for child development. However, now that the Department of Education appears to be carrying out its full responsibilities, it is unnecessary for one state administrative agency to monitor the work of another in this fashion. This amounts to an unnecessary fragmentation of authority and prevents the Department of Education from having full responsibility and accountability for its actions in this area and is, in fact, contrary to the expressed intent of Chapter 670, Statutes of 1972, to make the State Department of Education the single state agency responsible for child care programs.

Training Family Practitioners Program

The Office of Educational Liaison administers a program to increase the number of family physicians and physician's assistants trained in California. The office provides staff assistance to the Health Manpower Policy Commission (HMPC) in establishing program standards and criteria; identifying specific areas of priority unmet need; reviewing and recommending training programs for funding; and, assessing the performance of funded training programs. Additionally, the office provides staff support to the Health and Welfare Agency in contracting with recommended and approved training programs, monitoring the contracts and assessing the training programs, negotiating the renewal of existing contracts, and executing new contracts. Finally, the commission and office formulate policy and program recommendations to meet the primary health manpower needs of California.

The Director of EOL, or his designee, serves as executive secretary of the commission and with OEL staff he: (1) provides the HMPC information necessary to meet the above-mandated responsibilities; (2) conducts research related to policy and funding to better meet health care delivery needs in California; (3) assists the commission in submitting annual progress reports to the Legislature; and (4) performs other such services for the commission and the secretary as may be necessary.

The Department of Health presently has responsibilities comparable to those outlined above. Within the department there is the Health Manpower Development Section which has as its goal the development and advancement of a health manpower action policy and program for state government. It would appear more economical to combine the training practitioners family program of OEL with these functions in the Department of Health.

In addition to the responsibilities of the Department of Health in health manpower development the University of California is developing plans for the expansion of its family physician training program. Central to the development of the Irvine Medical School and the proposed purchase of the Orange County Hospital by the University is the stated need for more family physicians. This would be in addition to the family physician program at the University's Davis Campus.

It appears to us that the activities of the three segments of government involved, HMPC, the Department of Health, and the University may not be coordinated. With the limited resources available it is imperative that maximum use be made of those resources. The Legislature should review the total program before it funds any single segment.

Health and Welfare Agency

FOR ALLOCATION BY OFFICE OF EDUCATIONAL LIAISON FOR CHILD DEVELOPMENT PROGRAMS

Item 269 from the General Fund — Budget p. 653

Requested 1975–76	$3,672,000
Estimated 1974–75	3,400,000
Requested increase $272,000 (8 percent)	
Total recommended reduction	Transfer to Item 314, Department of Education

ANALYSIS AND RECOMMENDATIONS

The discussion of the program supported by these funds can be found in our analysis of the Child Development Program in Item 268, Office of Educational Liaison, and Item 314, Department of Education.

Health and Welfare Agency

OFFICE ON AGING

Item 270 from the General Fund — Budget p. 655

Requested 1975–76	$1,237,054
Estimated 1974–75	1,218,420
Actual 1973–74	406,341
Requested increase $18,634 (1.5 percent)	
Total recommended reduction	$7,130

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Area Agencies on Aging. Recommend 1976 annual report contain evaluation of effectiveness and efficiency of the Area Agencies on Aging.	454
2. Nutrition Programs. Recommend review of inadequate funding of nutrition programs in view of inflationary costs.	455
3. Meals to Shut-Ins. Recommend 1976 annual report contain evaluation of need for and available funding for "meals on wheels" programs.	455
4. *Director's salary. Reduce by $7,130.* Recommend director's salary be reduced to a level more nearly commensurate with the duties and responsibilities of the office.	456

GENERAL PROGRAM STATEMENT

The California Office on Aging is authorized as the single state agency to administer funds which are allocated to the state under the federal Older Americans Act of 1965 as amended. Congress has funded two major parts of the act, Title III providing for the coordination of comprehensive services to the elderly, and Title VII creating low cost, nutritionally sound meals to needy senior citizens. The responsibilities of the office include comprehensive program planning and development, information and referral services and regional and community development regarding programs for the aging.

The office, operating under the authority of the federal Older Americans Act of 1965 as amended, and Sections 18300 through 18356 of the Welfare and Institutions Code, operates the following budget programs:

1. Program Implementation Division
2. Planning, Research and Evaluation Division
3. Operations Division
4. Director's Office
5. Commission on Aging

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $1,237,054, which is $18,634, or 1.5 percent, above anticipated current year expenditures. The total budget proposal, including federal funds, of $21,399,975, is an increase of $2,101,409, or 10.9 percent, over estimated current year expenditures. It is estimated that during the current fiscal year approximately $2 million will be spent for administrative costs of the office and the commission, $6.8 million will be available in cash grants to provide coordinated services for seniors and $8.9 million will be available in cash grants to fund nutrition projects throughout the state. In 1975–76 administrative costs are expected to increase by about one percent, cash grants for coordinated services to remain at the same level and cash grants for nutrition programs to increase 28 percent. Table 1 compares estimated total expenditures for 1974–75 with proposed costs for 1975–76.

Table 1
Estimated Total Expenditures of Aging Programs

Program Requirements	*Estimated 1974–75*	*Proposed 1975–76*	*Percent Change*
Office on Aging administrative costs	$1,789,790	$1,803,420	+0.9%
Commission on Aging administrative costs	209,380	214,384	+2.4%
Cash grants, coordinated services	6,798,200	6,798,200	—
Cash grants, nutrition projects	8,900,220	11,409,220	+28.2%
Special items of expense			
Flu vaccine	420,000	420,000	—
Reserve for nutrition	141,000	141,000	—
Model projects funding	613,751	613,751	—
Title IV-A training grant	281,225	—	−100.0%
Research grant	136,000	—	−100.0%
Total	$19,298,566	$21,399,975	+10.9%
General Fund	$1,218,420	$1,237,054	+1.5%
Federal Funds	$18,080,146	$20,162,921	+11.5%

OFFICE ON AGING—Continued

The nutrition funding shown in Table 1 requires explanation. The figures represent the cash-flow from more than one fiscal year appropriation because (1) the initial 1972–73 appropriation for nutrition projects of $8,-454,412 and the identical appropriation for fiscal year 1973–74 both reached the Office on Aging early in fiscal year 1973–74 and (2) most of the nutrition project requests and grant awards could not be processed until December 1973 or January 1974. Consequently, the nutrition projects are operating on what is essentially a calendar year basis utilizing funding primarily from the fiscal year which ended six months prior to the start of the project's operating year. A small amount of fiscal year 1973–74 funds were used during the first operating year.

Table 2 shows the reconciliation of fiscal year funding of the office with operational year funding of the projects.

Table 2
Reconciliation of Nutrition Funding

	Total funding of office (Actual and Estimated)	*First operational year of projects 1974 Actual*	*Second operational year of projects 1975 Estimated*	*Third operational year of projects 1976 Proposed*
Actual fiscal year 1972–73 appropriation	$8,454,412	$8,454,412	—	—
Actual fiscal year 1973–74 appropriation	8,454,412	139,921	$8,314,491	—
Estimated 1973–74 supplemental appropriation	594,729	—	594,729	—
Estimated 1974–75 appropriation	11,409,220	—	—	$11,409,220
Total		$8,594,333	$8,909,220	$11,409,220

Table 3 shows the distribution of the proposed 1975–76 General Fund appropriation compared with the estimated General Fund expenditures during 1974–75.

Table 3
Allocation of the General Fund Appropriation

	Estimated expenditures 1974–75	*Proposed expenditures 1975–76*	*Percent change*
State share of administrative costs (33.5%)			
Office on Aging	$588,534	$604,235	+2.7%
Commission on Aging	68,886	71,819	+4.3%
Reserve for Nutrition	141,000	141,000	—
Flu vaccine	420,000	420,000	—
Total	$1,218,420	$1,237,054	+1.5%

Table 4 compares the estimated number of man-years and total expenditures by program for the current year to those proposed for 1975–76.

PROGRAM IMPLEMENTATION DIVISION

The Program Implementation Division, through regional offices in Los Angeles, San Francisco and Sacramento, administers the two major pro-

Table 4
Man-Years and Gross Expenditures by Program

	Estimated man-years 1974–75	*Proposed man-years 1975–76*	*Estimated expenditures 1974–75*	*Proposed expenditures 1975–76*
Program Implementation Division	40.5	40.5	$16,725,417	$19,232,095
Planning, Evaluation and Research Division	8.0	8.0	314,979	180,343
Operations Division	28.9	28.9	1,851,913	1,574,777
Director's Office	6.0	6.0	196,877	198,376
Commission on Aging	2.0	2.0	209,380	214,384

grams for the aged authorized and funded through the Older Americans Act of 1965 as amended. These two programs are the coordinated services to the elderly and the nutrition projects for senior citizens. Both programs are operated through cash grants to local governmental jurisdictions or to private, nonprofit organizations.

Coordinated Services for the Elderly

Under Title III of the Older Americans Act of 1965 as amended, the primary goal is to establish within specified areas of the state a system of coordinated services for older persons, defined as those persons 60 years of age and older. The program is carried out through contracts negotiated by the Office on Aging with key agencies in each area. California identified 25 priority service areas in the state and contracted with agencies in each area to complete an initial plan for the area including the demographic data about the elderly population, services available, services needed, etc.

Area Agencies on Aging. Of the 25 priority service areas, 12 have been selected, on the basis of the percentage of the state's elderly population represented in each, for an Area Agency on Aging (AAA) designation. Contracts have been negotiated with each AAA making the agency responsible for planning and coordinating services to the elderly within its identified geographical area and for funding those social service projects which best meet the priority needs identified in the area plan. At this time the projects which are funded by the AAA must fall into the four statewide priority service needs of Outreach, Information and Referral, Escort (accompanying seniors shopping, to doctors appointments, to banks, etc.) and Transportation.

The 12 areas selected represent over 80 percent of the elderly population of the state. The office plans for five more AAA's to become operational on July 1, 1975, which will then cover about 90 percent of the elderly population of the state. As more funds become available, the remainder of the state will be covered by designated AAA's. Seven of the AAA's are a part of city or county governments. Each has responsibility for aging programs within the limits of the geographical boundaries of its political jurisdiction. Five AAA's, in contrast to the local government agencies, are part of nongovernmental planning bodies within their respective areas. All but one of these, Santa Clara Social Planning Council, represents the interests of the elderly in areas that include several counties.

OFFICE ON AGING—Continued

Evaluation of AAA Effectiveness and Efficiency

We recommend that the 1976 annual report of the Office on Aging to the Legislature contain an evaluation of the effectiveness and efficiency of the Area Agencies on Aging in meeting the needs of the elderly in this state.

Such a report should include information as to how many and what kind of local programs have been funded, what the total administrative costs are compared to funds spent for direct services, what kind of local government involvement has been procured through the AAA procedure, and how local government AAA's compare with private, nonprofit AAA's in terms of effectiveness and efficiency.

There has been a slow start in the implementation of direct service programs for the aged. The AAA's, as planning and coordinating bodies, are prohibited from operating any direct service programs. It has taken time for them to receive bids from direct service agencies and to make decisions to fund those projects which seem best suited to meet the priority needs of the aged in the area. A few programs are now beginning to operate, but it is too early to determine how effective they will be.

The selection and funding of AAA's themselves has proven to be a problem. There have been delays in program implementation due to inability to select the appropriate organization as the AAA in an area, that is, the selection of a governmental agency or a private nonprofit agency. As a modified system of special revenue sharing, more resources may be utilized in the program when the AAA is a part of local government rather than a private entity. One of the evaluation elements should be to compare the effectiveness of AAA's which are a part of the local government with those which are private, nonprofit entities.

Nutrition Projects

The objective of the Nutrition Program is to provide low-cost, nutritionally sound meals to needy senior citizens on a regular basis in attractive surroundings. The federal regulations require that each project be located in an area serving target groups of eligible persons having the greatest need for nutrition services. Criteria for selection of target groups include identification of elderly persons who do not eat adequately because of poverty, lack of knowledge, limited mobility or lack of motivation. Each nutrition project approved by the office must serve, in a congregate setting, a minimum of 100 nutritionally balanced meals daily, fives days or more a week.

The projects, which must also provide minimum social services to participants, are seen as one alternative to the institutionalization of seniors resulting from physical and mental deterioration caused by inadequate nutrition and/or personal isolation.

17,890 Meals Per Day in 1974. Approximately $8.5 million in federal funds were expended through the nutrition program during calendar year 1974. During that same period, the local agencies sponsoring the projects have matched federal funds with cash or in-kind contributions of $1.6 million. As of October 1974, there were 52 projects throughout the state serving 17,890 daily meals at 291 sites.

Inflation Will Reduce Meals by 20 Percent

We recommend that the fiscal committees review the problem created by inadequate funding of the nutrition program resulting from inflation.

Federal funding for the second year of operation of the nutrition programs was set at the same level of $8.5 million. Most of the projects have now been refunded for their second year of operation at the same level as their first year.

During 1974, inflation costs have doubled and triplied on many food items, thus reducing by an average 20 percent the number of meals which can be served for the same amount of funds. If additional funds are not forthcoming from some source, it will be necessary for the projects to close enrollment to seniors at the sites, assign days in which individuals can come or turn many more away on a first-come, first-served basis. According to a quarterly report for the period ending September 30, 1974, nutrition projects in California had turned away 9,765 unduplicated individuals during that quarter because of limited capacity. This figure could be significantly higher in the latter part of 1975 unless more funds are made available to maintain at least the current level of meals per day.

In December 1974 the president signed a bill which would provide approximately $2.5 million supplemental nutrition program funding to California. To date it is unknown whether the money is available for the current operational year. This should be explored with the office at the budget hearings.

Meals on Wheels Programs

We recommend that the 1976 annual report of the Office on Aging to the Legislature contain an evaluation of the need for and available funding for "meals on wheels" programs as a potential deterrent to institutionalization of the shut-in elderly.

A reported problem exists with the federal requirement that not over ten percent of the Title VII meals may be served to individuals in their own homes. Because the nutrition program for the elderly under Title VII is designed not only to provide nutritional meals but also to end personal isolation, 90 percent of the meals must be served in a congregate setting. However, some project directors note that this limitation hinders providing meals to shut-ins who are in need of one solid meal per day to remain well and in their own homes.

The "meals on wheels" programs which were formerly funded under Title III of the Older Americans Act can no longer be funded under that source. This leaves the numerous programs which have been delivering meals to shut-ins without an ongoing source of funds except those procured through local government and voluntary entities. The extent to which the program is a partial and viable alternative to institutionalization of the elderly shut-ins has not been established, but it is an issue which should be further explored to determine if a modified nutrition program providing for more in-home meals is needed and could be cost-beneficial in reducing institutionalization.

OFFICE ON AGING—Continued

PLANNING, EVALUATION AND RESEARCH

This division consists of a central group of eight persons which provides assistance to the AAA's in their statewide planning efforts as well as researches the effectiveness of programs for the aged, identifies unmet needs and assists the director in selecting priority needs and identifying alternative resources. The projected funding for this division is reduced by the amount of a federal research grant of $136,000 which is available only during the current year.

OPERATIONS DIVISION

The operations division provides support to the regional offices for personnel, budgeting, information and referral services, special projects, training, accounting and business services. There is a reduction in the projected funding of this program due to the termination of a federal grant of $281,225 which was available for the current year only for special training purposes.

Flu Immunizations for the Elderly

Included in the operations division program is a request for $420,000 to continue the program of flu immunizations for persons 65 years of age and older throughout the state. Through this program during the fall and winter of 1974 approximately 700,000 dosages were purchased and approximately 550,000 seniors received immunizations at no charge or a minimal administrative fee.

DIRECTOR'S OFFICE

Salary of Director

We recommend that the salary of the Director of the Office on Aging be set according to Government Code Section 11554, $34,104 annually, a reduction of $7,130.

Chapter 1080, Statutes of 1973, which created the Office on Aging, mandates that the director of the office be given the status of a department head and paid as "provided for by Chapter 6 (commencing with Section 11550) of Part I of Division 3 of Title 2 of the Government Code." The referenced section of the Government Code specifies the salary levels for groupings of officials in a manner generally commensurate with their responsibilities. No specific salary designation is given for the director of the Office on Aging.

During the past year the acting director of the office was a medical doctor who had previously carried broad administrative responsibilities as the director of the Health Department. As director of the Office on Aging and as a personal accommodation associated with his transfer he continued to receive the same salary as that set for the director of the Health Department.

The director's salary level as it appears in the budget for the Office on Aging is $40,308 annually. We are recommending a salary level which is the same as that set for the directors of the Departments of Rehabilitation, Conservation, Commerce and others which appears in the budget as $34,-

104. The difference, when salary benefits are added, will result in a savings of $7,130 to the General Fund.

COMMISSION ON AGING

The Commission on Aging consists of 15 members, nine appointed by the Governor, three by the Speaker of the Assembly and three by the Senate Rules Committee. The commission is mandated by Chapter 1080, Statutes of 1973, to (1) hold hearings throughout the state, (2) prepare, publish and disseminate materials dealing with the well-being of senior adults, and (3) act as the principal advocate body for the elderly in the state. The commission also advises the Governor, Legislature and director of the Office on Aging on problems of the aging. The commission has a statewide advisory body which represents seniors in the state on a prescribed population basis. This advisory body meets at least quarterly to make recommendations to the commission.

DEPARTMENT OF HEALTH

General Summary

Pursuant to the Governor's Reorganization Plan No. 1 of 1970, and subsequent legislation (Chapter 1593, Statutes of 1971, and Chapter 1002, Statutes of 1973) the Department of Health was created on July 1, 1973 by combining the former Departments of Mental Hygiene, Public Health, and Health Care Services, together with various functions of the Departments of Rehabilitation and Social Welfare.

In its present configuration the Department of Health is organized into five systems administering 17 programs. The following table illustrates the current organization of the department together with total funding for each program for fiscal years 1974–75 and 1975–76.

Table 1
Programs Administered by Department of Health

	1974–75	*1975–76*
Health Treatment Systems		
I. Mental disabilities program	$267,504,077	$300,585,167
II. Developmental disabilities	224,154,743	220,767,870
III. Substance abuse	55,300,153	54,426,579
IV. Operations and support	404,392	394,645
Health Financing Systems		
V. Medical assistance program	1,997,796,217	2,213,378,855
VI. Crippled children's services program	25,868,525	25,945,899
Health Protection Systems		
VII. Environmental health services program	10,303,723	10,384,250
VIII. Laboratory services program	8,584,868	8,635,575
IX. Preventive medical services program	46,350,258	45,845,204
X. Social services program	338,625,477	338,004,686
Health Quality Review Systems		
XI. Licensing and certification program	22,440,692	21,008,179
XII. Surveillance program	3,247,122	3,266,783
XIII. Disability evaluation program	35,242,599	35,530,781
Health Administrative Systems		
XIV. Health administration—distributed	(18,885,432)	(19,145,645)
Undistributed	7,364,154	7,364,154
XV. Comprehensive health planning	930,921	931,494
XVI. Legislative mandates	484,346	473,196
XVII. Special projects	32,415,649	48,919,953
TOTALS, PROGRAMS	$3,077,017,916	$3,335,863,270

The Governor's Budget proposes total direct appropriations and expenditures of $1,538,569,167 from various state funds to support the Department of Health in the 1975–76 fiscal year. Federal and other funds in the amount of $1,797,294,103 are also proposed to be expended by the department for a total expenditure in 1975–76 of $3,335,863,270. Table 2 lists the Budget Bill items which support the Department of Health together with the Analysis page on which they are discussed.

Table 2
Department of Health Budget Items

Item No.	Analysis Page	Description	Amount	Fund
271	459	Departmental Support	$35,564,519	General
272	460	Departmental Support	238,490	State Transportation
273	462	Mentally Ill—Judicially Committed	23,158,868	General
274	463	Local Mental Health Services	256,738,976	General
275	465	Alcoholism Programs	20,993,405	General
276	466	Drug Abuse Programs	11,658,777	General
277	467	Developmental Disabilities Program	193,762,035	General
278	474	Medical Assistance Program	918,588,591	General
279	494	Special Social Services	29,208,750	General
280	497	Local Health Services	41,565,378	General
281	504	Legislative Mandates	278,496	General
		Subtotal	$1,531,756,285	
		Other state funds available	6,812,882	Various
		Total State Expenditures	$1,538,569,167	

Department of Health

DEPARTMENTAL SUPPORT

Item 271 from the General Fund — Budget p. 667

Requested 1975–76	$35,564,519
Estimated 1974–75	34,973,208
Actual 1973–74	19,612,262
Requested increase $591,311 (1.7 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Departmental Support. Withhold recommendation pending legislative action on Items 272 through 281. 459

GENERAL PROGRAM STATEMENT

Support for the administrative functions of the Department of Health is provided by funds appropriated in Item 271 of the Budget Bill. Although shown in Table 1 of the Department of Health General Summary as the Health Administrative Systems, the majority of the dollars expended through this item, together with the proposed man-years, are distributed back to the other four systems of the department and are discussed under the programs within each of those systems.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on this item pending legislative action on Items 272 through 281 of the Budget Bill.

The budget proposes a General Fund appropriation of $35,564,519 to support the administrative functions of the Department of Health. This is an increase of $591,113, or 1.7 percent, above estimated current year ex-

DEPARTMENTAL SUPPORT—Continued

penditures. Included in this amount is $11,264,992 for administration of the Medi-Cal Program. The Medi-Cal administration amount is discussed in our review of the medical assistance program, Item 278.

Because the funds appropriated by this item are prorated to programs supported by other items in the Budget Bill, any changes made in such programs will be reflected as an adjustment to this item. We therefore withhold recommendation on Item 271 pending legislative action on Items 272 through 281. The results of such action can then be appropriately reflected against Item 271.

Department of Health

FORENSIC ALCOHOL ANALYSIS REGULATION AND MEDICAL EFFECTS OF AIR POLLUTION

Item 272 from the State Transportation Fund — Budget p. 667

Requested 1975–76	$238,490
Estimated 1974–75	229,205
Actual 1973–74	141,957
Requested increase $9,285 (4.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Laboratory Services Program of the Department of Health is responsible for implementation of regulations relating to forensic alcohol analysis. These regulations govern laboratories and persons performing tests to determine the concentration of ethyl alcohol in the blood of persons involved in traffic accidents or violations. Currently there are 85 licensed laboratories and approximately 500 persons licensed to perform forensic alcohol analysis. The laboratory staff conducts proficiency tests and written examinations for approximately 40 persons per quarter to qualify them to perform forensic alcohol analysis.

The Laboratory Services Program is also responsible for determining the medical effects of air pollution. In order to perform this activity, the program maintains three professional positions and one clerical position. The program coordinates its work closely with the Air Resources Board.

Both the forensic alcohol analysis and medical effects of air pollution responsibilities of the Laboratory Services Program are supported from the Motor Vehicle Account of the State Transportation Fund.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The proposed appropriation of $238,490 is $9,285, or four percent, above estimated current year expenditures. The increase is for merit salary adjustments and rising costs.

Health and Welfare Agency
DEPARTMENT OF HEALTH

Items 273, 274, 275, 276 and 277
from the General Fund Budget p. 667

Requested 1975–76	$506,312,061
Estimated 1974–75	477,146,125
Actual 1973–74	390,443,240
Requested increase $29,165,936 (6.1 percent)	
Total recommended reduction	$126,954

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
273	Mentally Ill-Judicially Committed	General	$23,158,868	462
274	Community Mental Health	General	256,738,976	463
275	Alcoholism Program	General	20,993,405	465
276	Narcotics and Drug Abuse Program	General	11,658,777	466
277	Developmental Disabilities Program	General	193,762,035	467
			$506,312,061	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Unfunded Positions. Recommend elimination of 24 unfunded positions at various state hopsitals. 462
2. Identification of Funds. Recommend budget Bill be amended to provide specific identification of funds within Item 274 budgeted for continuing care programs. 464
3. Abolition of OAPM. Recommend abolition of Office of Alcohol Program Management and transfer of personnel and functions to Department of Health (Item 275). 466
4. Abolition of SONDA. Recommend abolition of State Office of Narcotics and Drug Abuse and transfer of personnel and functions to Department of Health (Item 276). 467
5. *New Positions for Maintenance of Air Conditioning. Reduce Item 277 by $126,954.* Recommend deletion of nine proposed new positions at state hospitals. 469
6. Abolition of ODD. Recommend abolition of Office of Developmental Disabilities and transfer of personnel and functions to Department of Health. (Item 277) 469
7. Occupational Health. Recommend special review of the inspection function of Occuaptional Health Section of the Department of Health with respect to its duties under the provisions of the State Occupational Safety and Health Act (Cal-OSHA). 471
8. Health Contract Procedures. Recommend Department of Health report to Legislature by May 1, 1975 outlining the progress achieved in reforming its contract approval procedures. 473

DEPARTMENT OF HEALTH—Continued

HEALTH TREATMENT SYSTEM

The Health Treatment System is responsible for the administration of state hospital and community-based programs for persons who are mentally disordered, developmentally disabled, or drug or alcohol abusers. As shown in Table 1, five major appropriation items support the programs administered by this system.

Table 1
Programs and Proposed General Fund Appropriations
Health Treatment System

Budget Item	*Program*	*Proposed Amount 1975–76*
273	State Hospital Programs—Judicially Committed	$23,158,868
274	Community Mental Health Programs	256,738,976
275	Alcoholism Programs	20,993,405
276	Narcotics and Drug Abuse Programs	11,658,777
277	Developmental Disabilities Program	193,762,035
	Total General Fund Appropriations	$506,312,061
	Other General fund Expenditures	125,072
	Total	$506,437,133

Elimination of Unfunded Positions

We recommend that the 24 unfunded positions proposed in the Central Services Sections of various state hospitals be deleted.

Within the Health treatment system the budget document proposes the establishment of 24 various positions in the state hospitals. We are informed by the Department of Finance that these proposed new positions are shown in error inasmuch as the necessary funds were deleted from the Department of Health's original budget request. Because these positions were initially requested as a result of a federal court decision which is currently being appealed by California, we agree with the Department of Finance's decision to delete such positions pending the results of the appeal.

Item 273—State Hospital Programs for Judicially Committed Persons

This item includes the support for state hospital programs for mentally disordered persons who are judicially committed, committed pursuant to the Penal Code or for whom no county of residence can be determined. Services for such patients are paid 100 percent by the General Fund in contrast to services to patients through the provisions of the Lanterman-Petris-Short and Short-Doyle Acts, which are shared on a 90 percent state/10 percent county basis.

The Governor's Budget proposes General Fund support for programs funded by Item 273 in the amount of $23,158,868. This is a decrease of $4,134,219 or 15.2 percent from the estimated current year expenditure shown in the budget. However, because of a budgetary reassignment of fixed overhead costs from this program to the hospital component of the community mental health program during the current year, the budget does not accurately reflect the funding relationship between the current and the budget year for this item.

Table 2 compares the funding for this item as shown in the Governor's Budget with the revised funding after the current year overhead shift is calculated.

Table 2
Funding of Judicially Committed Patients After Overhead Charges Are Adjusted

Governor's Budget		*Revised for Overhead Shift*	
1974–75	$27,293,117	1974–75	$22,515,795
1975–76	23,158,868	1975–76	23,158,868
Difference	$–4,134,249	Difference	$+643,073

Thus, with current-year overhead properly assigned, the budget proposes to increase funding for this item by $643,073, or 2.9 percent over the current year. We feel this amount is justified based on current caseload projections.

Item 274—Community Mental Health Programs

The Department of Health is charged with the administration and support of the state's community mental health programs. This includes the maintenance of five state hospitals for the mentally disordered, and the provision of financial and technical assistance to 60 county and community mental health programs.

The budget appropriates funds to the Department of Health, which are then allocated to the 58 counties and two cities operating community mental health programs under the provisions of California's mental health legislation as embodied in the Short-Doyle and Lanterman-Petris-Short Acts. The law authorizes community mental health programs to provide various mental health services which are eligible for 90 percent state reimbursement.

Funds appropriated by this item support three distinct components of local mental health services (1) state hospital services (2) community-based inpatient and outpatient services, (3) continuing care (aftercare) services. Alcoholism and drug abuse services are discussed separately under Items 275 and 276 respectively.

Table 3 depicts the estimated and proposed state support for community mental health programs for 1974–75 and 1975–76.

Table 3
State Support for Community Mental Health Programs 1974–75 and 1975–76

	Estimated 1974–75	*Proposed 1975–76*	*Difference*	*Percent Increase*
Community-based (Short-Doyle) Programs	$155,980,906	$171,597,502	$15,616,596	10.0%
State Hospital Services	77,107,523	79,560,724	2,453,201	3.2
Continuing Care programs	5,250,000	5,580,750	330,750	6.3
Total	$238,338,429	$256,738,976	$18,400,547	7.7%

As shown in the above table the Governor's Budget proposes $18,400,547

DEPARTMENT OF HEALTH—Continued

more for the support of services provided by local mental health programs than is estimated to be expended during the current year. This represents an overall increase of 7.7 percent, with community based (Short-Doyle) programs receiving a proposed increase of 10.0 percent.

Table 3 shows a proposed increase in total expenditures for community mental health programs of $18,400,547. The budget document, however, indicates that the proposed increase is $36,820,412. This is because the budget document does not accurately reflect the assignment of state hospital overhead costs during the current year. Experience during the current year indicates that expenditures at the state hospitals for the mentally disordered will be $18,419,865 more than is indicated in the Governor's Budget. No fiscal effect is involved since these expenditures are funded by the transfer of underexpenditures of a like amount from hospitals for the developmentally disabled and judicially committed. The fact that the Governor's Budget does not contain this information, however, does lead to an inaccurate comparison between the current and budget years.

State Hospital Services

The budget proposes total expenditures of $79,560,724 for state hospital services provided through community mental health programs. Although the budget document indicates this to be an increase of $20.9 million, the estimated increase taking into account the overhead shift described above is $2,453,201, or 3.2 percent more than the amount estimated to be expended in the current year.

Average population in the state hospitals during the budget year is estimated to be 6,355, a decline of 75 patients from the current year.

The budget also proposes to continue 461 positions at the state hospitals for the mentally disabled which were administratively established during the current year. These positions were added as the result of a legislative agumentation to the Budget Act of 1974 and appear to be justified on a workload basis.

Community Mental Health Services

The budget proposes support for the state's share of community mental health (Short-Doyle) programs of $171,597,502, excluding $5,580,750 for continuing care services which is discussed separately below. The amount proposed for Short-Doyle programs represents an increase of $15,616,596, or 10 percent, above the amount estimated to be expended during the current year. We believe the budget proposal is adequate to meet the needs of the counties in the operation of their Short-Doyle programs.

Continuing Care Programs

We recommend that the Budget Bill be amended to provide for specific identification of the funds within Item 274 budgeted for continuing care programs.

The success of community mental health programs depends largely on the development and availability of services designed to prevent hospitalization initially, and the provision of supportive services after a period of hospitalization to reduce the incidence of readmission. Such services have formerly been called precare and aftercare services, but are now designated by the Department of Health as continuing care services.

Such services are required by law to be provided by Short-Doyle programs, and for the past two fiscal years the Legislature has specifically earmarked funds for allocation to the counties to support continuing care programs. In the current year $5,250,000 was appropriated for the support of new continuing care programs. The budget proposes to continue funding for such programs in the amount of $5,580,750, an increase of $330,750 or 6.3 percent.

In prior years, the Legislature has designated a specific sum for the support of community care programs in the Budget Act. We recommend that this practice be continued by amending the Budget Bill to provide for specific identification of the funds within Item 274 which are budgeted for continuing care programs.

Short-Doyle Allocation Task Force

Historically, the funding level for local mental health (Short-Doyle) programs has been subject to controversy. For each of the past three fiscal years the Legislature has augmented the amount proposed in the Governor's Budget. At the same time, however, large unexpended balances were being experienced in the program. As a result of this anomaly the Governor vetoed Item 293.2 of the Budget Act of 1974, which would have provided an additional $10 million to Short-Doyle programs. (This amount, together with an additional $5.25 million was subsequently made available through the enactment of Chapter 567, Statutes of 1974).

As part of his veto message on Item 293.2 the Governor announced the formation of a state-local task force to study the problems associated with the distribution of state funds to Short-Doyle programs and to make appropriate recommendations for change so as to facilitate Short-Doyle funding.

The task force, whose members represented the executive and legislative branches, the counties, and the private sector, completed its work on December 30, 1974. Twenty-nine recommendations relating to all phases of the Short-Doyle program have been submitted to the Director of Health for his review.

It is hoped that the new administration will carefully review these recommendations because their implementation could result in a more efficient utilization of the funds appropriated for the support of local mental health programs.

Item 275—Alcoholism Programs

The Department of Health and the Office of Alcohol Program Management (OAPM) are jointly responsible for the administration of state and federal funds for the prevention, treatment, and rehabilitation programs that deal with alcohol abuse and alcoholism. Although this item appropriates funds to the Department of Health, the Budget Act specifies that all expenditures are subject to the review and approval of OAPM.

Funds from this item are allocated through the community mental health (Short-Doyle) system to county alcoholism programs established pursuant to the provisions of Chapter 1137, Statutes of 1973. Local programs are responsible for planning, consultation, grant review, and the

DEPARTMENT OF HEALTH—Continued

provision of services directly or through contract arrangements with private or other public programs.

Abolition of Office of Alcohol Program Management

We recommend that the Office of Alcohol Program Management (OAPM) be abolished and that its personnel and functions be transferred to the substance abuse program of the Department of Health.

The budget proposes total support for alcoholism programs of $27,653,542. This includes a General Fund appropriation of $20,993,405 in Item 275, and federal funds in the amount of $6,660,137. The General Fund amount proposed for the budget year is $569,353, or 2.5 percent, less than the amount estimated to be expended in the current year, while federal funds are projected to decline by $1,602,186 or 19.4 percent. In both cases this is the result of the allocation of funds for one-time alcoholism related special projects in the current year. Such projects are not, therefore, part of the 1974–75 budget base upon which the 1975–76 appropriation is derived.

Within this item are funds to support the Office of Alcohol Program Management (OAPM) which was created within the Health and Welfare Agency by statute in 1970. Its original duties were to assist the Health and Welfare Secretary in the coordination of alcoholism activities in the state. In addition to its consultative and planning functions OAPM was charged with the annual submission of a program budget for alcoholism services. Additionally, the office served as a device to give visibility to programs for the prevention and treatment of alcoholism.

Because alcoholism programs are funded through the community mental health (Short-Doyle) system by an appropriation made to the Department of Health, the department has the major responsibility for the administration of such programs. Moreover, the creation of a single Department of Health with overall responsibility for all substance abuse programs obviates the need for a separate office at the agency level. Accordingly, we recommend that OAPM be abolished and that its personnel and functions be integrated within the substance abuse program of the Department of Health. This recommendation, if adopted by the Legislature, would essentially implement a similar recommendation made by a private consultant retained by OAPM during the current year to review and evaluate its operations.

Item 276—Narcotics and Drug Abuse Programs

The health treatment system of the Department of Health is responsible for the administration of the state's Drug Treatment Act (Chapter 1255, Statutes of 1972). This involves working through the community mental health system because the care and treatment of narcotics and drug abusers is a responsibility shared by the state and the counties. Additionally, in cooperation with the State Office of Narcotics and Drug Abuse (SONDA), the department shares responsibility for the approval and regulation of methadone maintenance programs, the review and coordination of drug research projects, and the development of a state plan for drug abuse prevention.

Abolition of State Office of Narcotics and Drug Abuse

We recommend that the State Office of Narcotics and Drug Abuse (SONDA) be abolished and that its personnel and functions be transferred to the substance abuse program of the Department of Health.

The budget proposes total support for narcotics and drug abuse programs of $24,636,166. This includes a General Fund appropriation of $11,658,777 made by Item 276, additional General Fund support of $125,072 available from Chapter 1255, Statutes of 1972, and $12,852,317 in federal funds.

The proposed General Fund expenditure is an increase of $1,068,490 or 9.9 percent above the current year, and available federal funds are projected to increase by $227,328 or 1.8 percent. The major portion of these funds are to be allocated to the counties to carry out their responsibilities for the administration of the narcotics and drug abuse portion of the community mental health (Short-Doyle) program.

Included in this item are funds for the support of the State Office of Narcotics and Drug Abuse (SONDA) which is located in the Health and Welfare Agency. SONDA was created by statute in 1972 to assist the Secretary for Health and Welfare in the coordination of state programs for the prevention and treatment of narcotics and drug abuse.

The passage of Chapter 1255, Statutes of 1972 (SB 714) placed the responsibility for operation of narcotic and drug abuse programs with the counties. These programs are operated with funds allocated by the Department of Health from the appropriation made by this item. Such programs need to be coordinated to prevent overlap and duplication, but we believe that such coordination is best effected at the program level, i.e., the substance abuse program of the Department of Health.

Consolidation of the Department of Health obviates the need to have a separate office at the agency level concerned with similar functions. For these reasons we recommend that the State Office of Narcotics and Drug Abuse be abolished and that its personnel and functions be transferred to, and integrated with, the substance abuse program of the Department of Health.

Item 277—Programs for the Developmentally Disabled

The Department of Health is responsible for administering those programs which provide services to persons who are mentally retarded or developmentally disabled. There are three major components to the programs funded by this item:

1. Regional centers located throughout the state which provide services designed to evaluate, diagnose, refer and place mentally retarded and developmentally disabled persons in appropriate public and private basic living and care.
2. State hospital programs which provide state managed care, treatment and life maintenance services at the request of the regional centers.
3. Protective living and social services provided either by the state or directly by those regional centers which have chosen not to participate in the state-operated program.

DEPARTMENT OF HEALTH—Continued

The Governor's Budget proposes total expenditures for the Developmental Disabilities program of $208,066,392. This amount consists of a General Fund appropriation of $193,762,035, federal funds in the amount of $12,404,357, and $1,900,000 in family repayments. Family repayments are proposed at the same level as estimated in the current year, while federal funds are estimated to increase by $318,380 or 2.6 percent.

The General Fund amount proposed for appropriation in 1975–76 appears to be $3,894,292 less than the amount estimated to be expended during the current year, thus indicating a program reduction. However, this is not the case. The budget does not accurately reflect the current year situation with respect to the assignment of fixed overhead costs in the state hospitals. Current year experience indicates that approximately $13.6 million in fixed overhead costs should be shifted from the state hospitals for the developmentally disabled to the state hospitals for the mentally ill. Table 4 compares expenditures for the current and budget year to reflect this shift in overhead.

Table 4
Funding of Developmental Disability Program After Overhead Charges Are Adjusted

Governor's Budget		*Revised for Overhead Shift*	
1974–75	$197,656,327	1974–75	$184,013,784
1975–76	193,762,035	1975–76	193,762,035
Difference	$−3,894,292	Difference	$+9,748,251

Thus, Table 4 indicates that the budget actually proposes a General Fund increase of $9,748,251, or 5.3 percent for these programs.

Regional Centers

By law, all direct health related services for the developmentally disabled are to be provided through a network of regional diagnostic, counseling, and service centers. Currently, there are 19 such centers operated by local agencies under contract with the Department of Health.

The budget proposes total support for the regional centers of $48,929,809 which is an increase of $5,505,831 or 12.7 percent above the current year. This will provide full-year funding for the three new centers which opened during the current year, and an additional $1,130,000 to continue on a full-year basis the supplemental care program for developmentally disabled persons in nursing facilities.

State Hospital Services

The Department of Health operates programs for the developmentally disabled at nine state hospitals. Admission to state hospital programs is obtained only through the regional center. There is estimated to be an average of 10,260 patients resident in state hospitals during 1975–76. This represents a minor increase from the 10,097 estimated for the current year.

The budget proposes total support for state hospital programs for the developmentally disabled of $145,105,394. Although this appears to be a decrease of $9,200,344 from the amount estimated to be expended in the current year, it actually represents an increase of $4,442,119 when the shift in current year overhead discussed above and shown in Table 4 is considered.

New Positions for Maintenance of Air Conditioning

We recommend deletion of four electrician I and five refrigeration engineer positions at the state hospitals for a General Fund savings of $126,954.

The budget proposes the creation of nine new positions at the state hospitals for the developmentally disabled. These positions are requested "to maintain air-conditioning systems which are in the process of being completed at various state hospitals." The following table lists the proposed staffing by hospital.

Table 5
Positions Requested for Maintenance of Air Conditioning Systems

Hospital	*Positions requested*
Agnews	1 Electrician I, 1 Refrigeration engineer
Fairview	1 Refrigeration engineer
Pacific	1 Electrician I, 1 Refrigeration engineer
Porterville	1 Electrician I, 1 Refrigeration engineer
Sonoma	1 Electrician I, 1 Refrigeration engineer

Each of the above hospitals was authorized by the Budget Act of 1973 to air condition all wards which house developmentally disabled patients. For various reasons the air conditioning projects have been subject to lengthy delay. It is not at all certain that any project will be completed before the end of the 1975–76 fiscal year. The positions listed above are not required until the projects are completed.

For these reasons, we recommend that the nine positions proposed to maintain air conditioning systems be deleted for a General Fund savings of $126,954.

Protective Living Services

The budget proposes the expenditure of $12,260,542 in state and federal funds for the provision of protective living services to the developmentally disabled. These funds support the community services section of the department and provide for the payment of placement costs of regional center clients who are placed in public or private protective living facilities.

The amount proposed for the budget year is an increase of $491,709 or 4.2 percent above the current year.

Abolition of Office of Developmental Disabilities

We recommend that the Office of Developmental Disabilities be abolished, and that its personnel and functions be transferred to the developmental disabilities program of the Department of Health.

Included in this item are funds for the support of the Office of Developmental Disabilities (ODD). Established administratively in the Health and Welfare Agency in 1970, ODD has no statutory duties or authority. It was created by the agency secretary to coordinate and oversee the implementation of the Lanterman Mental Retardation Services Act of 1969.

DEPARTMENT OF HEALTH—Continued

This act (subsequently amended and renamed the Lanterman Developmental Disabilities Act) forms the basis for the Developmental Disabilities program administered by the Department of Health. Since the implementation of the Lanterman Act, the primary function of ODD has been to act as staff to the State Developmental Disabilities Planning and Advisory Council.

Because ODD has no statutory basis for continued existence, and because the Department of Health is responsible for the administration of the Developmental Disabilities program, we feel that ODD should be abolished and its functions absorbed by the Department of Health. Continued staff support for the Developmental Disabilities Council can be supplied by departmental personnel.

HEALTH FINANCING SYSTEM

The Health Financing System of the Department of Health is composed of the California Medical Assistance Program (Medi-Cal) and the Crippled Children's Services Program (CCS). Because both the Medi-Cal and CCS programs are funded by separate budget items, our analysis of both programs is to be found under Items 278 (Medi-Cal) and 280 (CCS).

HEALTH PROTECTION SYSTEM

The objectives of the Health Protection System are (1) to control or eliminate environmental health hazards, (2) to prevent and control infectious diseases, and (3) to protect families and individuals against social disruption or social disorganization.

The Health Protection System is composed of the Environmental Health Services Program, the Laboratory Services Program, the Preventive Medical Services Program, and the Social Services Program.

Proposed Health Protection System Expenditures

The budget proposes total expenditures for the Health Protection System of $402,869,715. This represents a decrease of $994,611 from the current year.

Table 6 shows total expenditures for the system by source of funds for 1974–75 and 1975–76, together with proposed staffing.

Table 6
Health Protection System
Staffing and Expenditure Data

	Estimated 1974–75	*Proposed 1975–76*
General Fund	$65,477,604	$65,004,716
Federal Funds	263,755,272	263,410,339
State Transportation Fund	229,205	238,490
County Funds	41,192,972	41,192,972
Reimbursements	33,209,273	33,023,198
Total System Expenditures	$403,864,326	$402,869,715
Man-Years	1,331.1	1,331.1

Because the funds which support the Health Protection System are appropriated by several separate items in the Budget Bill, our analysis and recommendations regarding funding will be discussed under the analysis of each item.

New Positions

Although Table 6 shows total staffing for the Health Protection System at the same level in the budget year as the current year, it does not reflect the fact that 48.0 positions were added administratively during the current year and are proposed to be continued in the budget year. Such positions, therefore, have not been subject to legislative review.

We have reviewed these 48.0 positions and find them to be justified on the basis of workload and legislation passed during the last session of the Legislature.

Occupational Health Section

We recommend special review of the inspection function of the Occupational Health Section of the Department of Health with respect to its duties under the provisions of the State Occupational Safety and Health Act (Cal-OSHA).

Under the provisions of the Labor Code and pursuant to an interagency agreement between the Department of Industrial Relations and the Department of Health, the Occupational Health Section is required to inspect or investigate specific workplaces for potential health hazards. All such investigations and inspections are made at the request of the Department of Industrial Relations (DIR).

The Department of Health may, upon request by DIR or on its own initiative, conduct special investigations or studies of occupational health hazards, provided that such investigations or studies are unrelated to a specific enforcement action or workplace. However, this happens rarely.

Thus, the workload of the Occupational Health Section is generated almost exclusively by requests for inspection by DIR personnel. Such personnel, while skilled in inspection for industrial safety hazards, are less skilled in the determination of whether or not an occupational health hazard exists. This is borne out by the fact that less than two percent of the inspections performed by the Occupational Health Section at the request of DIR have resulted in the elimination of a serious health hazard. A serious health hazard is defined as one that presents substantial probability of death or physical harm.

It appears reasonable to assume that if the Occupational Health Section were able to generate more of its own workload with respect to inspections, a greater number of serious health hazards would be uncovered, thus making the entire occupational health and safety program more effective.

It also appears that without any change in state or federal law, the Occupational Health Section could be more efficiently utilized by directing it to inform the Department of Industrial Relations what types of workplaces would most likely benefit from an occupational health inspection. DIR could then request that the section perform inspections in such workplaces.

Because the Occupational Safety and Health Act is administered and enforced by the Division of Industrial Safety within the Department of

DEPARTMENT OF HEALTH—Continued

Industrial Relations, we recommend that the Legislature give special review to the inspection functions of the Department of Health under that act to determine whether those functions can be made more effective under existing law.

HEALTH QUALITY REVIEW SYSTEM

The objective of the Health Quality Review System of the Department of Health is to assure that an acceptable quality of health care is delivered to the citizens of the state at a reasonable cost to the taxpayer.

The Health Quality Review system is composed of the Licensing and Certification Program, the Surveillance Program and the Disability Evaluation Program.

Proposed Health Quality Review System Expenditures

The budget proposes total expenditures for the Health Quality Review System of $59,805,743. This represents a decrease of $1,124,670 from the current year.

Table 7 shows total expenditures for the system by source of funds for 1974–75 and 1975–76, together with proposed staffing.

Table 7
Health Quality Review System
Staffing and Expenditure Data

	Estimated 1974–75	*Proposed 1975–76*
General Fund	$6,879,068	$7,221,330
Federal Funds	47,895,721	46,464,027
Other Funds	3,441,327	3,304,680
Reimbursements	2,714,297	2,815,706
Total System Expenditures	$60,930,413	$59,805,743
Man-Years	2,312.8	2,312.8

The General Fund and other funds to support the Health Quality Review System are appropriated by several items in the Budget Act. Analysis and recommendations as to the expenditure of these funds are discussed in the analysis of those budget items.

A total of 3.6 positions were administratively added to the Health Quality Review System during the current year. These positions are proposed to be continued in the budget year. Our review of these positions indicates that they are justified on a workload basis.

HEALTH ADMINISTRATIVE SYSTEM

The Health Administrative System of the Department of Health provides the staff support necessary for the daily operation of the programs administered by the department. This includes fiscal and budgetary control, personnel operations, training and staff development, and data processing.

Support for the Health Administrative System is contained in budget Items 271 and 281. As discussed on page 459 of the analysis, we have withheld recommendation on Item 271, but have recommended approval of Item 281, discussed on page 504.

During the current year 106.3 positions were administratively added to various units within the Health Administrative System. The budget proposes to continue these positions in the 1975–76 fiscal year. Our review of these positions indicates that they are justified on either a workload basis or as the result of new legislation.

Department of Health Contract Procedures

We recommend that the Department of Health submit a report to the Legislature by May 1, 1975, outlining the progress achieved in reforming its contract approval procedures.

In response to a legislative request, we performed a study of the process by which contracts between the Department of Health and local family planning clinics are processed and approved. Most of these contracts are standard agreements for services, are for one fiscal year, and are with the same contractors each year. One would anticipate few problems or delay in the approval process.

We found, however, that contracts with effective dates of July 1, 1974 had not been approved until November 1974. As a result, contractors were having to reduce services or borrow money to stay in operation because claims for reimbursement could not be filed until contracts were formally approved.

Our study revealed unnecessary procedures in the Departments of Health, Finance and General Services resulting in delay at virtually every step of the approval process.

As a result of our study, we recommended an alternative procedure which will enable family planning contracts authorized for 1975–76 to complete the approval process by middle or late July. It is our understanding that the Department of Health plans to implement our recommended procedure.

It was also determined during the course of our study that other Department of Health contracts, totaling about $400 million dollars, were subject to lengthy delay in the approval process, resulting in delays in the implementation of many programs and unnecessary hardships to providers.

Although the Department of Health has indicated its willingness to implement reforms in the contract approval process, we recommend that the department be directed to report to the Legislature, by May 1, 1975, on the progress of such implementation, particularly with respect to its relationship with the Departments of Finance and General Services.

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CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

Item 278 from the General Fund — Budget p. 672

Requested 1975–76	$918,588,591
Estimated 1974–75	826,283,305
Actual 1973–74	656,357,390
Requested increase $92,305,286 (11.2 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Spring Caseload. Withhold recommendation pending (1) review of May caseload and (2) receipt of more complete information regarding current and budget year projections. 476
2. Audits Division Report. Recommend Department of Health submit response to Department of Finance, December 1974 Medi-Cal report, to Assembly Health and Senate Health and Welfare Committees. 481
3. Inflationary Costs. Recommend funds contained for three inflationary factors, including Medi-Cal, be subdivided into three budget items for individual funding. 484
4. Increased Administrative Costs. Withhold recommendation on funds budgeted for administration of Medi-Cal Program pending the revision of May caseload estimates. 485
5. Transfer of Health Operations. Recommend the Health Operations Branch and associated functions of the Audits and Collections Division in the Department of Benefit Payments related to the Department of Health be transferred back to the Department of Health. 486
6. County Administration. Withhold recommendation on proposed county administration amount of $76,305,000 for 1975–76 and recommend it be placed in a separate budget item. 487
7. County Administration. Recommend Department of Health present to Legislature at budget hearings its program for limiting county administration costs to $59.6 million. 487
8. Fiscal Intermediary. Withhold recommendation on the proposed fiscal intermediary amount of $35,254,664 for 1975–76 and recommend it be placed in separate budget item. 489
9. Check-write Frequency. Recommend Department of Health further reduce number of Medi-Cal program checkwrites to decrease administrative costs of the Medi-Cal program, and decrease annual interest earnings lost. 490
10. Insufficient Information Prepaid Health. Recommend Department of Finance, in conjunction with the May revised caseload estimates, provide Legislature with more 491

detailed information regarding the prepaid health plan and pilot project program budget projections.

11. Fund Manipulation. Recommend (1) language contained in Item 278, insuring General Fund monies in excess of the state's share in Medi-Cal Program costs are not transferred to the Health Care Deposit Fund, be strengthened; and (2) a monthly report be prepared by the Department of Health containing a summary of fund condition and cash flow for the Health Care Deposit Fund. 491
12. Medi-Screen. Recommend Department of Health submit status report to the Legislature on the Medi-Screen program and the coordination of the Medi-Screen program with the Child Health Disability Prevention program. 492

GENERAL PROGRAM STATEMENT

The California Medical Assistance Program (Medi-Cal), a joint federal-state program authorized by Title XIX of the Social Security Act, began March 1, 1966, following enactment of Chapter 4, Statutes of 1965, Second Extraordinary Session. The Medi-Cal Reform Program became effective October 1, 1971, following enactment of Chapter 577, Statutes of 1971 (AB 949).

The Medi-Cal Program

Medi-Cal is the state's medical assistance program providing health care services to eligible people who cannot pay the full cost of medical care. It provides medical assistance to families with dependent children, to those aged, blind and disabled individuals and to other residents whose income and resources are either insufficient to meet the cost of medical services or are so limited that their application to the cost of such care would jeopardize future minimum self-maintenance and security.

Medi-Cal Reform Program

The Medi-Cal Reform Program (MRP) created significant changes in the Medi-Cal Program in the following areas: (a) eligibility, (b) scope of benefits and prior authorization, and (c) county shares in the funding of the program. Eligibility was expanded to cover county medically needy children and adults who are under 65 and not linkable to the categorical welfare programs. This group was previously referred to as county medically indigent and was a responsibility of the individual counties. The state participated in the cost of care for this group under the county option portion of the program. The option program was repealed effective October 1, 1971.

There are now four groups of eligibles (1) public assistance recipients, who are individuals receiving cash grant payments under the state's Aid to Families with Dependent Children Program and aged, blind and disabled individuals receiving payments under the Supplemental Security Income State Supplementary Payment Program, (SSI/SSP); (2) medically needy only welfare-linked persons (MNO), who meet the requirements of one of the four welfare categories but have sufficient funds to meet daily needs and therefore do not receive cash grant payments; (3) medically

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

indigent children, under the age of 21 who reside with their families, who are medically needy on the basis of their income and resources; and (4) medically indigent adults, from age 21 to 65 and those ceremonially married persons under 21 who are financially unable to purchase necessary health care.

All eligibles are entitled to receive Title XIX services provided by physicians, dentists, hospitals, nursing homes, etc. These benefits are divided into two parts: a uniform basic schedule of benefits and a uniform supplemental schedule of benefits. For each beneficiary, no supplemental benefit shall be utilized until the corresponding basic benefit has been exhausted.

The county share, or county participation in the funding of the Medi-Cal Reform Program (MRP), is specified in law and increased each year by the percentage change in the modified assessed valuation for each county. County, federal and state funds are deposited in the Health Care Deposit Fund, from which all payments for Medi-Cal program costs are made.

Table 2 shows Medi-Cal Program expenditures by source of funds from the inception of the program.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending (1) a review of the May caseload estimates and revised average cost estimates and (2) receipt of more complete information regarding the budget preparation process and the current and budget year projections.

The budget proposes General Fund expenditures of $918,588,591 for the California Medical Assistance Program which is $92,305,286, or 11.2 percent, more than is estimated to be spent during the current fiscal year. These amounts exclude General Fund transfers from other items to sup-

Table 1
Total Medi-Cal Costs

	Actual 1973–74	*Estimated 1974–75*	*Proposed 1975–76*
Health Benefits:			
Professional services	$396,582,578	$422,971,800	$430,324,506
Prescription drugs	98,862,831	118,871,400	143,901,721
Dental care	72,042,076	58,633,344	61,773,358
Hospital inpatient	534,893,005	667,346,856	781,631,114
State hospitals	58,305,535	74,423,600	75,637,100
Nursing homes and intermediate care	299,689,806	335,694,200	337,116,280
Other services	112,739,348	101,241,900	109,671,520
Title XVIII B buy-in	36,057,021	36,724,800	38,974,000
Prepaid health plans	—	103,891,100	141,238,352
Totals, Health Benefits	$1,609,172,200	$1,919,799,000	$2,120,267,951
Administration:			
State support, Benefit Payments	—	$3,162,946	$3,112,339
State support, Health	$25,548,695	26,577,116	26,923,333
County support	60,834,078	59,600,000	76,305,000
Fiscal intermediary	39,193,768	33,000,000	35,254,664
Totals, Administration	$125,576,541	$122,340,062	$141,595,336
Total, Medical Assistance Program	$1,734,748,741	$2,042,139,062	$2,261,863,287

Not incl Dr. & drugs & etc

Table 2
Medi-Cal Program Expenditures by Source of Fund

Fiscal year	*Federal funds*	*Percent of Total*	*County funds*	*Percent of Total*	*General Fund*	*Percent of Total*	*Total Program*
1966–67 (16 mos.)	$423,259,897	42.8%	$248,551,734	25.1%	$317,831,853	32.1%	$989,643,484
1967–68	287,599,365	40.7	210,495,556	29.8	208,086,833	29.5	706,181,754
1968–69	400,919,296	42.6	214,354,302	22.8	325,375,195	34.6	940,648,793
1969–70	509,826,800	45.6	216,260,843	19.3	392,917,016	35.1	1,119,004,659
1970–71	553,292,023	44.0	214,906,441	17.1	489,797,959	38.9	1,257,996,423
1971–72	601,233,594	44.5	241,260,000	17.8	509,240,952	37.7	1,351,734,546
1972–73	631,476,354	43.6	255,780,000	17.6	561,573,257	38.8	1,448,829,611
1973-74	770,323,530	44.4	269,247,277	15.5	695,177,934	40.1	1,734,748,741
1974–75[a]	867,011,598	42.5	296,826,395	14.5	878,301,069	43.0	2,042,139,062
1975–76[a]	967,781,325	42.8	322,056,639	14.2	972,025,323	43.0	2,261,863,287
	$6,012,723,782	43.4%	$2,489,739,187	18.0%	$5,350,327,391	38.6%	$13,852,790,360

[a] Estimated expenditures based on Governor's Budget.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

port the Medi-Cal Program. Total General Fund support for Medi-Cal is discussed on page 482 of this analysis. In addition to these appropriations, the budget shows funds from other sources including federal and county funds to bring the total program expenditure to $2,261,863,287 which is $219,724,225, or 10.8 percent, more than is estimated to be spent during the current fiscal year. Table 1 shows the program expenditures by type of service and by type of administrative cost.

Table 3 presents the source of funding for the Medi-Cal Program.

Table 3
Source of Funding for the Medi-Cal Program

	Actual 1973–74	*Estimated 1974–75*	*Proposed 1975–76*
State funds	$695,177,934	$878,301,069	$972,025,323
Federal funds	770,323,530	867,011,598	967,781,325
County funds	269,247,277	296,826,395	322,056,639
Total Medi-Cal	$1,734,748,741	$2,042,139,062	$2,261,863,287

Table 4 shows the average monthly Medi-Cal caseload as presented in the Governor's Budget.

Table 4
Average Monthly Medi-Cal Caseload

	Actual 1973–74	*Estimated 1974–75*	*Projected 1975–76*	
Totals (Medi-Cal)	2,239,619	2,415,200	2,629,716	
Cash grant	1,914,658	2,025,300	2,175,516	
Old age security	294,500	315,700	369,046	
Aid to the blind	14,105	13,000	13,000	
Aid to the totally disabled	223,933	265,400	301,600	
Aid to families with dependent children	1,382,120	1,431,200	1,491,870	
Medically needy I[a]	65,467	64,700	64,100	
Aged	47,539	46,000	44,600	are in
Blind	1,056	1,000	1,000	nursing
Disabled	7,345	8,000	8,600	homes
Families	9,527	9,700	9,900	
Medically needy II[b]	96,112	126,500	156,800	
Aged	13,297	13,800	14,400	
Blind	99	100	100	
Disabled	7,378	7,800	8,200	
Families	75,338	104,800	134,100	
Medically indigent	163,382	198,700	233,300	
Children	51,106	60,000	68,600	
Adults	112,276	138,700	164,700	

[a] Reduced grant and long-term nongrant persons.
[b] Persons who are categorically linked, but do not qualify for money payments because their income and/or resources exceed maintenance levels but are insufficient to meet their health care needs.

Inadequacy of Budget Estimates

Table 5 shows estimates of Medi-Cal program expenditures for fiscal year 1974–75 chronologically from the first estimate to the most recent estimate.

Table 5
MEDI-CAL PROGRAM ESTIMATES FOR FISCAL YEAR 1974–75

	As proposed in Governor's Budget 1/10/74	*May Revise 5/74*	*Budget Act 7/1/74*	*First Quarter Report 10/74*	*As revised in Governor's Budget introduced 1/10/75*
Total Services	$1,520,625,700	$1,817,812,800	$1,812,412,800	$1,796,877,700	$1,919,799,000
Administrative support for:					
Department of Benefit Payments	1,803,612	2,875,406	3,196,894	3,196,894	3,162,946
Department of Health	23,904,451	23,904,451	26,577,116	26,577,116	26,577,116
Fiscal Intermediary	38,864,105	33,500,000	30,800,000	33,000,000	33,000,000
County Administration	43,703,649	59,600,000	59,600,000	76,400,000	59,600,000
Total Administration	$108,275,817	$119,879,857	$120,174,010	$139,174,010	$122,340,062
Total Medi-Cal	$1,628,901,517	$1,937,692,657	$1,932,586,810	$1,936,051,710	$2,042,139,062
Percentage change from preceding column estimate		+19%	−0.3%	+0.2%	+5.5%

The Governor's Budget as introduced in January 1974 proposed Medi-Cal program expenditures of $1,628,901,517 for fiscal year 1974–75. In May 1974 the Department of Finance requested a revised Medi-Cal program budget of $1,937,692,657, an increase of 19 percent, or $308,791,140, over the original proposal. The Budget Act as signed by the Governor June 30, 1974 was based on a Medi-Cal Program budget of $1,932,586,810, or a 0.3 percent reduction of $5,105,847 from the May revision.

In response to the substantial unexpected increase requested in the May revision, the Legislature added control language to the Budget Act requiring quarterly reports. The language directed the Department of Health to submit by September 1, December 1 and April 15 to the Department of Finance the assumptions underlying all estimates related to (1) the average monthly caseload for the medically needy and medical indigent; (2) the average cost for each category of service and each category of recipient; (3) total estimated expenditures for each category of service; and (4) savings or costs associated with all regulatory or statutory changes. The Department of Finance must approve or modify the assumptions underlying all estimates and forward departmental estimates, assumptions and supporting data to the Joint Legislative Budget Committee by October 1, January 1 and May 15.

The first quarter report was received by our office in late October. It estimated Medi-Cal Program expenditures at $1,936,051,710 for the current year. This figure was 0.2 percent or $3,464,900 above the Budget Act.

Approximately two and one-half months later, the Governor's Budget as introduced January 10, 1975, estimated Medi-Cal Program expenditures for the current year at $2,042,139,062. This figure is 5.5 percent, or $106,087,352, above the October 1974 quarter report estimate. We question how there can be such a discrepancy.

Furthermore, the most recent estimate of $2,042,139,062 is 25.4 percent, or $413,237,545 above the $1,628,901,517 estimated in January 1974. We have reservations about the adequacy of the budget preparation process because the Medi-Cal Program estimates furnished us in past Governor's Budgets and May revisions have proven to be erratic and unreliable. For instance, we could not obtain current and budget year estimates of average costs for each category of service and each category of recipient. Nor could we obtain information related to current and budget year utilization trends. We believe such information is essential for preparing revised current and budget year projections.

Failure to Report

Additionally, Section 14120 of the Welfare and Institutions Code specifies that the Director of the Department of Benefit Payments is to report monthly to the Director of Finance and to the Joint Legislative Budget Committee actual total payments and payments for categories of services. These reports have not been submitted for a year.

Department of Finance, Audits Division Report

We recommend that the Department of Health prepare a response to the Department of Finance, December 1974 Medi-Cal report, and submit it to the Assembly Health and Senate Health and Welfare Committees in May 1975.

The Department of Finance, Audits Division, issued a comprehensive three-volume review of the entire Medi-Cal Program in December 1974. We have not had an opportunity to review this material thoroughly. However, the report contains many recommendations for change and identifies numerous problem areas that warrant further investigation and based on a preliminary review, it appears to us that these merit thorough review and consideration. We believe that the Legislature should have an opportunity to consider the response of the Department of Health to this Medi-Cal report.

1974–75 Fiscal Year Budget

A review of the reconciliation of current year General Fund expenditures with current year appropriations shows an estimated General Fund deficit of $65,499,659. In order to eliminate this deficit, the budget proposes two General Fund deficiency appropriations consisting of $65,070,859 for medical assistance and $428,800 for fiscal intermediaries. These appropriations would generate a total of $109,552,252, all funds, to cover the estimated increase in program costs for the current year.

The Department of Finance could not provide us with specific information regarding the increased costs. Because of this lack of information and the fact that prepaid health plan expenditures were shown separately for the first time, as depicted in Table 2, we are not able to discuss the revised budget in detail at this time. However, we do know that the revised estimates (1) included $2.7 million for increased reimbursement rates in professional services; (2) excluded savings from increased federal funding for claims processing; (3) excluded any increase for county administration costs in excess of appropriations; and (4) excluded the impact of potential federal cutbacks in the Medi-Cal Program. Each of these factors may have a significant impact on the May revised estimates and are discussed in more detail under separate sections following the overview of the budget.

Net Cost to General Fund of $58.2 Million

Table 6 summarizes the reconciliation with appropriations for General Fund support of the Medi-Cal Program for the 1973–74, 1974–75 and 1975–76 fiscal years.

Estimated General Fund expenditures for rate increases in professional services are $2,678,900 for the current year assuming these increases will only be granted for the last three or four months of 1974–75. However, a total of $10,000,000 was appropriated from the General Fund for this pur-

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Table 6
Direct State Support for Medi-Cal

General Fund	*Actual 1973–74*	*Estimated 1974–75*	*Proposed 1975–76*
Budget Act appropriation:			
Medical assistance	$603,184,575	$696,233,546	$918,588,591
Fiscal intermediary	—	17,371,200	—
County administration	—	44,500,000	—
Medical assistance augmentation	23,400,000	—	—
General Fund repayment	50,500,000	—	—
Rate increases	—	10,000,000	—
HMO loans	500,000	430,000	430,000
Special study	50,000	—	—
Salary increases	640,279	—	—
Totals available	$678,274,854	$768,534,746	$919,018,591
HMO loans available	−430,000	−430,000	−430,000
Savings	−21,487,464 [a]	−7,321,100	—
Proposed deficiency appropriations			
Medical assistance	—	65,070,859	—
Fiscal intermediary	—	428,800	—
Total Expenditures	$656,357,390	$826,283,305	$918,588,591

[a] All savings are from the $50.5 General Fund repayment and are shown in 1973–74 because the Controller's Office has not encumbered them for 1974–75 expenditure.

pose. Therefore, the net result is an estimated General Fund savings of $7,321,100 for the current year as shown in Table 6. In the event that the rate increases are not granted by the administration, or approval is delayed, additional savings will result.

Taking into account the estimated savings from the appropriation for rate increases of $7,321,100 and the proposed deficiency appropriations of $65,499,659, the net increased cost to the General Fund for the revised current year estimate is $58,178,559.

1975–76 Fiscal Year Budget

Although Item 278 proposes an appropriation of $918,588,591 for the budget year which is $92,305,286 (11.2 percent) more than the current year estimate, the entire General Fund support of the Medi-Cal Program is not included in this item. Excluded from the item are transfers from the Short-Doyle program and administrative support for the Departments of Health and Benefit Payments. When these are added, the overall General Fund support for the Medi-Cal program is increased to $972,025,323 for a net increase of $96,523,564, or 11.0 percent, over the current year estimate as shown in Table 7 below.

Table 7
Total State Support for Medi-Cal

	Estimated 1974–75	*Proposed 1975–76*
Direct support	$826,283,305	$918,588,591
Transfer from Short-Doyle	36,436,100	40,522,200
Transfer from Department of Health—Administration	11,105,993	11,264,993
Transfer from Department of Benefit Payments—Administration	1,676,361	1,649,539
State Support Totals	$875,501,759	$972,025,323

Budget Assumptions for 1975–76

The following is a summary of our comments regarding the budget assumptions listed on page 672 of the Governor's Budget. The italicized phrases correspond to the assumptions listed in the budget.

1. *Department of Health will establish rates of reimbursements for inpatient hospital services.* Section 232 of Public Law 92-603 (HR 1) allows a state to establish reimbursement rates for the reasonable costs of inpatient hospital services for the Medicaid (Medi-Cal) Program with the approval of the Department of Health, Education, and Welfare (DHEW) provided such rates do not exceed those established for the Medicare Program. Increased costs for inpatient hospital services have been limited to 10 percent in the budget projections although they were previously estimated to increase as much as 17.7 percent by the state Department of Health, DHEW and our office. Therefore, one would assume the new reimbursement rates must curtail costs by as much as 7.7 percent. At the present time, there are no proposed new rates. If new rates are not developed and approved by the start of the budget year, significant cost increases could be incurred.

2. *Hospital utilization will not increase over the 1974–75 level.* This assumption is based on the most current utilization trend information supplied by the Department of Health to the Department of Finance. However, we have already pointed out in our discussion of the estimating procedures and have shown in Table 5 that the department's estimates for utilization have been very erratic. In the event utilization increases, budgetary deficiencies could rise.

3. *County participation in the cost of the program will increase by 8.5 percent over 1974–75 level.* This is a reasonable assumption on the growth in assessed valuation.

4. *Federal participation in the costs of claims processing will be increased from 50 percent to 75 percent.* This assumption was not used for the current year budget and the latest indications we have are that significant problems still exist that would prevent approval for the increased funding. Little headway has been made with the federal government in this area during the last six months. If approval is not granted or is delayed, General Fund costs will increase.

5. *Professional services utilization will increase by eight percent over the current year level.* We have requested the Department of Finance to supply us with the information that supports this assumption but have been told it is unavailable. The Medi-Cal budget does not include funds for the increased provider reimbursement rates in the same manner as was done in the current year estimates. Funds for this purpose are contained in Item 97.

6. *Provider and contract reimbursing rates will remain unchanged.* Provisions for increases in these rates are contained in Item 97 but the amount earmarked for Medi-Cal is unspecified.

7. *Counties will be reimbursed for administration on the same basis for the budget year as they are for the current year.* County administration is discussed in detail on page 487.

8. *Retroactive coverage for three months instead of one month will be*

funded for the entire year. This is mandated by HR 1 and state law.

9. *Full-year funding for the new renal dialysis program is included in the budget.* This is also mandated by state law.

In addition, the budget includes $16 million General Fund, or a total of $32 million all funds, for an increase in utilization that was distributed throughout the benefit categories. However, the amount distributed to each benefit category cannot be identified in the budget material.

Increases for skilled nursing and intermediate care facility reimbursement rates over the current year levels are not included in the budget. The reasons for a proposed increase of less than one percent for this service category were not furnished to us by the Department of Finance.

In summary, the proposed Medi-Cal budget for 1975–76 has been based on a number of assumptions that may become invalid and estimates that have been historically inconsistent and unreliable. Areas of major concern to us are (1) proposed curtailing of hospital inpatient rates; (2) utilization estimates; (3) potential federal funding cutbacks; and (4) the many questions we have asked that remain unanswered. These areas of question and concern could result in substantial program increases by the time the May revised caseload estimates are released.

In relation to hospital inpatient, skilled nursing and intermediate care cost controls, the budget does not mention any proposed coordination between the Department of Health and the California Health Facilities Commission. Legislation requires the commission to develop for submission to the Legislature not later than July 1, 1975 a proposal for an economic stabilization program to retard inflationary increases in hospital costs and prices. Therefore, there should be coordination between these two agencies as soon as possible.

Inflationary Costs (Item 97)

We recommend that Item 97 be subdivided into 3 items so that the appropriate amounts for the three elements included in Item 97 can be individually funded. The amount placed in the item for the Medi-Cal program should be adjusted to reflect the information contained in the May caseload estimates.

The Medi-Cal budget assumptions indicate that funding for increases in provider reimbursement rates and contract costs in the professional services, prescription drugs, dental care, other services and prepaid health plan benefit categories are included in Item 97. However, the $85 million contained therein has not been scheduled for distribution and unknown portions of these funds will be allocated for general cost increases and used to fund increased employee benefits under the total equivalent Compensation (TEC) plan. As proposed, this money would be allocated by executive order of the Director of Finance. This proposal and the fact that the funds have not been scheduled within the Budget Act appropriation prevent the Legislature from being able to insure that a specified amount from this item will be distributed to the Medi-Cal Program.

Administration of the Medi-Cal Program

Under the supervision of the Secretary for Health and Welfare, the State Departments of Health and Benefit Payments are responsible for administration of the Medi-Cal program. County welfare or public health departments, acting as agents of county boards of supervisors and subject to the supervision and regulations of the Department of Health, are responsible for receiving and processing applications for Medi-Cal eligibility for the medically needy and medically indigent. Effective January 1, 1974 California contracted with the federal government to perform Medi-Cal eligibility determination for aged, blind and disabled recipients under the SSI/SSP Program.

The fiscal intermediaries, Blue Cross North, Blue Cross South and Blue Shield, which have joined together to form the Medi-Cal Intermediary Operations organization (MIO), process and pay all provider claims after eligibility has been determined.

State administrative costs consist of program control and coordination, and eligibility determination and services payments. County costs are related to eligibility determination made by county departments of welfare or public health.

Table 8 shows the total estimated cost incurred for administration in fiscal years 1973–74, 1974–75 and 1975–76.

Table 8
Estimated Med-Cal Cost for Administration from the Health Care Deposit Fund 1973–74 through 1975–76

	Actual 1973–74	*Estimated 1974–75*	*Proposed 1975–76*
Administrative support for:			
Department of Benefit Payments	-	$3,162,946	$3,112,339
Department of Health	$25,548,695	26,577,116	26,923,333
Total State	$25,548,695	$29,740,062	$30,035,672
Fiscal Intermediary	39,193,768	33,000,000	35,254,664
County Administration	60,834,078	59,600,000	76,305,000
Total	$125,576,541	$122,340,062	$141,595,336

Increased Administrative Cost

We withhold recommendation on the funds budgeted for the administration of the Medi-Cal Program pending the revision of May caseload estimates and receipt of more information on the estimated and projected figures for county administrative costs.

The total budgeted administrative costs represent 6.3 percent of the benefits estimated to be paid by the Medi-Cal program during the budget year as compared to 6.0 percent for the current year. The bulk of the administrative costs are related to the average monthly Medi-Cal caseload, volume of claims processed and the number of eligibility determinations made in the counties.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

State Administration

Table 9 shows estimated state administrative costs for Medi-Cal in fiscal years 1973–74, 1974–75 and 1975–76.

Table 9
Estimated Med-Cal Cost for State Administration from the Health Care Deposit Fund

	Actual 1973–74	*Estimated 1974–75*	*Proposed 1975–76*
Administrative support for:			
Department of Benefit Payments	–	$3,162,946	$3,112,339
Department of Health	$25,548,695	26,577,116	26,923,333
Total	$25,548,695	$29,740,062	$30,035,672
Percent change		+16.4%	+1.0%

The total budgeted state administrative cost for the Medi-Cal Program for the budget year is $30,035,672. This represents an increase of 1.0 percent over the current year estimate of $29,740,062.

There are no major Medi-Cal position changes in the current or proposed budget. However, the budget proposes the establishment of 6.5 clerk II positions in the Health Plans Operations Section to monitor and verify the enrollment of Medi-Cal persons in prepaid health plans.

The Department of Benefit Payments was established by Chapter 1212, Statutes of 1973. Certain responsibilities formerly of the Department of Health were transferred to it. These include: (1) management of the Health Care Deposit Fund; and (2) claims processing, payment and audit activities of health programs (e.g., Crippled Children's Services and Short-Doyle).

The $3,162,946 estimated for the current year and the $3,112,339 projected for the budget year as shown in table 9 represent the cost of administrative services rendered the Medi-Cal Program by the Department of Benefit Payments. Benefit Payments is responsible for identifying and collecting funds due the Health Care Deposit Fund via third party liability, other health insurance coverage and health provider overpayments.

We believe the functions related to health programs that were transferred to the Department of Benefit Payments properly should reside within the Department of Health where the programs are administered. The Department of Finance review of the Medi-Cal Program examined and commented on the relationship between the Department of Health and the Department of Benefit Payments. Those comments should be thoroughly reviewed.

Transfer of Health Operations

We recommend that the Health Operations Branch and associated functions of the Audits and Collections Division in the Department of Benefit Payments related to the Department of Health, including management of the Health Care Deposit Fund be transferred back to the Department of Health.

The transfer of the Department of Benefit Payments Medi-Cal functions back to the Department of Health would require legislative action. The Health Operations budget in the Department of Benefit Payments is estimated at $4,402,294 for the current year and $4,292,114 for the budget year. These figures include the $3,162,946 current year and $3,112,339 budget year projection of Department of Benefit Payment support to the Medi-Cal Program.

County Administration

We withhold recommendation on the proposed county administration amount of $76,305,000 for 1975–76. In addition, we recommend that the General Fund portion of the amount be placed in a separate budget item.

We recommend that the Department of Health present to the Legislature at budget hearings its program for limiting county administration costs to $59.6 million in the current year.

County administration costs are for eligibility determination of the medically needy and medically indigent. Medically needy eligibility is determined quarterly and medically indigent eligibility is determined monthly. The eligibility determination costs for the medically needy and medically indigent children are shared 50-50 between the federal government and the state. The medically indigent adult eligibility costs are 100 percent state funded.Table 10 shows estimated cost for county administration for fiscal years 1973–74, 1974–75 and 1975–76.

Table 10
Estimated Cost for County Administration from the Health Care Deposit Fund

Actual 1973–74	*Estimated 1974–75*	*Proposed 1975–76*
$60,834,078	$59,600,000	$76,305,000

Table 11 shows medically needy and medically indigent caseload estimates for fiscal years 1973–74, 1974–75 and 1975–76.

Table 11
Medically Needy and Medically Indigent Caseload Estimates

	Actual 1973–74	*Estimated 1974–75*	*Projected 1975–76*
Medically needy	161,579	191,200	220,900
Medically indigent	163,382	198,700	233,300
Total	324,961	389,900	454,200
Percent increase over previous year		+20%	+16.5%

Budget Year Estimate for County Administration

The Governor's Budget proposes $76,305,000 for the budget year which is an increase of $16,705,000, or 28 percent, over the current year estimate of $59,600,000. The Governor's Budget states as an assumption that counties will be reimbursed for administration in the budget year on the same basis as authorized in the current year with adjustments for increased caseload and increased costs. We have been advised that the 28 percent increase of $16,705,000 proposed for the budget year consists of a 10 percent price increase and an adjustment for an increased caseload over the current year.

We question the current and budget year estimates and the methodology used to arrive at these estimates because they appear to bear no relationship to actual program experience.

Table 12 shows county administration estimates chronologically presented for fiscal year 1974–75.

Table 12
Estimated Medi-Cal County Administrative Costs for Fiscal Year 1974–75

As Proposed in Governor's Budget 1/10/74	*May Revision 5/74*	*Budget Act 7/1/74*	*First Quarter Report 10/74*	*As revised in Governor's Budget Introduced 1/10/75*
$43,703,649	$59,600,000	$59,600,000	$76,400,000	$59,600,000
Percent change from previous estimate	+36.4%	—	+28.2%	−28.2%

Current Year Expenditures for County Administration

The Governor's Budget as introduced in January 1974 proposed Medi-Cal county administration expenditures of $43,703,649 for fiscal year 1974–75. In May 1974, the Department of Finance requested a revised county administration budget of $59,600,000 or a 36.4 percent increase of $15,896,-351 over the original estimate. The Budget Act as signed by the Governor included the $59,600,000 for county administration costs.

In May we recommended that the Legislature place General Fund support of county administration in a separate budget item to facilitate monitoring county administration costs. Item 298.2 was established with $44.5 million which represented the General Fund share of the $59.6 million for the current year. Language was added to the item specifying that the $44.5 million would fully cover the state's share of payments for county administration of the Medi-Cal program for the 1974–75 fiscal year. We believe this practice should be continued for the budget year.

The October 1974 quarterly report for Medi-Cal estimated county administration expenditures for the current year at $76,400,000 for a 28.2 percent increase of $16,800,000 over the $59,600,000 estimate reflected in the Budget Act. However, the Governor's Budget as introduced January 10, 1975 estimates the current year county administration costs at $59,600,-000 for a decrease of 28.2 percent from the October estimate.

According to Table 11, caseload for the current year is estimated to be 64,939, or 20 percent higher than the actual 324,961 caseload in fiscal year 1973–74, when county administrative expenditures were $60,834,078.

The department could not explain how it plans to decrease program costs by $1,234,078 while caseload increases by 20 percent in the current year. Therefore, we recommend that the Department of Health present its program for limiting county administration costs to $59.6 million in the current year to the Legislature at budget hearings.

Fiscal Intermediaries

At the inception of the Medi-Cal program, three fiscal intermediaries, Blue Cross North, Blue Cross South and Blue Shield, acting under separate contracts with the State Department of Health Care Services, processed and paid all claims for payment submitted by providers of services to Medi-Cal eligibles. In early 1970, the department executed a contract with a joint venture of insurance companies and a computer services corporation called Health Care Systems Administrators (HCSA) to implement the Medi-Cal Management System (MMS) on a prototype basis and to process claims in two counties. Prototype operations began in Santa Clara and San Diego Counties in August 1972 and were terminated in June 1974. The MMS prototype operations were terminated after the Department of Health at the direction of the Legislature, went out to bid for a single claims processing system. The three proposals submitted were rejected and the administration decided to continue under the three existing contracts with the three organizations. In 1973, the three intermediaries joined together in an organization called Medi-Cal Intermediary Operations (MIO) for the purpose of processing Medi-Cal claims. All claims under the regular fee-for-service Medi-Cal Program are now processed by MIO.

Prepaid health plans, pilot projects and dental services, which are currently provided on a capitation rate basis or under special contract, are excluded from the regular fee-for-service claims processing. To the extent these programs are expanded, there is a reduction in the volume of claims processed by the fiscal intermediaries and a net savings in administrative costs.

Budget Year Estimate for Fiscal Intermediary

We withhold recommendation on the proposed fiscal intermediary amount of $35,254,664 for 1975–76 pending receipt of information to justify the budget year proposal. In addition, we recommend that the General Fund portion of the amount be placed in a separate budget item.

The total support for fiscal intermediaries is estimated to increase by 6.8 percent or $2,254,664 in the budget year. The Governor's Budget states that the 2½ million beneficiaries receive services from over 75,000 providers in an annual submission of over 28 million claims.

No data are provided as to the estimated number of claims to be processed by the fiscal intermediaries in the current and budget years or the average cost per claim for the current and budget years. We cannot determine from the available information if the 6.8 percent increase in the budget year is to be attributed to an increase in the number of claims processed, a price increase, or a combination of the two.

Additionally, the Legislature placed General Fund support for fiscal intermediary operations in a separate item in the Budget Act of 1974 at our recommendation. This action insures that the Legislature reviews any additional funds necessary for fiscal intermediary operations. We believe this practice should be continued. The General Fund share in the total support for fiscal intermediary operations of $35,254,664 is $15,680,600.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

Current Year Estimate for Fiscal Intermediary

As evidenced in the current year budget shown in Table 6 on page __ a deficiency appropriation of $428,800 is being requested for fiscal intermediary support. Separate legislative hearings will be held on this subject following introduction of the deficiency appropriation bill.

Check-Write Frequency

We recommend that the Department of Health further reduce the number of Medi-Cal program check-writes in order to decrease administrative costs and annual interest earnings lost to the General Fund.

Under existing policy, check-writes are being conducted by the fiscal intermediaries twice a week for professional services and once a week for prescription drugs. Until recently, all check-writes were being conducted on a twice a week basis. The reduction of check-writes for prescription drugs to once a week was made upon a recommendation of the Department of Health. The recommendation also presented a plan of graduated reductions in check-write frequency which would reduce the number of General Fund transfers to the Health Care Deposit Fund and allow for more interest to be earned on General Fund monies. That portion of the recommendation was not adopted by the administration. In addition to the added interest, a reduction in administrative costs would occur.

The recommendation cautioned that provider relations could be impaired as a result of a reduction in check-write frequency because it would reduce cash flow available to the provider. However, even if the average turnaround time from the billing date to the date of payment were increased from the current 10.4 day average to 30 days for Medi-Cal claims, the cash flow available to the provider would be better than that generally experienced in the private sector, other government programs and the Medicaid (Medi-Cal) programs of some other states. We do not believe that a graduated reduction in the number of check-writes potentially reaching once a month would jeopardize the provider participation in the Medi-Cal Program.

Estimated savings as presented in the Department of Health request are as follows:

Check-Write Savings

	4 per month	*2 per month*	*1 per month*
Interest earnings	$407,587	$2,392,921	$5,364,701
Administrative cost	86,661	173,322	346,644
Total annual savings	$494,248	$2,566,243	$5,711,345

Prepaid Health Plans and Pilot Projects

The Medi-Cal Reform program (MRP) encourages the administrators of Medi-Cal to the extent feasible, to provide health care to Medi-Cal eligibles through a system of prepaid health plans. A prepaid health plan is any association of providers of medical and health services who agree with the Department of Health to furnish directly and indirectly health services to Medi-Cal beneficiaries on a predetermined periodic rate basis. The department is also authorized to establish pilot projects in this area.

Insufficient Information on Prepaid Health Plans

We recommend that the Department of Finance, in conjunction with the May revised caseload estimates, provide the Legislature with more detailed information regarding the prepaid health plan and pilot project program budget projections, including support for caseload projections and a summary of program savings since the Medi-Cal Reform Program (MRP).

As we indicated earlier, and as shown in Table 2, prepaid health plans are displayed in a different way for the current and budget years than in previous budgets. This breakout prevents comparisons between the new estimates and prior year estimates for expenditures by benefit category and does not provide a distribution of prepaid health plan expenditures by benefit category. In addition, caseload estimates for prepaid health plans have been combined with caseload estimates for pilot projects and are not listed separately in the budget material. Furthermore, the May 1974 revised estimate for total prepaid health plan program costs was $82.2 million for the current year and the estimate contained in the Governor's Budget is for $103.9 million or an increase of 26.4 percent. The reasons for this substantial increase have not been explained. We cannot recommend approval of the budget year estimates for prepaid health plans, which increase by another 35.9 percent to $141.2 million, until the reasons for the current and budget year growth in this program have been provided along with more detailed program information.

Last year we requested information regarding prepaid health plan savings estimates released by the Department of Finance and during the budget hearings, representatives of the department said that such information would be supplied. We have not received this information. Therefore, we again request that the department provide us with a summary of prepaid health plan program savings since the inception of the program.

Fund Manipulation

We recommend: (1) the language contained in Item 278 insuring that General Fund monies in excess of the state's share in Medi-Cal Program costs are not transferred to the Health Care Deposit Fund be strengthened and that transactions necessary to repay to the General Fund any monies due from the Health Care Deposit Fund be closed out at the end of each fiscal year beginning in 1974–75 on a cash accounting basis; and (2) that a monthly report prepared by the Department of Health containing a summary of the fund condition and cash flow for the Health Care Deposit Fund be given to the Department of Finance and the Joint Legislative Budget Committee.

During the last four years the General Fund end of year surplus was inflated on occasions because of poor expenditure estimates in the Medi-Cal Program. The original poor estimating procedures resulted in significant increased General Fund appropriations, when the May revised budget estimates were presented. However, some General Fund surplus monies were also used to increase General Fund Medi-Cal expenditures without increasing appropriations.

As explained during last year's budget hearings by the Departments of Health and Finance, the Health Care Deposit Fund borrowed money from the General Fund surplus to pay the federal and county shares in Medi-Cal program costs, in lieu of the receipt of the federal and county funds. Therefore, General Fund monies in excess of the Budget Act appropriations were being spent for the Medi-Cal Program. These loans were to be paid off upon receipt of the federal and county funds and considered as receivables in the General Fund surplus estimates.

In last year's budget an attempt was made to pay back the General Fund loans by appropriating a separate General Fund amount for this purpose. The reason given by the departments as to why this appropriation was necessary was that they did not believe the federal and county funds would be collectable. This was not so. In actuality, the Health Care Deposit Fund borrowed monies from the General Fund to pay the state's share in Medi-Cal Program cost overruns. Thereby, the need for deficiency appropriations was unnecessary.

The separate General Fund appropriation in Section 14.3 of the Budget Act of 1974 was for $50.5 million to liquidate outstanding obligations to the General Fund. The budget shows that $29,012,536 was expended in 1973–74 leaving a savings for that year of $21,487,464 from this item. However, information from the controller's office indicates that $30 million was expended, leaving a savings of $20.5 million. Representatives of the Department of Health say they have used the funds appropriated by this item to liquidate the General Fund monies owed to the General Fund by the Health Care Deposit Fund and not for the federal or county funds owed. The Controller's records show a net of $19 million due to the General Fund from the Health Care Deposit Fund. The Department of Health disagrees. At the time of the preparation of this Analysis the issue remained unresolved.

Language added to the Medi-Cal General Fund support items in the Budget Act of 1974 was intended to prevent situations like those discussed above from occurring beyond the 1973–74 fiscal year. However, the language only requires the Department of Health to certify that it is not paying for more than the state's share of Medi-Cal costs with General Fund monies. We believe this language should be strengthened by including a verification by another state agency and requiring the closeout of all General Fund transactions at the end of each fiscal year.

Finally, the month-to-month status of the Health Care Deposit Fund is currently monitored by only the Controller's Office and the Department of Health. We recommend that the Department of Finance and the Joint Legislative Budget Committee be provided monthly status reports by the Department of Health.

Medi-Screen

We recommend that the Department of Health submit a status report to the Legislature by April 15, 1975 on the Medi-Screen program and the coordination of the Medi-Screen program with the Child Health Disability Prevention program.

An early and periodic screening, diagnosis and treatment program, called Medi-Screen in California, is required by federal law to be available to all Medi-Cal children under the age of 21. The purpose of Medi-Screen is to prevent, detect and correct physical and mental abnormalities before serious medical problems develop.

Federal law provides a reduction penalty of one percent on federal AFDC funding effective July 1, 1974, if a state does not meet certain requirements specified in federal regulations. The program began in California on January 1, 1973. In fiscal year 1973–74, 19,356 children out of an eligible Medi-Cal population of approximately 1.1 million children were screened. During the first three months of the current year, an additional 5,910 children were screened.

The federal government has indicated informally that California's program appears to be out of compliance in a number of areas. These include the (1) method by which Medi-Cal eligible children are informed of the availability of screening services; (2) absence of a statewide Medi-Screen provider network; and (3) lack of a data system to document that conditions uncovered during screening are being followed up with diagnostic and treatment services.

We are further advised that the likelihood of California being assessed the one percent AFDC penalty is small. This is because 48 other states are having similar difficulties with their Medi-Screen programs and would have to be assessed penalties too. Also, the federal government has recently indicated a strong desire to work with the states to eliminate the problems precluding implementation of the Medi-Screen Program.

The Budget Act of 1974 stated in Item 298, the Medi-Cal appropriation, that funds appropriated for the Medi-Screen Program be allocated and administered in conjunction with funds appropriated in Item 300(e) for the Child Health Disability Prevention Program (CHDP). The CHDP Program is discussed on page 502.

SCR 117—County Health Care Study

The Legislature passed Senate Concurrent Resolution 117 on August 31, 1974. SCR 117 directs the Legislative Analyst, in conjunction with the County Supervisors' Association of California and the State Department of Health, to conduct a study on the role of counties in health care delivery and report to the Legislature by May 1, 1975.

The resolution was the result of a recommendation in the *1974–75 Analysis of the Budget Bill* that a long-range study be performed on the role of the counties in health care delivery. The analysis recommended that the following areas be included in the study (1) county share development under Medi-Cal, (2) eligibility determination and program administration and (3) the role of counties in health care delivery.

At the initial meetings held in October of the SCR 117 participants, it was decided that a thorough long-range study could not be completed by the May deadline. Instead, the study will be conducted in two-phases. The first phase will address short-term issues and be completed late this spring and the second phase will address long-term issues and be finished later this year.

Presently a questionnaire is being developed that will be sent to all 58 counties regarding their current and historical involvement in health care programs since the inception of Medi-Cal in 1966. This questionnaire is being developed because no centralized source of information relative to individual county involvement is available.

Department of Health
FOR COST OF SPECIAL SOCIAL SERVICE PROGRAMS

Item 279 from the General Fund — Budget p. 691

Requested 1975–76	$29,208,750
Estimated 1974–75	29,176,750
Requested increase $32,000 (0.1 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Homemaker and Chore Service. Withhold recommendation pending review by Legislature of level of funding of homemaker and chore service for both current and budget years. 494

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending a review by the Legislature of the level of funding of homemaker and chore service for both the current and budget years.

This item appropriates the General Fund money budgeted to match federal funds coming to California for certain social service programs.

A total of $29,208,750 is proposed from the General Fund (a $32,000 increase from the current year) to match federal funds for homemaker and chore service, and to completely fund the adoptions and demonstration projects programs for which there is no federal matching funds.

Table 1
Social Service Programs Funded by Item 279

	1974–75			1975–76		
	State	Federal	Total	State	Federal	Total
Homemaker/Chore	$16,250,000	$48,750,000	$65,000,000	$16,250,000	$48,750,000	$65,000,000
Adoptions	12,726,750	—	12,726,750	12,758,750	—	12,758,750
Demonstration projects	200,000	—	200,000	200,000	—	200,000
Totals	$29,176,750	$48,750,000	$77,926,750	$29,208,750	$48,750,000	$77,958,750

Item 279 also lists six other social service programs which are administered by the state. The General Fund matching money is budgeted in other items with language authorizing the transfer of funds to this item to match available federal funds. The six programs and the state and federal funding for 1975–76 are as follows:

Program	*State*	*Federal*	*Total*
Child Development Services	$15,921,314	$47,013,942	$62,935,256
Child Protection	—	3,473,864	3,473,864
Regional Centers	1,753,300	5,260,000	7,013,300
Community Rehabilitation	4,333,300	13,000,000	17,333,300
Blind Counselors	35,000	105,000	140,000
CWEP Evaluation and Service Centers	125,669	377,005	502,674
	$22,168,583	$69,229,811	$91,398,394

The State Department of Health is considered the single state agency by the federal government for the purpose of administering the federal social service funds that come to California. The department does this by directly administering programs itself, by contracting with other state agencies which administer programs, and by reviewing the county administration of programs.

We have withheld recommendation on this item pending a review by the Legislature of the level of funding of homemaker and chore service for the current and budget years.

The responsibility for supervision of this and other social service programs is located within the Health Protection System of the Department of Health.

The Social Services Program

Social services are provided under the authority of Titles IV-A, IV-B and VI of the Social Security Act and are designed to assist former, current, and potential welfare recipients to attain self-support or self-sufficiency, or to strengthen family life. Required services are (1) information and referral, (2) protective services for the aged, blind, or disabled, (3) protective services for children, (4) employment, manpower, and training services, (5) services to strengthen individual and family life, (6) child support services, (7) money management services, (8) out-of-home services for the aged, blind, or disabled, (9) out-of-home services for children, (10) day care services for children, (11) health-related services, (12) family planning, (13) chore services for the aged, blind and disabled, and (14) homemaker services for the aged, blind, and disabled. Services are delivered by county welfare departments, and the State Departments of Health, Education, Rehabilitation, and Employment Development. The Social Services Program in the State Department of Health is the overall supervisor of social service programs.

Public Law 92-512, the "Revenue Sharing Act," limited national social service funds to $2.5 billion annually to be divided among the states on the basis of population. California's 1975–76 share is $245.5 million. These funds must be matched by state and county funds on a 75 percent federal and 25 percent state and county basis. PL 92-512 also provided that funds could be expended on an unlimited basis for past, present, and potential welfare recipients in the areas of child care, family planning, aid to the mentally

FOR COST OF SPECIAL SOCIAL SERVICE PROGRAMS—Continued

retarded, drug addiction, alcoholic rehabilitation, and foster homes. In other areas, 90 percent of the funds must be spent on current welfare recipients.

On January 3, 1975, the President signed into law the Social Services Amendments of 1974, which will go into effect October 1, 1975. Some of the major provisions give the states more latitude in defining social services, and require them to prepare annual comprehensive services plans, but the most significant change is in eligibility: First, only 50 percent of social services expenditures must be for current welfare recipients, regardless of program. Second, eligibility for nonwelfare recipients will be determined on the basis of family income, e.g., a family of four is eligible for services if its income is below 80 percent of the median income for a family of four. The amendments do not increase the social service allocation or change the matching formula.

Chapter 1216, Statutes of 1973, (AB 134) requires the counties to operate homemaker and chore programs for the aged, blind and disabled welfare recipients, and the nonfederal 25 percent cost of the programs to be borne by the state General Fund.

On page 693, line 36 of the Governor's Budget there is shown a 1974–75 homemaker and chore allocation to the counties of $65 million ($48,750,000 federal and $16,250,000 General Fund). The budget shows the same allocation for the budget year. A joint state-county task force estimates that program needs could go as high as $81 million during the current year. Rather than being an actual estimate, the figure represents a compromise on the high side between a number of estimates ranging from $75 million, which is a projection from first quarter claims, to $83 million, which is based on an August 1974 county welfare directors survey. In between are estimates based on caseload projections. Using the same information, we estimate a range from $73 million to $81 million.

Whatever estimate is used, there is clearly a shortage of funds for the current year. The appropriate subcommittees of the fiscal committees should review this program as early as possible with subsequent action so that counties will know whether or not program reductions will be necessary.

Department of Health

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR LOCAL HEALTH SERVICES

Item 280 from the General Fund — Budget p. 680

Requested 1975–76	$41,565,378
Estimated 1974–75	43,016,866
Actual 1973–74	25,771,400
Requested decrease $1,451,488 (3.4 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Future Governor's Budgets. Recommend future Governor's Budgets provide the following information for each program in this item (1) program description, (2) estimated current and budget year expenditures by source of funds and (3) explanation of changes in funding levels. — 498
2. Crippled Children's Services Program. Withhold recommendation on Crippled Children's Services Program (CCS) pending receipt and review of study mandated by Chapter 1517, Statutes of 1974 (AB 3114). — 498
3. Crippled Children's Services Program. Recommend support for the CCS Program be set aside in a separate budget item to permit adequate review of the program by the Legislature. — 500
4. Child Health Disability Program. Withhold recommendation pending submission to Legislature of a status report prepared by the Department of Health on the implementation of the Child Health Disability Program with revised estimates for current and budget year expenditures by April 15, 1975. — 502
5. Withhold recommendation pending an update from the Department of Health at the budget hearings on the status of problems in the Family Planning Services Program. — 503

GENERAL PROGRAM STATEMENT

This item represents a consolidation of several programs administered by the Health Financing and Health Protection Systems in the Department of Health. It contains the General Fund support for the following city, county and local agency health services programs: (a) Crippled Children's Services Program (CCS), (b) tuberculosis sanatoria, (c) support for counties without local health departments, (d) assistance to local health departments, (e) Child Health Disability Program, (f) family planning, (g) assistance to local agencies for hospital construction and (h) hemophilia medical care.

Table 1 shows estimated program expenditures for the current and budget years.

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR LOCAL HEALTH SERVICES—Continued

Table 1
Program Funding Schedule for General Fund Assistance to Cities, Counties and Local Agencies for Local Health Services

Program	*Estimated 1974–75*	*Proposed 1975–76*
Crippled Children's Services	$24,799,774	$24,861,156
Tuberculosis sanatoria	312,153	312,153
Counties without local health departments	1,187,605	1,263,292
Local health departments	17,501,235	17,559,763
Child Health Disability Program	6,924,379	6,924,379
Family planning	11,977,050	10,254,493
Hemophilia medical care	1,067,000	2,134,000
Assistance to local agencies for hospital construction	5,381,676	2,929,669
Other reimbursements	(4,471,570)	(4,471,570)
Federal grants	(19,897,436)	(17,372,957)
Family repayments	(1,765,000)	(1,765,000)
Amount available from other appropriations	—	(1,064,000)
Total	$43,016,866	$41,565,378

Table 2 shows programs in Item 280 by source of funding for the current and budget years.

The total program support for the programs is $69,150,872 in the current year and decreases by $2,911,967 or 4.2 percent to $66,238,905 in the budget year. The General Fund support for these programs is estimated at $43,016,866 for the current year and decreases by $1,451,488 or 3.4 percent to $41,565,378 for the budget year. Each program is analyzed separately for changes in the level of funding.

ANALYSIS AND RECOMMENDATIONS

We recommend that future Governor's Budgets provide the following information for each program in this item (1) program description, (2) estimated current and budget-year expenditures by source of funds, and (3) an explanation of changes in funding levels.

The Governor's Budget contains insufficient or no program description or explanation of funding levels for the current and budget years for a number of the programs in this item. For example, no explanation is provided for the current and budget year funding levels for the Child Health Disability Prevention Program, the Family Planning Program or the Local Health Agencies Program. Also, no program description is provided for the Child Health Disability Prevention Program or the Local Health Agencies Program.

The inadequacy of the information in the Governor's Budget makes it difficult to properly analyze the proposed budgets for these programs.

A. CRIPPLED CHILDREN'S SERVICES

We withhold recommendation on the Crippled Children's Services Program (CCS) pending receipt and review of the program study mandated by Chapter 1517, Statutes of 1974 (AB 3114).

Table 2

Item 280, For Assistance to Cities, Counties and Local Public and Private Nonprofit Agencies—Source of Funding by Program

	Estimated 1974–75					Projected 1975–76					
	Total, all funds	*General Fund*	*Federal funds*	*Family repayments*	*Other reimburse-ments*	*Total, all funds*	*Item 280*	*Other General Fund*	*Federal funds*	*Family repayments*	*Other reimburse-ments*
Crippled Children's Services	$24,799,774	$20,152,348	$2,410,856	$1,765,000	$471,570	$24,861,156	$20,213,730	—	$2,410,856	$1,765,000	$471,570
Tuberculosis Sanatoria	312,153	312,153	—	—	—	312,153	312,153	—	—	—	—
Counties Without Local Health Departments	1,187,605	1,057,199	130,406	—	—	1,263,292	1,132,886	—	130,406	—	—
Counties With Local Health Departments	17,501,235	5,526,737	11,974,498	—	—	17,559,763	5,526,737	$131,000[b]	11,902,026	—	—
Child Health Disability Prevention Program	6,924,379	6,924,379	—	—	—	6,924,379	6,924,379	—	—	—	—
Family Planning	11,977,050	7,977,050	—	—	4,000,000	10,254,493	6,254,493	—	—	—	4,000,000
Hemophilia Medical Care	1,067,000	1,067,000	—	—	—	2,134,000	1,201,000	933,000[c]	—	—	—
Assistance to Local Agencies for Hospital Construction	5,381,676	—	5,381,676	—	—	2,929,669	—	—	2,929,669	—	—
Total	$69,150,872	$43,016,866	$19,897,436	$1,765,000	$4,471,570[a]	$66,238,905	$41,565,378	$1,064,000	$17,372,957	$1,765,000	$4,471,570[a]

[a] Other reimbursements for both years consists of $471,570 from the Health Care Deposit Fund and $4,000,000 federal social services funds.
[b] $131,000 is available from Chapter 1173, Statutes of 1974, to establish two newborn intensive care dispatch centers.
[c] $933,000 is the unexpended balance available from Chapter 1507, Statutes of 1974, for Hemophilia Medical Care.

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR LOCAL HEALTH SERVICES—Continued

We recommend that the General Fund support for the CCS Program be set aside in a separate budget item to facilitate monitoring of the program.

Program Goals

The goals of the Crippled Children's Services (CCS) program are to maintain early casefinding of children with handicapping conditions and provide them with high quality comprehensive medical and related services to correct, ameliorate or eliminate their handicap.

Each county is required to appropriate funds to support the program. These are matched on a three-to-one basis with federal and state funds. The services for handicapped children are administered independently by 25 counties under standards and procedures developed by the department. For the remaining 33 dependent counties, the department administers the program directly.

The Audits Division of the Department of Finance issued a report in June of 1974 on the Crippled Children's Services program. The report identified numerous problem areas and stated that the program was not complying with the statutes that authorized it.

The Legislature responded by passing Chapter 1517, (AB 3114) effective September 1974, which requires the Department of Health to contract with an independent agency to conduct a comprehensive study to determine whether the services delivered are accomplishing the purposes of the program. The bill appropriated $55,000 to the Department of Health for the study and directed that it be delivered to the Legislature by March 31, 1975.

We are withholding recommendation on the CCS program pending the receipt and review of the study mandated by Chapter 1517. Historically, the support for the program has always been a separate budget item. However, last year it was combined with a number of other programs. This format prevents the Legislature from adequately reviewing the program.

CCS Budget Request

The Governor's Budget proposes total expenditures from all sources of $24,861,156 for support of the Crippled Children's Services Program. This is an increase of $61,382, or 0.2 percent, over the current year. The sources of funding for the current and budget years are shown in Table 3 below.

Table 3
Sources of Funding for the Crippled Children's Services Program

	Estimated 1974–75	*Proposed 1975–76*
General Fund	$20,152,348	$20,213,730
Federal grants	2,410,856	2,410,856
Reimbursements	471,570	471,570
Family repayment	1,765,000	1,765,000
Total Support	$24,799,774	$24,861,156

There is no cost increase projected for the budget year and utilization is expected to remain at the current level. We understand that there are some funds available for cost increases to CCS providers included in Item 97, the $85 million Augmentation for Price Increase—TEC item. However, the allocation of the $85 million is not known.

B. TUBERCULOSIS SANATORIA

We recommend approval.

Existing law requires the state to provide grants in aid to local agencies for the care and treatment of persons suffering from tuberculosis. The specified aid is $2.60 per patient-day for the first 36,500 patient-days, $2.30 for the second 36,500 days, and $1.75 for all additional days. The law also provides burial expenses, not to exceed $300, for those tuberculars who expire in an institution administered by the Director of Corrections and for costs associated with the lease of certain facilities for the care of tuberculosis patients who violate the quarantine orders of local health officers.

TB Budget Request

The department is proposing a General Fund appropriation of $312,153 which is the same as the current year. We feel this amount to be justified given the stable nature of this program.

C. ASSISTANCE TO COUNTIES WITHOUT LOCAL HEALTH DEPARTMENTS

We recommend approval.

Through the Contract Counties Program, the Department of Health provides public health services to counties with populations under 40,000 which are not able to set up their own public health departments. Counties contract individually with the Department of Health for the provision of such services. Each participating county is required to appropriate for public health purposes a sum equal to not less than 55 cents per capita for the total county population. The state appropriates the additional amount required for necessary public health services. Currently, 15 counties receive public health services through contracts with the Department of Health.

Contract Counties Budget Request

The budget proposes $1,263,292 to support the Contract Counties Program, which is an increase of $75,687 or 6.4 percent over the amount estimated to be expended during the current year. Included in the proposed figure is $1,132,886 from the General Fund and $130,406 in federal funds. The $75,687 increase is borne by the General Fund and will be used to offset rising costs.

D. ASSISTANCE TO LOCAL HEALTH DEPARTMENTS

We recommend approval.

This appropriation has two parts: (1) The department is reponsible for allocating state and federal funds to 43 counties with local health departments under the provisions of Section 1141 of the Health and Safety Code, and (2) Section 516 of Title V of the Social Security Act requires the department to supervise and make grants of federal funds to maternal and child health projects.

Local Health Budget Request

The Governor's Budget proposes total support for local health agencies of $17,559,763, an increase of $58,528 or 0.3 percent. Federal funds are estimated to decline by $72,472 while the General Fund amount is increased by $131,000 as provided by Chapter 1173, Statutes of 1974, which requires the establishment of two infant medical dispatch centers.

The total figure is composed of $5,657,737 from the General Fund and $11,902,026 in federal funds, of which $8,976,784 is for maternal and child health services.

E. CHILD HEALTH DISABILITY PROGRAM

We withhold recommendation pending the submission to the Legislature by April 15, 1975 of a status report prepared by the Department of Health on the implementation of the Child Health Disability Program with revised estimates for current and budget year expenditures.

AB 2068 (Chapter 1069, Statutes of 1973) established a statewide child health and disability prevention program, to be administered by the Department of Health and operated at the county level, effective July 1, 1974. The program, consisting of a comprehensive screening service and evaluation followup diagnosis and referral for treatment, is supposed to be available to all children between birth and enrollment in the first grade and to all Medi-Cal eligible children to the age of 21.

After July 1, 1975, each child eligible for services shall, upon enrollment in the first grade, give evidence that he has received the appropriate screening services within the prior year.

The Governor's Budget estimates expenditures for the current year at $6,924,379 and proposes the same amount for the budget year. The $6,924,379 in the current year consists of $4,424,379 from the 1974 Budget Act and a $2,500,000 augmentation from Chapter 1464, Statutes of 1974 (AB 3765). Chapter 1464, enacted in September 1974, stipulated that the augmentation was necessary to implement the screening program in the current year to enable children entering the first grade to receive a screening examination.

The program is substantially behind schedule. It was supposed to be operating July 1, 1974 but as of January 15, 1975: (1) no children had been screened (excluding Medi-Cal children), (2) the regulations implementing the program had not been adopted and (3) no claims processing system had been established.

We have been advised by the Department of Health that the regulations will probably be adopted and effective by March 1, 1975. However, the program cannot get underway until a claims processing system is established. The department is exploring several alternatives but is not able to say when a claims processing system will be functional.

It appears that the department is going to have difficulty screening prior to September the estimated 330,000 children scheduled to enter first grade. Additionally, because of the delay in implementing the Child Health Disability Program, we are unable to determine: (1) how the department will expend all available funds in the current year; and (2) the basis and justification for the budget year request.

F. FAMILY PLANNING SERVICES

We withhold recommendation pending an update from the Department of Health at the budget hearings on the status of problems in the Family Planning Services Program.

Administrative difficulties were experienced by the Office of Family Planning in the Preventive Medical Services Program during the 1974 calendar year. First, contracts between the state and local family planning clinics with effective dates in July were not approved until November. Without approved contracts, contractors were not able to file claims for reimbursements. Many were forced to borrow to continue operation. Second, the contractors' claims for reimbursement which were filed took well over a month to be processed. Third, for a variety of reasons, most family planning clinics were not able to bill the Medi-Cal Program for services provided to current welfare recipients. Had they been able to bill Medi-Cal for these recipients, a significant amount of social service funds would have been freed to serve a greater number of former and potential welfare recipients. Fourth, sterilization and abortion standards were not published, so the clinics could not be reimbursed for these authorized services.

We note that the Office of Family Planning is attempting to resolve these problems. However, we are withholding recommendation pending further information from the Department of Health at the budget hearings on the status of problems in the Family Planning Services Program.

Family Planning Budget Request

The budget proposes $10,254,493 to support family planning services. This is a decrease of $1,722,557 or 14.4 percent from the current year estimate. However, the current year estimate contains $2,053,245 in General Fund money which was carried forward from 1973–74. The proposed $10,254,493 consists of $4 million in federal social service funds, and $6,254,493 from the General Fund. Proposed General Fund support contains a $330,668 cost increase.

G. HEMOPHILIA PROGRAM

We recommend approval.

Chapter 1507, Statutes of 1974 (SB 2265) established a medical care program for persons with hemophilia and appropriated $2,000,000 to the Department of Health for the program.

The department estimates spending $1,067,000 during the current year and $2,134,000 in the budget year. The $933,000 remaining from the current year appropriation is reappropriated and included in the $2,134,000 projected expenditure for the budget year.

H. ASSISTANCE TO LOCAL AGENCIES FOR HOSPITAL CONSTRUCTION

We recommend approval.

This program is entirely federally funded under the Hill-Burton Hospital Construction Act. Grants are made to local agencies for expansion or construction of health facilities. The department is expecting these funds to decline from $5,381,676 in the current year to $2,929,669 in the budget year.

Department of Health
LEGISLATIVE MANDATES

Item 281 from the General Fund — Budget p. 698

Requested 1975–76	$278,496
Estimated 1974–75	484,346
Actual 1973–74	9,900
Requested decrease $205,850 (42.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item makes a General Fund appropriation to the State Controller for reimbursement to local agencies for state mandated costs pursuant to the provisions of Section 2231(a) of the Revenue and Taxation Code as enacted by Chapter 1406, Statutes of 1972. The budget title "Legislative Mandates" is confusing and more properly should be "mandated local cost."

Item 281 appropriates $278,496 to reimburse local agencies for costs mandated by legislation. In addition to the amount appropriated by this item, there is available from prior year appropriations $194,700 for legislative mandates, making a total of $473,196 available for expenditure in 1975–76. This is a decrease of $11,150, or 2.3 percent, from the amount estimated to be expended in the current year.

The mandates funded by this appropriation are discussed on page 698 of the Governor's Budget and involve health related costs imposed on counties and other local agencies by legislation enacted in 1973 and 1974.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 282 from the General Fund, 283 EDD Contingent Fund, 284 Unemployment Compensation Disability Fund, 285 General Fund — Budget p. 278

Requested 1975–76	$34,810,606
Estimated 1974–75	31,005,226
Actual 1973–74	29,570,244
Requested increase $3,805,380 (12.3 percent)	
Total recommended reduction	$1,695,550

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
282 (a)	Work Incentive Program (WIN)	General	$5,094,067	511
282 (b)	Service Center Program	General	3,823,527	513
282 (c)	Office of Economic Opportunity	General	219,806	524
282 (d)	Migrant Master Plan	General	563,973	522
282 (e)	Job Agents (outside Service Center Program)	General	1,043,606	514
283	Pro Rata Charges	EDD Contingent	2,771,115	525
284	Support DI Operations	Unemployment[a] Compensation Disability	21,138,512	521
285	Local Assistance Per Legislative Mandates	General	156,000	525
	Total		$34,810,606	

[a] Nongovernmental cost fund expenditure.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Committee Review of Policy Issues. Recommend legislative committees review all issues relating to employment and unemployment, and develop comprehensive policy statement.	507
2. State Agencies Employment Services. Recommend that all state agencies be directed to use EDD employment services for non-civil service recruitment and hiring.	509
3. *WIN Program. Reduce Item 282 (a) by $1,545,550.* Recommend that state funding for the WIN Program be limited to the required 10–90 match with federal grants for WIN.	511
4. Service Center Program. Recommend an outside study to determine the effectiveness of the Service Center Program.	513
5. *Service Center Program. Reduce Item 282 (b) by $150,000.* Recommend reinstatement of eight community service representatives be denied.	514

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

6. Unemployment Fund. Recommend that legislation be enacted requiring a higher fund balance before switching to the low tax schedule. 519
7. Migrant Day Care. Transfer $563,973 from Item 282 (d) to Item 314. Recommend transfer of funding for migrant day care from EDD to the Department of Education. 523

GENERAL PROGRAM STATEMENT

The Employment Development Department (EDD) is responsible for assisting job-ready individuals to find available employment, providing qualified job applicants to employers, assisting potentially employable persons to become job-ready, providing comprehensive statewide and local manpower planning, and making unemployment and disability insurance payments. The department has the additional responsibility of supervising two semi-independent programs, the State Office of Economic Opportunity and the Migrant Services program which is responsible for overseeing a state operated migrant housing and child care center program.

The department acts under the authority of the Wagner-Peyser Act, the Comprehensive Employment and Training Act of 1973, the Social Security Act, the Economic Opportunity Act of 1964 as amended, the State Unemployment Insurance Code, the State Employment Development Act of 1973 and several smaller statutes and administrative orders.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of Item 282 (c), (e) and Items 283 through 285 as budgeted.

The proposed state appropriations for support of the department in fiscal year 1975–76 total $34,810,606, an increase of $3,805,380, or 12.3 percent, over the current year estimated expenditures. The total expenditure program, after reimbursements, proposed for 1975–76 is $1,473,261,900, which is a decrease of $119,884,675, or 7.5 percent from the amount estimated to be expended during the current year. The bulk of the decrease is in unemployment insurance where costs are expected to be down $146.1 million due to the anticipated improvement in the economy during the budget year. Disability insurance costs on the other hand will increase by $22.2 million. The state cost increases are found in non-General Fund items, the contingent fund, up $818,000 or 42 percent, and the disability administrative costs, up $3.6 million or 20.8 percent.

During the current fiscal year there are a total of 12 programs for which the department is responsible. Table 1 compares expenditures and man-years by program for fiscal year 1974–75 and 1975–76.

The largest decrease during fiscal year 1975–76 is expected to occur in the Unemployment Insurance Program which reflects the expected recovery of the economy in the last half of 1975 and the first half of 1976 after

Table 1
Man-Years and Gross Expenditures by Program
1974–75—1975–76

Program	*Estimated man-years 1974–75*	*Proposed man-years 1975–76*	*Estimated expenditures 1974–75*	*Proposed expenditures 1975–76*
1. Employment service	2,640.8	2,639.8	$50,693,023	$51,598,978
2. Employables system	1,160.7	1,150.8	32,245,876	34,254,401
3. Service Center Program	276.0	276.0	4,582,502	4,867,133
4. State Manpower Planning Office	31.9	32.0	1,142,000	573,873
5. Comprehensive Employment and Training Program	758.4	657.1	14,924,218	13,364,528
6. Unemployment Insurance Program	3,552.1	3,328.6	1,055,992,645	909,889,548
7. Disability Insurance Program	961.2	996.7	432,396,457	454,582,881
8. Migrant services	9.5	9.5	1,914,234	1,975,860
9. Office of Economic Opportunity	67.0	67.0	993,044	1,193,412
10. California Vietnam Era Veteran OJT Program	5.4	2.2	460,569	425,000
11. Legislative mandates	—	—	156,000	156,000
12. Administrative, Staff and technical services	(748.2)	(735.2)	—	—
Distributed to other programs	(719.2)	(707.6)	(15,348,469)	(14,493,505)
Not distributed	29.0	27.6	1,026,683	1,029,274
Totals	9,492.0	9,187.3	$1,596,527,251	$1,473,910,888

the anticipated heavy drain on the Unemployment Fund during fiscal year 1974–75. Unreflected in the table is a significant reduction that occurred in January 1975 in federal funding to the employables system which encompasses employment and manpower services to welfare recipients. These two factors will be discussed in the narrative dealing with those respective programs.

POLICY ISSUES

Need for Committee Review of Policy Issues

We recommend that both houses of the Legislature designate one or more legislative committees to review the major issues which are now confronting California in terms of unemployment, full employment, employment services delivery systems, unemployment insurance, manpower training and related issues; and that a comprehensive policy statement encompassing these issues be developed in order to give the Legislature a framework for decision making.

There are a number of basic policy issues which are now confronting California in connection with unemployment, full employment, the employment services delivery system, unemployment insurance, manpower training and related matters. These issues should be considered whenever EDD Program effectiveness is evaluated or when new legislation is formulated to deal with employment and manpower problems. In our following analysis of the department's fiscal year 1975–76 budget presentation, we have raised some of the central issues which we believe to be particularly germane to our present economic and employment situation.

We are currently experiencing an unemployment crisis which will generate a host of bills aimed at relieving the symptoms but which may not

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

deal with the causes. Evidence is mounting that we are dealing with a new set of problems which old techniques won't solve. In November of 1974, there were 95,500 more people working in California than there were in November of 1973, but there were also 151,500 more people unemployed. The labor force is growing much more rapidly than the job market. California's unemployment rate reached 9.0 percent in December 1974 and is still climbing. Given the limitation of resources, there are questions on what the state can do to meet the needs of its unemployed workers. Just as important, more information is needed on why California's unemployment rate is running two percentage points higher than the national average. Changes in the composition of the labor force have a significant impact on the unemployment rate. We are without a comprehensive plan of action to meet the central issue of our growing labor force and the related problems it creates.

The issues which we cite in the following analysis are not exhaustive but are the most pressing policy questions raised when we review the programs within the Employment Development Department. To present these issues in any type of full development would take more space then the analysis of the budget document allows. Our intent is simply to give enough detail to raise the question and in some cases suggest some of the possible alternatives. The issues are highlighted within the format of the EDD budget programs as they appear in the analysis of the Governor's Budget.

EMPLOYMENT SERVICES PROGRAM

This program provides a labor exchange for employers and job-ready applicants. The goal is to reduce to the extent possible the length of time that employers' jobs go unfilled and job-ready applicants are unemployed. The elements to the program are applicant assessment, job placement and indirect services (labor market information services, employer and union services, community liaison and staff development and technical supportive services).

The primary output of this program is job placements. All other services are aimed toward that final goal. Table 2 compares the program accomplishments and expenditures anticipated in fiscal years 1974–75 and 1975–76. Individuals placed are unduplicated persons placed in jobs while transactions are total job placements completed. Costs per individual are expected to increase slightly while costs per transaction will be somewhat reduced.

Table 2
Employment Services Accomplishments and Costs
1974–75 and 1975–76

	Estimated 1974–75	*Proposed 1975–76*
Individuals assessed	1,409,200	1,287,900
Individuals placed in jobs	310,000	341,000
Placement transactions	506,000	540,000
Total costs of program	$50,693,023	$51,598,978
Cost per individual placed	$163.53	$166.45
Cost per transaction	100.18	95.55

The Employment Services Program is funded through a federal grant from the Federal Employment Security Administrative Account which consists of revenue from the federal unemployment insurance taxes levied on employers.

State Agencies Employment Services

We recommend that the Governor by executive order and the Legislature by resolution direct all state agencies to use the appropriate services of EDD in all non-civil service recruitment and hiring.

Temporary help and intermittent employees are hired by state agencies outside of the civil service system. These positions are often filled through agency employment services which duplicate those services available through the state employment services agency, EDD. Time and expenditure savings could be realized if appropriate services of EDD were used in the hiring of non-civil service personnel.

Policy Issues

In the Employment Services Program the following policy issues should be addressed.

1. What is the role of the State Employment Services Agency?
   a. Is it primarily to serve as a labor exchange?
   b. How much emphasis should be placed on systematic contacts with employers to develop job openings?
   c. Should the services of the agency be advertised?
2. Does the state or should the state have a role in maintaining a stable labor force?
   a. Should EDD, using its research and data program, enter into more comprehensive long-range planning in an effort to affect a balance between the supply of a skilled work force with the demands of a dynamic labor market?
   b. Should there be a closer coordination between vocational education, EDD, industry and labor to form a comprehensive program for career development?
3. Are there EDD functions which the state should partially fund in order to assure that the state's priorities are not overidden by conflicting federal priorities?
4. What can be done at the state level about the growing number of illegal aliens who are displacing Californians in our labor markets?

EMPLOYABLES SYSTEM

The employables system is a composite of three basic manpower and placement programs designed to meet the employment and training needs of welfare recipients. These three basic programs are the Employables Program, the Work Incentive Program (WIN), and the Community Work Experience Program (CWEP). A fourth program, Jobs for Welfare

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Recipients, also called by the broader name Career Opportunities Development (COD), is administered jointly by the Employment Development Department and the State Personnel Board. COD does not appear in the EDD budget but it is the public service employment component of the WIN Program, and should be recognized as completing the programs of employment services to welfare recipients.

All potentially employable recipients of food stamps are required to register for employment with EDD. As a condition of continuing eligibility to food stamps, registrants must accept referral to appropriate job openings. Table 3 shows the program elements of the employables system. The resources allocation per element in 1975–76 is virtually unchanged from that of the current year.

Table 3
Employables System
Man-Years and Gross Expenditures by Program Element
1974–75 and 1975–76

	1974–75 estimated man-years	*1975–76 proposed man-years*	*1974–75 estimated expenditures*	*1975–76 proposed expenditures*
1. Employables element				
a. Registration	80	80	$1,556,216	$1,603,394
b. Job search	93	93	1,577,764	1,632,190
2. WIN	801	801	25,328,797	27,450,362
3. CWEP	8	—	130,267	—
4. Food stamp	95.2	95.2	1,695,650	1,767,736
Administration distribution	83.5	81.6	1,957,182	1,800,719
Total	1,160.7	1,150.8	$32,245,876	$34,254,401

The only change in man-years is the reduction of eight positions for evaluating CWEP due to its termination as a three-year pilot project on June 30, 1975.

Employables Element

The Employables Program was established in Ventura County in June 1971 as a pilot project to determine the effects of combining employment services and social services for employable AFDC welfare recipients at a central location. Social services staff from the county welfare department were located at the local EDD office under EDD supervision. Welfare recipients were required to register for work, to systematically search for employment and to report back every two weeks regarding job search efforts.

The program with some modifications is now statewide, and has been integrated with the WIN and CWEP Programs into the employables system. The outstationing of social work staff has been established by contractual agreements in 42 counties. Many counties encountered morale and personnel problems among social work staff assigned to EDD, but this may have abated recently.

The two components, registration and job search, are the essential elements of the Employables Program from which assignments to WIN or

CWEP are made. Funding for these elements is primarily from the WIN Program and the county social services program. It is anticipated that 46,600 participants will be placed in jobs by the department or find their own jobs through this program in fiscal year 1975–76.

Work Incentive Program

We recommend that Item 282 (a), state matching funds for the WIN Program, be approved in the reduced amount of $3,548,517 (—$1,545,550).

The budget shows an expected federal grant for the WIN Program of $31,936,650 in fiscal year 1975–76. Federal matching in the WIN Program is 90–10 so that the anticipated federal funding would require a state matching appropriation of $3,548,517, but the budget request in 1975–76 is $5,094,067. We recommend that state funding be established at the federally required 10 percent matching level of $3.5 million which will result in a budgeting reduction of $1,545,550. This reduction in state funding will not lower the program level. Federal funding determines both the program level and the level of state expenditures. During the past several years, the state funding of the WIN Program has been kept at a level which has resulted in a substantial savings at the end of each budget year. The reduced appropriation which we are recommending will limit the state budget more nearly to the actual level of spending determined by the federal allocation.

There are two additional reasons we believe that our recommended funding is sufficient to meet funding contingencies. First, a portion of the federal funds are matched by the COD state appropriation which, even in a reduced expenditure year like 1974–75, will save the EDD state WIN appropriation over $220,000, or 6.2 percent. Second, on the basis of the current year federal reductions in WIN funds, we do not expect the federal WIN allocation to California for fiscal year 1975–76 to exceed the projected level of $32 million.

Federal Reductions in Current Year WIN Funding

In January 1975, EDD received notice of a major reduction in WIN funding for the remainder of fiscal year 1974–75. EDD was allocated about $33 million for WIN in fiscal year 1974–75. During the first half of this fiscal year, the program had already expended $15.6 million. In January DOL reduced the remaining $17.4 million by $9.8 million leaving a net availability of funds for the remainder of the fiscal year of $7.6 million. This will necessitate a staff reduction in WIN of 400 to 600 positions (transferred to UI functions), termination of all new training, and limiting WIN-COD funds for the year to about $2 million from the $5.5 million previously approved.

Career Opportunity Development (COD)

The COD Program, located in the State Personnel Board, has as its objectives to identify and remove artificial barriers to public employment and to establish affirmative approaches for employing disadvantaged persons. The Welfare Reform Act of 1971 assigned to COD the additional responsibility of developing and operating a Jobs for Welfare Recipients (JWR) Program by which public service employment job slots were established in state and local agencies. Ongoing authorization of $7 million per year was committed to the program. Selection of welfare recipients for placement in the developed jobs is the responsibility of EDD.

Approximately 60 percent of COD participants move from subsidized to unsubsidized employment. The program is measured by an ongoing cost/benefit analysis based on a 20 percent sample of program participants. For a group of 114 persons who entered the program in July 1972 through March 1973, it was found that total government savings in the first two years was expected to be $3,877 per participant. The total cost of the program per participant including the salary subsidy was found to be $3,977. At the end of five years, the total estimated benefits were $9,645. On the basis of this data, the average costs of the program were nearly equaled by benefits during the first two years after the participant entered the program.

Community Work Experience Program (CWEP)

The Community Work Experience Program (CWEP) requires AFDC recipients to perform "meaningful" public service in a nonsalaried capacity in order to maintain eligibility for continued public assistance. CWEP, scheduled to terminate as a three-year experimental project on June 30 of this year, has been implemented in 35 counties.

Able-bodied welfare recipients who cannot be placed in permanent jobs or training are required to work for a governmental or nonprofit agency for up to 80 hours a month. Although proponents of the program had estimated that thousands would be put to work in the various governmental agencies sponsoring the program, data shows that the monthly placement of participants into CWEP activities has been quite limited.

The program will be evaluated and a decision made this year whether to continue the program. One of the features of the program which has been a source of controversy is that staff time involved in implementing the program has never been adequately identified. All of the evaluations by the department have failed to show, therefore, the true cost of the program.

Policy Issues

In the Employables System the following policy issues should be addressed.

1. Of major importance in the COD Program, as in all other public employment programs, is the unanswered question regarding the "substitution effect," i.e., is this program really adding to total employment or is it simply reducing costs in the user agency by substituting a subsidized worker in place of an unsubsidized worker?

2. Better information and evaluation data are needed to determine the cost-benefit experience of the WIN Program. Following our recommendation in the *Analysis of the 1974–75 Budget Bill,* the department developed an evaluation model based on the COD model which has proven effective. Federal funds to implement the model may not be available. Should added state funds be appropriated if needed to implement a WIN evaluation system?

3. Is the present system of contracting with counties for social workers to work in the Employables Program continuing to cause morale and personnel problems or have these now been resolved?

SERVICE CENTER PROGRAM

The goal of the Service Center Program is to facilitate the more effective coordination, development and improvement of governmental and community services to residents in poverty areas in order to assist them to reach their highest potential of economic and social self-sufficiency.

In March 1966, the Legislature authorized the establishment of 13 service centers. The administration later reduced the number of centers to six, which were located in San Francisco, Richmond, Venice, South Central Los Angeles, East Los Angeles and San Diego. These centers were designated as model experimental programs to test the practicality and the effectiveness of the concept of providing a broad range of human services at one location in poverty areas. These six service centers remain in operation with two more centers which were established in West and East Fresno in 1968. The eight centers were subsequently transferred to EDD.

Suggested Study of the Service Center Program

We recommend that an outside study of the Service Center Program be conducted. We further recommend that the following major areas be included in the study: (1) Comparison of program purposes at present with those when the program was created; (2) Productivity of the program as it is now constituted in concrete terms of goal accomplishment; (3) Cost-effectiveness of the program; (4) Coordination and effective use of supportive services in the centers; (5) Integral relationship of the job agent position to the centers; and (6) Appropriateness of the centers as a function of EDD.

The Service Center Program is the only program located in EDD which is totally supported by the General Fund. When the program originated it was seen as a means of bringing together under one roof a multiplicity of services which would be well coordinated and focused on the needs of the disadvantaged and poverty stricken located in target poverty areas.

Since the program was transferred to EDD, it has become essentially an employment center located in poverty areas. Supportive services are still found in the centers, but there does not appear to be any real coordination or attempt to coordinate the services to meet the needs of the clients served.

In our *Analysis of the 1974–75 Budget Bill,* we identified the lack of output data needed to evaluate the effectiveness of the program. We recommended then that the program be presented separately in the Governor's Budget which has been done in the 1975–76 budget presentation. The budget documentation, however, fails to identify any concrete goals or accomplishments which differ from the EDD employment centers which are supported primarily by federal funds. A study is needed to provide data to judge the effectiveness of this program.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Job Agents

Also funded through the Service Center Program are the job agent positions which are established in EDD by the Unemployment Insurance Code. Last year the job agents were all funded under the Service Center Program, but many were assigned to offices outside the service centers. A separate budget item, 282 (e), now separates the funding for job agents assigned outside the service centers from the Service Center Program. Table 4 identifies the total number of job agent positions in and out of the service centers together with the number of positions filled as of January 1975.

Table 4
Job Agent Positions
January 1975

	Total	*Service center*	*Non-service center*
Total positions	83	32	51
Filled positions	67	22	45
Vacant positions	16	10	6

Governor's Representatives for Community Services

We recommend that item 282(b) be approved in the reduced amount of $3,673,527 (—$150,000) and that the proposal to reestablish the eight community service representatives positions in the Service Center Program be denied.

Last year upon our recommendation the legislature deleted funds from the service center budget to purchase consultant services from the Governor's Office. The 1975–76 budget proposes to reinstate the eight positions affected and budgets $150,000 for that purpose.

Prior to the current fiscal year and since May 1, 1969, there had been a yearly contract negotiated between the Department of Employment Development and the Governor's Office stipulating that community relatons consultant services will be provided by the Governor's Office to the Service Center Program. The stated purpose of the contracts was to maintain liaison between the community, the Governor's Office and the Service Center Program. The consultants were to advise the service center managers of community problems and assist in developing possible solutions to those problems as they related to the Service Center Program.

A report by the Auditor General in November of 1969 indicated that service center managers, in general, were dissatisfied with the Community Relations Consultant Program because "they received little or no advice about community problems, they lacked control over the consultants, they did not have knowledge of the activities or whereabouts of the consultants, and in some cases, the consultants were of no benefit to the Service Center Program." In visiting with the service center managers during 1973, we consistently found the same types of complaints. We were unable to identify any instances in which the Governor's representatives had identified any significant problems related to the centers or suggested any solutions to problems. Although the representatives had office space in each of the service centers the location of the representatives was generally unknown to the center managers. Yet, in spite of no significant service rendered, contracts were renewed each year.

In the absence of any indication that the community service representatives have been an integral or complementary part of the Service Center Program, we recommend that the positions not be reinstated.

Policy Issues

In the Service Center Program the following policy issues should be addressed. (These issues could best be decided if the study we have recommended is first completed.)

1. Should the Service Center Program remain with EDD?
2. Should the job agent positions be continued? A study prepared jointly by the Assembly Office of Research and the Human Interaction Research Institute, published July 1974, concludes that the job agent function for a number of complex reasons has not been an overall effective way of meeting the employment needs of the disadvantaged.
3. If the job agent function is continued, should case service funds be made available to the agents and in what amounts? A six-month experiment was recently concluded by EDD in which 15 job agents were each provided $2,000 in case service funds for use in serving their clients. Only a little over half of the funds were spent during the six months and no statistically significant results were found. On the other hand, the Job Agents Association states that the amounts were too small, the time too short and training in use of the funds insufficient to constitute a valid experiment.

STATE MANPOWER PLANNING OFFICE

The California Manpower Services Council was created by California's Employment Development Act of 1973 as the state manpower planning and coordinating body. With slight modification the council met the federal requirements for a state manpower council to review plans of and make recommendations to the Department of Labor for coordination of agencies providing manpower and related services under the Comprehensive Employment and Training Act (CETA) of 1973.

The State Manpower Planning Office serves as staff to the Manpower Services Council. The office also serves as an arm of the Employment Development Department in its role as the prime sponsor of manpower programs for the "balance-of-state" counties (those counties which are not large enough to qualify as manpower coordinating sponsors under CETA).

The State Manpower Planning Office Program consists of three program elements: statewide planning, statewide manpower services and state prime sponsor. The funding for the program is totally federal.

Statewide Planning

It is the responsibility of the State Manpower Services Council through the State Manpower Planning Office to provide coordination and development of the annual state manpower plan. This responsibility involves the coordination of the 36 prime sponsors under the Comprehensive Employ-

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

ment and Training Act. It is also the responsibility of the state council through the manpower office to provide for the cooperation of state governmental agencies in the implementation of local plans.

State Manpower Services

The second major function of the State Manpower Planning Office is to supply a variety of labor market and statistical data needed to identify manpower service needs throughout the state. The Manpower Services Council operates the labor market information element through the Employment Data and Research Unit of EDD. The information generated is made available to the prime sponsors for their planning processes in their respective jurisdictions.

State Prime Sponsorship Planning and Evaluation

The third element of the State Manpower Planning Office is the representation of EDD as the prime sponsor under CETA for the "balance-of-state" counties. There are 28 counties which because they are under 100,000 in population, are not large enough to become prime sponsors of manpower programs under CETA. The state receives five percent of the total amount that is allocated to prime sponsors in the State of California for the balance of state counties. The other 95 percent of funds allocated to prime sponsors by the Department of Labor (DOL) is divided among the 35 (counties and cities) remaining prime sponsors within the state. EDD has made each county a program agent and allocated the funds to the counties on the basis of manpower plans submitted.

COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAM

Under the Comprehensive Employment and Training Act of 1973, the role of the State Employment Services Agency, EDD, in the delivery of manpower training services has been greatly changed. Prior to the passage of CETA, EDD was regarded as the presumptive deliverer of manpower services. Under the new act, EDD has no direct role in manpower training services other than its responsibility in job corps. It may become a program agent for a prime sponsor by entering into a contractual agreement to deliver manpower training services in the sponsor's jurisdiction.

Fiscal year 1974–75 has been a period of transition from the categorical services enumerated in the Manpower Development and Training Act (MDTA) and the Economic Opportunity Act (EOA). Since December 30, 1974, programs no longer exist under those two acts. EDD has negotiated a number of contracts to deliver services similar to those which they previously offered.

There are four program elements to the Comprehensive Employment and Training Program: 1) comprehensive manpower services, 2) public employment program, 3) special programs and 4) job corps.

Comprehensive Manpower Services

The purpose of the CETA act was both to decategorize the numerous manpower programs that had been established under MDTA and EOA and to provide greater responsiveness to local needs. Under the act, block grants are now made to 35 local governments in California and to the state government as the prime sponsor for the 28 counties in the balance of the state. The prime sponsors are defined as units of general local government with populations of 100,000 or more. There also may be a combination of units of local government which join together as a consortium as long as one of the members of the combination has a population of 100,000 or more. Under special circumstances there can be some smaller units than the 100,000 population.

The funds that are granted to the prime sponsors may be used to finance the development and creation of job opportunities and the training, education, and other services to enable individuals to secure and retain employment at their maximum potential. The prime sponsor may directly carry out the services or may contract with other organizations to provide the services. The act directs the prime sponsor to give due attention to the continued funding of programs which have demonstrated their effectiveness and are currently being operated in the sponsor's area.

EDD had approximately 530 staff that were formerly involved in manpower training programs. Enough contracts have been negotiated to retain about one-half in this area of responsibility. Approximately 250 staff have been transferred into unemployment insurance functions.

Public Employment Programs Element

Under the Emergency Employment Act of 1971, the Public Employment Program (PEP) was created making funds available to subsidize employment of the unemployed in local and state government entities in an effort to alleviate the problem of high unemployment. The PEP Program is being phased out and will be terminated in March 1975. In its place CETA Title II created the Public Service Employment Program which is an ongoing program for areas of high unemployment, defined as an unemployment rate of 6.5 percent for three consecutive months. Any unit of government which is qualified as a prime sponsor under Title I is eligible to be a prime sponsor under Title II.

Public service employment programs under Title II have been implemented quite slowly under the prime sponsors for several reasons: (1) there were still some PEP jobs being phased out by the local governments, (2) civil service red tape has been slow to respond to the new program, (3) the transition requirement into unsubsidized employment was a deterrent and (4) the prime sponsors have taken some extra time to get their procedures drawn up in order to begin the operation of programs.

In the light of the rapidly increasing unemployment problems in late 1974, Congress passed a measure adding Title VI to CETA which releases immediately $1 billion nationwide to fund public employment without any transition requirements. The jobs will only exist from January 10, 1975 to January 10, 1976. Also, some of the Title II money was released to be used without transition requirements. At the same time it was announced that the Title II money allocated to prime sponsors for fiscal year 1974–75 must be used or encumbered by June 30, 1975 or it will revert to DOL.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Special Programs Under CETA Title III

The Secretary of Labor is given responsibility to operate programs for special target groups. There are special funds for youth and older workers, for American Indians, for migrant and seasonal farm workers and for persons in urban and rural poverty areas. From time to time, EDD may become a recipient of grants under the CETA Title III for one or more of these special programs.

Job Corps

CETA Title IV is the job corps program which continues to be directed by the U.S. Department of Labor. EDD's responsibility is to continue to recruit and enroll disadvantaged youth to fill California's quota of openings in the job corps centers and to provide placement services for trainees following termination from job corps services.

Policy Issues

Under the Comprehensive Employment and Training Program the following policy issues should be addressed.

1. The primary concern in this area relates to what the role of the state should be in the planning and delivery of manpower services. The federal government through CETA has transferred primary responsibility to the local governments both for the planning and delivery of services within the local jurisdiction. The role of the state as coordinator of a state plan does not appear to give the state much real input into the statewide manpower issues.
   a. In order to insure greater stability in the work force should there be some long-range planning which would require statewide efforts, and what is the best vehicle for this purpose?
   b. How can the state best work with the national and local levels of government in the context of CETA to insure that state priorities are identified and met?
2. In the area of public service employment:
   a. Should the state have any specific policies related to the use of public service employment in state agencies since the unemployed far outnumber the limited available slots? For example, should selection be made by filling the slots with heads of households only?
   b. Here, as in COD, what about the substitution effect in public service employment?
3. Should economic planning accompany the state's efforts to provide for full utilization of human resources, and can effective economic planning be done at a subnational level?

UNEMPLOYMENT INSURANCE PROGRAM

The Unemployment Insurance (UI) Program operates under federal-state law. Its primary objective is to reduce economic hardship through benefit payments to the eligible worker who through no fault of his own is unemployed. Eligibility for benefit payments is gained by working in "covered employment" as defined in the State Unemployment Insurance Code. The unemployment benefits and the cost of administration are funded by employer contributions.

An amount of $63,232,856 is proposed for the support of this program during fiscal year 1975–76. Most of the program elements are federally financed or reimbursed from taxes on state employers. Employers pay a tax on the first $4,200 paid each employee in a calendar year. The tax rate is adjusted according to the experience of the employer in terms of the benefits paid to his former employees, the contributions he has made and the size of his average annual payroll computed over the past three years.

Benefits paid to unemployed workers range from $25 to $90 per week based on each worker's earnings during a prior one-year period. The average benefit payment for 1974 was $64.65 per week. The benefit payments in fiscal year 1975–76 are estimated to reach $846,656,692. This amount is for regular benefits and the state's 50 percent portion of federal-state extended benefits. It does not include the recently enacted federal emergency extended benefits nor the emergency benefit assistance act coverage which are both paid from a special federal appropriation not linked to the unemployment fund.

Fund Balance

We recommend that legislation be enacted requiring a higher balance in the Unemployment Fund for the triggering of the low tax schedule.

State law requires that employers be taxed on a low tax rate whenever the balance in the Unemployment Fund at the end of the calendar year equals or exceeds a ratio of 4.75 percent of taxable wages. Taxable wages are the first $4,200 earned by each worker in covered employment. The triggering mechanism was lowered from five percent to 4.75 percent in 1971. We believe that this is too low a ratio to maintain a sufficiently solvent fund. Solvency of the fund is better related to *total* wages of covered employment rather than to taxable wages since total wages better reflect the relationships of increased benefits to increased wages and to expansion of covered employment.

In 1968, the fund balance was equal to 3.1 percent of the total wages. After briefly increasing to 3.2 percent of the total wages in 1969, the fund balance dropped until it reached an estimated low of 2.0 percent by the end of 1974. We feel it will be even lower when the final figures become available. Although the fund balance will be at about the $1 billion level at the end of the 1974 year, the ratio that it bears to the total wages is equal to the lowest point that it has reached in the last 22 years.

Unemployment Fund Income and Expenditures

From the end of 1968 to the end of 1974 the fund balance is expected to have decreased by $7.7 million, a decrease of about 0.7 percent. Table 5 shows the total income and total expenditures of the fund and the end of the year fund balances from 1968 through 1974.

Again for this program funding is 100 percent federal from a special appropriation so that neither the state nor the federal Unemployment Fund are affected. This legislation will be in effect for one year only except that

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 5
Total Income and Expenditures
1968–1974

Calendar Year	*Fund balance end of year*	*Fund balance as percentage of wages*		*Total Income*[a]	*Total Expenditures*[b]	*Benefits as a percentage of current employer taxes*
		Taxable	*Total*			
1968	$1,143,405,655	5.7	3.1	$607,446,252	$405,627,976	71.8
1969	1,313,154,070	6.2	3.2	587,013,271	416,969,384	77.8
1970	1,226,643,058	5.8	2.9	574,894,600	661,011,290	130.0
1971	904,739,852	4.3	2.1	507,940,022	829,444,995	181.7
1972	975,084,520	4.0	2.0	697,269,485	626,492,657	96.4
1973	1,221,013,921	4.8	2.3	839,530,564	593,199,522	74.9
1974	1,135,700,000E	4.2	2.0	785,000,000E	871,200,000E	121.6

[a] Includes regular employer contributions, balancing tax contributions, interest on the fund and miscellaneous receipts. Does not include income from reimbursements.
[b] Includes both regular and the state share of extended duration benefits and administrative disbursements; does not include reimbursable regular and extended duration benefits.
E—Estimated

While the fund balance has taken only a small decrease during the past six years, the balance in relation to total wages shows that the fund is in a significantly poorer condition to withstand a heavy economic downturn than it was in 1968. The 1972–73 upturn in the economy was not of sufficient duration to build up the fund to a more solvent level after the drain in 1970 and 1971. In spite of this, the fund ratio to taxable wages was sufficiently high at the end of 1973 to trigger the low tax rate during 1974.

If the recession we are now in fails to abate as soon as is being predicted, or if the recovery is weaker than is now anticipated, the fund balance could be in jeopardy.

We will be issuing a report on the Unemployment Fund in March or April in which we will suggest a different method for determining when the high and low tax rates should be applied in relationship to a more adequate fund balance.

Emergency Unemployment Compensation Act

In January 1975, under provisions of the newly passed Emergency Unemployment Compensation Act, an insured job seeker who has exhausted 39 weeks of benefits was made eligible for an additional 13 weeks of unemployment insurance payments. This means that an unemployed worker covered by unemployment insurance is eligible for a possible maximum 52 weeks of benefits. An estimated 170,000 unemployed workers in California will be affected. Funds are 100 percent federal and are provided by a special appropriation.

Emergency Jobs and Unemployment Assistance Act.

Also in January, another bill, the Emergency Jobs and Unemployment Assistance Act, provided unemployment insurance benefits up to the maximum of 26 weeks to unemployed workers who are not normally covered, adding an estimated 350,000 to those who are already receiving benefits.

those already receiving benefits under the program when it terminates may continue to receive assistance until their 26 weeks of benefits are exhausted or until the end of March 1976, whichever comes first.

Policy Issues

In the Unemployment Insurance Program the following policy issues should be addressed. In March or April of this year we will be issuing a report on the Unemployment Fund in which we will make recommendations on each of these issues.

1. Should the fund level balance be kept high enough to allow a better counter-cyclical effect to the economy?
2. Should eligibility standards related to minimum income in the base year be raised?
3. Should eligibility related to the claimant's connection with the labor market be tightened?
4. Should the benefit standard be adjusted to more nearly coincide with 50 percent of weekly wages?
5. Should the taxable wage base be extended?
6. Should taxes on negative reserve employers be increased?
7. Should coverage be extended on a permanent basis to new groups of employees, such as farm laborers?

DISABILITY INSURANCE PROGRAM

The Disability Insurance Program, operating under the authority of state law, has as its primary objective the reduction of economic hardship through benefit payments to the eligible worker who cannot work due to an illness or injury which is not related to his employment. Eligibility is gained by working in "covered employment" as defined in the Unemployment Insurance Code. Employment may be covered either under the state plan or a voluntary plan. Voluntary plans are sponsored by employers and approved by the Director of EDD.

An amount of $21,138,572 is proposed for administrative support of this program during fiscal year 1975–76 which is an increase of $3,632,807, or 20.8 percent, over the estimated expenditure in the current year. There are three primary reasons for the higher projected expenditures in the support of this program: (1) postage cost increases of 25 percent during the last two years (DI benefits are paid by mail), (2) medical cost increases and (3) workload increases which over the last three years have grown at an average rate of seven percent per year.

Effect of Economic Recession

The actuarial report of the Unemployment Compensation Disability Fund for 1972 issued in June 1974 indicates that the fund, which had a balance of $115,148,785 at the end of 1972 was, in the judgement of the actuary, in sound financial condition. The level of actuarial solvency is defined as between 25 percent and 50 percent of current worker contributions. The fund balance at 25 percent of current worker contributions would be about $90 million and at 50 percent would be about $180 million. By the end of 1973 the balance had increased to $138,528,499.

The largest need, according to the actuarial report, for a solvent fund

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

balance is to protect against the impact of an economic recession. The primary added cost during a recession stems from benefits paid to the unemployed disabled which has normally averaged about .15 percent of taxable wages. A secondary effect of recession is experienced in the decrease in worker contributions which is especially significant in a severe and/or long-term downturn in the economy. The effects of the recession during 1970 and 1971 on the fund balance are reflected in Table 6.

Table 6
Changes in Disability Fund
1970–1973
(in thousands)

	Fund balance beginning of year	*Total receipts*	*Total disbursements*	*Excess of receipts over disbursements*	*Fund balance at end of year*
1970	$107,235	$310,260	$324,418	−$14,158	$93,077
1971	93,077	309,962	320,628	−10,666	82,411
1972	82,411	369,110	336,373	32,737	115,149
1973	115,149	397,449	374,070	23,379	138,528

Policy Issues

The 1972 Actuarial Report on the Disability Fund raises the following issues to be addressed. The report points out that an inequity is involved relating to the contribution/benefit ratio of workers whose earnings range is between $9,000 and $11,400 per year. Each contribute the maximum of $90 per year (based on the contribution of one percent on the first $9,000 earned). However, if the person earning $9,000 receives disability insurance he will receive $90 per week, whereas the person earning $11,400 will receive $119 per week. In reviewing this inequity the following items are suggested for consideration.

1. The use of annual wages rather than quarterly wages in establishing eligibility.
2. The relationship between minimum benefits and contributions should be considered.
3. The relationship of disability benefits to unemployment and worker's compensation benefits should be reviewed.
4. The method of collecting voluntary plan assessments is also suggested for review.

MIGRANT SERVICES PROGRAM

This program provides services to migrant farm workers and their families at 25 locations throughout the state. The primary objective is the provision of low-cost housing and sanitary facilities for the transient farm laborer and his family. Ancillary services in the field of public health and day care services are also provided. The department proposes a total expenditure of $1,975,860 in the budget year, of which $1,411,887 are federal funds. The General Fund request is $563,973 which funds the day care element of the program.

Available Housing

At the beginning of fiscal year 1974–75 there were 2,172 houses available at the 26 sites. During 1974–75, the site at Indio with 54 houses was terminated due to the refusal of the City of Indio to renew the zoning use permit. There are now 25 sites and 2,118 houses available to migrant farm laborers during the normal six-month work season.

The houses, which are the property and responsibility of the Migrant Services Program located in EDD, are constructed on land made available for that purpose by local government entities. The basic life expectancy of the earlier houses was approximately five years. Some have been replaced by newer, better constructed units. Others are now in their eighth year of operation and are badly in need of replacement or termination. Some of the earlier projects have central toilet and shower facilities for groups of houses while the more recently constructed units have a bathroom and shower in each unit.

During the month of September when the peak number of migrant farm laborers are in the State of California, they number approximately 40,500. The number of migrant workers who live in the various camps during the six months' season is approximately 7,500.

Federal Funding for 1975 Season in Question

Construction and seasonal maintenance has from the beginning been fully funded under the federal Economic Opportunity Act. The state has funded the cost of maintenance during the off season (now obtained through revenues from rental charges of $1 to $1.25 per day per house during the seasonal usage of the homes) and has provided the funds to match federal funds for day care.

The department has been told that federal funding for 1975 will be limited to $625,000 (in contrast to the requested minimum of $1,075,000) and that such funding will be granted only if (1) federal funds are matched by a significant amount of nonfederal funds and (2) the department enters into a "binding commitment of fund allocation for total operation of the program . . . beginning in early 1976." Attempts are being made by the department to have this ruling changed. A notice has been sent to all the local governmental entities who have contracted with EDD to operate the camps that unless additional funds are obtained from the Department of Labor, the camps may not open for occupancy in 1975.

Reassignment of Migrant Day Care Funding

We recommend that Item 282(d) $563,973 proposed by the Governor's Budget for migrant day care for preschool children be transferred from EDD to the Department of Education for child development programs.

The Governor's Budget proposes $563,973 for the child care program for preschool age children of migrant farm workers as a budget responsibility of the Department of Employment Development. The program currently serves approximately 1,900 children. $454,000 of the $563,973 is scheduled to be transferred to the Department of Education to provide day care programs for preschool age migrant children. This amount is matched on a three for one basis by federal Title IV-A Social Security Act social services funds. In addition federal ESEA Title I funds are allocated to the

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

program. The balance of $109,973 of the General Fund appropriation is scheduled to remain the administrative responsibility of EDD, to be used for maintenance and improvement of day care facilities.

The Department of Education should have management responsibility for the entire General Fund appropriation both for operation of migrant preschool programs and maintenance and improvement of day care facilities. This would eliminate the need for a transfer of funds to operate the migrant centers and would assign management responsibility and accountability to the Department of Education for maintenance and improvement of day care facilities as well as for operation of such centers.

The day care facilities in a migrant camp are subject to specified federal and state standards for group care of children. Compliance with these standards is at present the undefined joint responsibility of the State Department of Education and the Employment Development Department.

We recommend that the Legislature appropriate $563,973 related to this program directly to the Department of Education since this is compatible with the department's designation by the Legislature as the single state agency responsible for child care in California.

Policy Issues

In the Migrant Services Program the following issues should be addressed.

1. If federal funding terminates what state action should be taken in regard to the migrant housing facilities. Alternatives are:
   a. Sell or dismantle the houses and return property to local entities.
   b. Arrange for other funding, federal, state, local or a combination of such.
   c. Arrange for local assumption of the facilities if local interest exists.
   d. Revise the conditions under which they may be rented and increase the rent to pay for a larger part of maintenance.
2. If federal funding continues for maintenance, should the state becme involved in replacement of worn-out houses or in new construction?

Pursuant to the legislative supplemental language of the Budget Bill of 1974–75, we will be submitting a report to the Legislature by March 1, 1975 regarding state involvement in providing migrant housing.

OFFICE OF ECONOMIC OPPORTUNITY

The State Office of Economic Opportunity (SOEO) is funded under Section 231 of the Economic Oppportunity Act (EOA). Under this section, the National Office of Economic Opportunity is authorized to fund state agencies for the purpose of (1) providing technical assistance to communities and local agencies offering OEO programs, (2) coordinating related state activities, (3) mobilizing state resources, and (4) advising and assisting the National OEO Director. Section 242 of the EOA provides that grants and contracts of assistance being funded under that act will be submitted to the Governor for his consideration. SOEO assists the Governor in review and recommendation.

The total proposed expenditures of $1,193,412 is an increase of $200,368, or 20.2 percent, over the current year's estimated expenditures. The General Fund request of $219,806 is an increase of $88,306, or 67.2 percent, over the current year's estimated expenditures. In fiscal years 1973–74 and 1974–75 the Legislature has restricted funding of the office because of the limited and uncertain funding at the federal level.

Federal Funding

During the past two years the federal administration has made several attempts to terminate the Community Action Agencies (CAA's) and state OEO's. Because of opposition from Congress, funding was not allowed to terminate although it was restricted. Authorizing action has now been taken by Congress extending the CAA's and SOEO's through 1977. Funds have also been appropriated which allow some increase in funds available for these functions. Several bills are pending which would further modify and extend the life of these agencies.

State Office Role Change

The role of the state office has undergone a significant change during the past two years. It has changed from being primarily the review and regulatory arm of the Governor to exercising positive leadership in statewide poverty programs. A recent reorganization has assigned field representatives as consultants to specific CAA's. The office has been developing resources within state and local agencies and hopes to expand its influence in these areas during the coming year.

Budgets that are reviewed by the office for the Governor are now being handled expeditiously in contrast with some of the long delays CAA's complained about in the past.

CALIFORNIA VIETNAM ERA VETERAN OJT PROGRAM

This program, created by Chapter 122, Statutes of 1974, provides for employment opportunities for California veterans of the Vietnam era by reimbursing private employers for 50 percent of the costs of on-the-job training (OJT) of Vietnam era veterans for up to 18 months. EDD has cooperated with the Division of Apprenticeship Standards to develop and fill job slots under the program.

Chapter 122 appropriated $1 million for the program and Item 301.2 of the Budget Act of 1974 appropriated an additional $200,000 to cover administrative costs of the program. The department expects by June 30, 1974 to have committed $775,000 of the total funds in developing 480 job slots. During 1975–76, the department proposes to spend the remaining $425,000 and add 270 more jobs.

ADMINISTRATION, STAFF AND TECHNICAL SERVICES

This program has as its objective the accomplishment, through the departmental program managers, of the basic departmental goals.

The program budget proposes a funding allocation in fiscal year 1975–76 of $15,522,779 distributed to the other departmental programs. This is a decrease of $252,273, or 5.2 percent, under the current-year expenditure estimates and includes a reduction of 13 man-years of staff time. The staffing and funding allocation for the five-year period beginning with fiscal year 1971–72 is shown in Table 7.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 7
Staffing and Funding Allocations
Administrative, Staff and Technical Services Program

	1971–72	*1972–73*	*1973–74*	*1974–75*	*1975–76*
Staffing man-years	921.8	851.1	1,173.9	748.2	735.2
Funding allocations	$11,418,845	$11,812,509	$20,820,908	$16,375,152	$15,522,779

The significant jump in man-years and expenditures during fiscal year 1973–74 was a technical event by which the Personal Income Tax Program was shown for a brief interim as a part of the administrative staff and Technical Services Program. It was then transferred to the Department of Benefit Payments.

Health and Welfare Agency
DEPARTMENT OF REHABILITATION

Item 286 from the General Fund — Budget p. 751

Requested 1975–76	$8,456,360
Estimated 1974–75	7,913,651
Actual 1973–74	7,748,982
Requested increase $542,709 (6.9 percent)	
Total recommended augmentation	$472,694

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Welfare Recipients. Augment $472,694.* Recommend partial state matching funds for the Welfare Recipients Experimental Program. 530
2. Third-party agreements. Recommend an outside study of all third-party agreements. 531
3. Clerical Support. Recommend department report at budget hearings on the Clerical Utilization Task Force's recommended clerical support level. 532
4. Physician Reimbursements. Recommend Department of Health report to fiscal committees, progress in updating allowable uniform physician fee schedule. 533

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation is responsible for assisting and encouraging handicapped individuals to prepare for and engage in gainful employment to the extent of their abilities. The department's objective is to help handicapped individuals increase their social and economic well-being and subsequently prevent or reduce public dependency. The department operates under the authority of the federal Rehabilitation Act of 1973 and Division 10 of the Welfare and Institutions Code and carries out the following four programs:

(1) Rehabilitation of the Disabled;
(2) Business Enterprise;
(3) Development of Community Rehabilitation Resources; and
(4) Administration.

ANALYSIS AND RECOMMENDATIONS

For the 1975–76 fiscal year, the budget for the Department of Rehabilitation proposes a total program expenditure, after reimbursements, of $76,581,311 of which $68,124,951, or 89.0 percent, is from federal funds and $8,456,360, or 11.0 percent, is from the General Fund. The total proposed expenditure for 1975–76 is $4.0 million more than the amount estimated to be expended during the current year. Expenditures from the General Fund are proposed to be increased by $542,709, or 6.9 percent, while expenditures of federal funds are proposed to be increased by $3.5 million, or 5.4 percent.

The funding of the basic rehabilitation program is 80 percent federal and 20 percent state funds. Rehabilitation services to social security disability insurance (SSDI) beneficiaries and to supplemental security income (SSI) recipients are funded fully by federal funds. Approximately one-third of the state matching total is obtained through other state agencies and local government agencies by means of cooperative agreements.

Analysis of the proposed 1975–76 program effort shows that resource allocation for the various departmental activities is virtually unchanged from the current year. Table 1 compares the estimated number of man-years and total expenditures by program for the current year to those proposed for 1975–76.

Table 1
Man-Years and Gross Expenditures by Program

	Estimated man-years 1974–75	*Proposed man-years 1975–76*	*Estimated expenditures 1974–75*	*Proposed expenditures 1975–76*
I. Rehabilitation of disabled	2,061.2	2,061.9	$72,997,885	$77,712,460
II. Business enterprise	35.5	35.1	716,651	700,259
III. Development of community rehabilitation resources	26.5	26.2	2,556,022	2,538,189
IV. Departmental administration distributed to other programs	(314.7)	(314.7)	(5,855,572)	(5,991,063)
Total (before reimbursements)	2,123.2	2,123.2	$76,270,558	$80,950,908

I. REHABILITATION OF THE DISABLED

This program provides services to help disabled persons overcome their physical or mental handicaps and secure employment. Vocational rehabilitation has been defined as a restoration of disabled persons to the fullest physical, mental, vocational and economic usefulness of which they are capable. Services of the department to the disabled are provided at approximately 150 district and local offices throughout the state.

The department conducts an on-going cost-benefit analysis of the program each year which indicates that in a relatively brief time costs of the program are returned to government through savings in other social pro-

DEPARTMENT OF REHABILITATION—Continued

grams such as welfare, Medi-Cal and social security, together with increased tax revenues through earnings of rehabilitants. Table 2 presents a summary of the department's cost-benefit analysis for persons rehabilitated during fiscal year 1973–74.

Table 2
Summary of Cost-Benefits for Rehabilitants
Fiscal Year 1973–74

Disabled persons rehabilitated	15,505
Estimated annual earnings of rehabilitants	$92,028,248
Estimated annual benefits to government	$19,691,970
Federal/state costs of the program	$55,104,829
Average cost per rehabilitation	$3,554
Average benefit per rehabilitation	$1,270

The department estimates that because benefits will continue to be realized on an annual basis, it will take only about 2.8 years on the average for 1973–74 rehabilitants to return to government the full cost of the rehabilitation services they received. The benefit-cost ratio is probably overstated because it does not consider displacement of other persons in a restricted labor market nor does it adequately take into account the rehabilitants who subsequently drop out of the labor market. However, even though the benefits of the program may not be realized as quickly as the departmental analysis indicates, the program does provide a substantial return of investment for services rendered.

The two elements of the rehabilitation program are Basic Rehabilitation Services and Other Rehabilitation Services. The most important effort of the department is in the area of basic rehabilitation services.

Basic Rehabilitation Services

Basic rehabilitation services are provided to a disabled person at or near working age whose disability interferes with his ability to obtain or keep employment. Services are provided through a network of local offices throughout the state and through cooperative agreements with state and local agencies (correctional agencies, educational institutions, hospitals or mental health treatment facilities).

Program Costs and Achievements. Total expenditures for this element are proposed to increase by $4.7 million over the amount estimated to be expended during the current year. The department estimates that 19,405 disabled persons will be rehabilitated during 1975–76, an increase of 1,800 rehabilitations over the number estimated for the current year. During 1973–74 fiscal year, 15,505 rehabilitations were completed which is 500 less than estimated when the 1974–75 Governor's Budget was presented. In the 1975–76 budget year some 480,000 disabled Californians of working age are expected to need basic vocational rehabilitation services in order to obtain or retain employment. In that light the 1975–76 goal of 19,405 rehabilitations constitutes a scant four percent of the total number the department estimates will be in need of vocational services during that year.

Factors Against Increasing Rehabilitations. There are a number of factors which make the achieving of the estimated goal questionable: (1) the department proposes to increase services by 15 percent to the severely disabled who take longer to rehabilitate; (2) a case closed as rehabilitated in 1974–75 must have been observed in placement for 60 days as contrasted to the 30-day federal requirement in 1973–74 and previously; (3) federal regulations now require a more complete development of an individual plan for each client; (4) new federal regulations also require an annual review of all ineligibility decisions made; (5) another federal requirement is post-employment services for all rehabilitated clients in need of such services; (6) there is a continued emphasis in the department on the use of specialized programs, thus limiting the flexibility of the department; and (7) the department placement effort will have to be made in the face of the continued effects of inflation, a high rate of unemployment and a general economic slowdown.

Low Achievement Record. When California's achievement record is compared wth the national average, the state is found to be consistently at the low end of the scale as measured by the number of rehabilitations per disabled population. During fiscal year 1972–73 and again in 1973–74, California could do no better than accomplish 119 rehabilitations per 10,000 disabled population in the state, a performance that ranks this state 51st among 51 and 50th among 51, respectively, during those two budget years. Table 3 depicts how California compares with the top five and bottom five ranking states and territories in terms of achieved rehabilitations per 10,000 population during the fiscal years 1972–73 and 1973–74.

Table 3
Number of Rehabilitated Per 10,000 Disabled Population

	Five highest and five lowest ranking states or territories			
	1972–73		*1973–74*	
	Rate	*Rank*	*Rate*	*Rank*
South Carolina	675	2	733	1
District of Columbia	715	1	622	2
West Virginia	648	3	614	3
Utah	532	6	538	4
Virginia	529	7	528	5
Illinois	229	41	171	47
Maine	161	48	170	48
Indiana	121	50	128	49
California	119	51	119	50
Arizona	148	49	116	51
U.S. Average	296	—	287	—

Level of Funding

State funding in the Department of Rehabilitation has not kept pace with the growth of the department. When the Department of Rehabilitation was formed in 1963, the staffing level was set at 1,021.3 positions. Currently, there are 2,218.3 authorized positions. During that time the total budget increased from $13,260,246 in 1963 to the projected level for 1975–76 of $80,950,908, more than five-fold. At the same time the state

DEPARTMENT OF REHABILITATION—Continued

General Fund appropriation has increased only 87 percent, from $4,502,582 to a projected $8,456,360. This amount is not direct funding because about one-third of it is obtained through cooperative agreements with other state and local entities.

Per Capita Funding Among States. A review of the national statistics of the state vocational rehabilitation agencies reveals that the per capita funding level has a significant relationship to the number of rehabilitations achieved. The same 10 states that were compared for achievements in Table 3 are compared again in Table 4 with their ranking in terms of per capita expenditures, federal, state and total.

Table 4
Federal, State and Total Per Capita Expenditures

Rank in 1973–74 Rehabilitations	*Federal per capita expenditures*	*Rank*	*State per capita expenditures*	*Rank*	*Total per capita expenditures*	*Rank*
1. South Carolina	$4.572	8	$1.651	5	$6.223	8
2. District of Columbia	5.592	3	2.762	1	8.354	1
3. West Virginia	4.450	9	1.909	4	6.358	7
4. Utah	3.737	14	.935	21	4.672	17
5. Virginia	3.318	23	.956	19	4.274	23
47. Illinois	1.884	49	.471	49	2.356	49
48. Maine	2.329	41	.607	43	2.935	42
49. Indiana	1.256	54	.314	54	1.570	54
50. California	1.880	50	.470	50	2.350	50
51. Arizona	2.998	27	.797	28	3.795	26
U.S. Average	$2.711	—	$.745	—	$3.457	—

Table 4 demonstrates that there is a strong correlation between the per capita expenditures and the national ranking of the various state agencies listed. All of those agencies which rank in the top five in achievements received per capita expenditures which are significantly above the national average. Conversely, all of the states which rank among the lowest five, with the exception of Arizona, received significantly less than the national average in per capita expenditures.

We are recommending an increase in state expenditures in the Welfare Recipients Experimental Program.

Welfare Recipients Experimental Program (WREP)

We recommend an augmentation of $472,694 for partial state matching funds for the Welfare Recipients Experimental Program (WREP).

The WREP program was established in fiscal year 1972–73. Federal funding was available on a 90-10 basis for the first three years as an experimental project. The state funding, in keeping with the former administration's policy to limit direct state funding of the department, was provided through a third-party agreement with the State Personnel Board. The Career Opportunities Development (COD) program, located in the State Personnel Board, was established by the Welfare Reform Act of 1971.

To fund the WREP program, state-appropriated COD money was matched on a 90-10 basis with Department of Rehabilitation federally-allocated funds to provide rehabilitation services to welfare recipients in the state.

However, as the program expands, the third-party funding leads to increasing difficulties in operating the program. Because the funds come through the COD program, welfare recipients rehabilitated through WREP must be placed in on-the-job training slots developed in the COD program. Not all are appropriately qualified for the public service employment opportunities which are available. Excessive administrative time and effort is often spent to meet the requirements of an arbitrary system which is based on funding constraints rather than the needs of the client.

The fiscal year 1975–76 state matching requirements in WREP will be increased to 20 percent because the experimental phase of the program has been completed. The increased state matching ratio coupled with program growth has raised the required state portion to $1,860,746. Available federal money in the amount of $7,442,984 has been earmarked for the program. It is doubtful that funding through COD can be increased above the current year's level of $1,388,052. We propose to continue the COD funding of WREP at the current level but to fund the increased expenditure of $472,694 directly through the Department of Rehabilitation. The state money when matched with federal funds will generate $2.4 million.

On the basis of the WREP Program experience to date, the department informs us that the yearly fiscal results realized for every $1 million spent are: (a) welfare savings $442,000, (b) medical services savings $38,000 and (c) new taxes paid $141,000. When total costs (federal and state) are compared with total savings and new taxes, an expenditure of $2.4 million will produce about $1.5 million of savings and new taxes each year. Put another way, approximately 18 months from the time the rehabilitation process is completed, the full costs of services will be recouped through savings and new taxes.

Because the average client is rehabilitated in about 18 months we can expect that approximately 36 months from July of 1975, or in July of 1978, the $2.4 million will have been returned and yearly savings and new taxes after that will produce a substantial return on the expenditure.

Third-Party Agreements

We recommend that an outside study of all the cooperative program agreements be conducted and that the study, together with recommendations for continuation or termination of each of the cooperative programs be submitted to the Legislature, the Governor and the director of the department by December 1, 1975.

Only two-thirds of the state money required to match federal funds is appropriated directly to the Department of Rehabilitation. The remainder comes from reimbursements from cooperative agreements with local and state agencies. Table 5 identifies the major types of cooperative agreements, program costs and results in terms of estimated rehabilitation for fiscal year 1974–75.

DEPARTMENT OF REHABILITATION—Continued

Table 5
Schedule of Cooperative Programs
1974–75

Program	*Total fiscal agreement*	*Estimated rehabilitations*
Alcoholism program	2,632,690	870
Drug abuse	83,100	60
Mentally ill programs (27 sites)	4,899,122	1,490
School programs (30 sites)	2,867,602	903
Public offender programs (5 agreements)	5,666,823	1,433
Miscellaneous programs	436,740	300
Totals	$16,586,077	5,056

The various programs which are funded through cooperative agreements result in departmental personnel being restricted in their services to specific types of disabilities and in many cases to specific geographical locations. The result is that there are fewer generalist positions available to serve the overall disabled population. This means unequal opportunities for the various categories of the disabled. There are indications that some of these programs are funding devices rather than innovative solutions to priority needs of the disabled. A number of basic questions need to be answered. For example, what types of additional administrative costs are generated through the administrative overlap inherent in cooperative agreements? Are federal regulations being fully met in these programs? Do all of these programs serve the disabled or do they basically serve other types of needy people whose disabilities are secondary to their real needs? Are there more pressing priorities among the state's disabled population which are not being met because of the cooperative programs?

Clerical Support

We recommend that, at the budget hearings, the department report to the fiscal committees on why it has not followed the recommendations of the departmental clerical utilization task force regarding ratio of clerical support to professional staff and what future action is anticipated.

The Legislature, during the 1974–75 budget hearings, directed the department to study the problem of the ratio of clerical support to professional staff. The department contracted with the Department of General Services to make the study with the assistance of a clerical utilization task force established within the department. Its report, completed in August 1974, recommended the addition of approximately 190 clerical positions to relieve professional staff of clerical duties and to meet a demonstrated clerical workload need.

The primary reasons for the need of a higher ratio of clerical support to counselors are found in the department's workload which includes a large volume of paper referrals, the necessity of referring to medical doctors and obtaining medical records, purchase and payment activities involved in the rehabilitation process and federally required statistical data collection.

The results of this study correspond with a review of federal statistics which show that the high production states have a ratio of 2.7 supporting staff to every counselor, while the low production states have a ratio of 1.5 supporting staff to every counselor. The indications are that the supporting staff ratio has a direct relationship to the number of rehabilitations per counselor. California has a ratio of 1.6 supporting staff per counselor while the nationwide average, exclusive of Caifornia, shows a 2.1 to 1 ratio.

Lack of Uniform Physician Reimbursements

We recommend that the Department of Health present a report to the fiscal committees prior to its budget hearing on the progress made in updating the allowable uniform physician fee schedule.

The rehabilitation program provides for a wide variety of medical and medically related services which it purchases. Both the Department of Rehabilitation and the Department of Health Crippled Children's Services Program are required to use the rates established by the rates and fees section of the Department of Health and published in the medical schedule of maximum allowances for purchased physician services. This method of reimbursement establishes dollar coefficients for each county in California. These coefficients are then applied to the unit values for medical procedures contained in the 1964 California Medical Association Relative Value Study. A maximum of $666.25 is allowed for any one procedure. Except for a 2.5 percent increase in November 1972, the dollar coefficients have remained unchanged since 1968.

In contrast, the California Medical Assistance Program (Medi-Cal) has established a profile system of payment that provides for differential payment levels based on the usual and customary charges of physicians within geographical areas. Thus, it is possible for the same physician providing identical medical procedures to two different patients under different California programs to be paid two different rates. The Legislature recognized this problem during the 1974–1975 budget hearings and provided funds in the budget to enable the administration to correct the payment procedures during the current fiscal year.

Proposal for Change. After a year of working with this problem, the Department of Health issued proposed regulation changes at a hearing on December 9, 1974. The changes proposed the adoption of the 1969 California Medical Association Relative Value Study multiplied by dollar conversion factors corresponding to the four sections of medicine, anesthesia, surgery, and radiology/nuclear medicine.

If the proposed regulations are adopted, the Department of Health would issue a revised Schedule of Maximum Allowances for the Department of Rehabilitation and the Crippled Children's Services which would be the same as the Medi-Cal reimbursement rate. Thus, all of California's physician reimbursement formulas would be uniform.

It is essential that changes be made as soon as possible. Under the current circumstances, the department is having an increasingly difficult time obtaining physician services for rehabilitation clients. A great deal of administrative time is also wasted in seeking out doctors who will service the clients under the relatively low reimbursement schedule. If the proposed regulations are not administratively adopted, we recommend that the schedule developed in the proposal be made statutory.

Budget Set-Aside. The Budget Act of 1974 included in the support item of the Department of Rehabilitation $82,000 from the General Fund to provide for increased rates of physician reimbursements. This together with federal matching funds, provided for increased physician fees totaling $820,000. A similar appropriation should be included in this year's budget item, but at this time we are unable to recommend a specific amount. The Governor's Budget includes an inflation item in the Medi-Cal budget. This is discussed on page 158 of this Analysis. Any increase in the appropriation for the Department of Rehabilitation for physician reimbursements should be made in conjunction with the action taken on Item 97 in the Medi-Cal budget.

II. BUSINESS ENTERPRISE

This program consists of the Business Enterprise Program for the Blind which is supervised by the Department of Rehabilitation. The program provides comprehensive training and supervision in the operation of vending stands, snack bars, and cafeterias in public and private buildings.

For 1975–76, the budget proposes total expenditures of $700,259 to support this program. Of this amount, $560,208 is from federal funds while $140,051 is from the General Fund. The 1975–76 amount represents a decrease of $16,392 from the amount estimated to be expended during the current year. The budget proposes no major changes for this program.

III. DEVELOPMENT OF COMMUNITY REHABILITATION RESOURCES

This program is carried out in an attempt to develop and maintain adequate facilities and services in the community so that the department may have available for clients those services which it does not supply directly. Examples of purchased services include medical facilities, physician services, private and public training facilities and rehabilitation facilities. This program has three basic elements: (1) technical consultation to rehabilitation facilities, (2) grant administration, and (3) vocational training facilities development.

The budget proposes total expenditures of $2,538,189 to support this program during 1975–76. Of this amount $107,637 is from the General Fund. The total proposed to be expended in 1975–76 represents a decrease of $17,833 from the amount estimated to be expended in the current year. All three elements of this program are primarily intended to insure the continued development and availability of rehabilitation resources in the community, together with the supervision of grant-supported projects under various sections of the Rehabilitation Act of 1973.

IV. DEPARTMENTAL ADMINISTRATION

This program includes the office of the director, management services, and field support services. These activities provide executive direction, planning, policy determination and staff support for the operation of all departmental programs.

The budget proposes the expenditure of $5,991,063 to support this program in 1975–76, an increase of $135,491 from the amount estimated to be expended in the current year. Under program budgeting concepts, the entire amount for support of this program is charged to other programs. No major changes are proposed for this program during 1975–76.

DEPARTMENT OF BENEFIT PAYMENTS

GENERAL SUMMARY

Funds for the Department of Benefit Payments are contained in five items and one control section of the 1975–76 Budget Bill. In the budget year the department is requesting a total of $1,153,104,105 from the General Fund, an increase of $185 million over the amount anticipated to be expended in 1974–75.

Table 1 compares the current year and the budget year by budget item, indicating where the increases are occurring.

Table 1
Department of Benefit Payments' General Fund Requests for 1975–76

Budget Bill Item	*Purpose of Expenditure*	*1974–75 estimated General Fund expenditures*	*1975–76 General Fund request*	*Dollar increase*	*Percentage increase*
287	Departmental operations....	$13,909,149	$13,848,668	–$60,481	–.4%
288	Aged, blind and disabled cash grants..........................	474,088,500	568,861,100	94,772,600	20.0
Section 32.5	AFDC cash grants	429,234,950	513,857,400	84,622,450	19.7
289	Special benefits to adult recipients	2,346,000	4,441,500	2,095,500	89.3
290	Demonstration projects and training.........................	191,937	191,937	None	None
291	County welfare department operations	48,485,700	51,903,500	3,417,800	7.0
		$968,256,236	$1,153,104,105	$184,847,869	+19.1%

In terms of all federal, state and county funds the Department of Benefit Payments will be directly and indirectly involved in the expenditure of an anticipated $3,118,309,186 in fiscal year 1975–76. This represents an increase of $389 million over the current year estimates. Table 2 compares the expenditure estimates for the current year and 1975–76.

Table 2
Department of Benefit Payments— Total Welfare Expenditures, All Funds

Budget Bill Item	*Purpose of Expenditure*	*Estimated Total 1974–75 expenditures*	*1975–76 estimated expenditures*	*Dollar increase*	*Percentage increase*
287	Departmental operations	$47,690,096	$47,499,652	–$190,444	.4%
288	Aged, blind and disabled cash grants	1,200,798,700	1,352,115,000	151,316,300	12.6
Section 32.5	AFDC cash grants	1,249,213,607	1,469,025,300	219,811,693	17.6
289	Special benefits to adult recipients	2,346,000	4,441,500	2,095,500	89.3
290	Demonstration, projects, training, Cuban refugees............................	11,077,443	11,246,534	169,091	1.5
291	County welfare department operations	218,505,900	233,981,200	15,475,300	7.1
		$2,729,631,746	$3,118,309,186	$388,677,440	14.2%

Health and Welfare Agency

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET

Item 287 from the General Fund — Budget p. 764

Requested 1975–76	$13,848,668
Estimated 1974–75	13,909,149
Actual 1973–74	9,701,906
Requested decrease $60,481 (0.4 percent)	
Total recommended reduction	$167,470

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Employment Tax Program. Withhold recommendation on 173.5 requested new positions for the Employment Tax Collection Program until the Departments of Benefit Payments and Finance indicate how and where the positions are to be utilized.	541
2. Fund Transfer. Recommend (1) schedule for Item 287 identify $1,649,539 for transfer to Health Care Deposit Fund and $3,112,339 as payable from Health Care Deposit Fund for the cost of services rendered the Medi-Cal Program by the Department of Benefit Payments; and (2) language be added specifying that $1,649,539 be transferred to Health Care Deposit Fund to match federal funds.	542
3. Proposed Health Operations Positions. Withhold recommendation on proposed 28 new positions for Health Audits Bureau because no funds are budgeted.	542
4. Control Section 32.5. Withhold recommendation on General Fund amount for control Section 32.5 pending review of department's May estimates of caseload and cost.	543
5. Unemployment. Recommend department initiate project to determine interrelationship between unemployment and AFDC-U caseload.	545
6. Error Rate. Recommend department prepare estimates of effect the federal government's quality control program will have on cash flow.	546
7. Details of Operating Expense and Equipment. Recommend Legislature withhold approval of the department's Operating Expenses and Equipment Budget, Item 287 (b).	547
8. *Responsible Relatives. Reduce $34,700.* Recommend approval of 33 Office Services Bureau positions requested and reduction of two of the proposed six Responsible Relative Bureau positions.	548
9. *Responsible Relatives. Reduce $132,770.* Recommend	548

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DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

$45,770 reduction in contract funds for investigations; a $70,000 reduction in funds for contract services from the Attorney General; and elimination of a vacant assistant operations security officer position at $17,000.

10. County EDP System. Recommend Legislature withhold approval of $500,000 for development of the Model Modular County EDP System pending a report by the department to the fiscal committees during budget hearings regarding more precise determination of plans and costs for developing the system. 550

GENERAL PROGRAM STATEMENT

The Department of Benefit Payments was created pursuant to Chapter 1212, Statutes of 1973, (AB 1950) and is the successor to the State Department of Social Welfare. The department's three major areas of responsibility are the administration of welfare, collection of payroll taxes, and auditing of certain health care programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $13,848,668 for the Department of Benefit Payments which is $60,481, or 0.4 percent, less than estimated expenditures for the current fiscal year. In addition $6,079,004 in General Fund money is available to the department from Item 153, the support item for the Franchise Tax Board. These funds will be transferred to the Department of Benefit Payments for administration of the Employment (withholding) Tax Operations. Table 1 shows total General Fund support by program function.

Table 1
General Fund Expenditures for Operation of Department of Benefit Payments, (Including Reimbursements from Franchise Tax Board)

Operations	*1974–75*	*1975–76*	*Dollar change*	*Percent change*
Employment Tax Operations (reimbursement)	$6,079,004	$6,079,004	None	None
Health Operations	2,817,827	2,713,510	$-104,317	-3.7%
Welfare Operations	11,091,322	11,135,158	43,836	0.4
Total	$19,988,153	$19,927,672	$-60,481	0.3%

The Governor's Budget anticipates that it will cost $47.5 million (all funds) to operate the Department of Benefit Payments in fiscal year 1975–76. Table 2 shows the spread of operating costs among the three major programs of the department. It also shows the percentage of General Fund money required of each of the three major programs.

Table 3 shows that the cost per man-year of administrative staff varies substantially among the three major programs from a high of $24,724 in Welfare Operations to a low of $16,720 in Employment Tax Operations. The Governor's Budget anticipates a two percent decline in the cost per

Table 2
Total Administrative Expenses—Department of Benefit Payments with General Fund Sharing Ratios
1975–76

Operations	*All funds*	*Federal Funds and Dedicated Funds*	*General Fund*	*General Fund as percent of all funds*
Employment Tax	$23,705,917	$17,626,913[b]	$6,079,004	25.6%
Health	4,292,114	1,578,604[a]	2,713,510	63.2
Welfare	19,501,621	8,366,109[a]	11,135,512	57.1
All Programs	$47,499,652	$27,571,626	$19,928,026	41.9%

[a] Federal Funds
[b] Unemployment Insurance Fund and Disability Insurance Fund

man-year for Welfare Operations, a 3.7 percent increase for Employment Tax Operations and a 1.3 percent increase in Health Operations.

Table 3
Department of Benefit Payments
Cost per Administration Man-Year by Major Program

	1974–75			*1975–76*		
Operations	*Operating costs*	*Man-years*	*Cost per man-year*[a]	*Operating costs*	*Man-years*	*Cost per man-year*
Employment Tax	$23,105,917	1,381.9	$16,720	$23,705,917	1,364.8	$17,369
Health	4,402,294	238.0	18,497	4,292,114	229.0	18,742
Welfare	19,581,885	792.0	24,724	19,501,621	807.5	24,150
All Programs	$47,090,096	2,411.9	$19,524	$47,499,652	2,401.3	$19,780

[a] Cost per man-year includes salaries, benefits, rent, supplies, travel, equipment, communications, etc.

Position Changes

The Governor's Budget requests the position changes summarized in Table 4.

Table 4
1975–76 Governor's Budget Position Change Requests

Program	*Man-Years*
Employment Tax Collection Operations	+173.5
Health operations	+28.0
Welfare operations	
a. Responsible Relative Program	+39.0
b. Social Service estimates	+0.5
c. Civil Rights Program	+2
	+243.0
Positions Transferred Out	
Data Processing Positions to Department of Employment Development	−19.0
Accounting positions to Department of Health	−9.0
	−28.0

AUDITS AND COLLECTIONS

Employment Tax Operations

Most employers in California must withhold payroll taxes for unemployment insurance, disability insurance and personal income taxes. When these payroll taxes are withheld, they are sent to the Department of Benefit Payments Audits and Collections Division. The Audits and Collections Division has two branches, the Central Operations Branch and the

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

Field Operations Branch, which handle payroll tax collection, auditing and accounting functions.

Central Operation Branch. This branch now collects payroll taxes from more than 482,000 employers. Tax collections in fiscal year 1975–76 are expected to total approximately $3.3 billion. Table 5 indicates the number of employers and anticipated collections by program in 1975–76. At the start of the current fiscal year the Central Operations Branch had 657.6 authorized positions.

Table 5
Estimated Number of Subject Employers and Tax Collections
1975–76

	Employers	*Tax revenues*
Unemployment insurance	404,200	$877,000,000
Disability insurance	498,350	444,770,000
Personal income tax	429,700	2,022,000,000
		$3,343,770,000

Within the Central Operations Branch there are four bureaus. The largest is the Tax and Insurance Accounting Bureau which has 546.6 of the branch's 657.6 positions. This bureau has the following major responsibilities; the banking of tax revenues, the control of employer wage reports, the verification of tax submittals to assure accuracy, the maintenance of the employer registration files, the allocation of tax revenues to proper funds, the reconciliation of bank accounts, the maintenance of employee accounts and the computation of employee benefit entitlements in contested cases.

The other large bureau in the Central Operations Branch is the Tax Audits and Collections Bureau which has 70 positions. The major responsibilities of this bureau are: the approval of refunds, the preparaton of bankruptcy claims, the processing of tax appeals and preparation for appeals hearings, handling all out of state employers' accounts.

The remaining two bureaus are the Technical Services Bureau (26 positions) which provides policy interpretation, program expertise and program evaluation for the payroll tax program and the Classified School Employees Trust Fund Bureau (13 positions) which handles the collection of taxes from school districts in order to cover the cost of unemployment insurance benefits paid out to school district employees.

Field Operations Branch. The Field Operations Branch is the second of the two branches in the Audits and Collections Division which handles payroll tax matters. It has 37 field offices with 520 positions, an average of 14 positions per field office. The major functions of a field office are to register new employers, audit employers' books, collect delinquent taxes, determine the amount of wages actually paid to an employee in cases where the unemployment insurance benefit is contested and obtain wage reports from employers who have not submitted them.

Employment Tax Program

We withhold recommendation on 173.5 requested new positions for the employment tax collection program until the Department of Benefit Payments and the Department of Finance indicate how and where the positions are to be utilized.

In a letter dated December 4, 1974, the Department of Finance approved funds for 173.5 additional positions for the employment tax program for fiscal year 1974–75. The budget proposes the continuation of the positions which are fully federally funded, at the same level of funding, \$3,388,699. The funds are to come from the Employment Development Department.

Many of the position classifications and bureaus which appear on pages 770 and 771 of the Governor's Budget will not actually be used. The department simply classified and allocated the positions as shown when it learned it would have extra federal funds available for this fiscal year. The department is now in the process of deciding the proper classification and location for these positions for the current and budget years.

Ultimate General Fund Impact. In addition to federally funded tax collections and audits, the Audits and Collections Division collects and audits employers' payroll withholding of state personal income taxes. Approximately 25 percent of the division's activities are General Fund supported. Any major addition of personnel in this division has an ultimate impact upon General Fund costs.

We have not been able to analyze the need for the additional 173.5 positions because the Departments of Benefit Payments and Finance have not indicated where the positions will be established. Until we know this, we cannot determine what work is to be done by these positions or whether it is of sufficient priority to justify additional positions. Secondly, we do not know how the department plans to divide the additional staff between permanent and intermittent positions.

Health Operations

The Department of Benefit Payments operates a program to audit certain providers of health care, handle health audit appeals and recover funds from insurance companies and other third parties who have an obligation to pay all or part of Medi-Cal recipients' bills. Staff for this program has been located in the Department of Benefit Payments' Audits and Collections Division since July 1, 1974, the effective date of Chapter 1212, Statutes of 1973 (AB 1950). The Health Operations Program has 238 positions in fiscal year 1974–75. Table 6 indicates the spread of positions among the various bureaus.

Table 6
Health Operations Program
Currently Authorized Positions

1. Chief of Health Operations	2
2. Health Audits Bureau	97
3. Health Recovery Bureau	72
4. Health Appeals Bureau	10
5. Support Staff located in other bureaus	57
	238

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

The Governor's Budget shows a drop in man-years for this program from 238 in 1974–75 to 229 in 1975–76. This decline is due to the transfer back to the Department of Health of nine accounting bureau support positions. The 229 positions for 1975–76 do not include the 28 proposed new positions.

To stay within the Governor's Budget, the program's 1975–76 vacancy rate will be higher than the assumed vacancy rate for 1974–75. The Governor's Budget indicates that the number of audits performed by the Health Audits Bureau will increase from 656 in 1974–75 to 837 in 1975–76. This is without consideration of proposed new positions. The Governor's Budget also indicates that recoveries from third parties liable for certain medical expenses which were provided to Medi-Cal recipients will increase from $6 million to $15 million (250 percent). This increase is due to computerization of some portions of the recovery program.

Proposed Health Operations Positions

We withhold recommendation on the 28 proposed positions for the Health Audits Bureau because there are no funds budgeted for them.

The Governor's Budget proposes to add 28 new positions to the Health Audits Bureau in fiscal year 1975–76. According to the department, the 28 proposed new positions are to be used to perform the kinds of audits indicated in Table 7.

Table 7
Spread of Proposed New Health Audits Bureau Positions by Kind of Audit and with Cost/Benefit Ratios

		Cost/Benefit Ratio	
Kind of audit	*Number of new positions*	*Recovery*	*Cost of recovery*
Community and county hospital audits	16	$6.40	$1.00
Medically indigent care at county hospitals	1	5.00	1.00
Prepaid health plan audits [a]	10	Unknown	
Waiver audits	1	Unknown	
	28		

[a] These audits are to be done for purposes of monitoring PHP's.

The department indicates that the 1975–76 cost of the 28 new positions would be $655,046, of which $308,046 is General Fund money.

We withhold recommendation on the 28 proposed positions because we have been informed by the Department of Finance that although the positions are proposed, the funds for the positions have not been included in the budget. We have not been able to determine how the positions are to be funded. We will present additional comments and recommendations at the budget hearings.

Fund Transfer

We recommend (1) the schedule for Item 287 identify $1,649,539 for transfer to the Health Care Deposit Fund and $3,112,339 as the amount payable from the Health Care Deposit Fund for the cost of services rendered the Medi-Cal Program by the Department of Benefit Payments;

and (2) language be added to Item 287 specifying that the $1,649,539 be transferred by the Controller to the Health Care Deposit Fund to match federal funds for support of the Department of Benefit Payments.

The Governor's Budget estimates that the Health Operations program will cost $4,402,294 in 1974–75 and $4,292,114 in 1975–76. The Health Operations program consists of audit and recovery functions related to the Medi-Cal program and various other programs in which the state subvenes funds to the counties. Such programs are the Crippled Children's Services, family planning and Short-Doyle. Of the above amounts, approximately $3,162,946 in the current year and $3,112,339 in the budget year represent the cost of administrative services rendered the Medi-Cal program by the Department of Benefit Payments. The General Fund share of these amounts is $1,676,361 and $1,649,539 for the current and budget years. The General Fund share is supposed to be sent to the Health Care Deposit Fund where it is matched with federal funds and returned to the department as the $3.1 million figure.

As of mid-January, none of the $1,676,361 General Fund money budgeted for the current year had been transferred to the Health Care Deposit Fund to be matched with federal money and returned to the department. The department advises us that some of the $1.6 million allocated for transfer has been expended. The department is attempting to determine if matching funds can still be obtained through some other method.

WELFARE PROGRAM OPERATIONS

Cash Grant Programs

The budget does not have an appropriation item for the Aid to Families with Dependent Children (AFDC) and Aid to Potential Self-Supporting Blind (APSB) programs. The Welfare and Institutions Code provides that state funds necessary for these programs shall be continuously appropriated. Control Section 32.5 of the Budget Bill provides for a limit on the funds available. However, the section provides that the Director of Finance may approve expenditures for increased caseload or cost in addition to the amount stated in the section. Because there is no specific budget item for the AFDC and APSB programs we will discuss them in this portion of the departmental budget.

Control Section 32.5

We withhold recommendation on the appropriate General Fund amount for Control Section 32.5 pending receipt and review of the department's May estimates of caseload and cost.

Table 8 presents the funds requested by program for Section 32.5. It also shows the dollar and percentage increase in the budget year.

The amounts requested as shown in Table 8 are based on estimates prepared by the Department of Benefit Payments in November. In April and May the department will prepare updated estimates based on more caseload and cost experience. Upon completion of these updated estimates the Department of Finance will submit a budget letter changing

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

Table 8
Comparison of General Fund Support for Aid to Families With Dependent Children (AFDC) and Aid to Potential Self-supporting Blind (APSD) in Current and Budget Year

	Current Year	*Budget Year*	*Dollar increase*	*Percent increase*
Aid to Families With Dependent Children (AFDC)				
Family Group (FG)	$352,601,300	$402,765,500	$50,164,200	14.2%
Unemployed (U)	46,876,000	76,624,800	29,748,800	63.5
Foster Care (BHI)	29,311,950	33,990,900	4,678,950	16.0
Aid to Potential Self-supporting Blind	445,700	476,200	30,500	6.8
Total	$429,234,950	$513,857,400	$84,622,450	19.7%

the General Fund request for Control Section 32.5. It should be noted that in effect Control Section 32.5 is an open-ended appropriation. Regardless of the amount of money placed in Control Section 32.5, the state is required by law to pay its share of AFDC grants.

The Governor's Budget indicates that the $84,622,450 requested General Fund increase results from two factors: changes in caseload and a 14.5 percent cost-of-living adjustment. Table 9 shows these changes by program according to information contained in the Governor's Budget. We discuss these two factors under the headings A. Caseload Changes, and B. Grant Increases.

Table 9
Factors Accounting for 1975–76 General Fund Increase

Program	*Cause of Increase or Decrease*	*General Fund Cost*
AFDC—Family Group	a) caseload decrease	$−4,800,000
	b) cost-of-living adjustment	54,900,000
AFDC—Unemployed	a) caseload increase	22,700,000
	b) cost-of-living adjustment	7,100,000
AFDC—Foster Care	a) caseload increase	4,700,000
	b) cost-of-living adjustment	—
		$84,600,000

A. Caseload Changes

Table 10 presents the caseload data used to arrive at the dollar amounts shown in the Governor's Budget.

Table 10
1975–76 Governor's Budget
Change in Average Monthly Caseload

	Estimated 1974–75 average monthly persons count	*Estimated 1975–76 average monthly persons count*	*Change from current year*	*Percentage change from current year*
AFDC—Family Group	1,177,212	1,175,193	−2,019	−0.2%
AFDC—Unemployed	149,863	209,759	50,896	40%
AFDC—Foster Care	31,094	32,152	1,058	3.3%
APSB	175	175	None	None

Projected Cost Increase in AFDC-U Programs. The major AFDC caseload change projected in the Governor's Budget is in the AFDC-Unemployed program. In December, the Department of Benefit Payments Estimates, as released to the Department of Finance, projected that the AFDC-U caseload would increase by only 7,200 persons in 1975–76 over the average monthly caseload of the current year. However, the Governor's Budget as submitted in January increased this caseload estimate by over 50,000 persons in the belief that the 1975–76 unemployment rate in California would be sufficiently high to cause a sharp increase in the number of families needing public assistance.

The AFDC-U caseload increases shown in the Governor's Budget may prove to be somewhat conservative based on the experience of the AFDC-U caseload in the 1970–71 recession. However, the effect of adverse economic conditions on AFDC-U caseload in 1975–76 should be easier to forecast near the end of the current fiscal year when the department's revised estimates are due. At present the various estimates of 1975–76 AFDC-U caseload are highly speculative and should be so regarded.

Unemployment

We recommend that the Department of Benefit Payments initiate a study to determine the interrelationship between general economic conditions, unemployment and the growth and decline in the AFDC-U caseload.

During the 1970–71 recession the Department of Benefit Payments did not gather data about the characteristics of the AFDC-U caseload which would allow it to forecast what would happen to this caseload in the event another recession took place. California, along with the rest of the nation, is in a recessionary period, and little data are available with which to project its influence on the AFDC-U caseload. We believe that it is appropriate for the department to devote the resources necessary, in the remainder of this fiscal year and in 1975–76, to examine the relationships between the AFDC-U caseload and unemployment rates and general economic conditions.

Projected AFDC-FG Decrease. The budget projects a small increase in the number of families receiving family group benefits. However, this growth is more than offset by a reduction in the number of children per family. The budget anticipates that this "person" reduction will result in budget year caseload expenditures being $4.8 million less than current year expenditures. AFDC-FG (Family Group) grants will be adjusted on July 1, 1975 for a cost-of-living increase, at a General Fund cost of $54.9 million. The net expenditure increase in 1975–76 from the General Fund is projected to be $50.1 million.

Although the effect of unemployment is not as great on the AFDC-Family Group program as it is on AFDC-U, there is some impact on the FG caseload when economic conditions are on a downturn. Therefore, while we agree with the budget assumption that families will continue to be slightly smaller during the coming fiscal year, it appears doubtful that there will be a reduction in the number of persons receiving assistance.

Wishful Thinking. The budget projects an average FG caseload of

1,175,193 persons in the 1975–76 fiscal year. In November 1974, the number of persons on the caseload was 1,189,346. We share the administration's hope that the number of persons on the FG caseload will decrease, but it is difficult to view this as other than wishful thinking, considering the economic condition of both the nation and California.

B. Grant Increases

AFDC-Family Group and Unemployed grant entitlements are automatically adjusted each year by the state to take into account changes in the cost-of-living which occurred in the prior year. Increases in grant entitlements resulting from cost-of-living adjustments are payable to the recipient on July 1 of each year. Foster care grants are adjusted by county boards of supervisors without regard to the Consumer Price Index. The dollar totals shown in the Governor's Budget for the AFDC-FG and U Programs assume that the Consumer Price Index will rise by 14.5 percent in the 12-month base period used for calculating such adjustments.

Table 11 shows the average monthly grants and dollar increases used to arrive at the cost-of-living amounts requested in the Governor's Budget.

Table 11
1975–76 Governor's Budget
Average Monthly Grant

Program	*1975–76 average monthly grant per person*	*Estimated increase over current year*	*Percentage increase from current year*
AFDC—Family Group	$82.33	$10.58	14.7%
AFDC—Unemployed	75.65	10.88	16.8
AFDC—Foster Care	303.54	29.89	10.9
APSB	226.76	14.62	6.9

Effect of the Error Rate Program on the General Fund

We recommend that the Department of Benefit Payments prepare estimates of the effect the federal government's quality control program will have on the state's cash-flow situation and upon federal, state and county cost sharing ratios in 1974–75 and 1975–76.

The federal Department of Health, Education, and Welfare (HEW) has initiated a major quality control program which is intended to reduce state and county errors in the administration of welfare. Under the program, by June 30, 1975, not more than five percent of the children's (AFDC) cases can be given welfare checks in excess of the amount they are legally entitled to receive and not more than three percent of the cases can be mistakenly classified as eligible and thus paid welfare grants to which they are not entitled.

Neither the department's December estimates nor the Governor's Budget have attempted to estimate the effect the federal quality control program will have on the state General Fund in 1974–75 or 1975–76.

Federal reductions in AFDC fund advancements because of the quality control program, have caused California to experience cash-flow problems. The state is likely to experience even greater problems in the remainder of the current fiscal year. The combined effect of federal reductions in fund advancements and potential federal claim cuts for grants paid could result in an overall reduction of the federal share and an increase in the state and county share of AFDC grant costs.

The department should inform the Legislature how it has handled past cash flow problems, how it intends to handle any future problems and how the management of such problems will affect the counties. In addition, the fiscal committees of the Legislature should be told how much additional General Fund money will be required in 1974–75 and 1975–76 in the event the state does not fully meet its error control goals.

Civil Rights Coordinator

A civil rights coordinator and one clerical position were administratively established during the current fiscal year and are proposed as new positions for the budget year. We believe they are justified. The coordinator is the technical staff person responsible for knowing what the 58 county welfare departments are doing to comply with Title VI and VII of the U. S. Civil Rights Act both in terms of fair employment practices and equal access to services. He collects and evaluates ethnic data, works with counties to develop better bilingual service delivery capabilities, evaluates county welfare department affirmative action plans and performs other tasks related to the civil rights program.

ADMINISTRATION DIVISION

We are in agreement with the return of 19 data processing positions to the Department of Employment Development and 9 accounting positions to the Department of Health.

These positions were transferred from the Departments of Health and Employment Development when the Department of Benefit Payments was created. However, they have remained vacant and the Department of Benefit Payments has contracted for these services from the other departments during this fiscal year. The department wishes to continue to obtain data processing services for the Employment Tax Program through contract with the Department of Employment Development in 1975–76. Thus, the funds for this purpose will stay in the Department of Benefit Payments although the positions will transfer back. In the case of the health accounting functions, the funds and the positions will return to the Department of Health because the entire responsibility for this phase of the health program is to be returned.

Details of Operating Expenses and Equipment

We recommend the Legislature withhold approval of the Department of Benefit Payments Operating Expenses and Equipment Budget, Item 287(b) of the Budget Bill.

We have asked the department to answer a detailed list of questions about what is included in the Operating Expenses and Equipment (OE&E) budget and how these figures were derived. We do not believe that the OE&E budget for the Employment Tax Operations was built on enough actual experience, partially because of a number of delays in receiving cost accounting reports from the Employment Development Department's computers. We cannot recommend this item until the department responds to our request for additional data.

Responsible Relative Program

We recommend approval of the 33 Office Services Bureau positions requested and reduction of two of the proposed six Responsible Relative Bureau positions for a General Fund reduction of $34,700.

We recommend a $45,770 reduction in contract funds for investigations; a $70,000 reduction in funds for contract services from the Attorney General; and the elimination of a vacant assistant operations security officer position at $17,000 for a total savings of $132,770.

Chapter 1216, Statutes of 1973, (AB 134) made the state directly responsible for the administration of the Responsible Relative Program effective July 1, 1974. Prior to that time, the 58 county welfare departments administered this program which required children of aged welfare recipients to contribute money to help offset the cost of supporting their parents.

In a letter dated December 3, 1974, the Department of Finance approved funds which provided for the establishment of 39 positions for this program in the current fiscal year. Thirty-three of these positions will go to the Office Services Bureau and six to the Responsible Relatives Bureau. The Governor's Budget proposes to continue these positions in fiscal year 1975–76.

Office Services Bureau. The Office Services Bureau handles all the banking functions associated with the program, responds to problems raised in letters regarding amount of liability owed and prepares the necessary forms so that required information can be entered into the computer system.

We have reviewed the operation of the Office Services Bureau and conclude that the 33 positions added in the current year should be continued in the budget year. The original program design placed too much emphasis on data processing and did not anticipate the manual functions which would have to be performed. As a result, the following workload is not being processed:

1. Approximately one-half of the computerized billings for the 15,000 relatives who now pay are for the wrong amount and need to be corrected. Correction is very slow due to inadequate staffing and the lack of an adequate filing system.
2. Approximately 12,000 responsible relatives who are billed each month do not pay. Nothing is being done about this. If extra staff is added these persons will receive warning letters from the Attorney General's office notifying them to comply.
3. Approximately 30,000 forms with names of relatives who may owe something are piled up in large stacks on the floor of the Business Services Bureau. These names need to be entered into the computer system so questionnaires can be sent out for liability determinations.
4. Approximately 36,000 relatives need to be asked to again submit information to determined if they are now liable for a payment.

5. Approximately 40,000 new recipients need to be asked for their children's names and addresses.

The Department of Benefit Payments estimates the additional staff would be able to resolve serious problems with existing caseload of 15,000 paying relatives, as well as get to various backlogs which would allow approximately 12,500 more payors to be added to the system. This would, it is estimated, increase revenues from the current $300,000 a month to $550,000 a month in 1975–76. If revenues develop as projected in 1975–76, then it would cost approximately $1 to collect $6 and the General Fund would realize approximately $4,920,000 in revenue.

The Governor's Budget proposes that 33 clerical positions added to this bureau be continued in fiscal year 1975–76. Eighteen of the positions are to be permanent and the remaining 15 are to be intermittent and used as required to handle fluctuations in workload.

Responsible Relatives Bureau. The Responsible Relatives Bureau processes complex liability determination problems, answers most correspondence and is responsible for program reporting and continuing improvement of the system. The December augmentation letter authorized up to six additional analyst positions for this bureau. We recommend the reduction of two of these positions unless additional correspondence workload materializes. We believe that the correspondence functions and analytical functions of the bureau can be adequately handled by the addition of four analysts.

Additional Fund Reductions

We recommend the reduction of $132,770 in additional funds from the Responsible Relative Program for the following reasons. First, the original plan to investigate certain nonpaying responsible relatives through contracted investigations, coordinated by the Operations Security Bureau, has not materialized. Thus, one assistant operations security officer position at a cost of $17,000 has remained vacant and $45,770 in investigative funds has not been used. Second, the program does not need the magnitude of service from the Attorney General's office that was originally budgeted. Therefore, we recommend the amount budgeted for these services be reduced from $120,000 to $50,000. The remaining $50,000 would be used in the event the Attorney General's services are required in 1975–76.

The McGeorge Fair Hearings Contract

The budget proposes $311,652 to contract with McGeorge Law School for part-time fair hearings officers.

The department conducts administrative hearings to judge the fairness of decisions made by county welfare department personnel in handling welfare cases. Recipients of aid and applicants for aid have the right to appeal decisions made involving their cases when they feel an error has been made which adversely affects their entitlements to assistance. When a request for a fair hearing is made, the department proceeds to schedule a hearing. Under the current operating procedure, the department both hires and contracts for attorneys to perform the hearings.

Budgeting for fair hearings is on the basis of hearing officer units. For each hearing officer, the following support staff is added:

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

Hearing Officer Budget Unit

Classification	*Man-years per unit*
Hearing officer	1.0
Review officer	0.2
Social services consultant	0.1
Senior clerk	0.2
Steno II	0.2
Clerk II	1.4
	3.1

In a letter dated November 15, 1974, the Department of Finance approved funds to augment the McGeorge Fair Hearing contract for the current fiscal year and the budget proposes $311,652 for the continuation of the contract. The augmentation added the equivalent of six referee man-years to the four referee man-year equivalents originally in the McGeorge contract.

The McGeorge workload fluctuates according to need. If McGeorge's services are not needed then cases are not referred and consequently contract funds are not expended. There has been heavy use of the McGeorge contract this fiscal year because the *King v. Martin* decision required the department to dispose of fair hearings cases within 90 days rather than the 124 days it previously took. This reduction in average process time requires heavier use of McGeorge staff and departmental support staff.

Model Modular County EDP System

We recommend that the Legislature withhold approval of $500,000 contained in the Governor's Budget for the development of the Model Modular County EDP System pending a report by the department to the fiscal committees during budget hearings regarding a more precise determination of plans and costs for developing this system in the 1975–76 fiscal year.

At present, California counties must report voluminous amounts of data to the state and the federal government. This reporting requirement has resulted in the independent development by the counties of a number of individualized electronic data processing (EDP) systems. Although some counties have joined to share the cost and benefits of developing and maintaining certain common systems, there are no systems which are used statewide in such basic areas as eligibility determination, grant calculation or warrant writing.

The department states that county expenditures for welfare EDP have increased from $6 million in the 1970–71 fiscal year to $12.5 million in 1973–74. It believes that this trend may be controlled if the counties would use a model system based in part on existing county systems. The department proposes to develop such a system and the $500,000 included in the Governor's Budget for the 1975–76 fiscal year is intended to permit initial development of the model system, including pilot implementation in three counties. An undetermined amount of funds is being expended in the current year on the model system effort, primarily through the County

EDP Systems Bureau of the department.

County Participation

Unlike the department's last attempt with regard to county/state EDP systems which was called the Expanded Data Reporting System (EDRS), the present effort apparently includes a high degree of county participation. We were critical of the EDRS effort because it lacked such participation, and believe that the department's policy of local government inclusion is not only necessary but is a more logical approach.

Fundamental Questions

We are in basic agreement with the department that welfare information processing needs improvement and we support the department's goal to achieve a more effective and less costly information-processing program. However, we did raise in a December 10, 1974 letter to the Director of Benefit Payments certain fundamental issues regarding the model system program we felt should be addressed. These were (1) an approximation of multi-year state costs, including maintenance operation once the system is implemented, (2) a cost/benefit analysis, (3) the control over maintenance and modification of completed modules, (4) whether or not counties will be required to use the system, and when and by what means, (5) the policy regarding tailoring standard modules to satisfy an individual county's request for modification, (6) provision to reassess the entire project feasibility depending on how much original system design and computer programming must be done in order to develop the system and (7) a reassessment of the priority of resolving certain identified project tasks such as the question of central maintenance and control.

The essence of the department's December 24, 1974 response to our letter is that a cost/benefit analysis, and therefore multi-year costs, can be developed only after a more precise definition of the proposed system is obtained. This will occur once a state/county evaluation team has defined system modules and how they will be developed. It is estimated that this definition will be completed by May 1, 1975.

Another factor affecting potential state cost is that of federal participation. We understand that the department has been unsuccessful in obtaining maximum federal participation and will therefore seek funding which could provide 50–50 sharing of the development cost.

Further, although the department addressed each of the considerations raised in our letter, we continue to be concerned that the state not invest funds in the development of a system which not all counties will actually use. Despite assurances from department staff that this will not occur, we believe that a strong indication of commitment is required, such as a tentative timetable for county cutover to the model system which the counties can agree.

Health and Welfare Agency

DEPARTMENT OF BENEFIT PAYMENTS—STATE SUPPLEMENTAL PROGRAM FOR AGED, BLIND AND DISABLED

Item 288 from the General Fund — Budget p. 271

Requested 1975–76	$568,861,100
Estimated 1974–75	474,088,500
Actual 1973–74	369,862,960
Requested increase $94,772,600 (20 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. May Caseload Estimates. Withhold recommendation on appropriate amount for Item 288 pending review of department's May caseload estimates. 552

GENERAL PROGRAM STATEMENT

On January 1, 1974, the federal Social Security Administration began the direct administration of cash grant assistance programs for California's aged, blind and disabled recipients. Prior to that time the 58 county welfare departments in the State of California were responsible for the provision of cash grants to these recipients. The new program, commonly known as the Adult Program or the SSI/SSP program, resulted primarily from the enactment of Public Law 92-603 (HR 1) and Chapter 1216, Statutes of 1973 (AB 134). As provided in the enabling legislation, the state forwards the funds appropriated in this item to the federal government.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on appropriate amount for Item 288 pending receipt and review of department's May caseload estimates.

The budget proposes an appropriation of $568,861,100 as the state share of the cost of the adult aid program. This amount is $94,770,400, or 20 percent, more than is estimated to be expended during the current fiscal year. In April and May the department will prepare updated estimates based on recent caseload and cost experience. Upon completion of these updated estimates the Department of Finance will submit a budget letter changing the General Fund request for Item 288. Our office will review these updated estimates and recommend changes in dollar amounts where appropriate. It should be noted that Item 288 is an open-ended appropriation. Regardless of the amount of money placed in Item 288, the state is required to pay for its share of aged, blind and disabled grants.

Table 1 shows the General Fund support being requested for 1975–76.

Table 1
1975–76 Governor's Budget—General Fund Request for Cash Grant Assistance to Aged, Blind and Disabled

Program	*1975–76 Governor's Budget*
Aged (OAS)	$274,978,020
Blind (AB)	16,377,780
Disabled (ATD)	277,505,300
Total	$568,861,100

The overall requested 20 percent increase in General Fund support for Item 288 is spread among the three programs shown in Table 2.

Table 2
1975–76 Governor's Budget General Fund Grant Cost Increases by Program

Program	*Estimated 1975–76 increase over 1974–75*	*Percentage increase over 1974–75*
OAS	$42,863,520	18.47%
AB	1,348,080	8.99%
ATD	50,561,000	22.28%
	$94,772,600	20.0%

Table 3 indicates the average monthly grant per person anticipated by the Governor's Budget.

Table 3
1975–76 Governor's Budget Average Monthly Grant Per Person[a]

Program	*1974–75 Average monthly grant per person*	*1975–76 Average monthly grant per person*	*Change from 1974–75 average grant*	*Percentage change*
OAS	$135.68	$130.88	$−4.80	−3.5%
AB	203.14	219.67	16.53	8.1%
ATD	205.79	199.79	$−6.00	−2.9%

[a] Excludes special circumstance and special benefits (average monthly grant equals total cash grants divided by caseload divided by 12 months)

Table 4 shows the factors involved in the requested $94,772,600 General Fund increase.

Table 4
1975–76 Governor's Budget Growth Factors and Offset Savings

Growth factors and offset savings	*1975–76 General Fund*
A. Caseload growth	$37,600,000
B. Cost-of-living adjustment	100,400,000
Gross cost increases	$138,000,000
C. Anticipated offset savings	(43,227,000)
1975–76 Requested Increase	$94,772,600

DEPARTMENT OF BENEFIT PAYMENTS—STATE SUPPLEMENTAL PROGRAM FOR AGED, BLIND AND DISABLED—Continued

The caseload estimates upon which the General Fund request is based are shown in Table 5.

Table 5
1975–76 Governor's Budget
Average Monthly Adult Caseload

Program	*1974–75 average monthly persons count*	*1975–76 average monthly persons count*	*Estimated increase from current year*	*Percentage increase over current year*
Aged (OAS)	315,736	350,203	34,467	10.9%
Blind (AB)	12,850	12,850	None	None
Disabled (ATD)	265,398	320,424	55,026	20.7%
	593,984	683,477	89,493	15.1%

The Governor's Budget projects significant caseload growth in both the aged and disabled programs. These large caseload increases were not expected because the department's September estimates projected an average monthly 1974–75 caseload of only 576,614 persons.

The caseload changes which came about between the department's September and December estimates added over 50,000 persons to the estimated adult caseload for 1975–76. This resulted primarily from the department's attempt to reconcile the various conflicting reports on caseload which it receives from the federal Social Security Administration. The Department of Finance subsequently added another 34,943 persons following its review of caseload primarily because the latest information available indicates that the federal government is not going to be able to annually redetermine the eligibility of all adult recipients. This could mean that the caseload discontinuance rate will be low and that consequently the growth rate of the caseload may not level off as quickly as anticipated by the department's December estimates.

The Governor's Budget indicates that the caseload growth in the adult program will generate a General Fund cost of $37,600,000 in 1975–76. This includes approximately $13.9 million for the cost-of-living adjustment payable in 1975–76.

The Size of the State Cost-of-Living Adjustment

The Governor's Budget states that $100,400,000 additional General Fund money will be required in 1975–76 in order to pay the cost-of-living adjustment due to aged, blind and disabled recipients. Under current law, the state must grant an automatic cost-of-living adjustment to recipients only on the state portion of the grant. The first state cost-of-living adjustment will be larger than subsequent years because it will be based upon changes in the Consumer Price Index which have taken place since July 1973. The department has chosen the month of December 1974 as the comparison month. This means that the first cost-of-living adjustment will cover 18 months of inflation, from July 1973 to December 1974. The estimated change in the Consumer Price Index during this period is 17.5 percent.

Current law does not specify what month the department is to use in applying this first cost-of-living adjustment. Thus, if any month after December 1974 but prior to July 1975 is used, the amount of the cost-of-living adjustment would be higher than the amount budgeted.

Federal Cost-of-Living Adjustment

The federal cost-of-living adjustment is payable July 1, 1975 and is estimated to result in a 9.1 percent increase in the federal portion of the grant, increasing it from $146 a month to $159 a month for most recipients. However, state law does not allow this increase to be passed on to the recipient. For example, if an individual receives a grant of $235 a month composed of a federal portion of $146 and a state portion of $89 and the federal portion increases by $13, the gross entitlement of $235 is not increased. Only the interrelationship between federal and state share changes so that the federal portion becomes $159 and the state portion $76. Under current law, the state cost-of-living increase is applied only to the state portion of the grant and not to the federal portion. The 17.5 percent increase in the Consumer Price Index for the period of July 1973 to December 1974 applies only to the state portion of the grant. In this case, the 17.5 percent increase on the $76 (after the federal cost-of-living increase) translates into a $13 cost-of-living adjustment and increases the $235 entitlement to $248.

Health and Welfare Agency

DEPARTMENT OF BENEFIT PAYMENTS—COST OF SPECIAL CIRCUMSTANCES AND SPECIAL BENEFITS

Item 289 from the General Fund — Budget p. 761

Requested 1975–76	$4,441,500
Estimated 1974–75	2,346,000
Requested increase $2,095,500 (89.3 percent)	
Total recommended reduction	Pending

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
289(a)	Special Circumstances	General	$2,682,200	556
289(b)	Special Benefits	General	1,759,300	556
	Total		$4,441,500	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. May Caseload Estimates. Withhold recommendation pending receipt and review of the department's May caseload estimates. 556

DEPARTMENT OF BENEFIT PAYMENTS—COST OF SPECIAL CIRCUMSTANCES AND SPECIAL BENEFITS—Continued

GENERAL PROGRAM STATEMENT

Chapter 1216, Statutes of 1973 (AB 134) established a special needs program for aged, blind and disabled welfare recipients. Under the program relatively few special need items are provided because most have been averaged into the basic grant, consistent with the federal flat-grant approach. Those continuing special needs allowances which are available are paid entirely from the state General Fund and administered by the county welfare departments, not by the federal Social Security Administration.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending receipt and review of the May caseload estimates.

The 1975–76 Budget Bill divides Item 289 into two parts:

(a) Special circumstances	$2,682,200
(b) Special benefits	$1,759,300

Special Circumstances: Item 289(a)

Section 12550 of the Welfare and Institutions Code provides for a special circumstances program to be administered by the county welare departments. This program is to provide payments to aged, blind and disabled recipients to meet nonrecurring special needs which include: replacement of essential household furniture and equipment or clothing when lost, damaged or destroyed by a catastrophe; necessary moving expenses; required housing repairs; and unmet shelter needs. The Department of Benefit Payments has estimated that these special circumstance allowances, payable entirely with state General Fund money, will cost $2,682,-200 in fiscal year 1975–76, an increase of $1,178,000 over the current year.

It should be noted that the 1974–75 budget contained $7,708,700 to cover the anticipated expenses of Item 289(a). The amounts budgeted for this subitem in the 1974–75 budget were based on actual claims experience under the former program for aged, blind and disabled. We believe two factors account for the low level of expenditures. First, the regulations issued by the department are extremely restrictive, making it impossible for many prospective recipients to qualify for benefits. Secondly, the Social Security Administration has not referred all qualified persons to the county welfare departments to file their claims.

Special Benefits: Item 289(b)

Section 12152 of the Welfare and Institutions Code provides that if an aged, blind or disabled person is ineligible for a cash grant solely because he owns a home in excess of $25,000, he shall be entitled to the relevant total benefit. It provides, further, that the state will bear the full costs of payments and administration of this program. The Department of Benefit Payments has estimated that this will cost the General Fund $1,279,300 in fiscal year 1975–76, an increase of $437,500 over the current year.

Section 12352 of the Welfare and Institutions Code provides that aged, blind and disabled recipients who have no exempt income of thier own to declare shall be able to declare up to $20 from the contributions made by their sons or daughters under the Responsible Relative Program as exempt income. This has the effect of increasing their spendable income by up to $20 a month. The Department of Benefit Payments estimates that they will receive $6.7 million in responsible relative conributions in 1975–76 of which $480,000 will be used to pay the benefits provided by Section 12352.

Health and Welfare Agency

DEPARTMENT OF BENEFIT PAYMENTS SPECIAL PROGRAMS

Item 290 from the General Fund — Budget p. 763

Requested 1975–76	$191,937
Estimated 1974–75	191,937
Actual 1973–74	95,073
Requested increase None	
Total recommended reduction	Pending

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
290(a)	County training	General	$22,880
290(b)	Demonstration programs	General	169,057
			191,937
290(c)	Cuban Refugees and repatriated Americans	Federal	10,234,900

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Modular EDP System. Recommend Legislature withhold approval of the requested $191,937 pending receipt of report on Model Modular EDP System. 558

GENERAL PROGRAM STATEMENT

Item 290 contains the appropriation for the 25 percent state matching share for state training of county welfare department personnel and 50 percent state matching share for demonstration projects operated at the county welfare department level. The item shows the amount of federal funds anticipated to be expended on the Cuban Refugee and Repatriated Americans program. Table 1 indicates the division of the requested General Fund money between training activities and demonstration projects.

Table 1
County Training and Demonstration Projects, 1975–76

Item		
290a	County training	$22,880
290b	Demonstration projects	169,057
	Total	$191,937

DEPARTMENT OF BENEFIT PAYMENTS
SPECIAL PROGRAMS—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend the Legislature withhold approval of the requested $191,937 pending receipt of the report on the Model Modular EDP System's developmental plans and costs for 1975–76.

The Department of Benefit Payments is in the process of trying to develop a better electronic data processing (EDP) system for use by county welfare departments. (See page 550 of this Analysis.) There may or may not be a relationship between the use of demonstration project money and the development of the Model Modular EDP System. This will not be clear until April or May 1975 when the department will be able to cost out the developmental phase of the Model EDP project.

Health and Welfare Agency

DEPARTMENT OF BENEFIT PAYMENTS— ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS

Item 291 from the General Fund — Budget p. 763

Requested 1975–76	$51,903,500
Estimated 1974–75	48,485,700
Actual 1973–74	49,889,744
Requested increase $3,417,800 (7 percent)	
Total recommended reduction	Pending

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
291(a)	AFDC Administration	General	$46,128,700
291(b)	APSB Administration	General	41,800
291(c)	SSP Administration	General	2,133,000
291(d)	Food Stamp Administration	General	3,600,000
			$51,903,500

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. May Caseload Estimates. Withhold recommendation on appropriate General Fund dollar amount for Item 291 pending review of the department's May caseload estimates. 559
2. Quarterly Report. Recommend Department of Benefit Payments, Department of Finance and Legislative Analyst jointly agree on format for a report containing statistical data and narrative analysis on operation of county welfare departments. 562
3. Control of County Expenditures. Recommend department outline its position on methods of controlling state expendi- 563

tures for operation of county welfare departments.

4. Total Welfare Picture. Recommend all funds subvened to counties for operation of county welfare department programs be shown in one item of the Budget Bill and discussed under one section in the Governor's Budget. 564

GENERAL PROGRAM STATEMENT

Item 291 of the 1975–76 Budget Bill contains the General Fund appropriation for the state's share of the costs which the 58 county welfare departments incur in administering the AFDC eligibility and grant determination program, the food stamp eligibility and benefit determination program and the remainder of the aged, blind and disabled programs administered at the county level.

Table 1 indicates the funds requested by program for fiscal year 1975–76.

Table 1
1975–76 Governor's Budget General Fund Request by Program

	1975–76 General Fund Request
AFDC administration	$46,128,700
APSB administration	41,800
Food stamp administration	3,600,000
Adult program administration	2,133,000
Total	$51,903,500

Table 2 indicates the state, federal and county sharing ratios anticipated by the Governor's Budget for the administration of these programs by the county welfare departments.

Table 2
1975–76 Governor's Budget
Administrative Cost Sharing Ratios and Total Cost

	Percentage Distribution			
	Federal	*State*	*County*	*All Funds*
AFDC administration	49.2%	25.4%	25.4%	$181,764,700
Food stamp administration	50.%	7.2%	42.8%	50,000,000
Adult program administration	—	98.1%	1.9%	2,216,500
Total All Funds Item 291				$233,981,200

The amount requested in Item 291 is based on estimates prepared by the Department of Benefit Payments in November and released in December. In April and May the department will prepare updated estimates based on more cost experience. Upon completion of these updated estimates the Department of Finance will submit a budget letter changing the General Fund request for Item 291. At that time our office will review these updated estimates and recommend changes in dollar amounts where appropriate.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the appropriate General Fund amount for Item 291 pending receipt and review of the department's May caseload estimates.

DEPARTMENT OF BENEFIT PAYMENTS—
ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS—Continued

The budget proposes an appropriation of $51,903,500 for the state's share of county administrative costs. This amount is $3,417,800, or 7 percent more than is estimated to be expended during the current fiscal year.

We have been given very little data to support the request for funds for the operation of county welfare departments. We believe this is because the Department of Benefit Payments has very little budget justification information at this time.

In recent years, growth of the county welfare departments in terms of the total number of employees and total costs has been substantial for the programs funded through Item 291.

Table 3 shows that in the last eight fiscal years the number of county welfare department employees has increased 74 percent even though county welfare departments no longer administer the cash grant assistance programs for the aged, blind and disabled. Many county welfare department positions once associated with the adult cash grant program have been transferred to the following programs operated by the county welfare departments:

Medically indigent and medically needy only eligibility determinations.

Nonpublic assistance food stamp program eligibility determinations

Homemaker program.

AFDC Program (quality control and eligibility processing).

Table 3
Growth in Number of County Welfare Department Employees

Year Ending June 30	*Public Welfare Personnel in County Welfare Departments*
1967	19,981
1968	21,963
1969	24,243
1970	28,521
1971	31,268
1972	35,462
1973	36,582
1974	34,802

Table 4 shows that the costs of administering AFDC and Food Stamp

Table 4
Growth in AFDC and Food Stamp Cost

Fiscal Year	*AFDC Eligibility and Grant Determination Program (all funds)*	*Nonassistance Food Stamp Eligibility and Food Stamp Determination Program (all funds)*
1971–72	$108,382,908	$10,398,864
1972–73	121,241,084	24,784,731
1973–74	147,087,374	29,643,696
1974–75 estimated	170,032,500	46,400,000
1975–76 estimated	181,764,700	50,000,000

Programs have been growing continually in recent years at the county welfare department level.

Between fiscal years 1971–72 and 1975–76, it is estimated that AFDC administrative costs will have increased by 68 percent and food stamp administrative costs by 481 percent. In addition, the cost of the county welfare department's AFDC eligibility and grant determination program is growing rapidly. The department's September estimates projected a 1974–75 cost of $156,667,700. Three months later, the department's December estimates projected a 1974–75 cost of $170,032,500. The department knows that costs are going up but it does not know why this is happening and whether or not it is justified.

Table 5 illustrates that even though the AFDC caseload has been declining, AFDC administrative costs have been increasing.

Table 5
AFDC Administrative Cost Per Case

Fiscal Year	*AFDC administrative cost (in millions)*	*AFDC average monthly case count*	*AFDC yearly administrative cost per case*
1971–72	$108.4	476,157	$228
1972–73	121.2	460,357	263
1973–74	147.1	436,458	337
1974–75 estimated	170.0	441,808	385
1975–76 estimated	181.8	445,175	408

Administrative costs per case could be expected to increase from year to year to keep pace with inflation, unless some program improvement had been introduced to reduce per case costs. Table 6 compares the growth rate of the Consumer Price Index with the growth rate of AFDC administrative costs per case. AFDC administrative costs per case have grown faster than inflation. However, in 1975–76 the increase in cost per case may be less than inflation if the departmental estimates are correct.

Table 6
Growth in Consumer Price Index Compared to Growth in AFDC Administrative Cost Per Case

Fiscal Year	*Percentage increase in California CPI from prior year*[a]	*Percentage increase in AFCD cost per case from prior year*
1972–73	5.6%	15.3%
1973–74	10.4%	28.1%
1974–75	11.1%	14.2%
1975–76	7.0%	5.9%

[a] Compares the month of June in one year to month of June in following year.

The administrative costs for the Food Stamp Program relate only to services provided to nonpublic assistance families. Food stamp administrative costs for households receiving public assistance are charged principally to AFDC. Table 7 contains the annual administrative cost per nonassisted households.

This year, as last, we cannot account for the high per case cost of handling food stamp eligibility determinations and benefit entitlements. Nor can we account for the anticipated increased costs between 1973–74 and 1974–75.

**DEPARTMENT OF BENEFIT PAYMENTS—
ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS—Continued**

Table 7
Food Stamp Administrative Costs Per Case

Fiscal Year	*Nonpublic assistance food stamp costs*	*Nonpublic assistance households*	*Annual administrative cost per non-assistance household*
1972–73	$24,784,731	88,537	$280
1973–74	29,643,696	108,913	$272
1974–75	46,400,000	138,700	$335 estimated
1975–76	50,000,000	139,400	$359 estimated

Chapter 1216, Statutes of 1973, (AB 134) made the state responsible for all nonfederal food stamp administrative costs above the amount ($22,900,-000) the counties were paying in calendar year 1973. The 1974–75 budget, as a result, contained a $12 million General Fund appropriation to cover anticipated state food stamp administrative cost. This was the first state fiscal involvement in the Food Stamp Program. Subsequent to the passage of the state budget, the federal government passed PL 93-347 which increased the federal share of food stamp administrative costs from approximately 23 percent to 50 percent. The effect of the increased federal sharing in 1974–75 was to reduce anticipated state expenditures by $8.8 million to $3.3 million. The department anticipates that in fiscal year 1975–76, county costs will be $21,400,000 which is still $1.5 million short of the county expenditure limit of $22.9 million. Once the counties reach an expenditure level of $22.9 million limit any additional program growth will be paid for entirely by the state and federal governments. At that time, there will be little if any financial incentive for the counties to keep tight control over the growth of food stamp administration costs. Several counties already have reached their 1973 expenditure limit.

Quarterly Report

We recommend that the Department of Benefit Payments, the Department of Finance and the Legislative Analyst's Office jointly agree on the format for a report containing statistical data and narrative analysis regarding the operation of county welfare departments. The report would be prepared by the Department of Benefit Payments on a quarterly basis.

Due to the absence of basic data about the operation of county welfare departments and in light of escalating administrative cost, it is important that the state gather and analyze information which will allow the administration and Legislature to make fiscal decisions and formulate policy regarding the operation of county welfare department administered programs.

The recommended report should contain the following kinds of information:

(a) The total number of employees by program by county;
(b) Caseloads and workload processed by program by county;
(c) Workload output per position by program by county;
(d) Cost per case by program by county;
(e) Ratio of support staff to line staff by program by county;
(f) Comparison of administrative overhead costs to line operating costs by program by county;
(g) Ratios of first line supervisors to eligibility workers and social workers by program by county; and

(h) Comparison of salary ranges for commonly used classifications by county.

Most of this information is currently available from quarterly administrative claims submitted by counties.

Control of County Expenditures

We recommend that the Department of Benefit Payments outline its position during the budget hearings on methods of controlling state expenditures for the operation of county welfare departments.

The Department of Benefit Payments should outline to the Legislature what mechanisms it is interested in pursuing in fiscal year 1975–76 to control the growth of the administrative costs of programs operated by county welfare departments and what additional statutory authority it may need. Some alternatives that should be considered for controlling administrative costs are as follows:

1 Introduce state mandated maximum staffing ratios.
   a. Relating eligibility workers and social workers to caseload and/or workload
   b. Relating administrative and clerical positions to the number of eligibility workers and social workers
   c. Relating first-line supervisorial staff to the number of eligibility workers and social workers
2. Change the various program's sharing ratios so that the counties will bear nearly the same percentage of administrative cost in each program, thus avoiding the incentive to add staff on the basis of whichever program has the best sharing ratio. The new sharing ratio might be set to keep the county total dollar participation at about current levels provided the overall county fiscal involvement was sufficient to encourage good management.
3. Limit state expenditures to a maximum dollar amount per case served.
4. Require county welfare departments to submit to the state budget requests for administrative expenses. Such budget submittals could follow a format prescribed by the department and contain standardized support data. (The department's analysts would review these budgets in detail to justify expenditure of state funds.)
5. Begin comprehensive review of the various forms required by the state for the processing of eligibility, calculation of benefit entitlement, cost claiming and data reporting. County welfare departments spend a large amount of staff time processing long and complex client forms and filling out forms for the state. To the extent these forms can be simplified to reduce the amount of staff time required to process them, administrative savings are possible.
6. Develop data processing programs for use by county welfare departments which would make it possible for the counties to more rapidly process the large volume of eligibility information.

**DEPARTMENT OF BENEFIT PAYMENTS—
ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS—Continued**

Total Welfare Picture

We recommend that all funds which are subvened to the counties for the operation of county welfare department programs be shown in one item in the Budget Bill and discussed under one unified section in the Governor's Budget.

For several years, the Legislature has not had a total picture of what it is costing to operate county welfare departments. In part, this is because the appropriations for the operation of various programs are spread between the Department of Health budget and the Department of Benefit Payment's budget and are included in several different budget bill items.

County welfare departments essentially have two kinds of programs: programs to determine eligibility and calculate benefit entitlement and programs to provide some kind of direct or indirect service to the recipients. If all of these county welfare department administrative funds were placed in one budget item, the total of all federal, state and county funds would be approximately as shown in Table 8.

Table 8
Estimated Costs of Operating County Welfare Departments

	1975–76	
	All Funds	*General Fund*
A. Eligibility and benefit determination programs		
1. AFDC	$181,764,700	$46,128,700
2. Aged, blind and disabled	2,216,500	2,133,000
3. Food stamps	50,000,000	3,600,000
4. Medically needy only and medically indigent determinations	76,305,000	53,413,920
B. Service Program		
5. Homemaker services	65,000,000	16,250,000
6. Other social services	164,772,100	0
7. Adoptions	12,698,750	12,698,750
8. Child protective services	3,000,000	0
9. WIN	7,222,000	0
10. Boarding home licensing	1,770,000	1,644,000
Total	$564,749,050	$135,868,370

DEPARTMENT OF CORRECTIONS

Items 292–296 from the General Fund — Budget p. 772

Requested 1975–76	$180,638,314
Estimated 1974–75	175,378,277
Actual 1973–74	150,509,779
Requested increase $5,260,037 (3.0 percent)	
Total recommended reduction	$102,605

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
292	Departmental Operations	General	$177,839,380
293	Transportation of Prisoners	General	200,000
294	Returning Fugitives	General	700,000
295	Court costs and county charges	General	1,598,934
296	Local detention of parolees	General	300,000
			$180,638,314

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Population Projection. Recommend department review population projection and make necessary adjustments.	568
2. Double Celling. Recommend department prepare alternatives for elimination of double celling.	568
3. Reorganization. Recommend legislative consideration of Adult Authority reorganization.	571
4. *Community Correctional Centers. Reduce $102,605.* Recommend deletion of 8.5 positions related to closure of Parkway Center.	573

GENERAL PROGRAM STATEMENT

The Department of Corrections, established in 1944 under the provisions of Chapter 1, Title 7 (commencing with Section 5000) of the Penal Code, operates a system of correctional institutions for adult felons and nonfelon narcotic addicts. It also provides supervision and treatment of parolees released to the community to finish serving their prescribed terms, advises and assists other governmental agencies and citizens' groups in programs of crime prevention, criminal justice and rehabilitation.

To carry out these functions, the department operates 12 major institutions, 19 camps, four community correctional centers and 60 parole units. The department estimates these facilities and services will be used by approximately 25,015 adult felons and nonfelon drug addicts and 18,905 parolees in 1975–76.

DEPARTMENT OF CORRECTIONS—Continued

ANALYSIS AND RECOMMENDATIONS

The total operations of this department and special items of expense from all funding sources for the budget year are summarized in Table 1.

Table 1
Budget Summary

		Change From Current Year	
Funding	*Proposed*	*Amount*	*Percent*
General Fund	$180,638,314	$5,260,037	3.0
Correctional Industries Revolving Fund	15,669,011	639,208	4.3
Inmate Welfare Fund	4,682,501	−36,928	−0.8
Federal Funds	41,063	-	-
Reimbursements	2,537,367	-	-
Total	$203,568,256	$5,862,317	3.0
Program			
I. Reception and Diagnosis	$2,168,201	$−157,889	−6.8
Man-years	124	−9	−6.8
II. Institution	$169,558,559	$5,260,125	3.2
Man-years	6,801.9	−71.9	−1.1
III. Releasing Authorities	$2,413,828	$159,449	7.1
Man-years	73	-	-
IV. Community Correctional	$20,914,142	$252,669	1.2
Man-years	891.3	−36.7	−4.0
V. Administration (undistributed)	$5,714,592	$47,963	0.9
Man-years	231.4	−8.6	−3.6
VI. Special Items of Expense	$2,798,934	$300,000	12.0
Total expenditure	$203,568,256	$5,862,317	3.0
Total Man-years	8,121.6	−126.2	−1.5

The proposed General Fund increase of $5,260,037 is attributable largely to population and price increases, the cost of operating three additional conservation camps and workload increases totaling $781,543 related to recent court decisions on inmate and parolee rights. Also reflected is (1) a reduction in positions which were administratively established during the current year for workload arising from the California Supreme Court decision *In re Olson,* (2) elimination of the work unit parole project, and (3) a reduction in research staff. These budgetary changes will be discussed under the appropriate program analyses herein.

Olson Decision workload

The *Olson* decision compels the disclosure, upon the request of an inmate and/or his attorney, of all documents in his file, except those which would endanger an informant or institution security. The department was administratively authorized 115 positions at an estimated salary cost of $1,041,730 during the current year to remove the confidential information from the files and to review the remaining contents with the inmates and /or their attorneys. The department has found that the workload is not as large as originally anticipated and employee reductions below the authorized level are planned for the current year. None of the 115 positons is continued in the budget year because the file purging will be completed and future files will be constructed to permit separation of the excluded information without requiring increased staff. There are four other recent court decisions having a fiscal impact on this budget. They are discussed in the "Releasing Authorities" section of this Analysis.

The 4.3 percent increase in the Correctional Industries Fund reflects an expansion of textile products manufacturing and price increases. The $2,537,367 in reimbursements for the budget year is identical to the amount shown in the Governor's Budget for the current year. The amount is substantially below the $8,215,572 in such reimbursements received in the 1973–74 fiscal year. The difference reflects the budgetary policy of showing federal reimbursements for special projects only after they are received. The budget document identifies special projects which are anticipated to be reimbursed by federal funds totaling $5,436,177 in the budget year. The $2,537,367 in reimbursements which is shown as part of the department's expenditure program reflects services provided to other state agencies, housing of federal and out-of-state prisoners, and services to employees and inmates.

I. RECEPTION AND DIAGNOSIS PROGRAM

Through four reception centers, the department processes four classes of persons: those committed to the department for diagnostic study prior to sentencing by the superior courts, those sentenced to a term of years, those returned because of parole violaton and non-felon addicts.

The department provides the courts a comprehensive diagnostic evaluation of and recommended sentence for convicted offenders awaiting sentencing. Newly committed felons or nonfelon addicts are a largely unknown factor and there is a need to evaluate the individual for suitable program determinations and proper institutional assignment. The new felon commitments are received at reception centers located adjacent to and operated as part of regular penal institutions for males at Vacaville and Chino, for females at Frontera, and for nonfelon addicts at Corona.

Program Reductions

The program reduction of $157,889 shown in Table 1 reflects a net reduction of nine positions partially offset by merit salary adjustments and price increases. The staff reduction reflects the transfer of reception center staff to the main institution budget at Deuel Vocational Institution because of the conversion of the reception center facility at that institution to regular inmate housing.

II. INSTITUTION PROGRAM

The department operates 12 institutions, ranging from minimum to maximum security, including two medical-psychiatric institutions and a treatment center for narcotic addicts under civil commitment.

Major treatment programs include 23 industrial manufacturing operations and seven agricultural enterprises which seek to reduce idleness and teach work habits and job skills, vocational training in various occupations, academic instruction ranging from literacy classes to college correspondence courses, and group and individual counseling. The department will also operate 19 camps which will house an estimated 1,080 inmates during

DEPARTMENT OF CORRECTIONS—Continued

the budget year. These camp inmates perform various forest conservation, fire prevention and suppression functions in cooperation with the Division of Forestry.

The institution program will provide for a projected average daily population of 25,015 inmates in the budget year, an increase of 535 inmates or 2.19 percent over the current year. This is a relatively minor increase when compared with increases of 1,715 inmates (7.5 percent) and 2,720 (13.6 percent) in the current and past fiscal years, respectively. This projection is based on a number of factors, including continuation of economic conditions existing in the early summer of 1974. The worsening economic and employment conditions could result in further increases in crime, which should result in additional commitments to the state.

Population Projection Appears Low

We recommend that the department review it population projection for the budget year and make necessary budgetary adjustments.

The projected increase of 535 or 2.19 percent in average daily population (ADP) appears too low based on the first six months experience of the current year, during which the ADP has increased by 491, averaging 81.8 inmates per month. In order to end the current year with the ADP originally projected, the monthly increase would have to be reduced to an average of 33.3 inmates. This does not appear reasonable in view of current experience which attributes population build-up to both court and Adult Authority actions.

Continuation of court commitment and adult Authority paroling and parole revocation practices as reflected in institution population increases in the first half of the current year would produce an ADP for the budget year approximaely 500 inmates above the budgeted projection and result in serious underfunding of the department. The funding deficiency would approximate $500,000 if the population increase is spread among existing institutions (compounding existing overcrowding problems) or $3,250,000 if additional facilities are opened.

Double Celling

We recommend that the department prepare, for consideration by the Legislature, alternatives for eliminating double-celling of inmates.

Historically, the housing of two inmates to a cell was standard penal practice despite strong professonal opposition to it. With the decline in institution population in the late 1960s and early 1970s, it was possible to eliminate double celling. The populaton decline resulted from the combined factors of lower court commitments brought about by the probation subsidy program, increased plea bargaining, increased legal representation of indigent defendants and other undetermined factors plus the somewhat more liberal term-setting and paroling policies of the Adult Authority.

At that time, the Legislature had the opportunity to continue the same level of double celling and close institutional facilities or eliminate double-celling. The Legislature chose the latter alternative. Double-celling was, however, reinstituted because of an increase in the percentage of felony defendants who were committed by the superior courts, a reduction in the number of releases granted by the Adult Authority and a significant increase in parole revocations for parole violations not resulting from a new conviction. These factors, which reflected an express administration policy, have resulted in double-celling of approximately 3,500 inmates as of the end of 1974. An increase of 500 to 1,000 in inmate population will compound the existing situation. This amount of overcrowding in the already volatile prison environment is extremely hazardous, especially because it would have to be concentrated in the older penal facilities, San Quentin and Folsom.

In this situation the department is subject to opposing points of view. One does not want additional facilities on the basis that their existence would result in additional incarcerations; the other supports the previous executive policy and demands a greater use of incarceration for public protection and as a deterrent to larger increases in criminal activity. Regardless of the policy of the new administration, we believe that additional facilities should be constructed in recognition of current population projections and the fact that it takes approximately five years from initial budgeting to opening of the facility. If methods are developed or policies adopted to reduce overall penal population, the new facilities can replace existing archaic institutions.

As new construction would not be available for approximately five years and if inmate population continues to increase as in the first six months of the current fiscal year, the population will exceed existing capacity to an intolerable extent. Current projections indicate a male felon population of 25,475 in 1980. Compared to existing institutional capacity of 20,217 on a one-inmate-per-cell basis, this will result in a shortage of 5,258 cells. The proposed budget makes no provisions for additional capacity.

Table 1 shows proposed institution program expenditures of $169,558,-559 in the budget year. The net increase of $5,260,125 or 3.2 percent over the current year results from merit salary adjustments, workload and price increases partially offset by a net decrease of 71.9 authorized positions. The staff reduction reflects the deletion of 91 positions administratively added for implementing the *Olson* decision and other reductions totaling 1.9 positions partially offset by 64.8 new positions, 43.8 of which were administratively established during the current year.

The 64.8 new positions for this program include ten for workload increase at the California Conservation Center, Susanville; 21.6 for the opening of three conservation camps; 17.7 previously authorized positions deleted under Section 20 of the Budget Act of 1974 (related to termination of unfilled positions); eight for workload increase because of the *Bye* decision; 0.5 under the Inmate Welfare Fund and seven under the Correctional Industries Revolving Fund. The *Bye* decision requires additional due process procedures in hearings involving the out-patient status of nonfelon addicts. The Section 20 positions are those generally not filled on a permanent basis due to recruitment problems or to afford greater administrative flexibility, and all have been previously justified on a workload basis. These position authorizations are used to contract for services for which permanent employees cannot be recruited (usually psychia-

DEPARTMENT OF CORRECTIONS—Continued

trists) or to pay current employees for providing needed services on an overtime basis.

New Camps

The budget provides $206,462 for 21.6 new positions to operate three camps which will house 220 inmates in the budget year with a potential of 240 inmates at maximum capacity. These inmate-operated camps are currently functioning with Ecology Corps personnel under the Division of Forestry. The replacing of ecology corps staff with inmates should produce savings for the Division of Forestry, but such savings are not reflected in the Governor's Budget.

We note that the camp budget data on page 777 of the Governor's Budget reflect only a $23,282 increase in overall expenditures and no change in the number of inmates assigned or in personnel years, whereas the salary cost of the 21.6 new positions without staff benefits will total $206,462. While the overall budget totals in regards to these new camps appear to be in order, the data on budget page 777 relating to "work projects-cooperating agencies" appears to be incorrect. The department should clarify this matter.

Inmate Pay Increase

The budget contains $100,000 to provide a 13.8 percent overall pay increase (averaging $16 per year or $1.33 per month) to the 6,241 paid positions for inmates who work in the institutions. In addition, there are 2,759 nonpaid inmate positions. Because of inflationary increases in the prices of products purchased in the inmate canteens compared to the average inmate pay of $9.67 per month, the increase is warranted.

III. RELEASING AUTHORITIES

This program includes the activities of the Adult Authority and the Women's Board of Terms and Parole relating to adult felons and the Narcotic Addict Evaluation Authority which relates to civilly committed narcotic addicts. The function of these boards is to fix and reset as required the terms to be served within the institutions and on parole. They may grant parole and order suspension or revocation of parole as authorized by law. The Adult Authority is assisted in case hearings by hearing representatives who serve on two-man panels with board members or separately.

The U.S. Supreme Court in the case of *Morrissey v. Brewer* of July 29, 1972, provided that paroling authorities must follow specified minimum due process and procedural requirements when ordering parole revocations. Included in these minimum requirements are prerevocation and revocation hearings. The prerevocation hearing must be held in the parolee's community and afford him an opportunity to present evidence in his own behalf. The hearing is conducted by hearing representatives or other designees of the parole boards. If there is a finding of probable cause to revoke parole, the parolee is incarcerated at a departmental reception center pending a final hearing on revocation at which the parolee must be provided another opportunity to present his case. On May 14, 1973, the

U.S. Supreme Court in *Gagnon v. Scarpelli* also mandated that paroling authorities returning technical parole violators must provide counsel for indigent parolees upon request. This ruling has increased the length and complexity of parole revocation hearings.

In addition, recent California Supreme Court decisions including *In re Sturm, In re Prewitt, In re LaCroix,* and *In re Valrie* have required the parole boards to prepare written reasons for denying parole and to hold special additional hearings prior to placing parolees in custody after their arrest for additional crimes to determine if parole is to be revoked.

Adult Authority Reorganization

We recommend legislative consideration of organizational changes in the Adult Authority.

Prior to the 1959–60 fiscal year, the Adult Authority consisted of seven members who met in two-member panels to hear cases in the various institutions and to determine parole revocations. In order to handle the increasing caseload, reduce travel requirements and avoid increasing the size of the board, board representatives were authorized in 1959–60.

The board representatives were teamed initially (1 to 1) with board members for case hearing purposes, but the decisions of these "mixed" panels had to be ratified by another board member. Subsequently, panels composed only of representatives were authorized, but the requirement for board ratification of their actions was retained. Institution and parole population increases plus the additional workload resulting from recent court decisions have had a significant impact on the board's workload requirements.

The workload growth over the years has resulted in enlargement of the Adult Authority until it now consists of nine members and 15 hearing representatives plus six new representatives requested in this budget. Additionally, the department was budgeted for four new board members during the current year, but the necessary legislative authorization for the member increase was not enacted. Three of these four board-member positions were reclassified to hearing representatives. In our judgment, the combined total of nine board members and 24 representatives (assuming approval of the six proposed) produces an over-size and unwieldy organization.

The indeterminate sentence law under which the Adult Authority acts has been the subject of much recent discussion. If this law is repealed or substantially altered it may eliminate the need for or significantly reduce the staff needs of the Adult Authority. If the board is to continue operations under the existing law, the Legislature should consider the following organizational changes:

1. Permit term-fixing, paroling and parole revocation hearings by a single hearing representative.
2. Reduce the size of the board to five (a reduction of 4 members) and change the functions of the members from hearing cases to setting policy and hearing appeals from the decisions of hearing representatives. Such action would reduce salary costs for board members by \$124,032 annually. Implementation would require amendments to

DEPARTMENT OF CORRECTIONS—Continued

Section 5075 of the Penal Code to reduce the board membership and to Section 5076.1 to permit hearing representatives to make final decisions subject to appellate review and to permit hearings by individual board representatives.

The addition of six new board representatives would appear to result in an excessively large hearing body. If hearings were conducted by one person, only 16 positions would be needed to handle the projected hearing workload. However, time must be provided for review of the upcoming case, which is now done during each hearing by the second panel member while the first member conducts the immediate hearing. We make no recommendation for position reductions at this time, pending further review of workload needs required by the suggested change in hearing procedures and recent court decisions.

IV. COMMUNITY CORRECTIONAL PROGRAM

This community based program includes conventional and specialized parole supervision, operation of community correctional centers, outpatient psychiatric services, anti-narcotic testing and community resource development. The program goal is to provide community supervision support and services to achieve successful parolee performance.

Table 1 shows a proposed budget of $20,914,142 for the 1975–76 fiscal year, an increase of $252,669 or 1.2 percent. The increase is a result of parole population and price increases along with merit salary adjustments, a reduction in the conventional caseload formula (from 59 parolees per agent to 50 to 1) partially offset by elimination of the work unit supervision (33 to 1 ratio) program reflecting an overall decrease of 36.7 man-years. Termination of the work unit program ends the latest in low caseload experimental projects that commenced in fiscal year 1953–54. While these programs sometimes reflected minor improvement in caseload results, it was not sufficient to justify the additional costs and may in fact have been at least partially caused by factors other than the case supervision level.

The 50 to one supervision level complies with the legislative mandate contained in Item 313.3, Budget Act of 1974, which provided an appropriation of $400,000 to accomplish the reduction in caseload size from 59 to 1 to 50 to 1. The appropriation was deleted by the Governor on the basis that the overall caseload reduction could be accomplished administratively. This budget provides for a 50 to 1 parolee/parole agent ratio for all except work furlough (35 to 1) and nonfelon addict (32 to 1) supervision.

Community Correctional Centers

The department has been budgeted for four state-supported and one federally-funded community centers (half-way houses). These centers house work furloughees, newly released parolees requiring a structured living situation and parolees who are unstable on parole and for whom the additional community supervision may forestall a parole revocation.

Sacramento Center

The Sacramento Community Correctional Center was established and has been operating with federal funds provided through the Office of Criminal Justice Planning and the California Council on Criminal Justice (CCCJ). The department requested state funding for the fourth year of operation of this center because the CCCJ limits federal funds to the initial three years of operation. The requested amount was not included in the budget on the basis that fourth-year funding will be sought from the federal government. If federal funding is not available, this budget will be underfunded by $287,751 for the operation of this center or the center will have to be closed.

Closure of Parkway Center

We recommend the deletion of 8.5 positions related to closure of Parkway Center: one parole agent III, one correctional lieutenant, one correctional sergeant, three correctional officers, one senior stenographer, one supervising cook II and 0.5 cook II for a salary savings of $102,605.

During the current year, the department is closing the Parkway Community Correctional Center and transferring its staff of 8.5 positions to other centers (Central City, Vinewood and Crittenden) as shown in Table 2.

Table 2
Community Center Staffing

Community Center	*Average Daily Population*	*Total Staffing Authorized*	*Total Staffing Proposed*
Crittenden	50	11.1	14.1
Central	50	11.0	14.5
Vinewood	27	8.4	10.4
Parkway	50	8.5	0

The purpose of the redeployment is to provide additional staff deemed necessary at the other centers because of the loss of federally supported positions. These centers were originally budgeted and staffed without federal assistance. Federally funded positions were subsequently added to augment the existing staffing level. The department advises that loss of the federally-funded staff creates staffing deficiencies which results in an increasing number of disciplinary incidents and potential incidents.

Incidents within the center and in the surrounding community resulted in the closing of a community correctional center formerly operated on the grounds of the Institution for Men at Chino. It is also partly the increase in incidents and the threat thereof that has resulted in the closure of the Parkway Center and staff augmentations at other centers. These centers are expensive operations, costing $824,926 for an average population of 140 parolees and work furloughees for a per capita cost of $3,666 per year. This number of inmates could be handled in the institutions for approximately $140,000 per year ($1,000 each).

The early release of inmates to the work furlough program and the provision of community centers for parolees is for their benefit and the state should not be burdened with an unreasonable expenditure level for such operations because of the undisciplined actions of the program par-

DEPARTMENT OF CORRECTIONS—Continued

ticipants. If the department is unable to provide suitable inmates and parolees for this program as originally proposed, the program should be abandoned. If the program has to be staffed to the level proposed in this budget, then it is not the lightly structured program initially contemplated.

V. ADMINISTRATION

The administration program includes centralized administration at the departmental level headed by the director. It provides program coordination and support services to the institutional and parole operations. Each institution is headed by a warden or superintendent and its own administrative staff. Institutional operations are divided into custody and treatment functions, each headed by a deputy warden or deputy superintendent. The parole operation is administratively headed by a chief parole agent assisted by centralized headquarters staff. The state is divided into 5 parole regions, each directed by a parole administrator. The parole function is subdivided into districts and parole units.

As shown in Table 1 total support requirements for administration (not prorated to other programs) are estimated at 231.4 man-years and $5,714,592 for the budget year, which represents an increase of $47,963 or 0.9 percent over the current level. The net increase represents merit salary adjustments and price increases partially offset by a reduction of 8 research positions (totaling $105,156 in salary savings) and 0.6 in other minor position adjustments.

VI. SPECIAL ITEMS OF EXPENSE

Items 293–296 provide reimbursements to the counties for expenses relating to transportation of prisoners and parole violators, returning fugitives from justice from outside the state, court costs and other charges related to trials of inmates and local detention costs of state parolees held on state orders. These reimbursements are made by the State Controller on the basis of claims filed by the counties in accordance with law.

This program proposes an increase of $300,000 or 12 percent to provide for the reimbursement of local detention costs for parolees incarcerated on orders of the paroling authorities. This new program element was authorized by Chapter 1237, Statutes of 1974.

Crime Increase

Opinions differ significantly on the reasons for crime and on the most effective methods of preventing it. This section contains information on the rapid growth in crime rates since 1960, the shift in policy regarding the use of probation and local treatment of offenders, and data on the percentages of felony arrests that ultimately result in convictions and state prison sentences. While there are many suggestions on what changes should be made in the criminal justice system, seldom is there a discussion of the fiscal impediments and time lags necessary to implement a policy change. The end of this section contains such comments. For example, if the state decided to reduce the number of felony offenders treated locally under the probation program, and as a substitute to increase state prison commitments, it would require five years of lead time to build one new prison at a cost of $65 million, which would add only ten percent to our total prison capacity.

As shown in Table 3, the total federal, state and local crime fighting effort in California has failed to reduce the incidence (as measured by the number and rate per 100,000 of total population) of the seven major offenses reported to California law enforcement agencies.

Table 3
Total and Rate of Crimes Reported
Seven Major Offenses 1960–1973

	Crimes Reported [a]		*Increase Over Prior Year*			
			Number		*Rate*	
Year	*Number*	*Rate* [b]	*Amount*	*Percent*	*Amount*	*Percent*
1960	251,495	1,585	–	–	–	–
1961	259,231	1,576	7,736	3.1	–9	–0.6
1962	276,658	1,623	17,427	6.7	47	3.0
1970	652,389	3,261	47,813	7.9	216	7.1
1971	714,685	3,527	62,296	9.6	266	8.2
1972	723,936	3,527	9,251	1.3	0	0
1973	740,157	3,569	16,221	5.3	42	1.2
Increase						
1973 over 1960	488,662	1,984				
	194.3%	125.2%				

[a] Includes willful homicide, robbery, aggravated assault, forcible rape, burglary, grand theft, and auto theft.
[b] Rate per 100,000 population.

Specifically, the table shows that the reported incidence of the seven major offenses increased from 251,495 (1,585 per 100,000 population) in 1960 to 740,157 (3,569 per 100,000 population) in 1973. This represents an increase of 194.3 percent in these crimes reported and a 125.2 percent increase in the rate of such reported crimes per 100,000 population. These data do not include drug and other felony offenses, although many of the crimes are committed by drug addicts to obtain the funds necessary to support their habits. A recent federally supported study showed that the incidence of crime is significantly greater (in the communities studied) than the level reported to law enforcement agencies. The increase in reported crime in California has continued unabated each year since 1960, although there was no increase in the rate per 100,000 population in 1972.

Crime Clearances

While the crime rate continues to soar, the clearance rate (reflecting crimes cleared by arrest) averages only 21 percent of six of the seven major offenses reported. If the clearance rate could be substantially improved, there would be a greater deterrent effect to the criminal sanctions. It may reasonably be assumed that persons usually engaged in unlawful activities are aware of the general extent to which such activity is successfully conducted, and therefore they do not appear to be greatly deterred by legal sanctions.

DEPARTMENT OF CORRECTIONS—Continued

Table 4
Adult Felony Arrests and Dispositions
1960, 1966, 1970–72

	1960	*1966*	*1970*	*1971*	*1972*
Total Adult Felony Arrests [a]	98,821	107,344	204,935	219,231	231,863
Dispositions by Type					
1. As Percent of Arrests					
a. Release by Police	–	25.7	22.6	21.6	19.9
b. Complaint Filed	–	74.3	77.4	78.4	80.1
c. Lower Court	–	12.6	18.5	22.0	21.8
d. Superior Court	28.7	35.0	28.9	29.8	24.4
1. Not convicted	3.6	5.2	4.5	4.2	3.3
2. Convicted	25.1	29.8	24.4	25.6	21.1
e. Superior Court Sentences					
1. Prison	7.1	6.3	2.5	2.5	2.4
2. Youth Authority	1.7	1.7	0.9	0.9	0.7
3. Probation only	11.1	9.2	9.4	9.9	7.6
4. Probation and Jail	–	6.4	7.1	8.1	7.5
5. Jail only	4.8	4.5	3.0	2.6	1.8
6. Fine	0.2	0.6	0.5	0.3	0.2
7. Civil Commitment	0.3	1.2	1.0	1.2	1.1
2. As Number Totals					
a. Released by Police	–	27,599	46,245	47,238	46,121
b. Complaint Filed	–	79,745	158,690	171,993	185,742
c. Lower Court	–	13,494	37,954	48,324	50,438
d. Superior Court	28,400	37,584	59,257	65,236	56,586
1. Not convicted	3,584	5,584	9,307	9,218	7,562
2. Convicted	24,816	32,000	49,950	56,018	49,024
e. Superior Court Sentences					
1. Prison	6,971	6,731	5,025	5,408	5,664
2. Youth Authority	1,665	1,831	1,873	1,973	1,515
3. Probation only	10,983	9,883	19,249	21,738	17,606
4. Probation and Jail	–	6,871	14,564	17,703	17,318
5. Jail only	4,712	4,777	6,118	5,771	4,062
6. Fine	177	596	988	704	436
7. Civil Commitment	308	1,311	2,133	2,721	2,423

[a] Excludes persons arrested and turned over to other jurisdictions.

Uncertainty of Apprehension or Incarceration

Table 4 shows that in 1972, for example, there were 231,863 adult felony arrests. In that year there were 1,383,969 felony crimes reported, some of which were unfounded, committed by juveniles, etc. While disposition data may not represent the identical persons reflected in total arrests, there are sufficiently comparable for discussion purposes. The 231,836 adult felony arrests in 1972 were disposed of as follows (shown as percent of arrests):

1. Law enforcement released 19.9 percent.
2. Criminal complaints were filed against the remaining 80.1 percent.
3. However, the trial courts processed only 46.2 percent as felony charges because the remainder were released by the district attorneys, or the charge was reduced to a misdemeanor complaint.
4. Another 21.8 percent was disposed of as misdemeanors by the lower courts.
5. As a result, only 24.4 percent of the total felony arrests were finally handled as felony complaints by the Superior Courts (21.1 percent

were convicted and 3.3 percent were not).

6. Superior court sentences were:
   a. State prison—2.4 percent
   b. Youth Authority—0.7 percent
   c. Probation only—7.6 percent
   d. Probation and jail—7.5 percent
   e. Jail only—1.8 percent
   f. Fine only—0.2 percent
   g. Civil commitment—1.1 percent

The probability of incarceration has been reduced significantly in recent years, especially since the advent of the probation subsidy program, which rewards the counties for not committing adult felons and juvenile delinquents to state institutions. Out of the total adult felony convictions disposed of by the superior courts in 1960 (totaling 24,816), 8,944 or 36 percent were committed to the state and the remainder 15,872 or 64 percent were handled locally. By 1972, total state commitments were reduced to 9,602 or 19.6 percent of all convictions and 80.4 percent were handled locally. Thus, the chance of receiving a state commitment has declined substantially.

Crime Rates by Persons on Probation and Parole

The change in sentencing patterns has resulted in an increase in the number of probationers. Probation sentences totaled 44.3 percent of superior court convictions in 1960, which increased to 71.2 percent in 1972. If the 1960 rate was applied to 1972 total superior court convictions, there would have been 21,718 probation grants in 1972 or 13,206 less than the 34,924 actually granted. The increased number of convicted felons in the community has an impact on local crime rates because of those convicted in the superior courts in 1972, a total of 3,130 or 23.7 percent were on *probation* when they committed a new offense for which they were subsequently prosecuted. An additional 13.6 percent of the 1972 felony prosecutions related to crimes committed by persons who were under state *parole* supervision. Therefore, it is apparent that any increase in the number of persons released to probation and parole will increase the amount of crime.

A review of these crime, prosecution and court disposition data leads to the conclusion that the deterrent impact of criminal sanctions is substantially diluted by the lack of certainty of apprehension, prosecution and incarceration.

On the other hand, while increasing the certainty of apprehension and prosecution (by improving law enforcement and district attorney operations) and the certainty of substantial punishment (by a change in sentencing practices) may enhance the deterrent effect of criminal laws, the state is not prepared to handle an increase in prison population. Existing state penal facilities are overcrowded. A return to the rate of prison sentencing effective in 1960 based on the total number of arrests in 1972 would have added about 10,800 more prisoners that were received in 1972. This does not include any increase in the rate of dispositions because of improved law enforcement and prosecution. A significant increase in the

DEPARTMENT OF CORRECTIONS—Continued

number of state commitments cannot be handled without substantial cost increases to provide additional prison facilities.

Fiscal Implications

The growth in California's prison facilities has not kept pace with the growth in crime rates. This factor influenced the change in our criminal justice policy whereby a larger proportion of offenders are handled locally through the probation program, which is partially subsidized by the state. Many law enforcement officials and private citizens are dissatisfied with local treatment and want a greater portion of the offenders sent to prison in order to protect the public and hopefully reduce the crime rate. However, a substantial change in this policy is not viable at this time because the state lacks the prison facilities. Our existing facilities house about 25,000 adult felons and non-felon addicts, and Table 4 shows that 5,664 new felons were added during 1972. If we returned to the 1960 commitment rate, then 16,500 felons, or about three times as many, would have been added to our prison population in 1972. This *one year change* would have required the building of four new prisons, at a cost of $65 million each, for a total capital outlay expenditure of $260 million. In subsequent years there would have been additional pressures for new prisons, unless the state kept the total population static by accelerating paroles. In addition to the capital outlay costs, the state would have increased annual custodial costs by about $70 million for these 10,000 new prisoners, but part of the cost would have been offset by reductions in probation subsidies.

Another important consideration is the lead time necessary to plan and construct a new prison—about five years. Under these conditions, 1980 would be the earliest that a substantial change in prison sentencing could be implemented even if the decision were made in 1975.

DEPARTMENT OF YOUTH AUTHORITY

Items 297–304 from the General Fund — Budget p. 785

Requested 1975–76	$97,315,835
Estimated 1974–75	99,346,831
Actual 1973–74	86,021,790
Requested decrease $2,030,996 (2.0 percent)	
Total recommended reduction	None

1975–76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
297	Department support	General	$70,872,367
298	Transportation of persons committed	General	43,540
299	Maintenance and operation of county juvenile homes and camps	General	3,825,840
300	Construction of county juvenile homes and camps	General	400,000

301	State's share—control of juveniles at the international border	General	253,788
302	County delinquency prevention commissions—administrative expenses	General	33,300
303	County delinquency prevention commissions—research and training grants	General	200,000
304	Assistance to county special probation supervision programs	General	21,687,000
			$97,315,835

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. Border Check Station. Recommend Youth Authority and Department of Finance conduct cost-benefit analysis of Border Check Station and report to Joint Legislative Budget Committee by December 1, 1975. (Analysis page 112.)
2. Paso Robles. Recommend Youth Authority evaluate alternatives to continued use of Paso Robles School and report to Joint Legislative Budget Committee by December 1, 1975. (Analysis page 113.)

GENERAL PROGRAM STATEMENT

The responsibility of the Youth Authority Board and the Department of Youth Authority as stated in the Welfare and Institutions Code, is " . . . to protect society more effectively by substituting for retributive punishment, methods of training and treatment directed toward the correction and rehabilitation of young persons found guilty of public offenses." The board and the department have attempted to carry out this legislative mandate through the program areas discussed below.

Youth Authority Board

The Youth Authority Board, consisting of eight members, is charged with personally interviewing, evaluating and recommending a treatment program for each offender committed to the department. It also sets terms of incarceration and is the paroling authority for all such wards.

Administration

The administration program consists of (1) the department director and his immediate staff, who provide overall leadership, policy determination and program management; and (2) a support services element, which provides staff services for fiscal management, management analysis, data processing, and facility construction, maintenance and safety.

Community Services

The community services program provides direct staff services to local public and private agencies and state grants to subsidize certain local programs relating to delinquency and rehabilitation.

Services to Public and Private Agencies

The department is required by law to establish minimum standards of operation and make compliance inspections of special probation services which receive state subsidies and county-operated juvenile halls, ranches, camps and homes and, in some cases, jails in which juveniles are incarcerated. The department is also authorized by law to assist in the improve-

DEPARTMENT OF YOUTH AUTHORITY—Continued

ment of local juvenile enforcement, rehabilitation, and delinquency prevention programs by providing training and consultation services to local agencies.

Financial Assistance

The state, under this department's administration, provides subsidies to local government for construction, maintenance and operation of ranches, camps, and homes for delinquents, special probation programs, delinquency prevention programs, and a border check station at San Diego. State support, which is intended to encourage the development of these local programs, is based on the belief that local treatment of delinquents is more desirable, if not more effective, than incarceration in state facilities. Treatment in the community or in locally operated institutions retains the ward in his normal home and community environment or at least closer to such influences than may be the case with incarceration in state facilities.

Delinquency Prevention Assistance

The department provides staff services to disseminate information on delinquency and its possible causes; to encourage support of citizens, local governments, and private agencies in implementing and maintaining delinquency prevention and rehabilitation programs; and to conduct studies of local probation departments.

Rehabilitation Services

The rehabilitation services program, which is administered by a deputy director and supporting staff in Sacramento, is geographically divided on a north-south regional basis. Each region is directed by an administrator who is responsible for all institutional and parole functions within his region. This organizational structure is established as a means of providing a continuum of treatment and reducing artificial barriers created by separate and distinct institution and parole functions.

The program consists of eight institutions, three reception centers, and five forestry camps that will house an estimated average daily population of 4,846 wards, plus a community parole caseload program involving 7,361 wards for a projected total daily average population of 12,207 wards in fiscal year 1975–76 (Table 1). The department estimates it will handle a daily average of 121 additional institutional wards but 761 fewer parolees in 1975–76 than in the current year. (There is an error in the Governor's budget, page 799, in that the 685 average daily population for the reception centers and clinics is not included within the *total* average daily population for all institutions. The total shown as 4,161, is actually 4,846.)

The wards generally come from broken homes, below average economic status and substandard residential areas. They are usually academically retarded, lack educational motivation, have poor work and study habits, and have few employable skills. Over half are four to six grade levels below age level on standardized tests, especially in reading comprehension, vocabulary, arithmetic and spelling. Many also have psychological disorders or anti-social behavior patterns.

Table 1
Youth Authority Wards Average Daily Population

	1973–74	1974–75	1975–76
Reception Centers	627	685	685
Facilities for Males	3,499	3,800	3,921
Facilities for Females	219	240	240
Subtotal (Institutions)	4,345	4,725	4,846
Change from prior year	—	+301	+121
Parole Caseload	9,546	8,122	7,361
Change from prior year	—	−1,424	−761
Total Wards	13,891	12,847	12,207

Diagnosis

Diagnostic and case evaluation services are provided within institutions and for wards on parole. Diagnostic services within institutions are provided by a combination of professional and lay counselors and other staff working on a team basis and holding regularly scheduled conferences and unscheduled meetings as required.

Care and Control

Residential care in camps and institutions provides housing, feeding, clothing, medical and dental services, while parole supervision in the community provides required surveillance and control to assist in rehabilitating the ward and protecting the community.

Treatment

Treatment includes counseling, religious services, recreation, psychiatric services, academic and vocational training in the institutions and post-release treatment in the community. These services are designed to meet the needs of the wards committed as an aid to their rehabilitation.

Research

The research program was initially authorized in the 1957–58 budget to develop a continuing evaluation of the effectiveness of the Youth Authority programs. It provides the evaluation and feedback to management necessary to determine those programs which are effective and should be continued, those that show promise and should be reinforced and those that should be discontinued. It also provides estimates of future institutional and parole caseloads for budgeting and capital outlay purposes, and collects information on the principal decision points in the movement of wards through the department's rehabilitation program from the time of initial referral to final discharge.

ANALYSIS AND RECOMMENDATIONS

The departmental programs, as proposed in the Governor's Budget, represent a net General Fund cost of $97,315,835 and 3,773.2 man-years of effort. However, the department anticipates budget-year reimbursements totaling $9,781,805 and federal grants totaling $389,370 for a total expenditure program of $107,487,010.

Table 2 summarizes the budget request, showing sources of funding by category, expenditure levels by program area, and proposed dollar and

DEPARTMENT OF YOUTH AUTHORITY—Continued

position changes. As indicated, the staffing level is reduced by a net total of 146.5 man-years and General Fund expenditures decrease by a net amount of $2,030,996 or 2.0 percent under current-year expenditures. There are also reductions totaling $3,780,135 in federally funded research projects and in other reimbursements.

Table 2
Budget Summary

		Change From Current Year	
	Proposed	*Amount*	*Percent*
Funding			
General Fund	$97,315,835	$–2,030,996	–2.0
Reimbursements	9,781,805	–3,223,666	–24.8
Federal Funds	389,370	–556,469	–58.8
Totals	$107,487,010	$–5,811,131	–5.1
Programs			
Youth Authority Board	$1,076,184	$–1,403	0.1
Man-years	32.4	–1.0	—
Administration	$3,753,495	$274,015	7.9
Man-years	152.9	–9.0	—
Community Services	$28,086,543	$–4,601,630	–14.1
Man-years	59.8	–29.1	—
Rehabilitation	$73,052,264	$–993,794	–1.3
Man-years	3,460.2	–83.8	—
Research	$1,518,524	$–488,319	–24.3
Man-years	67.9	–23.6	—
Total	$107,487,010	$–5,811,131	–5.1
Man-years	3,773.2	–146.5	—

Program Adjustments

The reduction in the Youth Authority Board's budget request reflects the elimination of one temporary help position added administratively in the current year.

The decrease of nine positions in the administration program reflects administrative adjustments, completion of the "Correctional Decision-making Information System" project (a two and one-half year federally-funded study to design a computer system to maintain ward histories from initial commitment to final release from Youth Authority custody), and completion of the "Manager Assessment Selection and Training Program" study (a two-year federally funded grant to assess the managerial potential of Youth Authority employees).

The $4,061,630 reduction in the community services program reflects lower costs for probation subsidy (discussed below under "Local Assistance"), elimination of 4.1 positions administratively and termination of 25 grant-funded positions working on the "Youth Development and Delinquency Prevention Project," which was established to develop and test various community based youth diversion projects. (Elements of projects found successful in diverting youth from the criminal justice system will be incorporated into the regular Youth Authority program.) The department is requesting an increase of $179,554 in General Fund support for the

"Model Volunteer Program," which has the objective of identifying ways and means by which volunteer groups can contribute more effectively to the development and implementation of programs designed to reduce juvenile delinquency and rehabilitate young offenders. This project is supported by California Council on Criminal Justice funds through April 1975 and is proposed to continue until a successful volunteer program can be developed and implemented.

Adjustments to the rehabilitation program include the addition of 4.2 positions at the Northern California Youth Center for security, 0.5 clerical position at Karl Holton School for workload, and two maintenance positions at the Youth Training School at no additional cost by transfer of contractual services monies to personal services. Offsetting these increases are the reduction of (1) 15 regular parole positions because of reduced caseload (see Table 1), (2) 14 positions administratively, and (3) 61.5 positions due to termination of several grant-funded projects including the "Community Centered Drug Program," which was instituted in an attempt to reduce the revocation of parole of Youth Authority wards due to drug violations. A complete evaluation of this project will be made by the Youth Authority after its termination and appropriate modifications to the rehabilitation program will be included in the 1976–77 budget proposal.

The department proposes to continue 199 positions added administratively in the current year for reactivating Paso Robles. Costs for the reactivation of Paso Robles for up to 245 state wards are being assumed by Los Angeles County as reimbursement for displacement of 245 Youth Authority wards from Youth Training School. (Los Angeles County is maintaining 245 of its minors at Youth Training School because of inadequate facilities within the county.) The department also proposes to continue 25 positions added administratively in the current year for the Youth Authority's TEST (Training, Employment and Self-Discipline for Today) project, which was started at Paso Robles with the goal of aiding wards in the transition from institutional to community life.

Reductions in the research program are attributable to elimination of (1) 4 positions in the regular research program, (2) 9 grant-funded positions in the "Community Centered Drug Program," (3) 2 grant-funded positions for the "Man-to-Man Job Therapy" project, 7 grant-funded positions for the "Cooperative Behavorial Demonstration Project," and (5) 1.6 positions deleted through administrative adjustments.

General Support

The proposed budget contains $815,531 for merit salary adjustments, $223,015 for increased food costs (up 12 percent) and $97,857 for higher utility expenses (up 13 percent). The minor capital outlay budget is increased from $108,000 to $200,000 to improve security at various facilities because older, more sophisticated and assaultive youth are now being committed to the Youth Authority. These additional support costs are offset by personnel reductions throughout the department (previously discussed) and by decreases in the local assistance program.

DEPARTMENT OF YOUTH AUTHORITY—Continued

Local Assistance

No change is proposed in the level of local assistance for transportation of persons committed (Item 298), construction of county juvenile homes and camps (Item 300), or support of county delinquency prevention commissions (Items 302–303). However, an increase of $10,211 or 4.2 percent over the current year is proposed for the state's share of operating expenses for the City of San Diego Border Check Station (Item 301), which is discussed later in the analysis.

The maintenance and operation of juvenile homes and camps subsidy (Item 299), which by law is limited to reimbursement of one-half of a ward's cost of care, not to exceed $95 per month, is proposed to increase by $340,860 or 9.5 percent over current-year estimated expenditures. As shown in Table 3, this increase approximates the anticipated increase in average daily population on which the subsidy payments are based.

Table 3
Number and Population of Juvenile Homes, Camps and Ranches

	1973–74	*1974–75*	*1975–76*
Number of facilities	71	76	79
Average daily population	2,964	3,494	3,835
Percent increase over prior year	—	17.9	9.8

The $21,687,000 budgeted for probation subsidy (Item 304) is $4,079,000 less than the amount estimated to be expended in the current year. Of this decrease, $1,905,000 reflects a decline in the number of youths and adults being diverted from state institutional commitment. The remaining reduction of $2,174,000 results from statutory termination on June 30, 1975, of the provisions of Chapter 411, Statutes of 1974, which provided the above amount to supplement probation subsidy grants or be used by local law enforcement for youth diversion programs.

Need to Evaluate Continued State Funding of Border Check Station

We recommend that the Youth Authority and the Department of Finance conduct a cost-benefit analysis of the City of San Diego Border Check Station and report with recommendations regarding continued funding to the Joint Legislative Budget Committee by December 1, 1975.

The City of San Diego operates a check station at the Mexico-United States border near the Tijuana point of entry to deny passage of juveniles into Mexico who are not escorted by responsible adults or lack proper parental consent. The cost of the station is prorated between the state and the city on the proportion of city and noncity residents turned away. Table 4 shows the state funding requirements, the number of juveniles contacted and the number denied entry into Mexico.

Table 4
San Diego Border Check Station

	1970–71	*1971–72*	*1972–73*	*1973–74*	*1974–75*	*1975–76*
State Support	$219,635 [a]	$142,324	$143,646	$144,308	$243,577	$253,788
Juveniles Contacted	18,261	18,199	25,284	20,953	29,850	32,500
Juveniles Denied Entry	9,778	11,622	10,985	7,746	14,450	15,730

[a] Includes $90,000 for construction of new border check station as a result of relocating and expanding the freeway.

The station was opened by the city in the mid-1950's and the state began its financial participation in 1961–62 because of problems in Tijuana relating to the availability of pornographic materials, lewd entertainment, prostitution, alcohol and other intoxicants, as well as numerous assaults and robberies of American citizens, to which it did not wish California youth to be exposed.

As shown in Table 4, state support for the station increased by $99,269 or 68.8 percent between 1973–74 and the current year. This increase reflects the state's portion of the cost, under an established contractual formula, for increasing the number of police officers manning the station from 14 to 25 to screen the increased vehicular traffic that resulted from the opening of a new eight-lane freeway into Tijuana. An additional $10,211 or 4.2 percent is requested for the budget year as the state's prorated share of increased operating expenses.

In view of the improved conditions in Tijuana and the general liberalization of social attitudes and entertainment opportunities on this side of the border in recent years, we believe it is appropriate to reassess the state's need to continue funding this program. At a minimum, such review should consider the feasibility of operating the border station on a spot-check basis and utilizing personnel other than the highly trained, highly paid uniformed police officers whom the City of San Diego now assigns to this program.

Alternatives to Utilizing Paso Robles

We recommend that the Youth Authority evaluate alternatives to the long-term use of Paso Robles School and report to the Joint Legislative Budget Committee with recommendations by December 1, 1975.

As discussed earlier in the analysis, the Youth Authority has reactivated accommodations for the 245 wards at Paso Robles with contractual funds ($2.5 million in the current year) provided by Los Angeles County. It should also be noted that $1.3 million was recently administratively transferred from probation subsidy savings to reopen an additional 200 beds at Paso Robles to alleviate overcrowding at other institutions, bringing it to maximum capacity of 445. However, funds for the 200 additional ward population have been included in the proposed budget.

Paso Robles was one of three geographically isolated institutions (Fricot Ranch and Los Guilucos School were the other two) closed between June, 1971 and June 30, 1973, due to an overall population decline. These particular institutions were closed because of their rural locations, which made it difficult to recruit and maintain adequate qualified staff, and their high per capita cost of operations. The Fricot and Los Guilucos facilities have been disposed of as surplus properties.

If the reversal of the previous institutional population trend continues as the Youth Authority figures in Table 1 indicate, construction of a new facility should be considered as an alternative to long-term use of Paso Robles. All major new institutional complexes constructed for the Youth

DEPARTMENT OF YOUTH AUTHORITY—Continued

Authority in recent years have been designed with central power, supply, maintenance and food service facilities sufficient to accommodate the addition of new satellite institutions. Such facilities are in the long run more economical to operate and maintain than the older, isolated facilities such as Paso Robles.

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 305 from the California Health Facilities Commission Fund — Budget p. 814

Requested 1975–76	$905,728
Estimated 1974–75	675,449
Actual 1973–74	380,459
Requested increase $230,279 (34.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Health Facilities Commission was created by Chapter 1171, Statutes of 1974, which renamed the California Hospital Disclosure Act the California Health Facilities Disclosure Act. This act also includes provisions related to skilled nursing and intermediate care facilities in addition to those for the hospitals. The commission is responsible for: the preparation of a uniform accounting system for hospitals, and skilled nursing and intermediate care facilities; and, the provision of other accounting services to improve the efficiency and effectiveness of services provided by these facilities. The act provides that the commission is to be supported through fees levied against all facilities, except federal facilities, and deposited in the California Health Facilities Commission Fund.

In addition, as a secondary objective to the uniform accounting and reporting program, Chapter 1072, Statutes of 1973, requires the commission to prepare and submit a proposal for a state health facility economic stabilization program to the Legislature before July 1, 1975.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Budget Act proposes an appropriation of $905,728 from the California Health Facilities Commission Fund for support of the commission during the 1975–76 fiscal year. This represents an increase of $230,279, or 34.1 percent, over the current year estimate. However, an appropriation of $100,000 for 1975–76 was contained in Chapter 1171 to cover start-up costs related to the inclusion of skilled nursing and intermediate care facilities during the 1975–76 fiscal year. When added to the Budget Act appropriation, this represents total estimated expenditures of $1,005,728, an increase of $330,279, or 48.9 percent, over the current year estimate as shown in Table 1.

Table 1
California Health Facilities Commission

	Actual 1973–74	Estimated 1974–75	Proposed 1975–76
Estimated Expenditures			
Uniform accounting and reporting:			
Hospitals	$335,802	$865,539	$704,688
Skilled nursing and intermediate care facilities	—	—	301,040
Economic stabilization program	44,657	31,342	—
Total expenditures	$380,459	$896,881	$1,005,728
Source of Funds			
California Health Facilities Commission Fund	$380,459	$675,449	$1,005,728
Federal funds	—	221,432	—

The federal funds shown for the current year are from a contract with the Department of Health, Education, and Welfare, requiring the development of hospital care statistics. These funds are being used to accelerate and augment this activity which was already required by state law.

Uniform Accounting and Reporting Program

The basic objective of the California Health Facilities Commission is to develop and administer the implementation of regulations requiring a uniform system of accounting and financial and statistical reporting for all hospitals and skilled nursing and intermediate care facilities in California. The commission contracted with a private accounting firm for development of an accounting and reporting manual for hospitals during the 1973–74 fiscal year and the manual was officially adopted November 14, 1973. Copies were distributed to all hospitals and upon completion of fiscal years on or after June 30, 1975, all hospitals are required to submit prescribed reports to the commission. The same type of system for skilled nursing and intermediate care facilities will be developed during the budget year for use on or after July 1, 1976. Therefore, funds appropriated for the budget year will be used to process the first annual hospital financial reports, and to develop regulations and the accounting and reporting manual for skilled nursing and intermediate care facilities.

The increase in estimated expenditures for 1975–76 is justified because significant workload increases were necessary to expand the program to include skilled nursing and intermediate care facilities.

Economic Stabilization Program

As shown in Table 1, there are no funds requested in the budget year for the development of the economic stabilization program proposal for health facilities. This proposal is required to be developed prior to July 1, 1975. The latest estimate for the release of the proposal is sometime in March.

Position Changes

The commission proposes to add nine positions and delete one position for a net increase in authorized positions of eight for the budget year as follows. For processing hospital reports, 2 programmers, 2 accounting technicians, 1 statistical clerk and 1 clerk-typist are requested. For development of the uniform accounting and reporting manual for skilled nursing and intermediate care facilities, 2 associate analysts and 1 clerk-typist are requested. Increased workload appears to justify the need for these additional positions. The position being deleted is that of a general auditor whose services are no longer required.

Fund Condition

The summary of the fund condition contained on page 817 of the Governor's Budget shows accumulated surpluses of $523,675, $296,351 and $436,123 for 1973–74, 1974–75 and 1975–76 respectively, in the California Health Facilities Commission Fund. Surpluses were reduced in the current year by delaying the collection of, and reducing the amount of, fees contributed by hospitals. However, a significant increase in the surplus is shown for the budget year. This estimate is based on the collection of maximum fees from the hospitals and skilled nursing and intermediate care facilities for the budget year.

This situation indicates that excessive fees are being charged. However, because this is a relatively new fund and the program was recently expanded, more experience is needed before more adequate fee levels can be determined. Surpluses should be adjusted to cover cash-flow needs.