HEALTH AND WELFARE AGENCY

Inconsistencies in Application of Cost-of-Living or Price Increases in the 1976–77 Budget Year

In our review of the budget requests for various programs administered by the Health and Welfare Agency, we were able to identify several inconsistencies in the application of cost-of-living or price increases. The budget requests for these programs are all reviewed by the same staff within the agency, and by the Health and Welfare Section in the Department of Finance. Significant inconsistencies were found in the areas of (1) state support of county administration, (2) physicians services, (3) mental health, drug abuse and alcoholism, (4) social services, and (5) welfare grants.

General Fund support for county administration of the AFDC, Food Stamp and Medi-Cal programs is contained in two budget items, one for the Department of Benefit Payments and one for the Department of Health. County administration consists of county welfare departments' personnel and overhead costs related to eligibility determinations for these three programs. The Benefit Payments item provides for an overall 6.7 percent increase for salaries, benefits and operating expenses. On the other hand, the Health item provides for only a 4.0 percent increase in operating expenses and no increase for salaries and benefits. Eligibility determinations for AFDC, food stamps and Medi-Cal are basically performed by the same type of personnel within each county.

The Governor's Budget states that a special item for funding price and provider rate increases for Department of Health programs does not include funds for physician providers of service under the Medi-Cal program. However, information supplied by the Department of Finance shows that within this same item, funds for physician rate increases in other programs are being provided. In addition, funds totaling $10 million General Fund for 1974–75 and $13.9 million General Fund for 1975–76, that were appropriated by the Legislature for physician rate increases under Medi-Cal, are being returned to the General Fund.

Another inconsistency exists between the Short-Doyle program and the Drug Abuse and Alcoholism programs. The budget provides for a 6.5 percent increase for labor related costs (including physicians) and a 4.0 percent increase for nonlabor related costs of the Short-Doyle program. Similar increases are not provided in the budget for the Drug Abuse and Alcoholism programs, although the services are provided by the same type of county personnel as in the Short-Doyle program.

Differing situations exist for the Social Services program. First, it is apparent that a flat 6.0 percent increase is included for the adoptions portion of the program. No similar increases are provided in the proposed budgets of other social service programs.

Finally, in the area of welfare grants the budget proposes to fund a 12 month cost-of-living increase for AFDC grants, but only a 6 month cost-of-living for the state supplemental payment portion of the SSI/SSP grants for aged, blind and disabled.

Budget hearings on the various programs administered by the Health and Welfare Agency, and the respective items supporting these programs in the Budget Bill, will have to address these inconsistencies. We have included discussion of these problems under each individual item.

Health and Welfare Agency

OFFICE ON AGING

Item 278 from the General Fund — Budget p. 687

Requested 1976–77	$1,184,340
Estimated 1975–76	1,325,073
Actual 1974–75	1,184,097
Requested decrease $140,733 (10.6 percent)	
Total recommended reduction	$18,798

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Comprehensive Services to Elderly. Recommend office submit at budget hearings a feasibility statement on long-range planning.	485
2. Merger of Nutrition Projects with Area Agencies on Aging. Recommend: a. The office initiate a phase-in merger of nutrition projects with Area Agencies on Aging. b. The Legislature require all nutrition projects to merge with Area Agencies on Aging.	486
3. General Fund Reallocations. Recommend approval of proposed (a) increase in administrative expenditures and (b) decrease in state funds reserved for nutrition.	487
4. Unspent Federal Funds. Recommend office report on status of unspent federal funds by December 1, 1976.	489
5. Departmental Status. Recommend legislation to give the office departmental status.	490
6. Title XX Social Services. Recommend the director explore ways to coordinate Title XX programs with programs under the Older Americans Act.	490
7. *Support for Commission on Aging. Reduce by $18,798.* Recommend reduction in request for consultant services and unallocated funds.	490
8. Commission on Aging. Recommend legislation reconstituting the Commission on Aging and redefining its role.	491

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. The two major programs under

OFFICE ON AGING—Continued

the act are Title III providing for the coordination of comprehensive services to the elderly and Title VII providing for nutrition programs for the elderly. The office is responsible for the planning, coordinating and monitoring of programs designed to stimulate the development of a statewide network of comprehensive services which will promote the dignity, health and independence of older persons.

The Governor's Budget identifies the following four programs administered through the Office on Aging:

1. Program Division
2. Administration Division
3. Director's Office
4. Commission on Aging

The Commission on Aging operates semi-independently of the Office on Aging. The commission is mandated by state statute to act in an advisory capacity to the office and various other governmental entities and to serve as the principal advocate body in the state on behalf of older persons.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $1,184,340, which is $140,733, or 10.6 percent, less than anticipated to be expended during the current year. The major item of reduction is the state funds held in reserve for nutrition programs. The total budget proposal including federal funds is $22,388,591, a decrease of $340,589, or 1.5 percent, from estimated current year expenditures. It is estimated that during the current fiscal year approximately $2.2 million will be spent for administrative costs of the office and the commission, $6.8 million will be available in cash grants to Area Agencies on Aging funded to coordinate services for seniors in specified jurisdictions and $12.8 million will be available in cash grants to fund nutrition projects throughout the state. Table 1 compares estimated total expenditures for 1975–76 with the proposed budget for 1976–77.

Table 1
Office on Aging
Estimated Total Expenditures
1975–76 and 1976–77

Expenditures Items	*Estimated 1975–76*	*Proposed 1976–77*	*Percent Change*
Office on Aging Administrative Costs	$1,955,619	$1,970,850	+0.8%
Commission on Aging Administrative Costs	214,384	214,384	—
Cash Grants, Coordinated Services	6,837,118	6,837,118	—
Cash Grants, Nutrition Projects	12,753,621	12,753,621	—
Special Items:			
State Reserve for Nutrition	496,820	141,000	-71.6
Title IVa Training Grant	295,910	295,910	—
Special Project	175,708	175,708	—
Total	$22,729,180	$22,388,591	-1.5%
General Fund	*1,325,073*	*1,184,340*	*-10.6%*
Federal funds	*21,204,251*	*21,204,251*	—
Reimbursements	*199,856*	-	*—100.0%*

PROGRAM DIVISION

The Program Division, through regional offices in Los Angeles, San Francisco and Sacramento, administers the two major programs (coordinated services and nutrition projects) authorized and funded through the Older Americans Act of 1965, as amended. Both programs are operated through cash grants to local governmental jurisdictions or private, nonprofit organizations.

Coordinated Services for Older Persons

The coordinated services program is carried out through contracts negotiated with key agencies throughout the state. California has been divided into 25 priority service areas. Planning service agencies in each area were funded to complete an initial area plan, including demographic data about the elderly population, available services, service gaps, etc. The 15 most populous priority service areas have now been placed under Area Agencies on Aging (AAA) funded by federal cash grants through the Office on Aging. Each AAA is 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.

There are many services available to older persons through a variety of sources. Often these services are fragmented and overlapping. Many seniors do not know of the existence of these services or how to apply for known services.

The task of bringing together these disjunctive services into a statewide service delivery system is the responsibility of the Office on Aging through the AAA's. The office has no funding for providing direct services. Its role is primarily planning and coordination.

Studies by the Department of Finance and by the Joint Legislative Audit Committee have indicated that most of the functions of the office have been disjointed and ineffective. Planning and coordination of services at the state level have been almost nonexistent. Most of the energy of the office has gone into the mechanics of identifying and funding Area Agencies on Aging and nutrition projects.

Long-Range Planning

We recommend that the Office on Aging submit to the fiscal committees during the budget hearings, a feasibility statement for the completion of a long-range plan for developing a statewide network of comprehensive services to the elderly.

The office annually develops a state plan on aging which sets forth the priorities and objectives for the fiscal year. Concomitantly, each AAA develops a similar plan for its area. Most of these plans show objectives which are lacking in overall direction. There is the crucial need for the development of a social policy on aging setting forth long-range goals and objectives. Without such a policy the state will continue to suffer from the lack of direction which has been sharply criticized in the reports issued by the Department of Finance and the Joint Legislative Audit Committee.

California has a number of resources (e.g., experts from State Departments of Housing, Transportation, Health, Employment, etc., and the

OFFICE ON AGING—Continued

public and private higher education systems) which are able to help develop a comprehensive long-range social policy plan for aging programs in California. We recommend that the Director of the Office on Aging present at the budget hearings a statement regarding the development of such a plan. The statement should include projected planning costs, participants in the planning effort and a deadline for completion of the plan.

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, five 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.

17,950 Meals Per Day in Fiscal Year 1974–75. Approximately $8.3 million in federal funds were expended through the nutrition program during fiscal year 1974–75. During that same period, the local agencies sponsoring the projects have matched federal funds with cash or in-kind contributions of $3.6 million. As of June 30, 1975, there were 313 meal sites throughout the state serving an average of 17,950 meals daily.

Merger of Nutrition Project with Area Agencies on Aging

We recommend that the Office on Aging (a) identify those Area Agencies on Aging (AAA) which are now administratively capable of handling the funding of nutrition projects in their respective areas, (b) begin immediately to fund all new nutrition projects in those identified areas through the AAA and (c) phase in funding through the AAA of all nutrition projects in those areas at the beginning of each project's renewal cycle.

We recommend further that the Legislature pass a resolution directing that each nutrition project within areas covered by an area agency shall be funded through that agency by the end of each project's 1977 fiscal cycle.

The nutrition projects spend about 19 percent of their grants for the provision of social services to project participants. In spite of this significant expenditure for social services, the projects are funded directly by the office rather than through the Area Agencies on Aging which have the responsibility of coordinating all services to the elderly in their respective areas. This practice developed during the early stages of growth of the area agencies at which time they were administratively incapable of handling the funding and monitoring of the nutrition projects.

We believe that the two programs should be merged administratively as soon as feasible. The merging of the programs will provide a better integration of social service resources in the affected priority service areas. It should also enable more of the funds of the nutrition projects to be utilized for purchase of meals by providing the needed social services through other resources in the area.

Some of the area agencies are still not sufficiently developed to assume responsibility immediately for funding and evaluating the nutrition projects. Thus funding of the nutrition projects through AAA's should be phased in where the AAA now has the expertise to administer the funding. New projects should be funded through the AAA's which are capable of handling the responsibility. Since nutrition projects have individual budgeting cycles, project renewal dates vary. The most orderly merging of the nutrition projects with the AAA's can be achieved by phasing in on a project-by-project basis as renewal dates occur.

In order to assure that the nutrition projects are merged with the coordinated services programs under the planning and coordinating efforts of the AAA's in a timely manner, we are recommending that the Legislature set a firm deadline for transition. This will give the office time to assist AAA's to become ready to assume the responsibility and to work with nutrition projects in making the transition.

General Fund Reallocations

We recommend approval of the proposed reallocation of General Fund appropriations which (a) increases administrative expenditures for the office by $212,988 and (b) reduces funds held in reserve for nutrition by $355,820.

Although the overall General Fund budget request for 1976–77 is reduced, there is a significant change in the way the funds will be allocated. Table 2 compares the estimated expenditures of state funds in the current year to the proposed expenditures in 1976–77.

Table 2
Allocation of General Fund Appropriation

	Estimated Expenditures 1975–76	*Proposed Expenditures 1976–77*	*Percent Change*
State Share of Administrative Costs			
Office on Aging	$727,108	$940,096	+29.3%
Commission on Aging	101,145	103,244	+2.1
Reserve for Nutrition	496,820	141,000	−71.6
Total	$1,325,073	$1,184,340	−10.6%

Increased Administrative Expenditures. In October 1975, the new administration of the Office on Aging became aware that it was facing a need for a budget augmentation or a severe reduction in administrative expenditures. The administrative budget shortage was the result of the reduction of federal support revenues for Title III by almost $200,000. The office is attempting to negotiate an interagency agreement with the Department of Health to complete a study of the Meals-on-Wheels Program as an alternative to homemaker services or institutionalization. This is

OFFICE ON AGING—Continued

expected to make up the budget deficit for the current year.

It is necessary, if the office is to continue to function at its current staffing level, that the state General Fund allocation for administration be increased by the requested $212,988 for fiscal year 1976–77. We believe that the current staffing level is appropriate. Therefore, we recommend approval of the proposed reallocation of funds.

State Funds Reserved for Nutrition. Beginning in 1972, the Legislature began appropriating funds to be used to augment local nutrition programs for the aging where local funds are insufficient to meet the required 10 percent match to qualify for federal funds. There has been little or no demonstrated need for these state funds. Local agencies have been able to provide their matching requirements either in kind or in cash.

Table 3 shows the amounts appropriated for nutrition reserves from fiscal year 1972–73 through the current year and the amounts actually expended.

Table 3
Nutrition Reserve Fund Appropriated and Expended 1972–73 Through 1975–76

	1972–73	*1973–74*	*1974–75*	*1975–76*	
Chapter 918, Statutes of 1972	$400,000	—	—	—	
Regular Budget Appropriations	—	$400,000	$50,000	$141,000	
Chapter 1345, Statutes of 1974	—	—	91,000	55,820	(prior year balance)
Special Budget Act Appropriation (Item 270.1)	—	—	—	300,000	
Total Available	$400,000	$400,000	$141,000	$496,820	
Total Spent	—	—	$85,180	NA	

NA—Not Available

The Office on Aging has attempted to find needs to spend the funds according to the legislative intent. However, the need for this type of an appropriation in excess of $141,000 has not materialized. In fiscal year 1974–75 a total of $85,180 was expended of the $141,000 appropriation. During the current year a total of $496,820 is available. The amount which will actually be spent is unknown, but the need does not appear to exceed the $141,000 level. Therefore, we recommend that the proposed appropriation of $141,000 be approved.

ADMINISTRATION DIVISION

The Administration Division provides support to the regional offices for personnel, budgeting, auditing, training, accounting and business services.

Reports by the Department of Finance and the Joint Legislative Audit Committee have been highly critical of the lack of administrative controls and accountability of the office. Particularly criticized were the lack of (1) any objective criteria for evaluating grant applications, (2) an effective monitoring of grantees, (3) a formal process for closing projects and (4) a method for recovering unused funds from terminated projects. Both reports made a number of specific recommendations for tightening administrative controls and procedures. The office has reorganized in an attempt to improve its management and is actively pursuing a number of the recommendations.

Status of Unspent Federal Funds

We recommend that the office submit to the Joint Legislative Budget Committee by December 1, 1976, a status report relating to the federal funds which have been unspent.

The October 1975 report of the Joint Legislative Audit Committee indicated that over $14 million in federal funds which were potentially available for distribution by the office had not been distributed. Surpluses of $5.8 million in Title VII nutrition funds and $8.5 million in Title III funds were potentially available.

The identified fund surpluses are the result of several factors, primarily (1) delay in the initial 1972–73 fiscal year funding from Congress until near the close of the fiscal year (hence, funds for fiscal years 1972–73 and 1973–74 became available for distribution at approximately the same time), (2) the start-up process of initiating new nutrition projects and newly designated AAA's delayed both the allocation and expenditure of available funds, (3) the annual delay in Congressional appropriations for the Older Americans Act programs prevents timely allocations to grantees and (4) the organization and administration of the office resulted in indecision and further delays.

As of October 31, 1975, all funds committed to the office through June 30, 1975, had been encumbered to grantee agencies. Table 4 shows the amounts of federal funds available to California, encumbered and requested or unrequested by grantees during fiscal years 1973–74 through 1975–76. We are concerned by the large amount of funds which, although encumbered, have been unrequested by the grantees.

Table 4
Federal Fund Obligations and Expenditures
1973–74 through 1975–76

	1973–74	*1974–75*	*1975–76*
Title III Coordinated Services			
Available	$4,780,795	$6,837,118	$1,570,075
Encumbered	4,780,303	6,820,587	1,210,714
Requested by grantee	2,523,483	214,988	12,000
Unrequested by grantee	2,256,820	6,605,599	1,198,714
Title VII Nutrition			
Available	8,454,413	8,454,413	10,609,656
Encumbered	8,454,412	8,454,328	3,941,692
Requested by grantee	8,441,235	6,897,104	398,679
Unrequested by grantee	13,177	1,557,224	3,543,013

The director of the office has taken steps to deal with the issues involved such as better accounting procedures, closer monitoring of grants and better planning for grant allocations. Efforts are now being pursued to encourage grantees to administer available funds effectively and to liquidate all budget surpluses by providing more services to the elderly. The director estimates that there will be "an approximate breakeven" on Title VII funds by September 1976, and on Title III funds by February 1977.

OFFICE ON AGING—Continued

DIRECTOR'S OFFICE

The director's office includes the director, deputy director, the communications unit and the liaison and special project units.

Departmental Status

We recommend legislation to give departmental status to the Office on Aging by changing its name to the Department on Aging.

One of the major failures of the Office on Aging has occurred in the area of coordinating state resources. The director is now in the process of establishing the California Interdepartmental Committee on Aging which will bring together the Directors (or representatives) of Employment Development, Health, Benefit Payments, Education, Housing and Community Development, Transportation, Consumer Affairs, Food and Agriculture and the State Office of Economic Opportunity. This should help to bring together available resources to meet the needs of California's older citizens.

This coordinating effort could be enhanced by giving the office departmental status. The director by state statute is already given the "powers and salary base of the head of a department," is housed separately from the Health and Welfare Agency and is fully self-contained. Therefore, giving the office departmental status will not create any new costs.

Title XX Social Services

We recommend that the Director of the Office on Aging in cooperation with the Director of the Department of Health explore ways in which Title XX programs can be more effectively integrated and coordinated with programs funded under the Older Americans Act.

Funds available through Title XX of the Social Security Act are a major source of services to the elderly. Both Title XX and the Older Americans Act call for services which provide alternatives to institutional care of the elderly. There are indications that meals delivered to the home-bound may present a significantly less costly alternative for some older persons than the homemaker/chore services. This recommendation is also made in our discussion on the Homemaker program in Item 291.

A number of other services needing coordination in the two funding sources include employment, transportation, escort services, information and referral services and health care services including senior day centers and health screening programs.

COMMISSION ON AGING

The Commission on Aging consists of 15 members who are mandated by state statute to (1) act as the principal advocate body for the elderly in the state and (2) advise the Governor, Legislature, Office on Aging and other state agencies on all problems relating to aging.

Budget Needs

We recommend that the support budget for the Commission on Aging be reduced to $175,384, a total reduction of $39,000 (General Fund-reduction of $18,798) in the request for consultant services and unallocated funds.

The commission budget calls for $20,000 for consultant services, $10,000 unallocated funds and $9,000 contingency funds. The commission now has a staff consisting of an executive secretary, an administrative assistant, a secretary, a stenographer and a clerk-typist, and has budgeted $8,000 for temporary help. In addition, the staff resources of the Office on Aging are available to address specific issues the commission may raise. We do not believe additional funds should be budgeted for consultant services. We are unable to find any justification for an unallocated reserve of $10,000 or a contingent fund of $9,000. Therefore, we recommend that the budget for the commission be reduced by $39,000 proportionately distributed between state and federal support funds, a reduction of $18,798 from the General Fund.

Redefinition of Composition and Role

We recommend legislation which would reconstitute the Commission on Aging and redefine its role.

In a letter dated September 24, 1975, the Director of the Federal Regional Office on Aging stated that "the California Commission on Aging, as presently constituted, does not meet requirements of the Federal Rules and Regulations." The primary problems of conformity cited were (1) the membership of the commission does not consist of at least one-half of the membership being consumers of services under the program and (2) the prime function of the commission, under federal regulations, is to be an advisory committee to the Office on Aging, whereas the present commission functions primarily in a legislative advocacy role. Unless these factors are corrected, California may experience future funding problems with the federal regional office (although at present the only action taken was to reduce the federal allocation for the support of the commission).

The Office on Aging has not made good use of the commission. Many recommendations relating to more timely administration of grants and more effective monitoring of grantees have been ignored by the office.

From our observations it appears that the present statutory mandate hampers the commission from effectively advising the office. In accordance with state statute, the commission functions as a semi-independent entity conducting some of its own research into matters on aging and concentrating on legislative advocacy. Recently, the commission has established separate lines of communication with directors of AAA's and nutrition projects. These efforts, if continued, would almost certainly lead to a growing need for more staff and the building up of an independent body competing with rather than advisory to the office.

Federal regulations require that at least 50 percent of the members of the advisory body be consumers of programs for seniors. We believe legislative changes should be made which would direct that the commission members be selected in part from consumers who are also members of advisory bodies that work directly with AAA's or nutrition projects. We further recommend that the role of the commission be statutorily redefined as primarily advisory to the office. Consideration should be given to reducing the support staff to that of an executive director and a secretary

OFFICE ON AGING—Continued

who would be housed with the Office on Aging staff. Research needed to effectively advise the office should be conducted by the office in response to requests from the commission.

The statewide advisory committee, which is as an advisory body to the commission, should be eliminated and its functions assigned to the commission. The statewide advisory committee consists of 35 members who are representative of planning areas throughout the state. State statute requires the committee to meet at least quarterly and to be advisory to the commission. The existence of an advisory body to an advisory body leads to duplication of effort and inefficiency of communication. We believe services to seniors would be greatly enhanced by merging the duties of the two advisory bodies into one. In order to maintain area representation the size of the commission may need to be expanded.

Health and Welfare Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Items 279 and 280 from the General Fund — Budget p. 690

Requested 1976–77	$32,091,906
Estimated 1975–76	30,556,689[a]
Actual 1974–75	30,111,066[a]
Requested increase $1,535,217 (5.0 percent)	
Total recommended reduction	$35,000

[a] Includes budgets for current Department of Alcoholic Beverage Control and Office of Alcohol Program Management.

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
279	Support of Department of Alcoholic Beverage Control	General	$10,618,000	497
280	Local assistance for alcoholism programs	General	21,473,906	499
			$32,091,906	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Departmental Support. Reduce Item 279 by $35,000.* Recommend deletion of state funds transferred from the Department of Health to the Department of Alcoholic Beverage Control for administrative positions — 497
2. Price-Posting Law. Recommend new department review price-posting law and report to the Legislature with recommendations by January 1, 1977. — 497
3. Workload Measures. Recommend new department de- — 498

velop workload measures for licensing and compliance staff.

4. Review of License Fee Structure. Recommend new department review its license fee structure and advise Legislature of adjustments which should be implemented statutorily. 498
5. Proposal to Reduce Excessive Drinking. Withhold recommendation on counter advertising and prevention project pending report by Office of Alcoholism to the fiscal committees during budget hearings regarding a more precise determination of plans and costs for this proposal. 499
6. State Hospital Alcoholism Programs. Recommend the Office of Alcoholism report to the fiscal committees during budget hearings on the impact of closing the Metropolitan State Hospital alcoholism program. Recommend new Department of Alcoholic Beverage Control prepare a report to be submitted to the Joint Legislative Budget Committee by December 1, 1976 which (a) evaluates the current alcoholism program at Camarillo State Hospital and (b) reports on the status of state hospital patients with primary diagnosis of alcoholism who are not being treated in hospital alcoholism programs. 500

GENERAL PROGRAM STATEMENT

Pending legislative approval of a proposed reorganization plan which the Governor will submit to the Legislature early in this session, the budget for the Department of Alcoholic Beverage Control was developed on the basis of a consolidation of the existing Department of Alcoholic Beverage Control and the Office of Alcoholism. The new department will retain its current title because of constitutional requirements, but will be located within the Health and Welfare Agency.

Although the purpose of the reorganization plan is to "effectuate a coordinated effort to combine the state's alcohol temperance policies and rehabilitation and treatment policies," the budget reflects the creation of a new department with two distinct and separate functions. No program consolidation is evident nor are significant budgetary savings proposed.

Current Programs

The present Department of Alcoholic Beverage Control (ABC) is given exclusive power by the State Constitution in accordance with laws enacted by the Legislature to license the manufacture, importation and sale of alcoholic beverages in California and to collect license fees. The department is also given discretionary power to deny, suspend, or revoke licenses.

The department, headquartered in Sacramento, maintains a northern division office in San Francisco, which supervises nine northern district offices, and a southern division office in Downey, which supervises 10 southern district offices.

The Office of Alcoholism came into existence January 1, 1976, following enactment of Chapter 1128, Statutes of 1975, (SB 744) and was designated to receive federal and state funds directly for the state alcoholism pro-

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

gram. Previously these funds were budgeted through the Department of Health. The Office of Alcoholism replaces the Office of Alcohol Program Management (OAPM) and assumes responsibility for most of the functions performed by OAPM. In addition, the Office of Alcoholism assumes responsibility for certain functions performed by the Department of Health through the Short-Doyle community mental health program in administering alcoholism programs.

The state alcoholism program is comprised of the alcoholism programs administered by the 58 counties. These programs are financed on the basis of 90 percent state funds and 10 percent county funds for the cost of all services specified in state-approved county program budgets. Additional county and Federal funds may also be expended for county services.

The Office of Alcoholism has encouraged counties to develop comprehensive services which include prevention, detoxification, residential and outpatient services. Estimates from the Office of Alcoholism indicate that total county alcoholism funds (including federal grants and third-party reimbursements) are spent as follows: (1) detoxification services—25 percent, (2) residential services—19 percent, (3) outpatient and day treatment—26 percent, (4) prevention and case-finding—17 percent, and (5) administration—12 percent.

In the past, the primary means of treatment was to identify alcoholism as a physical or mental illness to be treated by physicians and psychiatrists. More recently, county programs are beginning to identify alcoholism as an undesirable, learned behavior to be treated in a nonhospital setting by alcoholism counselors, social workers and recovered alcoholics. All forms of treatment are used in most county programs today.

The kinds of services offered by county alcoholism programs vary according to the county's geographical size, population, administrative framework and level of citizen concern. Most of the large and medium-size counties provide a broad range of services. In some small, rural counties where administrative and dollar resources are also small, alcoholism services may be limited to detoxification services only.

Counties also deliver alcoholism services in a variety of ways. For example, some services may be provided either directly by a county agency or by a private agency under a contract arrangement with the county. Some county services which treat alcoholics may be designed to treat a broad range of mental illnesses. Other services may be designed to treat alcoholics only. In Los Angeles County, separate outpatient services for alcoholics are provided in community mental health outpatient clinics, while all other services for alcoholics are provided by private agencies contracting with the county. In Alameda County, all services for alcoholics are separate from other mental health services. Treatment services are provided by county agencies and prevention services are provided by private contract agencies.

Implementation of New Alcoholism Program Legislation

The new Department of Alcoholic Beverage Control will assume from the Office of Alcoholism the task of implementing Chapter 1128, Statutes of 1975, (SB 744). This legislation does not directly affect how and what kinds of services are provided. Instead, it changes how funds are allocated for alcoholism services and who is responsible for such funds. In the past, alcoholism funds were appropriated to the Department of Health to be allocated to Short-Doyle community mental health programs in the counties. As of July 1, 1976, alcoholism funds will be appropriated directly to the proposed Department of Alcoholic Beverage Control which in turn will allocate these funds directly to county alcoholism programs.

County alcoholism programs will use such funds to support separate alcoholism services or to "buy" services for alcoholics from community mental health facilities. The new legislation requires most counties to appoint a full-time alcoholism program administrator reporting directly to the county rather than to the mental health director.

Chapter 1128 also requires the Office of Alcoholism to develop a comprehensive plan, implement a management information system, and develop evaluation procedures for county and statewide programs. The legislation also redefines criteria for determining county allocations.

Current efforts at data-gathering, cost reporting, and evaluation are minimal. As a result it is extremely difficult to identify the extent of alcohol abuse in California, the quality and impact of current programs and services, or the current patterns of county program costs and expenditures. The new department must develop measurement criteria and needs to clarify its role with county alcoholism programs in establishing, implementing and monitoring program goals and priorities at the state and county levels.

The Office of Alcoholism will submit a progress report to the Legislature in January 1976. Pursuant to Chapter 1128, the Legislative Analyst will submit a report to the Legislature in January 1977, on the administrative effectiveness of the state alcoholism program.

New Program Elements

The budget indicates that the new department will have six programs funded through two budget items. Item 279 includes support for the licensing and compliance programs which were administered by the present Department of Alcoholic Beverage Control. It also includes support for the administrative portions of both the Office of Alcoholism and the present Department of Alcoholic Beverage Control. Item 280 includes support for local assistance for alcoholism programs and is comprised of three programs: (1) community services, (2) treatment and rehabilitation, and (3) county administration, which were previously administered by the Office of Alcoholism. Table 1 illustrates the 1976–77 budget for the new department and identifies those amounts used to support programs currently located in the existing departments.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Table 1

1976–77 Budget Summary—Department of Alcoholic Beverage Control

Program	*Office of Alcoholism Component*	*Existing Department Component*	*New Department Total*
Departmental Support			
Licensing	—	$4,595,869 [a]	$4,595,869 [a]
Compliance	—	3,604,905	3,604,905
State Administration	$2,380,882	1,558,101	3,938,983
Local Assistance			
Community Services	6,789,878 [b]	—	6,789,878 [b]
Treatment and Rehabilitation	16,193,214	—	16,193,214
County Administration	2,271,192	—	2,271,192
Totals	$27,635,166	$9,758,875	$37,394,041
General Fund	22,497,613	9,614,293	32,111,906 [b]
Federal Funds	5,137,553	0	5,137,553
Reimbursements	0	144,582	144,582
Man-years	55.6	438.3	493.9

[a] Includes reimbursements.
[b] Includes $20,000 appropriated in Chapter 1133, Statutes of 1975.

ANALYSIS AND RECOMMENDATIONS

The proposed state appropriations for support of the new Department of Alcoholic Beverage Control in fiscal year 1976–77 total $32,091,906, an increase of $1,535,217 or 5.0 percent over the current year estimated expenditures of the two separate departments. An additional $20,000 was appropriated by Chapter 1133, Statutes of 1975, for implementation of a drunk driver treatment program in four counties. The total program expenditure, including federal funds and reimbursements, is $37,394,041 for 1976–77, which is an increase of $1,203,668, or 3.3 percent, over the amount estimated to be expended for the two separate departments during the current year. Table 2 summarizes the new department's proposed budget and indicates proposed dollar and position changes from the current year.

The major proposed increase is $1,730,000 for a program to reduce excessive drinking through neighborhood outreach and media campaign efforts in one or two regions of the state. Additional increases include a General Fund transfer of $672,963 from the community mental health program within the Department of Health to the new Department of Alcoholic Beverage Control for local assistance to county alcoholism programs. A similar transfer of $35,000 from the Department of Health is proposed for state administration costs relating to the alcoholism program including accounting, personnel, and cost reporting functions. An increase of $139,647 is also proposed for the operating expenses and equipment portion of state allocations to county alcoholism programs to cover a cost-of-living index increase.

These increases are being partially offset by (1) redirection of funds resulting from the closing of the alcoholism program at Metropolitan State Hospital currently funded by a budget appropriation for state hospitals to the Office of Alcoholism, (2) by transfer of funds from the Office of Alcoholism to the Department of Rehabilitation for administration of vocational rehabilitation for alcoholics, and (3) by a decrease in federal funds available for alcoholism programs.

Table 2
Budget Comparison of Total Program Expenditures
1975–76 and 1976–77

Program	*1975–76*	*1976–77*	*Change from 1975–76* *Amount*	*Percent*
Departmental Support				
Licensing	$4,429,895	$4,595,869	$+165,974	+3.7%
Man-years	204	204	—	—
Compliance	$3,494,774	$3,604,905	$+110,131	+3.2
Man-years	159	159	—	—
State Administration	$4,294,060	$3,938,983	$−355,077	−8.3
Man-years [a]	127.7	130.9	+3.2	+2.5
Local Assistance				
Community Services	$4,794,859	$6,789,878 [b]	$+1,995,019	+41.6
Treatment and Rehabilitation	17,032,332	16,193,214	−839,118	−4.9
County Administration	2,144,453	2,271,192	+126,739	+5.9
Totals	$36,190,373	$37,394,041	$+1,203,668	+3.3%
Man-years	490.7	493.9	+3.2	+0.6%

[a] Includes all positions which support Office of Alcoholism functions.
[b] Includes $20,000 appropriated in Chapter 1133, Statutes of 1975.

ITEM 279—DEPARTMENTAL SUPPORT

We recommend deletion from Item 279 of $35,000 which the budget transfers from the Department of Health to the new Department of Alcoholic Beverage Control for administrative positions.

Item 279 is comprised of elements previously used to support the current Department of Alcoholic Beverage Control and the state administration of the Office of Alcoholism. The budget proposes a General Fund appropriation of $10,618,000 to be used for personal services and operating expenses and equipment in support of the new department. This amount includes support for the investigation and processing of licenses for premises where alcoholic beverages are produced, sold, or consumed, and for enforcement of state alcohol laws.

We recommend that $35,000 in General Fund monies be deleted from Item 279. The budget proposes that these funds be transferred from the Department of Health to the new Department of Alcoholic Beverage Control budget for administrative functions previously performed by Health for the Office of Alcoholism. These funds are available for departmental support but have not been allocated for specific positions. While there may be a need to establish additional accounting positions in fiscal year 1976–77, the Department of Finance has indicated it is identifying current workloads and reviewing possible redirection of existing personal services if needed. Additional positions could also be funded from discretionary federal funds used for administrative positions by the Office of Alcoholism before the proposed reorganization.

Review Price-Posting Law

We recommend that the department review the price-posting law and report to the Legislature with recommendations by January 1, 1977.

As discussed in previous analyses, we believe that the minimum price maintenance and price-posting requirements of the Alcoholic Beverage

Control Act serve primarily to protect the liquor industry from the effects of a "free market." The price-posting provisions constitute, in effect, a subsidy to the industry because the state's police power is used to enforce a minimum pricing structure established by the industry.

Our previous studies indicated that the magnitude of this subsidy was equivalent to 120 percent of the state's excise tax on distilled spirits. During 1975–76, that would be equivalent to $125 million. If price posting were repealed, it would be possible to double the state's excise tax and still provide a net price reduction to consumers.

We continue to recommend elimination of price posting.

Workload Measures and Staffing Standards for Field Offices

We recommend that the department develop workload measures for the licensing and compliance staff at the 19 district and four branch offices.

Although the department collects basic workload data regarding the number of license applications processed and the number of complaints investigated, it has not attempted to develop appropriate workload standards for its staff. Our review of the relationship between staffing levels and workload indicates variations exist among field offices. For example, one clerical position supported an average of 3.6 professional positions in the northern division but only 2.9 professional positions in the southern division. If the workload standards used in the northern division were applied statewide, approximately 11 clerical positions could be eliminated.

We believe that relatively simple workload measures could be developed and used to equalize the workload assigned to professional and clerical personnel. This would promote a more efficient use of existing staff.

Need for Adjustment in License Fee Structure

We recommend that the department review its license fee structure and advise the Legislature of adjustments which should be implemented statutorily so that sufficient General Fund revenue is generated to cover licensing, compliance and related administrative costs.

The licensing and compliance activities of the Department of Alcoholic Beverage Control are supported by the General Fund, but the department is a revenue producing agency. It collects and distributes fees under a schedule established by statute. Original license fees and license transfer fees, for example, are deposited directly into the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers in compromise" are deposited in the Alcoholic Beverage Control Fund. In April and October of each year, 90 percent of the money on deposit in this fund is divided among the state's 58 counties and more than 400 cities under a statutory formula, and the remaining 10 percent is then deposited in the General Fund. Table 3 details these revenue sources.

Amounts collected historically have produced enough General Fund revenue to cover the existing department's support costs. However, in 1975–76, General Fund deposits from fees and charges ($8,615,000) will not cover the cost of departmental operations ($9,291,432). In the budget

Table 3
License Fee and Miscellaneous Revenue
(General Fund)

	Actual 1974–75	*Estimated 1975–76*	*Estimated 1976–77*
Original license fees	$2,168,680	$2,250,000	$2,250,000
Transfer fees	3,836,902	4,100,000	4,200,000
Special fees	488,292	450,000	450,000
Service charges	102,766	100,000	100,000
Penalties	14,700	15,000	15,000
General Fund portion of annual fees and offers in compromise	1,740,585	1,700,000	1,700,000
Miscellaneous	1,498	—	—
Total General Fund revenues	$8,353,423	$8,615,000	$8,715,000

year, cost of enforcement will exceed General Fund revenue by 10.3 percent.

Some of these fees have not been revised in 40 years. For example, the beer and wine wholesaler's license has cost $56 since 1930. We believe that fees should cover the costs of enforcement of the Alcoholic Beverage Control Act and recommend that the department review its fee structure and seek legislation to increase fees to a level sufficient to cover costs of enforcement for the next several years.

ITEM 280—LOCAL ASSISTANCE FOR ALCOHOLISM PROGRAMS

Item 280 appropriates a General Fund amount of $21,473,906 for local assistance for alcoholism programs for fiscal year 1976–77. This is not directly comparable to last year's local assistance budget item which also included funds for state administration.

The budget appropriates these funds to the new department, most of which are then allocated to the 58 counties operating under the provisions of California's alcoholism program legislation (Chapter 1128, Statutes of 1975).

Funds appropriated by this item support three components of the alcoholism program (1) community services which include prevention, education, drunk driver treatment and occupational alcoholism programs, (2) treatment and rehabilitation which include recovery home, outpatient, detoxification, and hospital services, and (3) county administration. The cost-reporting system makes it impossible to determine the current amount of state funds spent by counties within each of these categories. We anticipate that the new payment and cost reporting system currently being developed by the Office of Alcoholism will correct this situation.

Proposal to Reduce Excessive Drinking

We withhold recommendation on $1,730,000 contained in the Governor's Budget for the development of a counter-advertising and prevention project pending a report by the Office of Alcoholism to the fiscal committees during budget hearings regarding a more precise determination of plans and costs for this proposal in the 1976–77 fiscal year.

The budget proposes a General Fund appropriation of $1,730,000 to be used to conduct a counter-advertising and prevention project to reduce excessive drinking in one or two regions of the state. Of this amount,

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

$865,000 represents new General Fund monies, while an additional $865,000 will be redirected from closing of the alcoholism treatment program at Metropolitan State Hospital.

The department views the project as the beginning of a continuing prevention program. The funds proposed in the budget will be used to cover costs for county administration, neighborhood cottage centers, school workshops, public advertising efforts, and project evaluation. One and one-half positions currently funded by $25,000 in federal alcoholism prevention funds will be used to aid in the state administration of the program. In addition, an undetermined portion of $95,000 in General Fund monies currently administered by the Department of Education through an interagency agreement with the Office of Alcoholism for school alcoholism prevention programs will also be redirected for the proposed program. The budget also indicates that an additional $1 million will be available for the program in the form of volunteer time and public service advertising.

We are withholding recommendation of the proposal until the Office of Alcoholism can provide additional supportive data. Such data should detail how funds are to be spent and provide support for the assumption that advertising and outreach efforts can reduce undesirable social behavior.

State Hospital Programs

We recommend that the Office of Alcoholism report to the fiscal committees during budget hearings on the impact of the proposed closing of the Metropolitan State Hospital program on other hospital and local alcoholism programs.

We further recommend that the new Department of Alcoholic Beverage Control prepare a report to be submitted to the Joint Legislative Budget Committee by December 1, 1976, which (a) evaluates the current alcoholism program at Camarillo State Hospital, and (b) reports on the status of state hospital patients with primary diagnosis of alcoholism who are not being treated in hospital alcoholism programs.

The budget for fiscal year 1976–77 proposes that $2,074,904 in funds previously used for the Camarillo and Metropolitan State Hospitals alcoholism programs be transferred from the Department of Health to the Department of Alcoholic Beverage Control. This amount is included in Item 280 for local assistance but is no longer specifically earmarked for hospital program support. The amount transferred reflects only a portion of the amount previously used for support of the hospital programs and does not reflect overhead and administrative costs.

Of the $2,074,904 included in the budget, $865,000 will be redirected from the closing of the Metropolitan program to the project to reduce excessive drinking. An additional $323,437 will be redirected to fund local treatment programs. The remaining funds of approximately $886,000, while not earmarked specifically for state hospital expenditures, are expected to be used to support the alcoholism program at Camarillo State Hospital.

The current Office of Alcoholism indicates that patients in Metropolitan's alcoholism program can be absorbed by local programs and the program at Camarillo. As of the time of this analysis, the Office of Alcoholism had not coordinated its proposal to close the Metropolitan program with the Department of Health or local programs. Therefore, it is not clear what impact the closure of Metropolitan will have and whether there will be a need to change or expand other programs to accommodate patients from Metropolitan. We recommend that the Office of Alcoholism coordinate with the Department of Health on the proposed closure of Metropolitan's alcoholism program and report to the fiscal committees at budget hearings regarding how this proposal will be implemented.

During fiscal year 1976–77, the new Department of Alcoholic Beverage Control should plan to work with the Department of Health and local programs in evaluating the current direction of the program at Camarillo. This direction should be compared with other alternatives in developing a plan for the future of the Camarillo program.

In addition to those patients currently being treated in alcoholism programs at Camarillo and Metropolitan State Hospitals, patients with primary diagnosis of alcoholism accounted for approximately 21,000 patient days in fiscal year 1974–75 in six state hospitals. Such patients are currently being referred through the local mental health system. There is some confusion regarding what kind of treatment such patients are receiving since they are not located in alcoholism programs. We recommend the new department, in conjunction with the Department of Health, evaluate current diagnosis, referral, treatment and monitoring procedures for such patients within state hospitals and determine whether appropriate procedures should be developed for referring such patients through county alcoholism programs.

Transfer of Funds for Vocational Rehabilitation Services

We recommend approval.

The budget proposes that $566,620 in General Fund monies used to fund specialized alcohol rehabilitation counselors be transferred from the Department of Alcoholic Beverage Control to the Department of Rehabilitation. During fiscal year 1975–76, such funds were expended by county alcoholism programs pursuant to a contract between the Office of Alcoholism and the Department of Rehabilitation. Chapter 1128, Statutes of 1975, stipulates that during fiscal year 1976–77 each county which is allocated funds should contract directly with the Department of Rehabilitation for an amount not less than that expended during fiscal year 1975–76. There has been some question whether the transfer of such funds to the Department of Rehabilitation would affect the implementation of these legislative requirements. However, the Department of Rehabilitation has assured this office that it will enter into nonfinancial agreements with each county alcoholism program to maintain the level of services. The department indicated, however, that it is shifting toward a policy of rehabilitation of the severely disabled. It has not yet been determined how this will affect the kinds of alcoholic patients treated.

SPECIAL ASSISTANCE FOR CHILDREN'S PROGRAMS

Item 281 from the General Fund — Budget p. 696

Requested 1976–77	$14,488,000
Estimated 1975–76	4,488,000
Actual 1974–75	3,672,000
Requested increase $10,000,000 (223 percent)	
Total recommended reduction	$10,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Undesignated Expansion Funds. Reduce by $10 million.* Recommend deletion of proposed expansion of children's services and day care programs. 502

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $14,488,000 for child care and children services. This amount is $10 million, or 223 percent, more than is estimated to be expended during the current fiscal year. The Budget Bill proposes that the funds be allocated by the Department of Finance.

A total of $4,488,000 of the proposed appropriation is to be allocated to the Department of Education after being matched with $10,200,000 in federal social service funds. This amount is similar to that estimated to be expended during the current fiscal year. These funds were initially authorized by Chapter 670, Statutes of 1972 (AB 99). Under that statute, the Department of Education is assigned management responsibility for all state supported child care programs.

Undesignated Expansion Funds

We recommend that $10 million proposed for expansion of children services be deleted.

The Governor's Budget proposes an augmentation of $10 million in children services funds to the Health and Welfare Agency. The budget provides no program definition, stating only that: "This expanded amount of funding will be administered by the Secretary of the Health and Welfare Agency."

Our recommendation to delete the $10 million augmentation is based on several concerns. First, a report issued in December 1975, by the Health and Welfare Agency's Office of Education Liaison, recommends against expenditure of additional child care funds in the absence of a statewide needs assessment. It seems inconsistent for the Governor's Budget to propose an additional $10 million for child care when the agency to which the funds are to be allocated has recommended against expenditure of additional funds at this time.

Second, the findings and recommendations in the December 1975, report of the Legislative Analyst entitled *Current Issues in Publicly Subsidized Child Care* deal with (a) several ways of reducing the cost of existing child care programs and (b) procedures for redirecting existing funds to less costly forms of child care such as family day care. Cost savings from the recommended procedural changes in the report could be reallocated to fund expanded children's programs. We believe it is fully consistent with the Governor's stated policy of reassessing priorities within existing resources to fund additional children's programs through the savings which can be readily achieved within current funding.

Third, it should be noted that a number of careful analyses present strong evidence contradicting generally held assumptions concerning the need for additional subsidized child care. These analyses, summarized in a May 1975 report by Stanford Research Institute, indicate that estimates of the need for child care have been based on formulas which do not consider the current informal arrangements used and preferred by the majority of potential users of subsidized child care. When current arrangements are considered in these formulas, the actual need for additional subsidized care is likely to be quite small. These analyses also indicate that the vast majority of the families generally are satisfied with their current child care arrangements.

Fourth, we believe further expansion of child care programs should be generally held in abeyance pending the results of the pilot study authorized by Chapter 1191, Statutes of 1973 (AB 1244). This study will contain important information concerning the quality and costs of alternative child care delivery systems. It will provide a foundation for major decisions concerning alternatives to present child care policies. The completion date for the study is June 1977.

Fifth, any separate legislation which the Governor might propose to expand children's programs should be reconciled with existing law which assigns to the Superintendent of Public Instruction management responsibility for all "state supported child care programs." We believe such legislation should include any necessary appropriation.

Sixth, the Governor's Budget does not identify the children's programs which would be financed with the additional $10 million. We believe it is unreasonable to appropriate additional funds in the absence of a clear definition of the intended objectives and nature of expanded services.

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 administers 16 programs or specially budgeted items. Table 1 lists those together with their estimated total funding for the 1975–76 and 1976–77 fiscal years.

Table 1
Programs and Special Items Administered by the Department of Health

		1975–76	*1976–77*
I.	Preventive Medical Services Program	$63,096,011	$66,454,351
II.	Environmental Health Services Program	16,269,434	16,557,046
III.	Crippled Children's Services Program	28,282,585	28,343,699
IV.	Health Planning Program	1,364,805	1,317,841
V.	Mental Disabilities Program	316,196,169	317,184,500
VI.	Developmental Disabilities Program	238,035,320	235,720,481
VII.	Substance Abuse Program	55,184,866	26,032,859
VIII.	Social Services Program	364,245,014	365,391,570
IX.	Medical Assistance Program	2,088,313,184	2,226,086,713
X.	Alternative Health Systems Program	99,934,087	106,319,366
XI.	Licensing and Certification Program	21,657,898	22,283,393
XII.	Disability Evaluation Program	31,347,603	32,588,998
XIII.	Administration	—	—
	Distributed	(27,353,377)	(29,373,724)
	Undistributed	1,882,717	1,905,096
XIV.	Legislative Mandates	356,910	453,498
XV.	Special Projects	35,780,352	48,621,405
XVI.	Price and Provider Rate Increases	—	70,490,217
	Totals, Programs	$3,361,946,955	$3,565,751,033

Table 2
Department of Health Budget Items

Item No.	*Analysis page*	*Description*	*Amount*	*Fund*
282	505	Departmental Support	$44,428,396	General
283	510	Departmental Support	267,871	State Transportation
284	511	Mentally Ill—Judicially Committed	25,969,779	General
285	512	Local Mental Health Services Agencies	272,696,279	General
286	517	Drug Abuse Programs	10,445,466	General
287	520	Developmental Disabilities Program	209,704,840	General
288	524	Medi-Cal—Medical Care and Services	855,269,420	General
289	524	Medi-Cal—Fiscal Intermediary	18,683,800	General
290	524	Medi-Cal—County Administration	69,302,400	General
291	550	Special Social Services	54,720,750	General
292	558	Price and Rate Increases	45,645,864	General
293	559	Local Health Services	29,813,454	General
294	567	Crippled Children's Services	22,906,651	General
295	569	Legislative Mandates	453,498	General
		Subtotal	$1,660,308,468	General
		Other State Funds	9,038,372	Various
		Total State Expenditures	$1,669,346,840	

The Governor's Budget proposes the direct appropriation and expenditures of $1,669,346,840 from various state funds to support the Department of Health in the 1976–77 fiscal year. Federal, county and other funds in the amount of $1,896,404,193 are also proposed to be expended by the department for a total expenditure in 1976–77 of $3,565,751,033. Table 2 lists the Budget Bill items which support the department, together with the Analysis page on which they are discussed.

Department of Health
DEPARTMENTAL SUPPORT

Item 282 from the General Fund — Budget p. 697

Requested 1976–77	$44,428,396
Estimated 1975–76	43,575,649
Actual 1974–75	35,295,043
Requested increase $852,747 (2.0 percent)	
Increase to improve level of service $359,567	
Total recommended reduction	$224,248

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Departmental Support. Withhold recommendation pending legislative action on Items 283 through 294.	506
2. Occupational Health. Recommend interagency agreement between the Department of Health and the Division of Industrial Safety be amended, prior to the start of 1976–77, to require that at least 25 percent of health inspections be initiated by Occupational Health Section staff.	507
3. *Occupational Health. Reduce $224,248.* Recommend reduction of 14 chemist positions in the Air and Industrial Hygiene and Southern California laboratories.	508
4. Department of Health Contracts. Recommend Department of Health report to the fiscal committees by April 1, 1976 on the status of reforms in the contract approval process.	509

GENERAL PROGRAM STATEMENT

Support for the administrative functions of the Department of Health is provided by funds appropriated in Item 282 of the Budget Bill. In following the program budget format, the majority of the dollars expended through this item are distributed to other programs. We have discussed these funds under the items that provide the major support for each program.

DEPARTMENTAL SUPPORT—Continued

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on this item pending legislative action on Items 283 through 294 of the Budget Bill.

The budget proposes a General Fund appropriation of $44,428,396 to support the administrative functions of the Department of Health. This is an increase of $852,747, or 2.0 percent, above estimated current year expenditures. 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. In addition to specific recommended reductions we are withholding a recommendation on the total for Item 282 pending legislative action on Items 283 through 294. The results of such action can then be appropriately reflected against Item 282.

The remainder of this section contains discussion and recommendations for major changes on issues in those areas that cannot be directly identified with one of the programs receiving its major support from another item.

Preventative Medical Services Program

We recommend approval of the proposed redirection of funds and position changes for the Preventative Medical Services program.

The Governor's Budget proposes a redirection of $105,000 in General Fund money from the Infectious Disease Section's funds for contract services to (1) establish a hepatitis carrier register in accordance with Chapter 985, Statutes of 1974, at a cost of $30,000 (2) begin a program to control hospital infection problems at a cost of $45,000 for one medical officer, and (3) place a viral and microbiological electron microscopy research specialist in the Viral and Rickettsial Disease laboratory to support infectious disease surveillance and control at a cost of $30,000.

In addition, the Governor's Budget proposes the addition of one health program advisor, two sanitarians, and two public health assistants to the Rural Health Unit at a cost of $98,994 from the General Fund to inspect migrant housing. This will be a new program.

Evironmental Health Services Program

A. Hazardous Waste.

The Governor's Budget proposes an augmentation of five professional and one clerical positions to the Vector Control Section at a cost of $155,573 for surveillance and enforcement activities for the management of hazardous wastes. These positions are to be funded out of the Hazardous Waste Account of the General Fund. Revenues for this account come from fees from hazardous waste disposal site operators.

B. Pesticides.

The Governor's Budget proposes (1) an augmentation of one biologist and one stenographer to the Vector Control Section at a cost of $42,102 to establish a Pesticide Supervision Unit to regulate and supervise pesticide use by 82 local vector control agencies, (2) an augmentation of four chemists, one laboratory assistant, and one clerk-typist to the Clinical Chemistry

Laboratory at a cost of $129,279 for activities related to the approval and regulation of laboratories doing cholinesterase testing (a type of blood testing) performed for farm worker occupational health surveillance, and (3) an augmentation of five professional and one clerical positions to the Epidemiological Studies Laboratory at a cost of $216,251 for studies, investigations, and preventive activities related to pesticide-caused illnesses.

The Governor's Budget states an intention to have legislation introduced to increase the mill tax on pesticides to fund these activities.

C. Occupational Health.

The health component of California's Occupational Health and Safety Program (Cal/OSHA) is funded through an interagency agreement with the Division of Industrial Safety in the Department of Industrial Relations. The interagency agreement authorizes expenditures of up to $3,027,144 for the current year. Funds are 50 percent General Fund and 50 percent federal. Within the Department of Health, the Occupational Health Section inspects workplaces, develops standards, trains Division of Industrial Safety inspectors to recognize health hazards, and provides information to employees and employers; and chemists in the Air and Industrial Hygiene and Southern California laboratories do chemical analyses in support of Occupational Health Section inspections.

Occupational Health Section Inspections

We recommend that the interagency agreement between the Department of Health and the Division of Industrial Safety be amended, prior to the start of the 1976–77 fiscal year, to require that at least 25 percent of health inspections be initiated by Occupational Health Section staff.

Between July 1974 and September 1975 (15 months), 27 Occupational Health Section inspectors inspected 1,183 workplaces. Of these inspections 1,146, or 97 percent, were requested by the Division of Industrial Safety. Under the interagency agreement, Division of Industrial Safety requests must be given first priority in the Occupational Health Section's workload. The division's requests stem from its own safety inspections and investigations, or complaints received from employees. Only 37, or 3.0 percent, of the health inspections were initiated by Occupational Health Section staff.

This is a situation where the occupational health experts are unable to set priorities because the safety personnel do it for them. The result is an inspection program that is less effective than it could be. One indication of this is that over the same 15-month period "serious" hazards (i.e., where serious harm may result) were found in only 31, or 2.6 percent, of the 1,183 health inspections.

The Health Protection Division of the Department of Health, which contains the Occupational Health Section, has made available to us a memorandum which attempts, first, to list the serious hazards to be found in California, and, second, to list the industries where they are most likely to be found. The serious hazards are continuous noise that could cause deafness (over 95 decibels); carcinogens; chronic poisoning from heavy metals; sensitizers of the pulmonary system; agents causing pulmonary fibrosis; and life threatening asphyxiants and anesthetic solvents. The

DEPARTMENTAL SUPPORT—Continued

memorandum names 26 industries where one or more of these health hazards are found.

We think that the above determination of priorities as to where to inspect would be a far more effective way to protect the health of California workers than the present method of simply responding to Division of Industrial Safety requests. Also, with approximately 425,000 workplaces in California, and only 27 inspectors, priorities must be set.

Therefore, we recommend that the interagency agreement between the Department of Health and the Division of Industrial Safety be amended, prior to the start of the 1976–77 fiscal year, to require that at least 25 percent of health inspections be initiated by Occupational Health Section staff. If this results in a more effective inspection program after an appropriate period, the percentage should be increased.

We made this recommendation in last year's Analysis. Since then a July 1975 Department of Health Management Consultation Section study and the January–June 1975 U.S. Department of Labor evaluation of Cal/OSHA have made the same recommendation. Also, the recommendation is in line with the Division of Industrial Safety's own practice of scheduling (self-initiating) over 50 percent of its safety inspections.

Chemists

We recommend a reduction of $224,248 for 14 chemist positions in the Air and Industrial Hygiene and Southern California laboratories.

The Management Consultation Section and the Department of Labor reports also found too many chemists in the Air and Industrial Hygiene and Southern California laboratories in relation to the number of Occupational Health Section inspectors which the chemists support. There are presently 23 chemists for 27 inspectors, while programs in six other states average about 1 chemist for every 3 or 4 inspectors. Both reports pointed to the low output in chemical analyses of California's chemists which results from having too little work input.

We recommend a reduction of $224,248 for 14 chemist positions to bring about the more efficient ratio of 9 chemists to 27 inspectors, or 1 to 3. We should note that both reports recommended an increase in the number of inspectors rather than a decrease in the number of chemists.

Licensing and Certification Program

A. Residential Care Facilities Licensing.

We recommend approval of the proposed augmentation for the Facilities Licensing Section of 13 new positions.

The Governor's Budget proposes the addition of 9 field evaluators and 4 clerical positions to the Facilities Licensing Section for the licensing of residential (24 hour) care facilities. The addition of the field evaluators will bring about a ratio of 1 field evaluator for every 75 residential care facilities that the section licenses. This was the ratio recommended by a joint Department of Health, and Department of Finance workload study. There are presently 73 positions for licensing about 4,500 residential care facilities. This includes nine supervisors, 51 evaluators, and 13 clerks.

B. Child Day Care Facilities Self-Certification

We recommend approval.

For the 1975–76 fiscal year, 30 positions were assigned to the evaluation and licensing of child day care facilities. The positions were to have been funded by an estimated $700,000 in fees from these facilities. However, Chapter 102, Statutes of 1975, (AB 175) exempted child day care facilities from paying fees but contained no appropriation to replace the lost funding.

The Governor's Budget now proposes to continue 13 of the original 30 positions at a cost of $334,000, including operating expenses, to carry out a minimal child day care program to include self-certification (facility managers certify under penalty of perjury that they will comply with regulations), response to complaints, evaluation visits to 10 percent of the facilities, and information and consultation activities. The 13 positions will include one supervisor, nine evaluators and three clerical positions.

Department of Health Contracts

We recommend that the Department of Health report to the fiscal committees by April 1, 1976, on the status of reforms in the contract approval process.

In last year's *Analysis of the Budget Bill* we reported that about $600 million in Department of Health contracts (mostly annual contracts for continuing services) were not being approved until as late as one year after their effective dates (usually July 1).

Without an approved contract, a contractor cannot be reimbursed for services. Thus, if the delay is six months, the contractor will receive no money for the first six months of the fiscal year, and 12 months' money for the last six months. The result is delayed services and unspent funds, or funds spent too quickly. To get around this problem, some programs have encouraged their contractors to spend money, which sometimes must be borrowed, without approved contracts, implying an obligation for the state to approve these contractors' contracts and, thereby, defeating the purpose of the contract approval process. The approval process includes the programs within the Department of Health which contract for services, the department's Administrative Division, and the Departments of Finance and General Services.

Since last year, the Department of Health's Administrative Division has made many reforms in the contract approval process. Many of the contracts for the current year were approved within two months of their effective dates, and the percent of contracts sent back from General Services to be redone dropped from 20 percent of the total number of health contracts to 10 percent.

Further reforms are needed in the following areas:

1. Family Planning and Regional Centers programs in particular continue to have delays in the preparation of contracts.

2. The approval process slows down after the bulk of the contracts have been processed at the first of the fiscal year. Thus, a new program, established by legislation and set to begin January 1, might be delayed until the start of the next fiscal year. The same thing can happen to a program which has been augmented or simply finds itself with uncommitted funds

DEPARTMENTAL SUPPORT—Continued

midway through the fiscal year.

3. The number of contracts sent back from General Services to be redone should be further reduced. The 10 percent rate means that 10 percent of the contracts are not of a high enough quality to be approved the first time and must go through the lengthy approval process twice.

4. The contracts should be in the hands of contractors prior to their effective dates. Even a two-month delay can seriously affect the provision of services, and contractors should not have to spend money without approved contracts. According to the Department of Health, contracts could be in the hands of contractors prior to the signing of the Budget Bill if General Services would approve them prior to the signing of the Budget Bill. Language in the contracts could make funds subject to Budget Act appropriations. The Department of Health is presently trying to arrange this procedure with General Services.

Therefore, we recommend that the Department of Health report to the fiscal committees on the status of reforms in the contract approval process.

Department of Health

FORENSIC ALCOHOL ANALYSIS REGULATION AND MEDICAL EFFECTS OF AIR POLLUTION

Item 283 from the Motor Vehicle Account, State Transportation Fund — Budget p. 706

Requested 1976–77	$267,871
Estimated 1975–76	263,386
Actual 1974–75	234,820
Requested increase $4,485 (1.7 percent)	
Total recommended reduction	None.

GENERAL PROGRAM STATEMENT

Forensic Alcohol Analysis Regulation

In accordance with Sections 436.5–436.63 of the Health and Safety Code, the Laboratory Services Branch of the Department of Health regulates, monitors, inspects, evaluates, advises and licenses laboratories and personnel that do testing for concentrations of ethyl alcohol in the blood of people involved in traffic accidents or violations. There are presently about 90 licensed laboratories which employ approximately 500 people. Four professional, two laboratory assistant and two clerical positions are assigned to this program.

Medical Effects of Air Pollution

In accordance with Section 425 of the Health and Safety Code, the Laboratory Services Branch is also responsible for determining the medical effects of air pollution and recommending air quality standards to the

Air Resources Board. Three professional and one clerical position are assigned to this program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item proposes $267,871 from the Motor Vehicle Account of the State Transportation Fund, a $4,485, or 1.7 percent, increase over the current year.

Department of Health
JUDICIALLY COMMITTED

Item 284 from the General Fund — Budget p. 708

Requested 1976–77	$25,969,779
Estimated 1975–76	25,188,032
Actual 1974–75	23,173,536
Requested increase $781,747 (3.1 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Judically Committed Program. We withhold recommendation on this item until additional budget information is submitted to the fiscal committees. 511

ANALYSIS AND RECOMMENDATION

We withhold recommendation on this program for mentally disordered persons who are judicially committed until additional budget information is submitted to the fiscal committees which hear this item.

The budget proposes a General Fund appropriation of $25,969,779 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. This is an increase of $781,747, or 3.1 percent, over the current year amount of $25,188,032. 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. As of December 31, 1975, there were approximately 1,600 judicially committed persons in the state hospitals.

The budget narrative, page 708, indicates that "Estimates of population and staffing adjustments utilizing the 1968 SCOPE standards are under review by the department. Necessary budget adjustments to reflect the results will be submitted to the Legislature prior to committee budget hearings."

We suggest that the Legislature take no action on this item until the additional budget information is available.

JUDICIALLY COMMITTED—Continued

New Legislation

Recently enacted legislation will have an impact on this program. Chapter 1274, Statutes of 1975, (AB 1229) authorizes the court, in the case of persons found not guilty by reason of insanity and mentally disordered sex offenders, to prescribe local commitment and outpatient treatment as an alternative to commitment in a state hospital, which is the only treatment for such persons under existing law. The law requires that the costs incurred by such patients treated in local inpatient or outpatient facilities shall be a 100 percent state cost.

We expect that the revised budget information we receive will include some funding to pay for such persons treated in local facilities during the budget year.

Department of Health

MENTAL DISABILITIES

Item 285 from the General Fund — Budget p. 708

Requested 1976–77	$272,696,279
Estimated 1975–76	272,085,127
Actual 1974–75	239,477,590
Requested increase $611,152 (0.2 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Mental Disabilities Program. Withhold recommendation pending receipt of additional information on population and staffing adjustments for the state hospitals and related budget adjustments.	513
2. Minor Capital Outlay. Recommend a post-audit report of minor capital outlay be submitted to the Joint Legislative Budget Committee by October 1, 1976 and that future minor capital outlay requests be on a line item basis under major capital outlay (applies to Department of Health Items 284, 285, and 287).	516

GENERAL PROGRAM STATEMENT

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

The budget appropriates funds to the Department of Health, which are then allocated to the state hospitals and 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, and (3) continuing care services. Effective July 1, 1976, the counties' alcoholism programs under the Short-Doyle Act will be transferred to the newly created Office of Alcoholism as authorized by Chapter 1128, Statutes of 1975 (SB 744). The Alcoholism program is discussed under Items 279 and 280. The drug abuse program is discussed under Item 286.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending receipt of additional information on population and staffing adjustments for the state hospitals and related budget adjustments for the entire Mental Disabilities program.

The budget proposes General Fund expenditures of $283,573,529 in the budget year. This figure consists of $272,696,279 funded in this item and $10,877,250 included in Item 292 for price and provider rate increases. This is $11,488,402, or 4.2 percent, over the $272,085,127 estimated to be expended in the current year. Table 1 shows the estimated and proposed state support for community mental health programs for 1975–76 and 1976–77.

Table 1
State Support for Community Mental Health Programs
1975–76 and 1976–77

	Estimated 1975–76	*Proposed 1976–77*	*Difference*	*Percent Increase*
Community-Based (Short-Doyle) Programs	$180,683,666	$189,882,203 [a]	$+9,198,537	5.1%
Continuing Care Services	4,864,524	4,965,129	+100,605	2.1
State Hospitals	86,536,937	88,726,197	+2,189,260	2.5
Total	$272,085,127	$283,573,529	$+11,488,402	+4.2%

[a] Includes $10,877,250 for price and provider rate increase in Item 292.

The budget narrative on page 708 of the Governor's Budget indicates that "Estimates of population and staffing adjustments utilizing the 1968 SCOPE Standards are under review by the department. Necessary budget adjustments to reflect the results will be submitted to the Legislature prior to committee budget hearings."

Such adjustments will obviously revise the state hospital funding level and will probably include revisions for the caseload and funding requirements of the Continuing Care Services and Local Mental Health programs. Therefore, we are withholding recommendation pending receipt of additional information regarding population and staffing adjustments for the state hospitals and related budget adjustments for the entire Mental Disabilities program.

MENTAL DISABILITIES—Continued

Community Mental Health

The budget proposes an expenditure of $189,882,203 for Community Mental Health programs for the 1976–77 fiscal year which is $9,198,537, or 5.1 percent, more than the estimated expenditure for the current year. Table 2 shows state support for the 1975–76 and 1976–77 fiscal years.

Table 2
State Support Plus Price Increase for Community-Based Programs
Fiscal Years 1975–76 and 1976–77

	Estimated 1975–76	*Proposed 1976–77*	*Difference*	*Percent Change*
State support	$180,683,666	$179,004,953	$−1,678,713	−0.9%
Price increase—Item 292	—	+10,877,250	+10,877,250	0
Total	$180,683,666	$189,882,203	$+9,198,537	+5.1%

The $1,678,713 reduction in the budget year, prior to adding the price increase, consists of two adjustments: (1) a $678,713 transfer to the alcoholism program for alcohol-related expenditures that should be reflected in the alcoholism budget and (2) a $1 million reduction due to anticipated increased revenues.

The Governor's Budget has identified and funded price and provider rate increases for health programs in Item 292 that would be transferred to programs upon order of the Department of Finance. The proposed funds are to provide increases averaging 6.5 percent for labor related costs and 4 percent for nonlabor related costs. The General Fund amount identified for local mental health programs is $10,877,250.

Reduction in General Fund Support—$1 million

The budget proposes the addition of two patient benefit and insurance officers for the Financial Management Branch in the Department of Health. A brief statement in the budget says that the two positions are proposed to work with community mental health programs and providers to assist them in collecting an additional $2 million in revenue during the budget year. The budget indicates that $1 million of this increase will be made available for increased local mental health services. The remaining $1 million has been used to decrease the proposed General Fund support for this program.

We recommend approval of the additional two positions proposed to improve local revenue collection efforts. However, we take issue with the proposed method of allocating such increased revenues.

It appears that the $1 million reduction in General Fund support, proposed to be offset by additional anticipated revenues, is inconsistent with clear legislative intent as expressed in the Supplemental Report to the 1975 Budget Act regarding increased revenue collection as follows:

"It is recommended that:

In accordance with the recommendations of the Governor's Task Force on Mental Health Funding, the Department of Health establish minimum expectations for revenue collection in each county, taking into account the revenue generating capacity as it relates to per capita income in each county. If revenue collection exceeds the established minimum, the excess amount shall be retained by the county, without penalty, to be expended for local mental health services."

Upon signing the Budget Act of 1975 the Governor reduced Item 274, the mental health item, by $7,599,124. In his veto message relative to Item 274 the Governor stated that recent audits of local revenue collections indicated that there was much room for improvement. As an incentive to local agencies to increase their efforts in this area, the Governor stated he was prepared during the 1975–76 fiscal year to authorize the allocation of such increased revenues for justifiable program expansion.

During the 1975 legislative session, the recommendations in the task force report on mental health funding were incorporated into a package of four bills, which were passed by the Legislature. One of the bills, AB 1777, would have required the Department of Health to develop rules and regulations to promote revenue collection by the counties. It also specified a method for dealing with excess revenues collected that exceeded projections. The Governor vetoed AB 1777 and in his veto message, dated September 23, 1975, stated, "The objectives of this bill can better be achieved through administrative action." However, as of the time of the preparation of this analysis, no administrative action had been taken on the recommendations incorporated in AB 1777.

The proposed treatment of revenue in the 1976–77 budget is clearly in contrast to legislative intent as expressed in the Supplemental Report to the Budget Act of 1975 and in the vetoed AB 1777. The budget assumes increased revenue collection of $2 million with the addition of two staff persons. We agree there is the potential for increasing revenue, but we have seen no data to indicate the magnitude of the suggested increase. If the increase is not realized, the local programs face the prospect of a reduction in the provision of services.

The forthcoming budget adjustments will produce what essentially will be a new budget for the entire Mental Disabilities program. Because of this, we cannot recommend the acceptance or rejection of the proposed allocation of the $2 million in additional revenues until we receive the revised budget.

Continuing Care Services Program

The budget proposes the General Fund expenditure of $4,965,129 in the budget year for providing protective living services to the mentally disabled. This is 2.1 percent more than the current year estimated expenditure of $4,864,524 as shown in Table 1.

The General Fund is matched with county and federal Social Rehabilitation Service funds to support the Continuing Care Services Section in the department and to pay for placement costs of mentally disabled persons released from state hospitals or local facilities.

State Hospitals

The Department of Health operates six hospitals for the mentally disabled. The budget proposes total expenditures for state hospital services of $88,726,197 in the budget year, an increase of 2.5 percent, or $2,189,260 over the current year estimated expenditure of $86,536,937.

MENTAL DISABILITIES—Continued

The proposed increase is a result of adjusting the estimated current year expenditure for price increases and does not relate to the preliminary population estimate for the budget year.

The budget indicates the average number of patients in the current year is 6,581. The preliminary population estimate for the budget year, subject to forthcoming adjustments, is 6,938, which is 357 higher than the current year estimated average.

The budget states that the alcohol program at Metropolitan State Hospital will be reduced as part of a proposed major alcohol prevention program that will provide expanded community services. This is discussed under Item 280, assistance to alcoholism programs.

Department of Health Minor Capital Outlay

We recommend that a post-audit report of minor capital outlay be submitted to the Joint Legislative Budget Committee by October 1, 1976 and that future minor capital outlay budget requests be on a line item basis under major capital outlay. (Applies to Department of Health Items 284, 285 and 287).

Construction projects valued at more than $100,000 are considered major capital outlay. Major capital outlay is funded separately under Item 390, Department of Health major capital outlay.

Projects valued at less than $100,000 are referred to as minor capital outlay. This includes projects such as alterations and other small construction projects. Minor capital outlay projects are funded within the three items which include funds for state hospital services. $2,938,394 is proposed for minor capital outlay projects in the budget year. This amount is distributed between Item 284—Judicially Committed, Item 285—Mental Disabilities, and Item 287—Developmentally Disabled.

Over the years, the effort to modify buildings to meet program needs has been accomplished by minor capital outlay projects. Currently, alterations of this type with minor capital outlay funds do not receive adequate review. As a result, some projects are completed without evaluating the code implications or their long-range impact.

The state hospitals currently are establishing an extensive program to correct fire and life safety deficiencies as discussed further under Item 390. Many of the corrections required are a result of incorrect modifications accomplished in the past under minor capital outlay expenditures.

We believe it would be appropriate to have the department's facilities planning section evaluate minor capital outlay projects for code compliance prior to construction. In addition, we suggest the need for a post-audit report verifying the cost. We also recommend that the minor capital outlay program be presented in future budgets on a line item basis under major capital outlay. This is discussed in detail under our Summary of Capital Outlay.

Department of Health
NARCOTICS AND DRUG ABUSE

Item 286 from the General Fund — Budget p. 712

Item 286	$10,445,466
Prior year balance available	267,565
Requested 1976–77	10,713,031
Estimated 1975–76	12,055,872
Actual 1974–75	10,282,661
Requested decrease $1,342,841 (11.1 percent)	
Total recommended augmentation	$522,400

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Price Increase.* Augment Item 286 by $522,400. Recommend augmentation to provide cost increases. 518
2. Abolition of SONDA. Recommend legislation abolishing the State Office of Narcotics and Drug Abuse (SONDA) and transfer of personnel and functions to Department of Health. 519

GENERAL PROGRAM STATEMENT

The Department of Health is responsible for the administration of the state's Drug Treatment Act (Chapter 1255, Statutes of 1972). The care and treatment of narcotics and drug abusers is a responsibility shared by the state and the counties. Treatment is provided through the community mental health system. 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.

ANALYSIS AND RECOMMENDATIONS

For the 1976–77 fiscal year the budget proposes a General Fund expenditure of $10,713,031 which consists of $10,445,466 in Item 286 and $267,565 available from Chapter 1255, Statutes of 1972. The current year General Fund expenditure is $12,055,872. The difference is a reduction of $1,342,841, or 11.1 percent from the current year. The budget states that this is due to the impact of recent legislation reducing penalties for use of marijuana. Total state and federal support for the current and budget years by program element is shown in Table 1.

State Administration

We recommend approval of five new positions for program evaluation.

The General Fund support for state administration of the program is proposed to be $1,618,227 in the budget year which is $143,707, or 9.7 percent, more than is estimated to be expended during the current year. Of the increase, a total of $118,530 is for the cost of five positions proposed

NARCOTICS AND DRUG ABUSE—Continued

Table 1
Narcotics and Drug Abuse
State and Federal Expenditures
1975–76 and 1976–77

	Estimated 1975–76	*Proposed 1976–77*	*Difference*
Local Assistance			
General Fund	$10,206,675	$8,706,675	$−1,500,000
Federal Funds	12,007,278	12,007,278	—
Total	$22,213,953	$20,713,953	$−1,500,000
State Administration			
General Fund	$1,474,520	$1,618,227	$+143,707
Federal Funds	755,646	755,646	—
Total	$2,230,166	$2,373,873	$+143,707
State Office of Narcotics and Drug Abuse (SONDA)			
General Fund	$374,677	$388,129	$+13,452
Federal Funds	89,393	89,393	—
Total	$464,070	$477,522	$+13,452
Total General Fund	$12,055,872	$10,713,031	$−1,342,841
Total Federal Funds	12,852,317	12,852,317	—
Total Expenditures	$24,908,189	$23,565,348	$−1,342,841

to be established in the Substance Abuse Branch, Management Information Section. The positions requested are two associate social research analysts, two assistant social research analysts, and one clerk typist. The positions will work on implementing a program evaluation system for drug programs.

Local Assistance

We recommend an augmentation of $522,400 for Item 286 to provide a cost increase similar to the increases proposed for local mental health programs.

The budget proposes that the General Fund support for local assistance be reduced from $10,206,675 in the current year to $8,706,675 in the budget year, a reduction of $1,500,000, or 14.7 percent.

The budget states the reduction is being requested as a result of an estimated decreased demand for treatment of marijuana users. Chapter 248, Statutes of 1975, substantially reduced penalties for use of marijuana. As a result of the legislation, most apprehended marijuana users will no longer be directed from the judicial system to local treatment programs.

The $1.5 million reduction in local assistance consists of $1,381,470 not needed for local treatment programs and $118,530 that has been diverted from local assistance to state administration to fund the five proposed positions for program evaluation. Because Chapter 248 was effective January 1, 1976, no data was yet available to substantiate the estimated decreased demand. It is possible that the $1.5 million reduction may be too large. The programs will have to be monitored to verify the validity of the

$1.5 million reduction.

We concur with the reduction due to the impact of Chapter 248, Statutes of 1975 and the diversion of $118,530 to state administration. However, we believe the remaining local assistance amount, $8,706,675, should be augmented for a price increase.

Item 292 contains the proposed price and provider rate increases for specified health programs that would be transferred to the programs upon order of the Department of Finance. No funds have been included for the local assistance portion of the drug program in Item 292. The drug program is part of the statewide community mental health system under the provisions of the Short-Doyle Act. Item 292 contains $10,877,250 for increases to local mental health programs averaging 6.5 percent for labor related costs and four percent for nonlabor related costs. We believe that the drug program should receive an increase comparable to the amount proposed for local mental health programs. It is inconsistent that one portion of an overall program is funded for price increases and yet another is not. Therefore, we recommend that Item 286 be augmented by $522,400.

State Office of Narcotics and Drug Abuse (SONDA)

We recommend that legislation be enacted abolishing the State Office of Narcotics and Drug Abuse and that its personnel and functions be transferred to the Substance Abuse Branch of the Department of Health.

This item includes $388,129 in state 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 budget indicates that SONDA is presently reviewing priorities and past assumptions about the role the state should take to solve the drug problem. The results of this reevaluation are expected in the spring of this year. Also, the budget states that the Health and Welfare Agency is considering alternative actions to consolidate at the agency level the operations of the Substance Abuse Branch of the Department of Health and SONDA.

In the 1975–76 Analysis, we recommended abolishing SONDA and transferring its personnel and functions to the Substance Abuse Branch of the Department of Health. At that time, we pointed out that the passage of Chapter 1255, Statutes of 1972, placed the responsibility for operation of narcotic and drug abuse programs with the counties. The counties operate the programs with funds allocated by the Department of Health from the appropriation made by this item. Under the present situation, responsibility for coordination of drug programs is diffused between the department and SONDA. We believe such coordination is best accomplished at the program level within the Department of Health. Therefore, we recommend that legislation be enacted which abolishes the State Office of Narcotics and Drug Abuse and transfers its personnel and functions to the Substance Abuse Branch of the Department of Health.

Department of Health
DEVELOPMENTAL DISABILITIES

Item 287 from the General Fund — Budget p. 711

Requested 1976–77	$209,704,840
Estimated 1975–76	208,603,645
Actual 1974–75	180,712,144
Requested increase $1,101,195 (0.5 percent)	
Increase to improve level of service $498,298	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. Developmental Disabilities Program. Withhold recommendation on this item pending receipt of additional information on population and staffing adjustments for the state hospitals and related budget adjustments.	520

GENERAL PROGRAM STATEMENT

The Department of Health is responsible for administering those programs which provide services to individuals who are developmentally disabled (DD). State law defines a developmental disability as a disability originating before the age of 18, which continues, or can be expected to continue, indefinitely, and constitutes a substantial handicap for the individual. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism or other neurological handicapping conditions.

Three major components are funded by this item:

1. Regional centers located throughout the state which provide specified services, including diagnosis, evaluation, referral and placement of developmentally disabled persons in appropriate public and private basic living and care facilities.

2. 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.

3. State hospital programs which provide state-managed care, treatment and life maintenance services at the request of the regional centers.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending receipt of additional information on population and staffing adjustments for the state hospitals and related budget adjustments for the entire Developmental Disabilities program.

This item proposes an appropriation of $209,704,840 for support of the Developmental Disabilities program for 1976–77. In addition, $2,634,819 is included in Item 292 for price and provider rate increases for a total proposed program expenditure of $212,339,659. This amount is $3,736,014, or 1.8 percent, over the amount estimated to be expended during the current fiscal year.

Narrative for the DD state hospital programs on page 711 of the Governor's Budget indicates that "Estimates of population and staffing adjustments utilizing 1968 SCOPE standards are under review by the department. Necessary budget adjustments to reflect the results will be submitted to the Legislature prior to committee budget hearings."

Such adjustments will revise the state hospital funding level. It is not known if such budget adjustments will also include revisions for the caseload and funding requirements of the Protective Living Services and Regional Center programs. Therefore, we are withholding recommendation pending receipt of additional information regarding population and staffing adjustments for the state hospitals and potential related budget adjustments for the entire Developmental Disabilities program.

Total support for the Developmental Disabilities program for the current and budget years is shown in Table 1. The total funding level is proposed to be $225,848,697 in the budget year and $222,402,310 in the current year, a difference of $3,446,387, or 1.5 percent.

Table 1
Total Support for Developmental Disabilities
1975–76 and 1976–77 Fiscal Years

	Estimated 1975–76	*Proposed 1976–77*	*Difference*	*Percent Change*
General Fund	$208,603,645	$212,339,659 [a]	$3,736,014	+1.8%
Federal Funds	11,898,665	11,609,038	−289,627	−2.4%
Family Repayments	1,900,000	1,900,000	—	—
	$222,402,310	$225,848,697	$3,446,387	+1.5%

[a] Includes $2,634,819 for price and provider rate increases in Item 292.

Table 2 shows the program elements by source of funding for the current and budget years.

Regional Centers

By law, all direct health related services for the developmentally disabled are provided through a statewide network of regional diagnostic, counseling and service centers. Currently, there are 20 centers under contract with the Department of Health serving developmentally disabled persons and their families. Regional centers must be operated by either public or private nonprofit corporations.

The proposed General Fund support in the budget year is $44,091,459. This is a 6.4 percent increase of $2,634,819 over the current year estimated expenditure of $41,456,640. The $44,091,459 consists of $41,456,640 funded by this item and $2,634,819 in Item 292. Item 292 contains funds for price and provider rate increases for health programs that would be transferred to identified programs upon the order of the Department of Finance.

Protective Living Services

The budget proposes the expenditure of $9,656,197 in state and federal funds for the provision of protective living services to the developmentally disabled. This consists of $3,371,896 in federal social rehabilitation service (SRS) funds and $6,284,301 General Fund. These funds primarily support

DEVELOPMENTAL DISABILITIES—Continued

Table 2
Program Elements by Source of Funding
Developmentally Disabled
1975–76 and 1976–77

	Estimated 1975–76	*Proposed 1976–77*	*Difference*	*Percent Change*
Regional Centers				
General Fund	$41,456,640	$44,091,459 [a]	$+2,634,819	+6.4%
Federal Funds	6,627,124	6,627,124	—	—
Family Repayments	1,900,000	1,900,000	—	—
Total	$49,983,764	$52,618,583	$+2,634,819	+5.3%
Protective Living Services				
General Fund	$9,106,791	$6,284,301	$−2,822,490	−31%
Federal Funds	3,371,896	3,371,896	—	—
Total	$12,478,687	$9,656,197	$−2,822,490	−22.6%
Community Development				
General Fund	$304,811	$310,927	$6,116	+2%
Federal Funds	1,603,146	1,610,018	6,872	0.4%
Total	$1,907,957	$1,920,945	$12,988	+0.7%
Program Development				
General Fund	$23,273	Transferred to Item 282		
Federal Funds	296,499	(Department of Health support)		
Total	$319,772			
State Hospitals General Fund	$157,712,130	$161,652,972	$+3,940,842	+2.5%
Total	$157,712,130	$161,652,972	$+3,940,842	+2.5%
Total General Fund	$208,603,645	$212,339,659 [a]	$+3,736,014	+1.8%
Total Federal Funds	$11,898,665	$11,609,038	$−289,627	−2.4%
Family Repayments	1,900,000	1,900,000	—	—
Total Program	$222,402,310	$225,848,697	$3,446,387	+1.5%

[a] Includes $2,634,819 for price and provider rate increase in Item 292.

the Continuing Care Services Section and provide for the payment of the placement cost of regional center clients in public or private protective living facilities.

The budget year amount is a decrease of $2,822,490, or 22.6 percent, under the current year amount of $12,478,687. The current year amount consists of $3,371,896 in federal SRS funds and $9,106,791 General Fund, as shown in Table 2.

The reduction has been made because historically part of the funds budgeted for this program have reverted at the end of the fiscal year. In fiscal year 1974–75, the total support for this function was $12,173,134. Of this amount, $8,045,302 was expended and $4,127,832 was reverted to the General Fund.

In the current year, it appears that potentially $3.5 million might be unexpended. At the time of the preparation of this analysis, the department was considering a number of proposals to spend some or all of the $3.5 million on projects that would benefit DD persons in the community.

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 a regional center.

The General Fund support for these patients is estimated to be $157,712,130 in the current year and $161,652,972 in the budget year, an increase of $3,940,842, or 2.5 percent, over the current year amount.

The budget year amount was obtained by increasing the current year expenditures for operating expense price increases. The $161,652,972 figure does not relate to the preliminary 1976–77 population estimate in the budget document.

The budget indicates the average number of patients in the current year is 10,253. The preliminary population estimate for the budget year, subject to forthcoming revision, is 10,429 patients, an increase of 176 above the current year estimated average.

As of December 31, 1975, there were 10,194 developmentally disabled patients in the state hospitals. For information purposes, the age and sex breakout of these patients is shown in Table 3.

Table 3
Sex and Age Breakout of DD Patients in State Hospitals as of 12/31/75

	Sex		*Age*		
	Number	*Percent*	*Age*	*Number*	*Percent*
Males	5,977	58.5%	0–11	1,004	9.9%
Females	4,217	41.5%	12–17	1,858	18.2%
	10,194	100.0%	18–20	1,257	12.3%
			21–24	1,668	16.4%
			25–34	2,449	24 %
			35 up	1,958	19.2%
				10,194	100.0%

Proposed Positions—State Hospitals

We recommend approval of the proposed position changes.

The budget proposes the establishment of 13 new positions for maintenance of air conditioning systems 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. Table 4 lists the proposed staffing by hospital.

Table 4
Positions Requested for Maintenance of Air Conditioning Systems

Hospital	*Positions Requested*
Agnews	2 Refrigeration engineers, 1 Building maintenance worker
Fairview	2 Refrigeration engineers, 1 Building maintenance worker
Pacific	1 Refrigeration engineer, 1 Building maintenance worker
Porterville	2 Refrigeration engineers, 1 Building maintenance worker
Sonoma	2 Refrigeration engineers

The positions are justified on a workload basis and we recommend their approval.

DEVELOPMENTAL DISABILITIES—Continued

The budget also proposes the establishment of 29 new food service positions and the reduction of three positions at Agnews and Porterville State Hospitals, as shown in Table 5.

Table 5
Position Changes Requested for Food Services

Hospital	*Position Changes Requested*
Agnews	12 Food services assistants I and II
Porterville	−1 Baker I, −1 Cook I, −1 Butcher meat-cutter
	2 Food service supervisor I's
	15 Food service assistants I and II

Presently, certain support functions in state hospitals are performed by treatment staff. These are referred to as off-ward assignments.

The requested positions will replace treatment staff who will be reassigned to other program duties and we recommend approval.

We recommend approval of the expanded foster grandparent program.

The budget also proposes the expenditure of $498,298 to pay for 213 additional foster grandparents and related expenses including meals, insurance, and physical examinations during the budget year. Foster grandparents work on a parttime basis with developmentally disabled children in the state hospitals and are paid minimum wage. During the current year, state and federal funds support 406 foster grandparents.

This program has been successful in the state hospitals and we recommend approval of the requested funds.

Department of Health

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

Items 288, 289 and 290 from the General Fund — Budget p. 716

Requested 1976–77	$943,255,620
Estimated 1975–76	888,683,170
Actual 1974–75	790,574,500
Requested increase $54,572,450 (6.1 percent)	
Total recommended reduction	Pending

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
288	Medical care and services	General	$855,269,420	527
289	Fiscal intermediaries	General	18,683,800	536
290	County administration	General	69,302,400	536
			$943,255,620	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. May Caseload. Withhold recommendation pending a review of the May caseload estimates and their impact on Medi-Cal program cost estimates.	527
2. Price and Provider Rate Increases. Recommend the Department of Finance report to the fiscal committees, at the budget hearings, on the methodology utilized to determine the amounts contained in Item 292 for the Medi-Cal program.	533
3. Increased Administrative Costs. Withhold recommendation on 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.	536
4. Institutes for Medical Services. Recommend the Department of Finance, in conjunction with the May revised caseload estimates, provide the fiscal committees with more detailed information regarding the institutes for medical services program budget projections.	538
5. General Fund Loans. Recommend the Department of Health, in conjunction with the Department of Finance, present to the fiscal committees during budget hearings (1) the administration's proposed solution for failure to receive county funds owed to the Medi-Cal program, and (2) a proposal for insuring more timely receipt of federal funds.	539
6. County Administration of Medi-Cal, AFDC and Food Stamp programs (Items 290 and 305).	
(a) Withhold recommendation on Items 290 and 305 pending receipt of: (1) the May revised estimates for the AFDC, Food Stamp and Medi-Cal programs, and (2) the additional information requested from the Departments of Health and Benefit Payments as a result of other recommendations contained in this section.	548
(b) Recommend the administrative responsibility for control of county administrative costs of the Medi-Cal, AFDC and Food Stamp programs be centrally controlled within the Department of Benefit Payments.	548
(c) Recommend continuation of the AFDC and Food Stamp cost control plans and the implementation of the Medi-Cal cost control plan, after it has been revised to contain the same provisions as those provided in the AFDC and Food Stamp plans, throughout the budget year.	549
(d) Recommend the estimating procedure used to develop the requested appropriations for county welfare department operations in the AFDC, Food Stamp and Medi-Cal programs be based on well-defined, well-identified workload and unit costs.	549

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

(e) Recommend allocation procedures used by the state for county administrative funds be based on well-defined, well-identified workload and unit costs, and that reallocation occur at least on a quarterly basis. 549

(f) Recommend state matching funds used for purposes of paying cost-of-living increases to county welfare department employees be limited to not more than the percentage increase granted state employees as determined by the Department of Benefit Payments. 550

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). Furthermore, major changes to the Medi-Cal Reform program became effective with the enactment of Chapter 1005, Statutes of 1975, (SB 970) on September 23, 1975.

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 (MNO) welfare-linked persons, 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 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. Prior to the enactment of Chapter 1005, Statutes of 1975, (SB 970) these benefits were divided into: (1) a uniform basic schedule of benefits and (2) a uniform supplemental schedule of benefits. For each beneficiary, no supplemental benefit could be utilized until the corresponding basic benefit had been exhausted. The law contained specified limitations on basic benefits that placed the emphasis for control on outpatient services. As an example, a two per month limitation was mandated for physician visits with any additional visits requiring prior authorization from the Department of Health. The enactment of Chapter 1005, Statutes of 1975, (SB 970) established a single schedule of benefits subject to utilization controls determined to be appropriate by the director and prescribed drugs subject to the Medi-Cal Drug Formulary, eliminating the mandated limitations. Permissible utilization controls now include prior authorization, post service prepayment audit, post service postpayment audit, and limitations on number of services.

Funding Under Medi-Cal Reform Program (MRP)

The county share, or county participation in the funding of MRP, is specified in law and increased each year by the percentage change in the modified assessed valuation for each county. Federal matching funds are available for all portions of the program except the costs for medically indigent adults which are shared by the counties and the state. 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 1 shows Medi-Cal program expenditures by source of funds from the inception of the program.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending a review of the May caseload estimates and their impact on Medi-Cal program cost estimates.

The budget proposes General Fund expenditures of $943,255,620 for the California Medical Assistance program. This is $54,572,450, or 6.1 percent, more than is estimated to be spent during the current fiscal year. These amounts include the appropriations contained in Items 288, 289 and 290, but exclude General Fund transfers from other items to support the Medi-Cal program. Total General Fund support for Medi-Cal is shown in Table 5. In addition to these appropriations, the budget shows funds from other sources including federal and county funds, to bring the total program expenditure to $2,445,824,131. This amount is $201,761,625, or 9.0 percent, more than is estimated to be spent during the current fiscal year. Table 2 shows the program expenditures by type of service and by type of administrative cost.

Table 1
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	43.7	250,531,649	17.4	561,573,257	38.9	1,443,581,260
1973–74	770,323,530	44.4	269,247,277	15.5	695,177,934	40.1	1,734,748,741
1974–75	851,495,882	42.7	296,826,395	14.9	847,184,751	42.4	1,995,507,028
1975–76 [a]	966,088,200	43.1	328,502,700	14.6	949,471,606	42.3	2,244,062,506
1976–77 [a,b]	1,053,218,101	43.1	358,068,000	14.6	1,034,538,030	42.3	2,445,824,131

[a] Estimated expenditures based on Governor's Budget.
[b] Includes transfers from Item 292 for price and provides rate increases.

Table 2
Total Medi-Cal Costs

	1974–75	*1975–76*	*1976–77*
HEALTH BENEFITS			
Professional Services	$363,039,885	$456,511,900	$507,376,420
Prescription Drugs	86,535,940	131,441,700	148,178,300
Hospital Inpatient	582,249,945	635,313,900	685,431,000
Nursing Homes and Intermediate Care	330,110,655	394,307,200	415,664,400
State Hospitals	70,833,438	93,793,500	92,394,800
Other Services	63,332,686	29,205,300	36,426,800
Prepaid Health Plans	93,354,296	97,212,200	103,677,200
Pilot Projects			
Redwood Foundation	13,808,358	18,406,100	21,785,900
San Joaquin Foundation	15,355,131	—	—
Paid Prescriptions	18,390,008	—	—
California Dental Services (CDS)	65,252,594	79,927,600	83,546,300
Short-Doyle	85,177,226	68,396,400	72,197,500
Title XVIII B Buy-In	36,377,038	44,607,900	45,880,500
Price and Provider Rate Increase	—	—	54,009,463
Adjustments [a]	21,964,876	7,246,409	—
Totals, Health Benefits	$1,845,782,076	$2,074,370,109	$2,266,568,583
ADMINISTRATION			
State Support			
Department of Benefit Payments	$3,162,946	$3,560,000	$4,064,200
Department of Health	27,302,655	32,958,897	33,507,548
Fiscal Intermediary	33,791,665	38,532,100	42,892,000
County Administration	85,467,686	94,641,400	98,791,800
Totals, Administration	$149,724,952	$169,692,397	$179,255,548
TOTALS, MEDI-CAL	$1,995,507,028	$2,244,062,506	$2,445,824,131

[a] Includes Audit Adjustments, Abatements and Prorata.

Table 3 shows the average monthly Medi-Cal caseload as presented in the Governor's Budget. The total caseload is estimated to increase by 9.0 percent in the current year and by 2.7 percent for the budget year.

Table 3
Average Monthly Medi-Cal Caseload

	1974–75	*1975–76*	*1976–77*
TOTALS (Medi-Cal)	2,430,060	2,648,700	2,721,000
Public Assistance	2,058,920	2,209,900	2,214,900
Aged	326,445	338,800	348,800
Blind	13,432	13,000	13,000
Disabled	273,093	318,800	367,900
Families	1,445,950	1,593,300	1,485,200
Medically Needy	167,884	193,000	216,300
Aged	52,239	51,400	50,500
Blind	926	700	400
Disabled	13,758	14,600	15,400
Families	100,961	126,300	150,000
Medically Indigent	203,256	245,800	289,800
Children	61,490	72,167	83,290
Adult	141,766	173,633	206,510

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

1975–76 Fiscal Year Budget

A review of the reconciliation of current year appropriations shows an estimated General Fund savings of $25,180,759. This savings consists of two parts: $11,287,059 from the medical care and services appropriation and $13,893,700 from the appropriation for rate increases. Savings in medical care and services represent the impact of estimated cost reductions in county hospital inpatient, skilled nursing, intermediate care, and prepaid health plans. These are offset by cost increases in community hospital outpatient, community hospital inpatient, state hospitals and Title XVIII B Buy-In, as compared to the May revised estimates for the current year. Rate increase savings are mainly due to the fact that a budgeted 9.5 percent increase for physicians will not be granted by the administration in the current year. The 1975–76 budget also includes a proposed deficiency appropriation for the fiscal intermediaries of $3,218,611 General Fund. When this is taken into account the net General Fund savings is reduced to $21,962,148.

In addition to the deficiency appropriation for the fiscal intermediaries, it appears that another deficiency appropriation for county administration will be necessary. This is discussed under the administration of the Medi-Cal program, Item 290.

Table 4
Direct State Support for Medi-Cal
(General Fund)

	1974–75	*1975–76*	*1976–77*
APPROPRIATIONS			
Budget Act appropriation (Medical care and services)	$696,233,546	$767,553,211	$855,269,420
Budget Act appropriation (fiscal intermediary)	17,371,200	17,588,689	18,683,800
Budget Act appropriation (county administration)	44,500,000	66,390,918	69,302,400
Budget Act appropriation (rate increases)	10,000,000	57,043,500	29,165,110 [a]
Deficiency appropriation (fiscal intermediary)	—	3,218,611	—
Allocation from Chapter 138, Statutes of 1975 (county administration)	18,158,893	—	—
Allocation from Chapter 138, Statutes of 1975 (fiscal intermediary)	164,000	—	—
Allocation from Chapter 138, Statutes of 1975 (medical care and services)	14,976,766	—	—
Chapter 903, Statutes of 1975 (San Joaquin Foundation—HCDF)	—	69,000	—
Chapter 958, Statutes of 1975 (Medi-Cal—dentures)	—	2,000,000	—
Prior Year Balances Available:			
Chapter 1781, Statutes of 1971 (health maintenance organizations)	430,000	430,000	430,000
Budget Act of 1974, Section 14.3	21,487,464	—	—
Totals Available	$823,321,869	$914,293,929	$972,850,730
Balance available in subsequent years	−430,000	−430,000	−430,000
Unexpended balance, estimated savings	−32,317,369	−25,180,759	—
TOTALS, EXPENDITURES	$790,574,500	$888,683,170	$972,420,730

[a] Scheduled in Item 292 for Medi-Cal price and provider rate increases.

Table 4 summarizes the reconciliation with appropriations for General Fund support of the Medi-Cal program for the 1974–75, 1975–76 and 1976–77 fiscal years.

1976–77 Fiscal Year Budget

Although Items 288, 289, 290 and price and provider rate increases from Item 292 propose appropriations totaling $972,420,730 for the budget year, which is $83,737,560, or 9.4 percent, more than the current year estimate, the entire General Fund support of the Medi-Cal program is not included in those items alone. Excluded are transfers from the Short-Doyle, Developmental Disabilities and Alcoholism programs 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 $1,034,538,030, or 9.0 percent, over the current year estimate as shown in Table 5 below.

Table 5
Total State Support for Medi-Cal
(General Fund)

	1975–76	*1976–77*
Appropriation from General Fund (direct support)	$888,683,170	$972,420,730
Transfer from Department of Health—Administration	15,446,928	14,412,700
Transfer from local mental health	42,531,600	43,618,406
Transfer from alcoholism program	—	1,009,094
Transfer from developmental disabilities	923,100	923,100
Transfer from the Department of Benefit Payments	1,886,800	2,154,000
Total, State Funds	$949,471,598	$1,034,538,030

Budget Assumptions for 1976–77

The following is a summary of our comments regarding the assumptions listed on page 716 of the Governor's Budget. The italicized phrases correspond to the assumptions listed in the budget.

1. *The Institute for Medical Services Program will be implemented effective March 1, 1975 with an estimated enrollment of 244,000 for the budget year.* At the time of the preparation of this analysis, the basis for this assumption is questionable. There have already been significant delays in the implementation of this program and there are no guarantees that the problems causing these delays have been resolved. Furthermore, the department has not provided sufficient information to substantiate the enrollment projections. More information will be necessary to evaluate this program along with the May revised estimates.

2. *The department's cost control plan for county administration of the Medi-Cal program will be implemented January 1, 1976, and continue through the budget year.* This plan was not implemented January 1, 1976. We have discussed the implications of the rejection of the plan by the Joint Legislative Budget Committee under county administration of the Medi-Cal program under Item 290.

3. *The department will establish reasonable ratios of reimbursements*

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)—Continued

for inpatient hospital services in accordance with the plan approved by the federal government. 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. The Department of Health submitted its plan to establish such rates to DHEW during the current year and it was approved in November 1975. The department's plan provides for an 0.8 percent per month increase in hospital inpatient rates for the current year. This averages to approximately a five percent increase in rates for the entire year. For the budget year a rate increase of 0.55 percent per month is proposed for an average increase of approximately 3.4 percent for the full year. However, the Department of Finance has estimated an increase of 6.9 percent for the CPI (all items) in the budget year which has historically increased at a lower rate than the hospital service component of the CPI. An average increase in funding of 3.5 percent would be necessary to provide the 6.9 percent cost-of-living increase for hospitals by the end of the fiscal year. These estimates indicate that the 3.4 percent increase in funding would not be sufficient to cover estimated cost increases. Therefore, if all costs were to be covered, a higher percentage would have to be built into the budget. Uncovered cost increases will have to be borne by hospitals providing services to Medi-Cal beneficiaries.

4. *County participation in the funding of the program will increase by 9.0 percent over the 1975–76 level.* This is a reasonable assumption regarding growth in assessed valuation.

5. *User and utilization increases of medical services will average 3.7 percent over the 1975–76 program level.* Data from the new Budget Information System regarding user and utilization trends supports this assumption.

6. *Federal participation in the costs of claims processing will be increased from 50 percent to 75 percent.* This was also assumed for the current year. However, the additional federal funds were denied because the state would not comply with the requirement for the issuance of a statement of medical benefits to Medi-Cal beneficiaries. The administration is currently negotiating with DHEW for a waiver of, or changes to, that requirement. If this attempt does not result in approval for the additional federal funds or their receipt is delayed, General Fund costs will increase.

7. *Proposed legislation will be passed and become effective July 1, 1976, to simplify Medi-Cal eligibility at an increased General Fund cost of $4.8 million.* We have been working with the department and the Health and Welfare Agency on the proposed Medi-Cal eligibility simplification system and are in general support of simplification. However, the proposed legislation will have to be analyzed on its own merit. We are supporting the proposal because in subsequent years there will be substantial administrative savings which should exceed the estimated benefit increase.

8. *The medical component of the Homemaker/Chore program will be*

shifted to the Medi-Cal program to maximize federal financial participation at a cost of $4.5 million General Fund. This subject is discussed under the Homemaker/Chore program, Item 291.

9. *Price and provider rate increases are not contained in the Medi-Cal budget. Funds for this purpose are appropriated in Item 292.* The total appropriation contained in Item 292 is discussed under that item. A detailed discussion of that portion of the price and provider rate increases contained in Item 292 for the Medi-Cal program follows.

Price and Provider Rate Increases for Medi-Cal (Item 292)

We recommend that the Department of Finance report to the fiscal committees, at the budget hearings, on the methodology utilized to determine the amounts contained in Item 292 for the Medi-Cal program.

As shown on page 727 of the Governor's Budget, a total of $29,165,110 General Fund has been scheduled for "the state's share of rate increases for nonphysician providers of health care services under the medical assistance program." The narrative also states: "These funds provide increases averaging 6.5% for labor related costs and 4% for non-labor related costs." We were provided the breakout of General Fund money by the Department of Finance for the various service categories which is shown in Table 6.

Table 6
1976–77 Rate Increases for Medi-Cal
4 Percent Nonlabor and 6.5 Percent Labor
(General Fund)

Service Category	*Amount*	*Subtotal*
Professional		$4,571,500
Physicians	—	
Other Medical	$1,879,100	
County Outpatient	1,008,100	
Community Outpatient	1,684,300	
Drugs		1,114,500
Hospital Inpatient		9,087,000
County Inpatient	2,871,900	
Community Inpatient	6,215,100	
Skilled Nursing Facilities (SNF) and Intermediate Care Facilities (ICF)		10,024,600
SNF	9,290,200	
ICF	734,400	
Other Services		657,800
Home Health	42,600	
Medical Transportation	262,800	
Other Services	352,400	
Dental		1,210,400
Redwood Pilot Project		435,400
Prepaid Health Plans/Institutes for Medical Services		2,063,910
Total		$29,165,110

We are unable to determine the amounts of labor and nonlabor related costs to which the percentage increases were applied for this information. Besides, the budget states only that average increases of 6.5 percent and 4.0 percent were applied. Neither can we identify deviations from the average increases in the breakout. The Department of Finance has not made available the information necessary to identify these factors. This type of information is needed to perform a thorough evaluation of the price and provider rate increases contained in the budget for the Medi-Cal program.

Reimbursement Rate Policy

The Department of Health is responsible for administratively establishing rate setting policies for reimbursements to providers rendering services to Medi-Cal program beneficiaries. The three major provider groups, in terms of total reimbursements, are hospitals, skilled nursing facilities and physicians. A brief summary of the reimbursement rate policy for each of these groups follows:

A. Hospitals

Until the 1975–76 fiscal year, the department paid hospitals the "reasonable cost" of providing hospital inpatient services to Medi-Cal beneficiaries. These payments were made in compliance with federal regulations requiring cost reporting for the Medicare and Medicaid programs. At the conclusion of each hospital's fiscal year, a cost report was submitted to state and federal administrations containing data related to costs incurred by the hospital and revenues generated from other sources. The state and federal administrators then reviewed this report to determine the "reasonable costs" for each hospital. In practice virtually all costs submitted by hospitals were considered to be reasonable. Therefore, hospitals were receiving actual cost reimbursements under the Medi-Cal program.

As a result of changes made in federal regulations during 1974 and 1975, states were authorized to submit proposed plans for developing and implementing alternative reimbursement policies for hospital inpatient services to the Department of Health, Education and Welfare. California's plan was approved by DHEW in November 1975 and is being used to control costs in the 1975–76 and 1976–77 fiscal years. Increases for the current year are limited to 0.8 percent per month under the plan while budget year increases are proposed to be limited to 0.55 percent per month. These increases amount to considerably less than the projections for the average increases in the hospital service component of the consumer price index. An explanation of the reasons for the selection of the percentage limitations was not provided by the administration.

B. Skilled Nursing Facilities

The Medi-Cal program pays skilled nursing facilities a flat rate for each patient day provided to Medi-Cal beneficiaries, with no adjustment for actual costs of each facility. These rates are established by conducting cost audits of a statistically determined group of skilled nursing facilities. From these audits, the department derives an average cost per patient day, including components for profit, salary increases, supplies, etc. Then a single statewide rate for each of four bedsize groupings is determined. Adjustments to these rates have been made in 1968, 1969, 1972, 1973, 1974 and 1975. Annual adjustments are not mandated.

C. Physicians

The Medi-Cal program pays physicians a fee for each service they perform, and this fee varies from service to service and from doctor to doctor. The name given to this reimbursement policy is the "profile" system. As a physician submits claims for services the fiscal intermediaries file the amount of the charges under the physician's name and the specific service rendered. At the end of a period of time, the fiscal intermediary reviews all these files and calculates "usual and customary" charges for each physician. They make these calculations by arraying, for each service performed by the physician, the charges as submitted. If there are enough bills for that service from the physician, the fiscal intermediary chooses the 50th percentile charge as that physician's "usual charge" for that service. If there are not enough bills for that service, the fiscal intermediary arrays the "usual charges" of other physicians in the same geographical area (usually the county), chooses the 60th percentile usual charge as the "customary charge", and assigns this "customary charge" to the physician for that service. In some areas, some procedures are so rarely performed that neither "usual charges" nor "customary charges" can be developed. The Medi-Cal program then relies on another value, sometimes called the "reasonable charge", which is the product of the multiplication of a dollars-per-unit coefficient and units-per-service coefficient. The units-per-service are listed in the 1964 edition of the Relative Value Studies of the California Medical Association. The dollars-per-unit are developed by the fiscal intermediary and vary for each geographical area in the state and for each broad category of physician services (general medical, surgery, anesthesiology, radiology).

The usual, customary, and reasonable charges are known respectively as Level I, Level II, and Level III, and collectively as a "profile". The profiles basically serve as upper limits to payments made by the program. To control the rising costs of the Medi-Cal program, the Department of Health has not authorized the computation of new profiles since 1970, when the physician charges used for the computation were based on data from the last one-half of 1968. However, physicians were granted a 2½ percent cost-of-living increase in November 1972.

As a result of the continued lack of increases in Medi-Cal reimbursement rates, physicians have repeatedly requested a recomputation of the profiles based on the most current data available. the department has refused because updated profiles would be very expensive and because the profile system itself encourages higher and higher charges and contains features that the department and many physicians themselves view as inequitable. The department's alternative, presented in December 1974 at a public hearing on a proposed regulation, is a statewide dollars-per-unit maximum coefficient combined with use of the 1969 Relative Value Studies. This dollar-per-unit would be 9½ percent higher than the average Medi-Cal payment currently being made and recognizes increases in the costs of maintaining a medical practice. The administration has considered this alternative, as well as several others, but has made no decision so far on changing the profile system. No additional funds for increased reimbursement rates for physicians are proposed in the budget year and funds that were appropriated for this purpose in 1974–75 and 1975–76 by the Legislature will not be utilized.

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 (MIO) organization, 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 7 shows the total estimated cost incurred for administration in fiscal years 1974–75, 1975–76 and 1976–77.

Table 7
Estimated Medi-Cal Cost for Administration from the Health Care Deposit Fund

	1974–75	*1975–76*	*1976–77*
Administrative support for			
Department of Health	$27,302,655	$32,958,897	$33,507,548
Department of Benefit Payments	3,162,946	3,560,000	4,064,200
Total State	$30,465,601	$36,518,897	$37,571,748
Fiscal Intermediary	33,791,665	$38,532,100	$42,892,000
County Administration	85,467,686	94,641,400	98,791,800
Total	$149,724,952	$169,692,397	$179,255,548

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 8.1 percent of the benefits estimated to be paid by the Medi-Cal program during the budget year as compared to 8.2 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.

State Administration (Item 282)

The total budgeted state administrative cost of the Medi-Cal program for the budget year is $37,571,748, which represents an increase of 2.9 percent, or $1,052,851, above the current year estimate. This amount excludes the costs of the salary and benefit package for state employees in the budget year.

Although there are no major Medi-Cal position changes in the current or proposed budgets, three significant shifts in emphasis and staffing have been proposed for the budget year. These are: (1) expansion of drug utilization staff to provide for statewide monitoring and on-site reviews of pharmacies; (2) creation of a new unit to initiate a pilot project on the potential for volume purchase of health care commodities; and (3) a reduction in staffing for the prepaid health plan/institute for medical services program now that IMS guidelines have been developed and program administration is being reorganized.

The amounts shown in Table 7 as administrative support for the Department of Benefit Payments are discussed under Item 300.

County Administration (Item 290)

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 under age 21 are shared 50–50 between the federal government and the state. The medically indigent adult eligibility costs are 100 percent state funded.

During the current fiscal year the Department of Health was required to develop a plan for controlling county administrative costs of the Medi-Cal program by language contained in Item 278.3 of the Budget Act of 1975. At the same time, the Department of Benefit Payments was required to develop a plan for the AFDC and Food Stamp programs. Because these plans both affect the operations of county welfare departments, we have prepared a separate section on county administrative cost controls.

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 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 begain in Santa Clara and San Diego Counties in August 1972 and 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 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/institutes for medical services, 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.

Current Year Estimate for Fiscal Intermediaries

The Governor's Budget proposes a deficiency appropriation of $3,218,611 General Fund for support of the fiscal intermediaries in the 1975–76 fiscal year. This deficiency appropriation is necessary because federal participation in funding the costs of claims processing are not being increased from 50 percent to 75 percent, the level at which they were budgeted. Separate legislative hearings will be held on this subject following introduction of the deficiency appropriation bill.

Budget Year Estimate for Fiscal Intermediaries (Item 289)

The budget proposes $42,892,000, all funds, for support of the fiscal intermediaries which is $4,359,900, or 11.3 percent, above the current year amount.

No data are provided as to the estimated number of claims to be processed by the fiscal intermediaries or the average cost per claim for the current and budget years. We cannot determine from the available information if the 11.3 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.

In addition, the General Fund support for this item, $18,683,800, was derived on the basis that 75 percent federal funding would be received for claims processing. Because the administration has refused to comply with existing federal requirements for increased funding in the current year, it is assumed that an alternative proposal will be accepted by the federal government in the budget year.

Appropriate information supporting this assumption and the administrative cost increases for the fiscal intermediaries will be necessary to evaluate the May revised estimates for these costs. We are withholding our recommendation pending receipt of such information.

Prepaid Health Plans and Institutes for Medical Services

We recommend that the Department of Finance, in conjunction with the May revised caseload estimates, provide the fiscal committees with more detailed information regarding the institute for medical services program budget projections.

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 (PHP) is any association of providers of medical and health services who agree with the Department of Health to furnish health services directly and indirectly to Medi-Cal beneficiaries on a predetermined periodic rate basis. The department is also authorized to establish pilot projects in this area.

During 1975, the department and a specially appointed advisory committee conducted a review of the existing program to develop recommendations for improvements. The report of the committee contained recommendations regarding several major program changes, including: (1) increased consumer involvement, (2) strengthening of fiscal controls for the plans, (3) development of standards for quality of care, (4) better reporting for costs and quality of care, (5) improvements for capitation rate determination procedures, and (6) increased emphasis on preventative health services and measures. The department recently conducted hearings on regulations that would implement many of these changes. Effective March 1, 1976, the department plans to implement a new program for institutes for medical services (IMS's) which would replace PHP's and be required to meet the requirements of the new regulations.

The budget request for the IMS program includes a 7.0 percent increase in capitation rates for the increased costs of services required by the proposed regulations, and an estimated increase in enrollment of 3,000 per month. Neither of these factors have been supported by information supplied in backup of the Governor's Budget requests. The costs of the proposed IMS program cannot be accurately identified until those portions of the proposed regulations that will actually be implemented are identified. If the plan is implemented March 1, 1976 as planned, this information should be available prior to receipt of the May revised estimates.

General Fund Loans

We recommend that the Department of Health, in conjunction with the Department of Finance, present to the fiscal committees during budget hearings (1) the administration's proposed solution for failure to receive county funds owed to the Medi-Cal program, and (2) a proposal for insuring more timely receipt of federal funds.

The Medi-Cal Reform program (MRP) contained the amounts of each county's participation in the funding for the costs of the entire Medi-Cal program in the 1971–72 base year. These base year amounts are adjusted by the percentage change in modified assessed value for each county, in each of the following years. County shares in the funding of the program have grown from $241,260,000 in the base year to an estimated $358,068,000 in the budget year. The law requires that counties pay their shares to the state on a monthly basis.

In the past, the administration has not enforced the monthly payment of county shares in those counties that operate county hospitals. Payments due to the counties for services provided to Medi-Cal beneficiaries have been used to offset the amounts owed to the state. If these counties were

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unable to offset the entire amount due, the state did not aggressively seek payment for the net amount owed to the state. Because many counties were unable to offset their entire shares on a monthly basis, it became necessary to use state and federal monies to pay a portion of the counties' share of all Medi-Cal program costs. Until last year there were no restrictions on using General Fund appropriations for this purpose. Therefore, General Fund money that was budgeted for the state's share of the program costs was actually paying for the state's share, plus a portion of the counties' share. This resulted in the need for deficiency appropriations from the General Fund. Budget Act language now prohibits the use of General Fund appropriations for the Medi-Cal program for this purpose.

To complicate the issue, the advancement of federal funds, which were also being used to cover county fund shortages, was being delayed so that these funds could no longer be used for this purpose.

Because of the county offset problem, the restriction of General Fund appropriations, the lack of federal funds, and the lack of enforcement of the monthly payment requirement, it has become necessary for the Health Care Deposit Fund to borrow funds from the state General Fund in order to pay Medi-Cal program costs. At the present time loan authority exists for $130 million, and approximately $90 million has actually been borrowed to cover current year costs. The department estimates that of this $90 million, approximately $75 million is due from the counties and the remaining $15 million from the federal government.

It is unclear what the administration is proposing to do to remedy this problem.

SCR 117—County Health Care Study

Senate Concurrent Resolution 117 of the 1974 Session, 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.

The resolution was the result of a recommendation in our *Analysis of the Budget Bill for 1974–75* 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 this time last year, we reported that a questionnaire was being developed which would be sent to all 58 counties regarding their current and historical involvement in health care programs since the inception of the Medi-Cal program. The questionnaire was necessary because no centralized source of information relative to individual county involvement was available.

A committee comprised of representatives from the Analyst's office, the State Department of Health, and the counties of Alameda, Los Angeles, Ventura and Sacramento participated in developing the questionnaire. After much effort, a preliminary draft of the questionnaire was completed on a trial-run basis by Alameda and Ventura counties in February and

March of 1975. The final version of the questionnaire was distributed to the counties in late October.

We anticipate that information contained in the completed questionnaires will provide a basis for the SCR 117 participants to clarify the role of the counties in health care. A report containing findings and recommendations will be issued later this year.

COUNTY ADMINISTRATION OF THE MEDI-CAL, AFDC AND FOOD STAMP PROGRAMS

(Items 290 and 305)

General Background

The General Fund monies appropriated by Items 290 and 305 are for the state's share of county administration costs of the Medi-Cal, Aid to Families with Dependent Children (AFDC) and Food Stamp programs. County administration consists of county welfare department costs for (1) eligibility determination of the medically needy only and medically indigent categories of Medi-Cal beneficiaries, (2) eligibility and grant determination for the AFDC program, and (3) eligibility and benefit determination for food stamps. Total costs for county administration of these programs are each shared on a different basis. Medi-Cal costs for the medically needy only and medically indigent children are shared on a 50 percent General Fund—50 percent federal funds basis, while the remaining costs for medically indigent adults are a 100 percent charge to the General Fund. AFDC costs are shared on a 25 percent General Fund—25 percent county funds—50 percent federal funds basis. Costs related to food stamps for the current fiscal year are being shared on a 21 percent General Fund—29 percent county funds—50 percent federal funds basis. However, there is a cap on county funding in the Food Stamp program which will result in estimated sharing of 25 percent General Fund—25 percent county funds 50 percent federal funds in the budget year. Therefore, increased costs for the Food Stamps program are shifted to the General Fund.

Table 8 shows the growth of the General Fund share of county administrative costs for each of these programs from fiscal year 1972–73 through the proposed budget year.

Table 8
General Fund Expenditures
For Operation of County Welfare Departments
(Millions)

Fiscal Year	*AFDC Program*	*Food Stamp Program*	*Medi-Cal Program*
1972–73	$31.5	—	$28.8 [a]
1973–74	37.5	—	42.6 [a]
1974–75	44.2	$4.3	62.9
1975–76	49.7	13.5	66.4
1976–77	53.0	19.5	69.3

[a] Estimated at 70 percent of total

Between fiscal year 1972–73 and the end of the current year, AFDC General Fund expenditures are estimated to increase by 58 percent,

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which is an average annual increase of approximately 16 percent. Between 1974–75 and 1975–76, estimated General Fund expenditures for food stamp administration are estimated to increase by approximately 215 percent because the state is now responsible for the entire nonfederal share of the Food Stamp program above the fixed 1973 county base year contribution of $21,700,000. Between fiscal year 1972–73 and the end of the current year General Fund expenditures for Medi-Cal administration are expected to have increased by 131 percent which is an average annual increase of approximately 34 percent.

Comparative Administration Costs

We are concerned about rapidily growing administrative costs and the substantial variances in productivity per worker and unit costs. The unit cost for processing an application, or for maintaining an approved case varies considerably from county to county as shown in Tables 9 and 10. Three major factors which account for the unit cost variances are salary levels, overhead and the number of cases processed per worker.

The counties determine the salaries and benefits of county welfare department workers even though the state and federal governments pay three-fourths of these salaries and benefits in the AFDC program. The state pays 100 percent of non-federal costs in the Medi-Cal program, and all non-federal costs above the counties' fixed amount in the Food Stamp program. Annual salary and benefit increases for welfare department workers for the current year have ranged from none in some counties to 14 percent in one large county. Salaries and benefits for eligibility workers account for approximately 49 percent of total administrative costs. In fiscal year 1974–75, the cost of approving or denying a single AFDC application varied from $65.85 to $155.94 (137 percent) in the nine largest welfare counties. In the Food Stamp program the workload unit cost varied from a low of $10.56 to a high of $32.75 (210 percent) in the 10 largest food stamp counties.

Caseloads of welfare eligibility workers vary considerably from county to county, even though they do the same work and use the same forms. For example, the caseloads of workers who maintain approved cases in the large counties vary from 96 to 135 cases in the AFDC program and from 59 to 185 in the Food Stamp program. The average worker who specializes in processing applications disposes of only 22 applications per month in the AFDC program. This varies from a high of 29 to a low of 13 (123 percent) in the large counties. In the Food Stamp program, the range varies from a high of 61 to a low of 16 applications per month, a 280 percent variance.

Overhead, which constitutes the remaining 51 percent of administrative costs, also varies considerably and contributes to high unit costs. Therefore, the average county, on a statewide basis spends $1.03 on overhead for each dollar spent on eligibility workers' salaries and benefits. Large counties have a better support cost ratio than $1.03 with the exception of Los Angeles County. In the large counties, there is a 147 percent variance in support cost ratios. If the Los Angeles County support cost ratio had been $1.03, the statewide average, instead of $1.31 in 1974–75, AFDC administrative expenditures would have dropped from $168.6 million to $159.2 million. Tables 9 and 10 compare the performance of the large counties both in terms of productivity and unit costs.

Budget Act of 1975

During the budget hearings conducted over the last three years, the Legislature has continually emphasized its concern over the rapid growth in county administrative costs. The administration also expressed its concern over this matter and said action necessary to bring these costs under control would be given high priority and be implemented as soon as possible. However, during the hearings on the Budget Act of 1975, it was evident that the administration had done very little to control administrative costs. Therefore, the Legislature, on the basis of our recommendation, included budget language to insure action by the administration in this area for the 1975–76 fiscal year.

Items 278.3 and 291 of the Budget Act of 1975 required the Departments of Health and Benefit Payments, with assistance and advice of the counties, to develop and implement plans whereby costs for county administration will be effectively controlled within the amount appropriated by these items and that such plans shall not be implemented sooner than 30 days after the submission of the plans to the Chairman of the Joint Legislative Budget Committee. These items are comparable to proposed Items 290 and 305 in the 1976 Budget Act. The Department of Health is responsible for administering the Medi-Cal program and the Department of Benefit Payments is responsible for administering the AFDC and Food Stamp programs.

The Department of Benefit Payments submitted its plan to the committee September 1, 1975 and the plan was implemented October 1, 1975. The Department of Health submitted its plan December 1, 1975. However, this plan was not implemented because the Joint Budget Committee rejected it on January 7, 1976. Language contained in the Medi-Cal item, Item 278.3, authorized the committee to reject the plan while the language in the Benefit Payments item, Item 291, did not grant the committee such review authority. Therefore, the cost control plan for AFDC and Food Stamps has been in effect since October 1, 1975 and the plan for Medi-Cal will not be implemented in the current year, unless a modified plan is resubmitted and approved.

General Description of Cost Control Plan

Although the formats in which the two plans were submitted to the Legislature differ substantially, the basic cost control methodology utilized to implement the fundamental concept for both plans is similar. Both plans emphasize the need for: (1) further development and continued improvement of data reports for management information; (2) continuation of the joint effort by the counties and the state to review and simplify these programs; and (3) improved management review of individual county operations by the state. The methodology utilized by both plans for cost control measures the workload/performance standards and over-

Table 9
AFDC Administrative Cost Comparison of Large Counties
1974–75

Largest AFDC Counties by Expenditures	*1974–75 County Welfare Department AFDC Administrative Costs*		*Average Cost for Processing an AFDC Application*	*New Applications Processed per Worker*	*Average Monthly Cost to Maintain an Ongoing AFDC Case*	*Cases per Worker*	*Overhead Cost per $1 of Direct Cost*	*Administrative Cost per $1 of Benefits Paid*
1. Los Angeles	$77,047,520	45.7%	$112.84	23	$25.75 (high)	102	$1.31 (high)	$0.13
2. San Diego	10,329,351	6.1	123.89	14	17.80	97	.53 (low)	.15
3. Alameda	8,699,131	5.2	155.94 (high)	13 (low)	18.24	113	.88	.12
4. Santa Clara	7,395,010	4.4	81.85	26	17.25	125	.94	.11
5. Contra Costa	5,779,701	3.4	141.05	17	25.57	96 (low)	1.02	.16 (high)
6. Sacramento	5,375,385	3.2	88.32	25	17.14	135 (high)	.76	.11
7. Orange	5,175,294	3.1	91.46	19	16.44	104	.69	.14
8. San Francisco	4,950,021	2.9	87.92	21	16.57	111	.74	.07 (low)
9. San Bernardino	4,220,173	2.5	65.85 (low)	29 (high)	15.23 (low)	128	.88	.10
10. All Others	39,592,494	23.5						
Total	$168,564,080	100.0%						

Table 10
Food Stamp Cost Comparison of Large Counties' Administrative Expenditures
(Nonwelfare Cases Only)
1974–75

Largest Food Stamp Counties, by Expenditures	*1974–75 County Welfare Department Food Stamp Administrative Costs*		*Workload Unit Cost*	*Applications Disposed Per Worker Per Month*	*Maintenance Caseload Per Worker*	*Administrative Cost to $1 of Benefits*
1. Los Angeles	$20,459,727	43.0%	$32.75 (high)	21	59 (low)	$0.66 (high)
2. San Francisco	3,100,976	6.5	10.56 (low)	28	185 (high)	.22
3. Santa Clara	2,472,439	5.2	15.71	31	128	.29
4. Alameda	2,130,738	4.5	19.78	24	89	.41
5. San Diego	1,811,746	3.8	11.66	61 (high)	78	.35
6. Sacramento	1,422,589	3.0	19.66	25	111	.39
7. Riverside	1,212,200	2.5	15.55	37	75	.33
8. Contra Costa	1,161,364	2.4	30.51	16 (low)	71	.59
9. Orange	1,119,480	2.4	12.34	34	111	.21 (low)
10. Fresno	1,115,381	2.0	12.80	45	95	.27
11. All Others						
	$47,539,035	100.0%				

head/support costs for the purpose of making county comparisons to determine allocation of funds for administrative costs.

Separate workload/performance standards were developed for the three programs with information from the latest data available. After a common measure was developed for county comparisons, the counties were divided into three groups (large, medium and small) and ranked by workload/performance. Simple means were then calculated for each group, and the departments established workload tolerance bands. Those counties outside the tolerance band are required to improve their workload/performance standards by varying degrees for each program.

In the area of overhead/support costs, both plans utilize ratios of support costs per dollar of eligibility staff costs to rank the counties in their respective groups. Simple means were then calculated for each group and a five percent tolerance band for deviations above the means was adopted for each program. Large and medium counties determined to be out of tolerance are required to reduce their costs by a minimum of five percent, or reach the tolerance band, whichever is less.

Allocation formulas are then used to determine each county's share of the program funds as follows:

1. Eligibility/Nonservice Costs:

The formula enables a county to receive its base year costs for this portion of the program, adjusted for projected caseload changes, increased by a cost-of-living factor for salary and benefit packages, and reduced by the factor required to reach the tolerance band, or minimum required reduction, for those counties out of tolerance.

2. Overhead/Support Costs:

a. Administrative/Clerical Support:

The formula enables a county to receive its base year costs for this portion of the program, increased by a cost-of-living factor for salary and benefit packages, and reduced by the factor required to reach the tolerance band, or maximum five percent reduction, for those counties that are out of tolerance.

b. Other Operating Costs:

The formula enables a county to receive its base year costs, increased by a flat percentage for cost-of-living, and reduced by the factor required to reach the tolerance band or the maximum five percent reduction for those counties out of tolerance.

Differences Between the Cost Control Plans

There are various differences in the application of this general methodology between the two plans. Major differences are shown in Table 11.

General Fund Status for 1975–76 Fiscal Year

A. AFDC and Food Stamps. For the current fiscal year the Governor's Budget anticipates an expenditure of $66,474,100 for the AFDC and Food Stamp programs which is $1,379,410 more than appropriated by the 1975 Budget Act. This anticipated deficiency should not be regarded as a firm

Table 11
Comparison of Major Features of Cost Control Plans

	AFDC	*Food Stamp*	*Medi-Cal*
A. Workload			
Acceptable workload tolerance	5% below mean	20% below mean	20% below mean
Productivity improvement required if workload is out of tolerance	Correct one-half of problem in 1975–76	30% improvement maximum in 1975–76	10% improvement maximum in 1975–76 (See point E below)
B. Overhead Support Cost			
Acceptable support cost ratio	5% above mean	5% above mean	5% above mean
Improvements required if support cost is not acceptable	Reduce support cost 5%	Reduce support cost 5%	Reduce support cost 5%
C. Workload Definitions	Separates applications workload from on-going cases workload. Workload is measured in application disposed per worker and caseload per worker	Combines applications and on-going cases into "total" activity workload unit. Measures activities per worker.	Combines applications and on-going cases into "major" activity workload unit. DOH measures hours per activity.
D. Maximum Cost-of-Living Increases			
Maximum acceptable cost-of-living increases (COL) qualified for state matching	No limit (reimburse actual COL)	No limit (reimburse actual COL)	7.8%
E. Contingency Plan for Budget Deficiency	Request additional funds only for unanticipated workload	Request additional funds only for unanticipated workload	*Step 1:* Fund all counties at tolerance band. *Step 2:* All counties absorb balance of deficiency
F. Timetable for Improvements			
Workload improvements	3 years to reach tolerance	unknown	unknown
Support cost improvements	unknown	unknown	unknown

estimate for several reasons. First, it assumes the Department of Benefit Payment's cost control plan for the AFDC and Food Stamp programs will dampen administrative expenditures by $2.4 million in the current year. It is too early to determine accurately the fiscal effect of county reponse to the cost plan. Secondly, it assumes that approximately $3.4 million in additional Food Stamp workload is going to materialize because of the Food Stamp outreach effort. It is possible that all the anticipated new Food Stamp applicants will appear at county welfare departments but this may not be occurring to the extent anticipated. Therefore, the May 1976 subvention estimates could show some reductions related to Food Stamp outreach. Even if the currently estimated 1975–76 deficiency of $1,379,410 were a firm estimate, the reason for the deficit is not clear at this time. If the deficit is caused by failure on the part of the counties to make the required improvements in productivity then the department will not request or support a deficiency appropriation. If on the other hand, the deficiency results from unanticipated, unbudgeted workload increases, the department has indicated its readiness to request additional funds from the Legislature.

B. Medi-Cal. Item 278.3 of the Budget Act of 1975 appropriates $66,390,918 General Fund for support of Medi-Cal county administrative costs in the current year. In the Department of Health's plan to control these

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costs it was estimated that all funds would be utilized and that no additional support would be required. However, with the recent rejection of the plan by the Joint Legislative Budget Committee, a deficiency appropriation will be necessary. At the time of this Analysis, estimates for the additional cost to the General Fund are not available.

1976–77 Budget Requests

We withhold recommendation on Items 290 and 305 pending receipt of: (1) the May revised estimates for the AFDC, Food Stamp and Medi-Cal programs, and (2) the additional information requested from the Departments of Health and Benefit Payments as a result of other recommendations contained in this section.

The budget proposes appropriations of $69,302,400 General Fund for support of Medi-Cal county administrative costs in Item 290 and $74,500,500 General Fund for support of AFDC and Food Stamp county administrative costs in Item 305. Because the amounts of the potential deficiency appropriations for the corresponding items in the current year budget are unknown at this time, a comparison of the current year appropriations to the budget year requests is of little significance. However, a discussion of the factors built into each budget request for program increases is significant.

The Department of Benefit Payments has included a 6.7 percent factor for the average increase in cost-of-living for salary and benefit packages and overhead costs in its budget estimate for the AFDC and Food Stamp programs. On the other hand, the Department of Health has included *no* increase for cost-of-living in salary and benefit packages and a 4.0 percent factor for cost-of-living increases in overhead costs. Differences in projected caseload and workload increases are understandable because different populations are eligible for each of these programs. However, we fail to see how these two departments, with the guidance of the Department of Finance, could propose different cost-of-living increases to the same county welfare departments that are providing similar services for each of these programs.

This emphasizes one of our major concerns regarding the cost control of county welfare department operations.

Central Control

We recommend that the administrative responsibility for control of county administrative costs of the Medi-Cal, AFDC and Food Stamp programs be centrally controlled within the Department of Benefit Payments.

The transfer of responsibility for Medi-Cal county administrative costs to the Department of Benefit Payments would provide for uniform treatment of all county welfare department matters related to these state and federal programs.

In addition, the cost control language contained in Items 290 and 305 differs. Identical language should be contained in each item.

Cost Control Plans for 1976–77

We recommend continuation throughout the budget year of the AFDC and Food Stamp cost control plans and the implementation of the Medi-Cal cost control plan, after it has been revised to contain the same provisions as those in the AFDC and Food Stamp plans.

We believe the basic proposals contained in the cost control plans can provide the state with an effective means for controlling the costs for county administration.

Future Budget Estimates and County Allocations

We recommend the estimating procedure used to develop the requested appropriations for county welfare department operations in the AFDC, Food Stamp and Medi-Cal programs be based on well-defined, well-identified workload and unit costs.

Specifically, we recommend that for 1976–77 the departments separate the workload of all three programs into: (1) applications workload and (2) on-going cases workload. This can be done from information currently available. The 1976–77 workload estimates should then be prepared for each county by month or by quarter. The workload units (applications and caseload) should then be multiplied by the county's historical unit cost. The resultant numbers, when added together, would be the amount of the requested appropriations. The unit cost should be increased by a percentage amount, determined by the department, in order to take into account cost-of-living increases for salaries, benefits and operating expenses and equipment. The rationale used for selecting the cost-of-living percentage increase should be made available to the counties. Finally, the departments should be given the administrative authority to adjust the unit cost amounts upward in order to correct special circumstances in a county, such as unrealistically low staffing patterns in given programs. Such adjustments to a county's unit cost should be justified in writing, with informational copies being forwarded to the Department of Finance and the Legislative Analyst's office.

There are several advantages to the above procedure. First, it would be open to review by the counties. In essence, a county could object that the amount budgeted was inadequate only if the workload estimates were inconsistent with recent trends in workload or if the unit cost figure had not received a cost-of-living adjustment. In addition, the state would be obligated to be explicit about all the assumptions included in a request for funds. Finally, in the event that a deficiency appropriation is needed, the Legislature would know if the cost overrun was due to unanticipated workload changes or other factors.

Allocation Procedures

We recommend that allocation procedures used by the state for county administrative funds be based on well-defined, well-identified workload and unit costs, and that reallocation occur at least on a quarterly basis.

After the Legislature approves funds for county administration of the AFDC, Food Stamp and Medi-Cal programs, the state departments will allocate the funds to the individual counties. We recommend that the procedure described above to develop a budget request also be used for allocating available funds to counties. We also recommend that reallocation of funds occur at least quarterly. The chief advantage to such an allocation procedure is that it is objective. If a county's workload increased above the amount contained in the budget it would automatically receive an augmented allocation. Conversely, if budgeted workload did not materialize, a county's allocation would be reduced and transferred to counties in which workload had increased or retained in the contingency fund.

Matching Funds and Cost-of-Living Increases

We recommend that state matching funds used for purposes of paying cost-of-living increases to county welfare department employees be limited to not more than the percentage increase granted state employees as determined by the Department of Benefit Payments.

We make this recommendation for both fiscal and equity reasons. It is not equitable for the state to participate in large cost-of-living increases for county welfare department employees which the state is not willing to grant to state employees whose work is similar. In addition, we believe that such a policy would tend to moderate the cost-of-living increases at the local level because counties would have to bear a larger percentage of total salary and benefit costs if they grant cost-of-living increases which are in excess of what the state grants to its employees.

Department of Health

SPECIAL SOCIAL SERVICE PROGRAMS

Item 291 from the General Fund — Budget p. 712

Requested 1976–77	$54,914,270
Item 291	54,720,750
Prior year funds available	193,520
Estimated 1975–76	54,720,750
Actual 1974–75	38,545,548
Requested increase $193,520 (0.3 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Social Service Priorities. Recommend social service appropriations be based on priorities, instead of past expenditures, and the Department of Health submit to the fiscal committees, prior to the start of budget hearings, its list of priorities and recommended funding levels for social service programs.	553
2. Authority and Responsibility. Recommend Social Services Branch be raised to division level within the Department of Health.	554

3. Authority and Responsibility. Recommend a state policy on social services be developed in 1976–77 and the Department of Health take the lead in developing it. 554
4. Homemaker/Chore Reforms. Recommend Department of Health inform the fiscal committees by April 1, 1976 of reforms it intends to make in the Homemaker/Chore program, who will be affected by them, how they will effect costs, and how they will be implemented. 557
5. Social Services Branch Staff Increase. Recommend approval of proposed staff increase of 30 positions. 557

GENERAL PROGRAM STATEMENT

Public Law 92-512 limited federal social service funds to $2.5 billion annually to be divided among the states on the basis of population. The budget shows that California's 1976–77 share will be $245.5 million.

The sharing ratio for social service programs is 75 percent federal and 25 percent state or county, except for family planning, which is 90 percent federal and 10 percent state. However, all federal funds are being spent, while the state match in some social service programs far exceeds the required 25 percent. For example, in the Homemaker/Chore program the proposed General Fund money for the budget year is $25.4 million in excess of the 25 percent requirement.

With the excess of General Funds beyond what is required to match federal funds, any savings, deficits, reductions, or augmentations in any one social service program must be considered 100 percent General Fund.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund expenditure of $54,914,270 for the 1976–77 fiscal year, which is $193,520, or 0.3 percent, more than is estimated to be expended during the current fiscal year. The proposed expenditure consists of $54,720,750 in Item 291 and $193,520 in funds available from Chapter 1234, Statutes of 1975, relating to the prevention of sexual abuse of children.

Item 291 provides the General Fund money to match federal funds for the Homemaker/Chore program, and to fund the Adoptions program and Demonstration Projects for which there are no federal matching funds. Table 1 shows the sources and levels of funding for the three programs for the 1975–76 and 1976–77 fiscal years. For the first time the budget shows that a portion of the Homemaker/Chore program is to be funded through the Medi-Cal program.

This item also contains the federal funds for six other social service programs. The General Fund money to match these funds is budgeted in other items with language authorizing its transfer to this item to match the federal funds. The six programs, and the proposed 1976–77 state and federal funding for each, are:

	State	*Federal*	*Total*
Child development	$15,973,314	$47,013,942	$62,987,256
Child protection	—	3,552,666	3,552,666
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
Service centers	125,669	377,005	502,674

SPECIAL SOCIAL SERVICE PROGRAMS—Continued

Table 1
Social Service Programs Funded by Item 291

	1975–76				*1976–77*			
	General Fund	*Federal*	*Other*	*Total*	*Item 291 General Fund*	*Federal*	*Other*	*Total*
Homemaker/Chore								
Nonmedical services	$41,698,000[b]	$48,750,000	—	$90,448,000	$41,698,000	$48,750,000	—	$90,448,000
Medical services[a]	—	—	$4,500,000	4,500,000	—	—	$9,000,000	9,000,000
Adoptions	12,822,750	—	—	12,822,750	12,822,750	—	—	12,822,750
Demonstration projects	200,000	—	—	200,000	200,000	—	193,520[c]	393,520
Total	$54,720,750	$48,750,000	$4,500,000	$107,970,750	$54,720,750	$48,750,000	$9,193,520	$112,664,270

[a] Services to be paid for out of the Health Care Deposit Fund.
[b] Includes $10 million to be provided by proposed legislation.
[c] General Fund appropriation from Chapter 1234, Statutes of 1975, for a child sexual abuse prevention center.

Adoptions

We recommend approval.

Item 291 proposes $12,822,750 from the General Fund, the same as in the current year, for the Adoptions program. A proposed price and provider rate increase for the Adoptions program of $765,565 from the General Fund is contained in Item 292 and is discussed in our analysis of that item.

Demonstration Projects

We recommend approval.

Item 291 proposes $200,000 from the General Fund, the same as in the current year, for Demonstration Projects. In addition to the $200,000 appropriated in this item, a total of $193,520 is also available from Chapter 1234, Statutes of 1975, which will establish a child sexual abuse prevention center in 1976–77.

Title XX of the Social Security Act

Social services are provided under the new Title XX of the Social Security Act which became effective October 1, 1975. Some features of Title XX are:

1. Fifty percent of federal funds must be spent for people eligible for Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), or Medicaid.
2. Family planning services must be available to AFDC recipients who request them.
3. Three services, to be chosen by the state, must be provided to SSI recipients. And, at least one service, again to be chosen by the state, must be directed toward each of the following goals: self-support, self-sufficiency, protection of children and adults, deinstitutionalization, and institutionalization when necessary.
4. Families with income up to 115 percent of the state median income, adjusted for family size, are eligible for services, but fees must be charged to families over 80 percent of the median. However, all persons are eligible for protection services and information and referral services.

Priorities

We recommend that social service appropriations for the budget year be based on priorities instead of past expenditures, and that the Department of Health submit to the fiscal committees, prior to the budget hearings, its list of priorities and recommended funding levels for social service programs.

Title XX is much less restrictive than were Titles IV-A and VI of the Social Security Act, which Title XX replaced, and will allow California to expand, contract, or abolish most existing programs and start new ones if it wishes to do so.

Basing social service appropriations on priorities instead of past expenditures will allow the utilization of limited dollars for the most pressing social problems with the highest priority.

SPECIAL SOCIAL SERVICE PROGRAMS—Continued

We recommend that the Department of Health submit to the fiscal committees, prior to the start of the budget hearings, its list of priorities and recommended funding levels for social service programs. This is in line with the department's often stated intent to reform the Social Service program.

With over a third of a billion dollars ($245 million federal, $83 million state, and $42 million county) available for social services, it appears to us that the opportunity to provide more effective programs is very great.

As part of our recommendation for the establishment of priorities, we are recommending in Item 327 that $47,013,942 in federal funds for child development programs be replaced with state General Fund money. The liberated federal funds would replace excess General Fund money in other social service programs. There would be no net General Fund increase. This switch in funding would remove child development programs from unnecessarily stringent federal regulations and could lead to reductions in costs.

Division of Federal Funds Within the State

Section 15151.5 of the California Welfare and Institutions Code required the state to allocate at least 66 percent of the $245.5 million in federal funds to the counties. The Governor's Budget proposes $172,329,128, or 70 percent. These funds go to county welfare departments for the state matched Homemaker/Chore program, and a variety of county matched programs including Information and Referral, Protective Services for Children and Adults, Out-of-Home Services for Children and Adults, Health Related Services, Employment Services, and others.

The balance of federal funds, $73,170,872, together with state matching funds, goes to a variety of programs in the Departments of Health (Community Rehabilitation, Regional Centers, Family Planning, Facilities Evaluation, Adoptions, Demonstration Projects, and the Social Services Program for administration), Education (Child Care), Employment Development (Service Centers), and Rehabilitation (Blind Counselors).

The chart on page 715 of the Governor's Budget gives a breakout of social service expenditures.

Authority and Responsibility for Social Service Programs

We recommend that the Social Services Branch be raised to division level within the Department of Health.

We recommend that a state policy on social services be developed in the 1976–77 fiscal year, and that the Department of Health take the lead in developing it.

The one thing social service programs have in common is that they serve the poor. The Department of Health is the single state agency for the administration of social services and has ultimate authority over all these programs. Therefore, the department has the responsibility of setting priorities, coordinating services, assuring that the poor are being served, and assuring that funds are being properly spent. On the basis of problems experienced by the department, there is doubt that these responsibilities are being met.

We recommend that the Social Services program be raised to the level of a division within the department as one way in which the department could increase its ability to meet its responsibilities. This would tend to give the program a higher priority within the department and enhance its ability to deal with other programs, other departments, and counties.

We also recommend that the Department of Health take the lead in developing in the 1976–77 fiscal year a state policy on social services, a policy which defines the system—its priorities, goals, services and delivery mechanisms—and recognizes that though there are many desirable services, not all of them can be provided. The state policy could be developed in conjunction with the Annual State Comprehensive Social Services Plan that is required by Title XX.

Homemaker/Chore

As shown in Table 1, Item 291 proposes $41,698,000 from the General Fund and $48,750,000 in federal funds for a total of $90,448,000 for the Homemaker/Chore program. This is an increase of $10 million from the General Fund over the Budget Act of 1975 appropriation. However, the Governor's Budget states an intention to have legislation introduced to increase the current year appropriation by $10 million also.

Homemaker/Chore and Medi-Cal

The Medi-Cal program is budgeting $4,500,000 for the current year and $9 million for the budget year from the Health Care Deposit Fund to pay for medically related services which are presently being provided by the Homemaker/Chore program. The number of homemaker/chore recipients receiving these services is not known, and at this point we do not know exactly what services are going to be funded through the Medi-Cal program. Our concern is that this program, which is very expensive now, will become more so with the addition of a "medical component."

Homemaker/Chore Reforms

There is general agreement that some reforms and changes in the Homemaker/Chore program must be made. Management audits or reviews have been made by the Auditor General, the Department of Finance, the Department of Health, a county-state task force and the Legislative Analyst.

The following is a compilation of the most feasible cost reducing reforms that have been suggested by the various studies for the Homemaker/Chore program.

1. Reforms that would reduce costs without reducing services.
   a. Purchase meals on wheels and congregate meals from the Office on Aging to replace the meal preparation service of homemaker/chore workers. Information provided to us by the Office on Aging indicates that as much as 70 percent of the homemaker/chore caseload receives meal preparation services; that a chore worker

SPECIAL SOCIAL SERVICE PROGRAMS—Continued

preparing one meal can cost as much as $5.75, and a homemaker $9; and that meals on wheels programs can deliver one meal for a total of as little as $1.43.

b. Use other services available in many communities such as day care, shopping assistance, companion, friendly visitor, telephone reassurance, yard maintenance and home improvement. Private laundries could be contracted with to replace the laundry services being provided by homemaker/chore workers.

c. Use independent homemaker/chore providers because they have a lower hourly cost than agency and welfare department staff providers.

d. Set maximum rates for independent, agency and welfare staff providers.

e. Define homemaker and chore. There are presently no clear distinctions between the two, and some counties provide only chore services, while others provide mostly homemaker services. Homemaker is more expensive, because workers have special training, yet most of the services provided by the Homemaker/Chore Program do not require a trained worker (e.g., cooking, housekeeping, shopping, laundry, limited personal care, and others).

f. Better management of the program by the state.

g. Require counties to fund deficits, or share in the funding of deficits, or some other method of giving counties financial participation in the program, and, thus, an incentive to control costs.

2. Reforms that would reduce costs by reducing services.

a. Stop providing such services as child care, simple supervision, companionship, major household repair, medically related services, and rehabilitative services.

b. Stop serving people who have responsible relatives or other responsible people to help them. Stop paying relatives to provide services, except in special situations.

c. Redefine severely impaired. Severely impaired individuals may receive up to $505 worth of services a month, while the limitation on others is $350. The present definition in Section 12304 of the Welfare and Institutions Code is vague. Someone who *needs* 20 hours of service a month is defined as severely impaired. Thus, someone who is *receiving* 20 hours a month is by definition severely impaired. In one county one-half the caseload is severely impaired, while in other counties there are no severely impaired cases.

d. Only serve people who are in immediate danger of having to go into out-of-home care (board and care, intermediate care, or nursing home).

e. Limit the program to welfare recipients only.

f. Limit the number of hours that can be provided for each service (e.g., no more than one hour to prepare a meal).

g. Limit the total number of hours, or costs, of services that an individual may receive in a month, or limit the average hours, or costs, of services per month per case that a county may provide to its recipients. These limitations could vary, depending upon the recipient's degree of disability.

h. Limit service costs to an amount which, when combined with a person's SSI-SSP cash grant, does not exceed the cost of out-of-home care.

Homemaker/Chore Survey

While many of the reforms listed above could be acted upon immediately, the Department of Health needs more information to act upon others. To this end, the department is undertaking a major survey of the Homemaker/Chore program. Counties will complete a detailed questionnaire and 60 workers (20 state nurses, 20 state social workers, and 20 county social workers) will spend a month in the field interviewing 5 percent (3,350 people) of the homemaker/chore caseload. Survey results should be available by the end of February 1976.

Department of Health Intentions

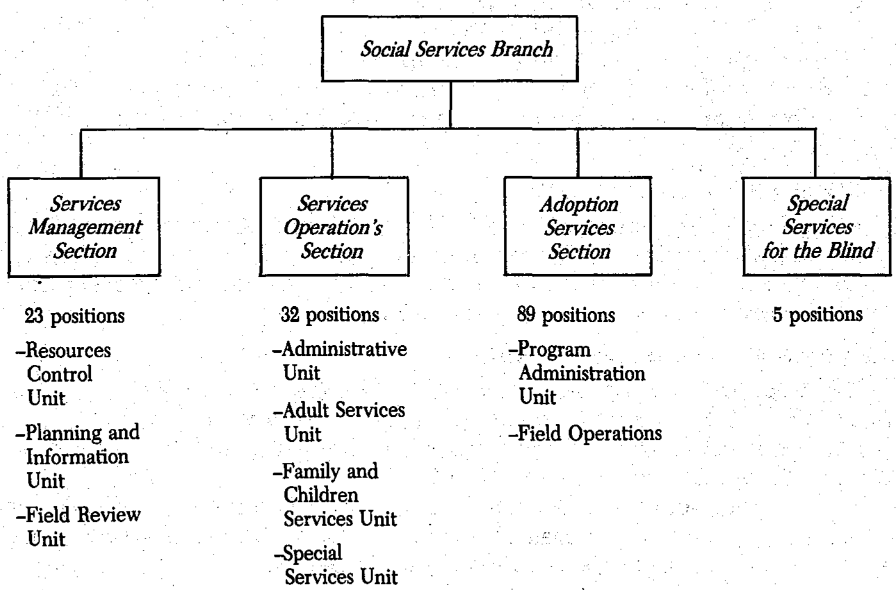
We recommend that the Department of Health inform the fiscal committees, by April 1, 1976, of the reforms it intends to make in the Homemaker/Chore program, who will be affected by them, how they will affect costs, and when and how they will be implemented.

Social Services Branch Staff Increase

We recommend approval of the proposed staff increase of 30 positions.

Out of the $10 million General Fund augmentation for the Homemaker/Chore program, the Governor's Budget proposes to fund 30 new positions in the Social Services Branch at a cost of $746,748.

Department of Health
Existing Organization, Social Services Branch



Of the 30 proposed positions:

1. 12 (11 professional and 1 clerical) will be in the Services Operations Section working on the Homemaker/Chore program doing on-site evaluation and consultation, regulation and guidance material development, and other activities. There are presently only two people assigned full-time to the Homemaker/Chore program.
2. 18 (16 professional and 2 clerical) will be in the Services Management Section doing field reviews on all social service programs and a variety of other management activities.

The social service program has had many problems in reviewing and supervising the state and county social service programs. We have reviewed the workload for the proposed new positions and recommend they be established.

Department of Health

PRICE AND PROVIDER RATE INCREASES

Item 292 from the General Fund — Budget p. 727

Requested 1976–77	$45,645,864
Estimated 1975–76	N/A
Total recommended reduction	$75,290

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Contract Counties. *Reduce by $75,290.* Recommend reduction of $75,290 budgeted in this item under Public Health Subventions for the Contract Counties Program.	558
2. Price and Provider Rate Increases. Withhold recommendation pending legislative action on Items 283 through 291 and Item 293.	558

GENERAL PROGRAM STATEMENT

This item would appropriate the General Fund portion of price and provider rate increases for Department of Health programs in the 1976–77 fiscal year. These funds would be transferred to the respective programs upon the order of the Department of Finance.

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of $75,290 budgeted in this item under Public Health Subventions for the Contract Counties Program.

We withhold further recommendation pending legislative action on Items 283 through 291 and Item 293.

The budget proposes a General Fund appropriation of $45,645,864 for price and provider rate increases within the Department of Health. The estimated allocation of these funds is shown below.

Table 1
Allocation of Item 292 to Health Programs
(General Funds)

Program	*Amount*
1. Medi-Cal	$29,165,110
2. Local Mental Health	10,877,250
3. Social Services—Adoptions	765,565
4. Crippled Children's Services	1,299,448
5. Developmental Disabilities	2,634,819
6. Public Health Subventions	903,672
Total	$45,645,864

In addition to the general funds appropriated by this item, an estimated $24,844,353 in matching federal funds would be available for the Medi-Cal Program. Therefore, this item would generate a total of $70,490,217, all funds, for price and provider rate increases.

Narrative contained on page 727 of the Governor's Budget states:

"Included in this item are provisions for price increases for certain Local Assistance Programs and the state's share of rate increases for nonphysician providers of health care services under the medical assistance program. These funds provide increases averaging 6.5% for labor related costs and 4% for nonlabor related costs."

The impact of these increases on each of the programs affected is discussed under the major support item for each program. Because the funds appropriated by this item are for transfer to these programs, supported by other items in the Budget Bill, any changes made in such programs should be reflected as an adjustment to this item. We therefore withhold recommendation on Item 292 pending legislative action on the items supporting these programs. The results of such action can then be appropriately reflected in this item.

The Department of Finance has included $75,290 for the Contract Counties program within the amount scheduled for Public Health Subventions. These funds would provide price increases to state employees working in the Contract Counties program. We are recommending that these funds be deleted because increases for salaries and wages and the benefit package for state employees are funded by Items 95 through 99 and 101 through 103.

Department of Health

ASSISTANCE TO CITIES, COUNTIES AND LOCAL AGENCIES FOR HEALTH SERVICES

Item 293 from the General Fund — Budget p. 698

Requested 1976–77	$34,831,139
Estimated 1975–76	N/A
Requested increase N/A	
Total recommended reduction	$81,960

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

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
Item 293	Budget Bill Appropriation	General	$29,813,454	561
Chapter 902, Statutes of 1975	Prenatal Testing	General	$80,000	564
Chapter 1217, Statutes of 1975	High-Risk Pregnancy Program	General	5,000,000	564
Chapter 1003, Statutes of 1975	Family Physician Program	General	758,125	567
Chapter 578, Statutes of 1971	Public Social Services	General	276,260	565
Chapter 1176, Statutes of 1973	Family Physician Program	General	1,000,000	567
Chapter 1507 Statutes of 1974	Special Medical Care	General	727,685	563
Chapter 606, Statutes of 1975	Indian Health Program	General	1,250,000	565
Total Available			$38,905,524	
Balance Available in Subsequent Years			−4,074,385	
Total Expenditures			$34,831,139	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. New Program Procedure Report. Recommend Department of Health report to the fiscal committees by April 1, 1976 on the development of a procedure for implementing new programs. 561
2. New Program Reports. Recommend reports to the fiscal committees by April 1, 1976 on implementation or status of the following programs:
   a. Chapter 1173, Statutes of 1974, infant medical dispatch centers 562
   b. Chapter 1168, Statutes of 1975, public health nursing services for the aged 562
   c. Chapter 835, Statutes of 1975, care of people with cystic fibrosis 563
   d. Chapter 902, Statutes of 1975, amniocentesis 564
   e. Chapter 1217, Statutes of 1975, perinatal care 564
   f. The 1975–76 flu vaccine program for the aged 564
   g. Chapter 606, Statutes of 1975, Indian health 565
   h. 1976–77 family planning contracts and use of Medi-Cal funding for family planning services. 565
   i. Child Health Disability Prevention Program 566
3. *Hemophilia Program Overbudgeted. Reduce by $81,960.* 563
4. Hemophilia Program Staff Increase. Withhold recommendation on proposed six-position staff increase. 563

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund expenditure of $34,831,139 for Assistance to Cities, Counties and Local Agencies for Health Services for the 1976–77 fiscal year. Of that amount, $29,813,454 is in Item 293 and the remainder is available from various previously enacted statutes.

Item 293

Item 293 contains several programs administered by the Department of Health. All but the Family Physician Training Program, which is in the department's Administrative Division, are in the department's Health Protection Division. The subitems of this item have changed from the current to the budget year, so total figures cannot be compared. However, current year figures are provided in our analysis of each subitem. Table 1 shows the sources and levels of funding for programs in this item.

Table 1
Programs Funded by Item 293
1976–77

Program	*General Fund in Item 293*	*General Fund available from recent legislation*	*Federal*	*Totals*
(a) Tuberculosis Control	$312,153	—	—	$312,153
(b) Contract Counties	1,254,836	—	$130,406	1,385,242
(c) Local Health Agencies	5,202,642	—	3,213,742	8,416,384
(d) Special Medical Care	2,138,800	$727,685	—	2,866,485
(e) Genetic Disease Prevention	464,000	2,040,000	—	2,504,000
(f) Immunizations	885,000	—	—	885,000
(g) Indian Health	1,250,000	1,250,000	—	2,500,000
(h) Family Planning	11,254,493	—	4,000,000	15,254,493
(i) Maternal and Child Health	—	—	9,144,045	9,144,045
(j) Child Health Disability Prevention	7,051,530	—	—	7,051,530
(k) Family Physician Training	—	1,000,000	—	1,000,000
Subtotal	$29,813,454	$5,017,685	$16,488,193	—
Total State				$34,831,139
Total State and Federal				51,319,332

Reports to Fiscal Committees

We recommend a status report by the Department of Health to the fiscal committees by April 1, 1976, on the development of a procedure for implementing new programs mandated by legislation.

Item 293 contains funds for a number of programs established by recent legislation. A continuing problem of the Department of Health has been its inability to implement new programs expeditiously due to delays in getting staff approved and hired, developing regulations, negotiating, preparing and approving contracts, etc. We are, therefore, recommending in the appropriate subitems status reports on the implementation of several of the new programs. We understand that the department is developing a system for implementing new programs expeditiously, and we also recommend a status report on this potentially important reform.

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

A proposed price and provider rate increase is contained in Item 292 for the following programs in this item: Tuberculosis Control, Contract Counties, Local Health Agencies, the Dialysis Program within Special Medical Care, the Sickle Cell and Tay-Sachs Programs within Genetic Disease Prevention, and the Child Health Disability Prevention Program. The General Fund cost of these programs was totaled and 20 percent of the cost was labeled nonlabor related and adjusted for a 4 percent price increase, and 80 percent was labeled labor related and adjusted for a 6.5 percent price increase. Contract Counties should not be included in the price and provider rate increase item because it is a state-operated program. Therefore, we are recommending a reduction in Item 292, the price and provider rate increase item. Further discussion of price and provider rate increases is in our analysis of Item 292.

(a) Tuberculosis Control

We recommend approval.

This subitem proposes $312,153 from the General Fund, the same as in the current year, for subvention to local health departments for tuberculosis control. The program which was established in the current year by Chapter 671, Statutes of 1975, (SB 891) replaced a subvention of the same amount to counties for the care of tuberculosis patients (the Tuberculosis Sanatoria Program).

(b) Counties Without Local Health Services (Contract Counties)

We recommend approval.

This subitem proposes $1,254,836 from the General Fund, a $9,019 increase for operating expenses over the current year, to the Contract Counties Program of the Department of Health to provide sanitarian and public health nursing services in 15 counties with populations under 40,000 which are not able to set up their own health departments. These counties must contribute at least 55 cents per capita for the cost of the services, but actual contributions range from about $1 to $20 per capita, depending on the county. Total county contributions are estimated at $733,974 for the current year, and the total population served is estimated at 257,500. This program is established under Section 1157 of the Health and Safety Code.

This subitem also contains $130,406 in federal funds—$100,000 for maternal and child health programs and $30,000 for tuberculosis programs.

The state and federal cost combined is $1,385,242.

(c) Local Health Agencies

We recommend that the Department of Health report to the fiscal committees by April 1, 1976 on the implementation of Chapter 1173, Statutes of 1974 (infant medical dispatch centers), and Chapter 1168, Statutes of 1975 (public health nursing services for the aged).

This subitem:

1. Proposes $5,061,737 from the General Fund, the same as in the current year, for subvention to 43 local health departments for public health services in accordance with Section 1141 of the Health and Safety Code.

Funds are distributed in the following way:

a. $16,000, or 60 cents per capita of the population served, whichever is less, to each health department.

b. The balance to county health departments on the basis of population served. The counties must match this part of the appropriation with $2 for every $1 they receive, but actual county expenditures for public health services are many times this.

2. Proposes $140,905 from the General Fund, an increase of $9,905, or 8 percent, over the current year for operating expenses, for two infant medical dispatch centers that will link hospitals providing obstetrical services with intensive care nurseries in order to speed up the placement of critically ill newborn infants. These centers, authorized by Chapter 1173, Statutes of 1974, are not yet in operation, and we are recommending a status report.

3. Contains $3,213,742 in federal funds, the same is in the current year, for subvention to local health departments for public health services. These funds are distributed on a modified population basis.

4. Proposes *no* funds for financial assistance to local health departments for projects that provide public health nursing services to the aged. Chapter 1168, Statutes of 1975, (AB 1442) appropriated $750,000 from the General Fund for this assistance, and the entire amount is contained in the current year budget. However, we understand implementation of this program will be delayed; thus we are recommending a status report to the Legislature.

(d) Special Medical Care

We recommend that the Department of Health report to the fiscal committees by April 1, 1976 on the implementation of Chapter 835, Statutes of 1975 (care of people with cystic fibrosis).

We recommend a reduction of $81,960 which is budgeted in error in the Hemophilia Program.

We withhold recommendation on the proposed six-position staff increase for the Hemophilia Program.

This subitem contains $2,866,485 for the following purposes:

1. A total of $826,800 from the General Fund, an increase of $31,800, or 4 percent, over the current year, is proposed for financial assistance to four adult and three pediatric renal dialysis centers in accordance with Sections 417–417.9 of the Health and Safety Code.

2. A total of $111,000 from the General Fund is proposed for the Crippled Children's Services Program, the same as in the current year, for the care of financially eligible people over 21 with cystic fibrosis. This program was established by Chapter 835, Statutes of 1975 (AB 1110), and we are recommending a status report on it.

3. A total of $1,032,380 from the General Fund is proposed for the Crippled Children's Services Program, and $727,685 from Chapter 1507, Statutes of 1974, for a total of $1,760,065 for the care of financially eligible people with hemophilia. However, Department of Health staff project for the current year a maximum cost of only about $800,000 based on an estimated caseload of 300. The present caseload is 215. Department staff

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

believe there is a potential caseload of over 1,000. Budget year costs will depend on how much of it is realized.

4. A total of $168,620 is proposed from the General Fund for four positions in the Crippled Children's Services Program and two in the Accounting Section of the Department of Health to administer the Hemophilia Program. The amount is incorrect and should be $86,660 for the salaries and operating expenses of the six positions. We are recommending the deletion of $81,960 in overbudgeted funds.

We have reviewed the budget change proposal for the six positions and consider it justified on the basis of the estimated potential caseload of over 1,000, but not on the existing caseload of 215. We withhold recommendation until the Department of Health can provide data which supports its estimate of potential caseload.

(e) Genetic Disease Prevention

We recommend that the Department of Health report to the fiscal committees by April 1, 1976 on the implementation of Chapter 902, Statutes of 1975 (amniocentesis), and Chapter 1217, Statutes of 1975 (perinatal care).

This subitem:

1. Proposes $256,000 from the General Fund, an increase of $6,000, or 2.4 percent, for operating expenses over the current year, for sickle cell counseling.

2. Proposes $208,000 from the General Fund, an increase of $8,000 or 2.4 percent, for operating expenses over the current year, for Tay-Sachs counseling and testing.

3. Contains $40,000 from Chapter 902, Statutes of 1975 (AB 1336) for a pilot program of prenatal testing for genetic disorders by amniocentesis in at least two medical centers. $40,000 is also estimated to be spent in the current year. However, we understand that implementation of this program might be delayed, and we are recommending a status report.

4. Contains $2,000,000 from Chapter 1217, Statutes of 1975, (AB 1326) for a pilot program to provide perinatal care to women with a high risk of delivering defective, handicapped, or stillborn infants due to premature labor. An estimated $1 million from Chapter 1217 will be spent in the current year. However, we understand implementation of this program might be delayed, and are thus recommending a status report to the Legislature.

(f) Immunizations

We recommend that the Department of Health report to the fiscal committees by April 1, 1976 on the implementation of the 1975–76 flu vaccine program for the aged.

This subitem proposes $885,000 from the General Fund, the same as in the current year, for the Department of Health to purchase vaccines for local immunization programs; $465,000 is for vaccines to immunize children through age 12 against a variety of diseases, and $420,000 is for flu vaccine for people age 60 or over, and other high risk groups, if there is a surplus of flu vaccine.

In the 1974–75 fiscal year about 250,000 dosages of flu vaccine for the aged, costing about $200,000, went unused and we are recommending a status report on the 1975–76 flu vaccine for the aged program.

(g) Indian Health Services

We recommend that the Department of Health report to the fiscal committees by April 1, 1976 on the implementation of Chapter 606, Statutes of 1975 (Indian Health Program).

This subitem proposes $1,250,000 from the General Fund and contains $1,250,000 available from Chapter 606, Statutes of 1975 (SB 52), for a total of $2,500,000, for financial, training and technical assistance to existing urban and rural Indian health projects. A total of $1,250,000 from Chapter 606 is estimated to be spent in the current year. However, we understand that implementation of this program will be delayed, and we are recommending a status report.

(h) Family Planning

We recommend that the Department of Health report to the fiscal committees by April 1, 1976 on steps that will be taken to assure the timely preparation and approval of 1976–77 family planning contracts, and also to assure the use of Medi-Cal funding, whenever possible, to pay for family planning services.

This subitem proposes $11,254,493 from the General Fund, the same as in the current year, and contains $4 million in federal social service funds, also the same as in the current year, for a total Family Planning Program of $15,254,493.

Two Administrative Problems

Two administrative problems with significant fiscal impacts, both reported in last year's Analysis, persist in the Office of Family Planning, which administers the Family Planning Program.

The first has to do with delays in the preparation and approval of contracts for services with family planning clinics. Because clinics cannot be reimbursed for services without contracts, delayed contracts result in delayed programs. In the past year, these delays resulted in an estimated $2.5 million or more in unspent funds at the same time that the Department of Health was demonstrating an unmet need for family planning services to justify a budget augmentation. As of the preparation of this analysis, contracts for the current year totaling $5 million are still being prepared, or have been prepared, but not yet approved.

The second problem has to do with the relationship between the Family Planning and Medi-Cal programs. We estimate that between $2 million and $4 million annually in General Fund money is being spent to provide services to people who are eligible for Medi-Cal payments. Medi-Cal funding for family planning services is 90 percent federal and 10 percent state. Also, Medi-Cal funding is not limited by federal appropriation, and would thus provide General Fund savings. The reasons for this lack of use of Medi-Cal funds are complicated, and it will require a joint and sustained effort on the part of the Family Planning and Medi-Cal programs to increase the utilization of Medi-Cal funding.

We are recommending that the Department of Health report to the fiscal committees by April 1, 1976 on steps that will be taken to solve these two problems.

(i) Maternal and Child Health

We recommend approval.

This subitem contains $9,144,045 in federal funds, the same as in the current year, coming into California under Title V of the Social Security Act. These funds go to counties for a variety of maternal and child health projects in the areas of family planning, maternity and infant care, children and youth, dental health, and intensive newborn care.

(j) Child Health Disability Prevention Program

We recommend that the Department of Health reevaluate the Child Health Disability Prevention program and report to the fiscal committees by April 1, 1976.

This subitem proposes $7,051,530 from the General Fund for the Child Health Disability Prevention Program, an increase of $127,151, or 1.8 percent, over the current year. In addition to these funds there are funds available from the Medi-Cal program and from the appropriation for the Department of Health.

Sections 306–308.7 of the Health and Safety Code established the Child Health Disability Prevention Program (CHDP) to be operated at the local level, but with standards set by the state. The program is to provide health screening examinations and associated activities such as referral for diagnosis and treatment, follow-up, and outreach for all children between birth and enrollment in the first grade and Medi-Cal eligible children under 21. The Medi-Cal portion of the program is required by federal law, and pays for screening, diagnosis, and treatment. State regulations provide that the state will pay for the screening of children in Department of Health designated target populations if they are in families whose income is below 200 percent of the Aid to Families with Dependent Children (AFDC) minimum basic standard of adequate care.

Problems with Program Implementation

1. Section 308.5 of the Health and Safety Code requires that, as of July 1, 1975, all children entering the first grade are to have received a health screening examination during the previous 12 months. The program is falling short of this goal.

2. The U.S. Department of Health, Education, and Welfare has assessed California $1,926,439 for the first quarter of 1974–75 for failures in implementing the Medi-Cal portion of the program. The assessment has been levied for failing to adequately inform Medi-Cal families of services available, and for the failure to screen and treat Medi-Cal eligible children. The Department of Health is contesting the assessment; however, it is possible that penalties will be assessed for subsequent quarters as well.

Program Emphasis

The present emphasis of the program attempts to get a child to an individual doctor for a health screening examination so that the child will come under the continuing care of that doctor. However, it has been difficult to get doctors to participate in the program.

The alternative would be to have mass screening done by local health departments, schools, or other organizations capable of screening a large number of people at the same time. This would require a change in program emphasis, in that only children with disabilities would be referred to individual doctors for diagnosis and treatment, and thus only children with disabilities would have the chance to come under the continuing care of personal physicians. One advantage of mass screening is that it would be easier to implement and would reduce the unit cost per child.

Administrative Costs

In the current year about $4.8 million was budgeted for state and county administration compared to the $5.6 million estimated for screening costs (including those for Medi-Cal children). The administrative cost for this program appears excessive. There is a need to reevaluate the present emphasis of the program and to determine how more children can be screened at lower administrative cost.

(k) Family Physician Training

We recommend approval.

This subitem contains $1 million, the same as in the current year, available from Chapter 1176, Statutes of 1973, the Song-Brown Family Physician Training Act, which has been amended by Chapter 1003, Statutes of 1975 (SB 490). This program provides funds to institutions which train family practice physicians and assistants, and primary care nurses.

Department of Health
CRIPPLED CHILDREN SERVICES

Item 294 from the General Fund — Budget p. 706

Requested 1976–77	$22,906,651
Estimated 1975–76	22,899,757
Actual 1974–75	19,574,267
Requested increase $6,894 (.03 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Crippled Children Services (CCS) program provides care to children with physical handicaps to correct, ameliorate or eliminate their handicaps. The program is funded on a three-part state and federal to one-part county basis. The program is administered independently by 25

CRIPPLED CHILDREN SERVICES—Continued

counties under standards and procedures established by the Department of Health. For the remaining 33 counties, the department administers the program directly. The program has financial eligibility and repayment requirements except in the medical therapy programs in special schools and classrooms provided in conjunction with the Department of Education.

The CCS program also administers the Hemophilia and Cystic Fibrosis programs which are funded by Item 293 and discussed in our analysis of that item.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes $22,906,651 from the General Fund for the CCS program, an increase of $6,894, or .03 percent, over the current year.

A price and provider rate increase of $1,299,448, for the CCS program is proposed in Item 292. This amount will provide an overall 5.7 percent increase in the Crippled Children Services program. The price increase amount was derived by estimating what percent of the General Fund money for CCS goes for diagnosis, treatment, therapy, and county administration, then estimating what portion of each is a labor related cost and what portion a nonlabor related cost. Finally, the labor related cost was adjusted for a 6.5 percent price increase, and the nonlabor related cost for a 4 percent price increase. Further discussion of the price and provider rate increase is in our analysis of Item 292.

Table 1 shows the sources and proposed uses of the funds for the CCS program.

Table 1
Crippled Children Services
Schedule of Expenditures

	1975–76	*1976–77*
Diagnosis	$1,491,573	$1,488,737
Treatment	22,660,708	22,670,567
Therapy	7,305,663	7,295,452
Medi-Cal Administration	440,774	440,774
County Administration	1,735,143	1,731,862
Totals, Local Assistance	$33,633,861	$33,627,392
Less: Family Repayment	-965,000	-965,000
Less: County Share	-8,057,022	-8,054,405
State Share, Program	$24,611,839	$24,607,987
Noncounty Residents (State)	23,344	24,118
State Administration	1,147,000	1,156,972
Program Total Net	$25,782,183	$25,789,077
Less: Health Care Deposit Fund	-471,570	-471,570
Less: Federal funds	-2,410,856	-2,410,856
Item 294, General Fund	$22,899,757	$22,906,651
Price and Provider Rate Increase	—	1,299,448
Total, General Fund	$22,899,757	$24,206,099

Department of Health
LEGISLATIVE MANDATES

Item 295 from the General Fund	Budget p. 722
Requested 1976–77	$453,498
Estimated 1975–76	356,910
Actual 1974–75	424,059
Requested increase $96,588 (27.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item makes a General Fund appropriation to the State Controller for reimbursement to local agencies for 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 item only contains those "mandated local costs" for health related programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Item 295 appropriates $453,498 to reimburse local agencies for state mandated costs, which is $96,588, or 27.1 percent, above the amount estimated to be expended in the current year. The legislation mandating these costs and their estimated cost for the 1976–77 fiscal year are listed below:

Chapter 1494, Statutes of 1974 (X-rays)	$118,878
Chapter 453, Statutes of 1974 (sudden infant death syndrome)	8,016
Chapter 1061, Statutes of 1973 and Chapter 1086, Statutes of 1975 (county Short-Doyle plans)	267,604
Chapter 694, Statutes of 1975 (developmentally disabled)	44,000
Chapter 835, Statutes of 1975 (Cystic Fibrosis)	15,000
Total	$453,498

General descriptions of these mandates and estimated unit costs are found on page 723 of the Governor's Budget.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 296 from the General Fund, Item 297 from the Employment Development Department Contingent Fund, Item 298 from the Unemployment Compensation Disability Fund — Budget p. 743

Requested 1976–77	$40,058,158
Estimated 1975–76	36,242,397
Actual 1974–75	31,186,653
Requested increase $3,815,761 (10.5 percent)	
Total recommended reduction	$630,045

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
296 (a)	Work Incentive Program (WIN)	General	$4,634,067	574
296 (b)	Service Center Program	General	3,719,032	576
296 (c)	Office of Economic Opportunity	General	266,571	588
296 (d)	Migrant Master Plan	General	3,760,270	587
296 (e)	Job Agents	General	1,550,896	579
297	Pro Rata Charges	EDD Contingent	3,048,825	589
298	Support DI Operations	Unemployment[a] Compensation Disability	23,078,497	585
	Total		$40,058,158	

[a] Nongovernmental cost fund expenditure

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Employment Services. Recommend report regarding revitalization of state employment services. 572
2. *Work Incentive Program (WIN). Reduce Item 296(a) by $518,974.* Recommend deletion of portion of state child care matching funds. 574
3. WIN Redesign. Recommend department pursue efforts to redesign the WIN program for more effective services to AFDC recipients. 574
4. Service Center Program. Recommend budget language in Item 296(b) to preclude use of service center funds for purchase of consultant services. 578
5. Job Agent Program. Withhold recommendation on Item 296(e). Recommend status review of program plan and objectives during budget hearings. 579
6. Statewide Manpower Planning. Recommend legislation to move State Manpower Planning Office to Health and Welfare Agency. 580
7. Unemployment Insurance. Recommend that proposed 584

legislative changes be considered in the light of the total program rather than as individual parts.

8. Migrant Services. Withhold recommendation on Item 296(d). Recommend clarification during budget hearings of proposed deficiency funding and future program directions. 587
9. *Office of Economic Opportunity. Reduce Item 296(c) by $111,071.* Recommend reduced state ratio to match federal grant. 589

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 the 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 Community Services Act of 1974, the State Unemployment Insurance Code, the State Employment Development Act of 1973 and several related statutes and administrative orders.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of Item 296(b) and Items 297 and 298 as budgeted.

The proposed state appropriations for support of the department in fiscal year 1976–77 total $40,058,158, an increase of $3,815,761, or 10.5 percent, over the current year estimated expenditures. The total expenditure program, after reimbursements, proposed for 1976–77 is $2.7 billion. This is a decrease of $204 million, or 7.0 percent, from estimated expenditures in the current year. The bulk of the decrease is in unemployment insurance where costs are expected to be down $192.1 million due to anticipated improvement in the economy during the budget year. There is also an anticipated decrease of $41.6 million in funds made available to the State Manpower Planning Office for employment and training services. Disability insurance costs on the other hand will increase by an estimated $24.9 million.

The state's cost increases are found in the Migrant Master Plan, up $2,247,353 or 148.5 percent, and in two non-General Fund items, the proposed appropriation from EDD Contingent Fund which is up $277,710, or 10 percent, and the Disability Program administrative costs which are up $583,981, or 2.6 percent.

During the current fiscal year, there are a total of 13 programs for which the department is responsible. Table 1 compares expenditures and man-years by program for fiscal year 1975–76 and 1976–77.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 1
Employment Development Department
Man-Years and Gross Expenditures by Program

Program	*1975–76 Estimated man-years*	*1976–77 Proposed man-years*	*1975–76 Estimated expenditures*	*1976–77 Proposed expenditures*
1 Employment Services Program	2,537.1	2,528.6	$50,145,934	$52,573,629
2. Work Incentive (WIN) Program	1,108.3	1,107.8	40,886,373	40,957,753
3. Service Center Program	181.7	166.0	4,029,831	3,719,032
4. Job Agent Program	49.1	69.0	1,118,461	1,550,896
5. State Manpower Planning Office	144.1	130.2	71,086,758	29,481,555
6. Comprehensive Employment and Training Program	390.8	389.1	12,016,071	12,054,289
7. Unemployment Insurance Program	4,796.1	4,716.8	2,304,432,964	2,112,326,086
8. Disability Insurance Program	996.7	996.7	456,963,516	481,832,497
9. Migrant Services Program	9.0	9.0	1,512,917	3,760,270
10. Office of Economic Opportunity	67.0	67.0	1,066,212	888,571
11. California Vietnam Era Veteran On-the-Job Training (OJT) Program	—	—	17,833	—
12. Contract Services	52.1	47.7	1,424,359	1,521,695
13. Administrative Staff and technical services (Distributed to other programs)	(741.0)	(741.9)	(14,888,824)	(17,025,520)
Totals	10,333.0	10,227.9	$2,462,320,473	$2,230,101,320

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 which includes labor market information services, employer and union services, community liaison and staff development and technical supportive services.

The Employment Services Program is funded through a federal grant made up of about 15 percent from federal general revenues and 85 percent from the federal unemployment insurance taxes levied on employers.

Revitalization of Employment Services

We recommend that the department submit to the Joint Legislative Budget Committee on or before December 1, 1976 a report regarding the revitalization of employment services.

Employment services has been a nationally funded program since 1933. It has passed through many changes but its central purpose has remained the matching of qualified workers to existing job openings. During the 1960's there was a major emphasis on services to the disadvantaged workers which led to a decline in the effectiveness of the employment services function. In California, the Human Resources Development (HRD) Department was created in 1969 as a means of carrying out the mandate to serve the disadvantaged. The HRD experience led to a reduction in employers' use of the state employment service to fill their job openings, and a decrease in the number of skilled job applicants who use the employment services program as a means of finding employment.

The Employment Development Department is now in the process of attempting to rebuild the quality of job openings and the level of skilled job applicants making use of employment services.

One of the major problems in revitalizing the employment services program lies in the funding mechanism of the U.S. Department of Labor. First, employment services grants are based on the "balanced placement formula" which puts heavy weighting on the number of placements achieved. The emphasis on numbers puts pressure on the department to engage in statistical juggling and concentration on "easy" placements (short-term and underpaid). Real services to employers and to job applicants are hampered. Second, the Department of Labor funding cycle operates on a quarterly basis, that is, each quarter is treated essentially as an abbreviated fiscal year. When funds in a given quarter are not fully utilized, they revert to the federal government. This type of funding results in an uneven work flow.

Finally, in the last few years, the level of federal funding has forced priority decisions which are counter-productive to a revitalized employment service. The limited staff has been kept in the office rather than used to develop jobs through consistent employer visiting. A disproportionate share of available staff time in the office has been used for initial interviews and application taking. Little time has been available for employment counseling. File searching and referral of registered applicants has been limited.

There are a number of areas which should be explored in revitalizing the employment service program: (a) the possibility of some state funding of this service to set priorities and even out the work flow; (b) the use of employer service representatives on a more aggressive and consistent basis; (c) advertising of job openings in classified ads and other news media to recruit skilled job applicants; (d) more thorough review of unemployment insurance claimants' job seeking efforts on a selective basis; (e) renewed use of file search efforts to fill job openings; and (f) the use of selective testing of job applicants to determine skill levels and provide job counseling services.

The department is exploring a number of possibilities for revitalizing employment services, including some waivers of federal requirements. We recommend that the alternatives be presented to the Legislature in the suggested report for appropriate legislative action.

WORK INCENTIVE (WIN) AND RELATED SERVICES PROGRAM

This program provides services to employable welfare recipients. It consists primarily of the Work Incentive Program (WIN). Also included are some employment related social services and the registration of recipients of food stamps. All potentially employable recipients of food stamps are required to register for employment with EDD. As a condition of continuing eligibility for food stamps, registrants must accept referral to appropriate job openings.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Work Incentive Program (WIN)

We recommend that Item 296(a) be reduced by $518,974 in state child care matching funds for the WIN program and that the subitem be approved in the reduced amount of $4,115,093.

The budget shows an expected federal grant for the WIN program which will be virtually unchanged from the current year. The request for the state matching funds is also at the same level as the current year expenditures. However, in the Budget Act of 1975, the Legislature authorized $635,000 for the current year to match potential additional federal funding which never materialized. A portion of this unneeded state match has been included as a base for the formation of the 1976–77 budget in the form of matching of the federal WIN child care funds.

The federal WIN child care allocation of $2,807,733 is budgeted by the Department of Benefit Payments. State matching funds at a 90/10 ratio are budgeted by EDD as part of its overall WIN budget request. Table 2 shows the budget allocations of EDD's WIN funding request for fiscal year 1976–77.

Table 2
WIN Budget Expenditures
Fiscal Year 1976–77

Program	*Total*	*Federal*	*State*
WIN Program	$37,300,000	$33,750,000	$3,730,000
Separate Administrative Unit	54,000	48,600	5,400
WIN Child Care	831,167	(2,807,733) [a]	831,167
Employable Premises	67,500	(382,500) [a]	67,500
Total	$38,252,667	$33,618,600	$4,634,067

[a] Figures in parentheses represent HEW and county child care funds, budgeted by Department of Benefit Payments.

The amount required to match the federal child care allocation of $2,807,733 at the 90/10 ratio is $312,193. Included within Item 296(a) is $831,167 for this purpose. We find no justification for state funds above the required 10 percent match. Therefore, we recommend the proposed $831,167 be reduced to $312,193 for a savings of $518,974.

WIN Redesign

We recommend that if current efforts to obtain waivers for a complete WIN program redesign are unsuccessful, the department seek to establish pilot programs in selected counties to test the proposed program improvements.

WIN was inaugurated in the second quarter of the fiscal year 1968–69. The objective of the program is to provide manpower development and placement services to the employable recipients of Aid to Families with Dependent Children (AFDC). In December 1971, the President signed Public Law 92-223, known as the Talmadge Amendments which changed the WIN Program emphasis from one of training to one of job placement. The training components which remained in the program were heavily weighted toward on-the-job training with very little financial support for the institutional training programs.

With the initiation of the Talmadge Amendments in 1972, California obtained waivers to establish an Employables System for welfare recipients. The system consisted of the WIN Program coupled with the Employables Program and the Community Work Experience Program (CWEP). The CWEP program was designed to place AFDC recipients in meaningful public service jobs in a nonsalaried capacity. The effectiveness of the three-year pilot project was questionable and the program has been terminated.

The Employables program was designed through contractual agreements between EDD and the county welfare departments to provide intensified placement services for welfare recipients. Contracts provided for the outstationing of county welfare department staff at state offices and the integration of social work staff with state staff. Welfare recipients involved in the program were required to seek work and come to the department every 15 days to report the results of their efforts.

Under the current administration the mandatory job seeking requirements have been dropped, functional supervision of social service workers by EDD has been discontinued, and contractual agreements between counties and the department have been terminated. The colocation of social service staff at EDD offices is still encouraged by the department but it is arranged on a voluntary basis with each county welfare department and is contingent upon two factors, (1) that colocation will contribute to the effective delivery of services to affected welfare recipients and (2) that space in EDD facilities is available.

In addition to the above changes, the department has conducted an intensive review of the WIN Program and identified a number of serious problem areas. The major problem relates to the inefficiency of the system. Under federal budgeting and reporting requirements, the system has been subjected to an unacceptably high level of paperwork which has effectively reduced the amount of services which realistically can be delivered to program participants. The federal budgeting system, which puts a high priority on a set of performance goals established by the Department of Labor, contributes substantially to the problem. The performance goals tend to concentrate upon fulfilling statistical requirements to the detriment of providing adequate services.

Another factor contributing to the inefficiency of the program is the annual failure of Congress and the President to agree on an appropriation bill until late in the fiscal year. This results in the program operating on a "continuing resolution" basis with month-to-month allocations which hinder healthy program operation. It especially limits the capacity to negotiate long-term contractual agreements with employers to provide for on-the-job training positions for welfare recipients.

The system for registration, appraisal and certification of welfare recipients is extremely time-consuming and unproductive. The mandatory registration process of a large portion of all AFDC parents leads to a significant amount of the paperwork overload. Over 30 percent of total WIN staff time is used to register recipients, many of whom will never receive any services because of limited resources.

In addition to the mandatory registration process, there is an automatic

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appraisal requirement for all AFDC-U fathers necessitating staff time to interview the welfare recipient and identify his employability. Appraisals should be made as work openings materialize and employment plans are established, not as a systematic process which contributes to paperwork overload without significantly increasing the employment potential of welfare recipients.

The third required process is the certification of all AFDC-U fathers by the county welfare departments. Certification stipulates that the recipient is not in need of any social services prior to his entrance into an employment or training program. These three processes require a great deal of EDD and county welfare staff time handling paper and shuffling many people who never receive any services from the program. Table 3 compares the small number of people who actually participate in the WIN Program with the total registrant pool.

Table 3
WIN Services Components
Cumulative Fiscal Year 1974–75

Total Registrant Pool	339,845
Program Participants	64,908
Entered Training (includes work experience)	13,378
Entered Subsidized Employment	11,654
Entered Unsubsidized Employment	35,518
Completed 90 days in employment de-registered	9,743
Completed 90 days in employment continued on AFDC	10,379

Of 339,845 recipients who were registered for WIN, only about 65,000 were recorded as program participants. Even more significant is the fact that only about 25,000 or 7.4 percent of the total registrant pool entered some kind of training or subsidized employment slot. Of those who entered employment it is estimated that almost two-thirds found jobs on their own rather than being referred by EDD. During the year, there were almost 80,000 appraisal interviews and 64,000 certifications completed.

The department is in the process of seeking waivers from the Department of Labor and the Department of Health, Education, and Welfare to redesign the program in a way which would eliminate some of the unneeded activities and paperwork with a view to providing more effective services to welfare recipients. We encourage these efforts. If a total program redesign is not feasible at present, we encourage the department to seek to institute smaller projects in cooperation with county welfare departments to test better ways of serving the AFDC population.

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 so as 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 plus two which were established in west and east Fresno in 1968 remain in operation. The eight centers were subsequently transferred to EDD.

Program Review

In our *Analysis of the Budget Bill for 1975–76*, we recommended an outside study of the Service Center Program because data are lacking by which to judge the effectiveness of the program. In response to this recommendation, the Legislature directed the department, in conjunction with the Legislative Analyst's office and the Department of Finance, to study the problem and submit a report to the legislative fiscal committees by January 1, 1976.

The department's report, received January 9, 1976, consists of a cover letter with a series of attachments. The letter indicates that the department has not done a program review of such items as productivity, program purposes, cost effectiveness, the effective use of supportive services, the integral relationship of the job agent position to the centers and the appropriateness of the centers as a function of EDD. The reason given for not addressing these issues is that the department "has already recognized the need to completely overhaul the Service Center Program (SCP)."

Included in the series of attachments to the letter is a study which was completed by the department in February 1974, dealing with the status of the service centers at that time. That study recommended among other things:

1. "That the need for pre-employment job-related services to disadvantaged clients be recognized and that the service centers be given such additional resources as may be available so as to prepare their high percentage of unskilled applicants for jobs.

2. "That in the comparison of placement accomplishments, recognition and weight be given to the fact that, because of their locations, the service centers operate in areas where both job opportunities and job-ready clients are in relatively short supply.

3. "That budget and fiscal procedures be instituted which will give a clear and more detailed accounting for service center General Fund expenditures."

As far as we are able to discover, none of the recommendations in the February 1974 report was ever initiated by the department.

Program Redesign

The department indicates in its cover letter of January 9, 1976 that it is undertaking a revitalization of the Service Center Program and that each service center has been required to submit a plan for providing services in the community served by it. The letter states that these plans need to be further reviewed and approved, but that they are the first step toward a revitalized service center program. The department now is committed to design a program which will:

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1. Provide meaningful and measurable results from the expenditure of General Fund monies;
2. Establish plans which distinguish between service center functions and objectives and other EDD programs;
3. Assure that although the redirected SCP will differ from the basic labor exchange functions administered by EDD from federal funds, they will be totally employment-related;
4. Design an evaluation system including some self-appraisal which will measure SCP performance;
5. Implement an accounting system which will assure that all charges to the SCP are appropriate.

The program will be fully operative by July 1, 1976. A followup report will be submitted to the legislative fiscal committees by June 30, 1976.

Governor's Representatives for Community Services

We recommend that budget language be inserted in Item 296(b) to read: "provided that no funds from this part shall be obligated for any contractual arrangement for consultant services."

Since May 1, 1969, there has been a yearly contract negotiated between the Employment Development Department and the Governor's Office stipulating that community relations consultant services will be provided by the Governor's Office to the Service Center Program. The stated purpose of the contracts has been to maintain liaison between the community, the Governor's Office and the Service Center Program. The consultants are to advise the service center managers of community problems and assist in developing possible solutions to those problems as they relate to the Service Center Program.

A number of studies have been undertaken to validate the usefulness of the community service representatives to the Service Center Program. None has found any merit in the continuation of the contractual relationships. In December 1972 EDD completed a report which found that neither the service center managers nor the community representatives were able to give clear and consistent explanations of the purposes of the program or of the duties of the representatives. The representatives were found to maintain a "low profile" in the community, and the availability of their services to the community was spread primarily by word of mouth. A status study of the Service Center Program completed in February 1974 indicated that there was no substantial change in the situation at that date. The report states, "If these representatives have ever advised HRD (now EDD) of community problems and possible solutions, it has been on an informal and verbal basis."

In summarizing the service center plans being submitted as of January 1, 1976, the department states that, "there is little contact between service center staff and the community representatives (Governor's Office liaisons); therefore, it's difficult to describe their role in the Service Center Program."

In the absence of any indication that the community service representatives have ever been or are now an integral or complementary part to the

Service Center program, we recommend that language be inserted in the Budget Bill which will preclude the continuation of use of service center funds for the purpose of community services representatives from the Governor's Office.

JOB AGENT PROGRAM

The Job Agent Program, like the Service Center program, is a carryover from the Human Resources Development concept which was designed to provide for services to the disadvantaged. The job agent is a case-carrying individual who is responsible for providing direct services or arranging whatever services are necessary to remove barriers to employment of economically and socially disadvantaged clients. The budget proposal for fiscal year 1976–77 for the first time breaks out the job agent component as a separate program.

Redefining the Role of Job Agent

We withhold recommendation on Item 296(e) pending clarification, during the budget hearings, of the department's plans and objectives for the Job Agent program.

The job agent function was mandated by Chapter 1460, Statutes of 1968 (AB 1463). Of the 140 originally authorized positions, a total of 126 positions were filled. The number of filled positions steadily declined until reaching the current level of 47. In addition to the 47 job agents, there are a total of 10 employment development officer I's (EDO I's) serving in the capacity of job agents on training and development assignments. Because no civil service test for the job agent position has been given for several years, some of the EDO I's have been on the training and development assignment a total of two years.

The department has evaluated the job agent function on several occasions but has failed to integrate the program as an effecitve component of its service delivery system. The most extensive evaluation, completed by the Assembly Office of Research jointly with the Human Interaction Research Institute in July 1974, identifies the failure of the job agent function as it was implemented in the Human Resources Development Department and subsequently operated in the Employment Development Department.

Currently, the department has established another task force with the assignment of redefining the role of the job agent, setting some new standards and establishing an evaluation system. Its report is due to be presented to the Director in early February. Decisions to be made by the administration include: 1) the number of job agent positions which will be filled, 2) whether case service funds will be available, 3) the civil service classification level for job agents, and 4) in what offices the job agents will be functioning.

In view of the consistent failure of the department to administer the job agent concept effectively, we seriously question the continuation of the function in the Employment Development Department. It is essentially social work, and we are doubtful that it can be performed in the structure of the Employment Development Department. We suggest that this issue be thoroughly discussed with the department during budget hearings

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before a decision is made to continue the funding of the program.

STATE MANPOWER PLANNING OFFICE

The California Manpower Planning Office (SMPO) was established in EDD to fulfill a two-fold function. First, the office serves as staff to the California Manpower Services Council. Second, it administers funds made available to the state a) for support of the Manpower Services Council, b) for vocational services and c) for statewide manpower services under the Comprehensive Employment and Training Act (CETA) of 1973.

SMPO has also served as an arm of EDD in its role as the state prime sponsor of manpower programs for the balance of state (BOS) counties (those 28 counties which are not large enough to qualify as manpower coordinating sponsors under CETA). Under the recent departmental reorganization, this function was transferred from SMPO to the office of the director of EDD.

Statewide Manpower Planning

We recommend legislation to transfer the State Manpower Planning Office into the Health and Welfare Agency.

The current placing of SMPO in the Employment Development Department has the advantage of making available to it the research and data resources of that department. However, that advantage is outweighed by the disadvantages inherent in placing this vital manpower and coordination function within the structure of a large, well-established bureaucracy. The disadvantages include: (1) conflicting roles of CETA prime sponsors with state employment services, (2) limiting the ability of the California Manpower Services Council to encourage development of innovative solutions to complex employment programs facing the state and (3) restricting the capacity of SMPO to coordinate statewide employment and training efforts.

Conflicting Roles. Under the CETA Act, units of government of 100,000 population or more are eligible to become prime sponsors to administer employment and training programs in their respective jurisdictions. In California there are 37 prime sponsors. During 1974–75 approximately $389 million in CETA federal funds were granted to California prime sponsors.

Under the previous Manpower Development and Training Act, EDD was the presumptive agency for the administration of manpower programs. Now under CETA, EDD must compete with other providers of employment and training services for contracts with prime sponsors to administer programs in local areas.

The role of SMPO in statewide manpower planning, monitoring and coordination is hampered by its placement in EDD because of the latter's role as a provider of services.

Development of Innovative Solutions. Aggressive leadership is required to develop innovative solutions to California's complex employment problems. The role of the California Manpower Services Council should be that of a policy advisory body, not one of providing administrative direction. There is strong pressure in an old-line bureaucracy such as

EDD to get locked into day-to-day operations and lose the broader perspectives of policy planning and coordination. SMPO, as staff to the council, needs to be free of the limits of the strong program structures inherent and necessary in EDD.

The state manpower planning body needs to be concerned with such long-range issues as 1) the integration of educational programs with future labor market needs, 2) the role of the state in economic planning and development, 3) the potential involvement of California in overseas market development, 4) policy issues related to state programs to support business enterprises, 5) the impact of public service employment programs on state and local government budgeting and services, and 6) the relationship of state employment services to prime-sponsor employment and training programs. We believe these questions can be tackled much more effectively outside the confines of EDD which must of necessity focus on existing program implementation and development.

Statewide Coordination of Programs. The problems inherent in bringing together the resources of state agencies with those of prime sponsors into a cohesive, nonduplicative system of service delivery require action by an agency which is free from established program interests. Moving the office out of EDD will give SMPO fewer barriers in achieving the goal of statewide manpower program coordination.

State Prime Sponsorship. The role of EDD as the state prime sponsor in the balance of state (BOS) counties is also one which presents some role conflicts. EDD approves the expenditures of the counties which serve as program agents under CETA. EDD also competes for contracts as a service provider in the BOS counties. Subsequently, EDD monitors and approves the expenditures of funds by counties who have purchased services from EDD.

For the above reasons we recommend that SMPO and the state prime sponsorship responsibilities be removed from EDD and be placed as a separate office within the Health and Welfare Agency.

COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAM

Under the Comprehensive Employment and Training Act (CETA) 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 CETA, manpower programs are locally administered through prime sponsors. EDD may become a service provider for a prime sponsor by entering into a contractual agreement to deliver employment and training services but otherwise has no role in such services.

Fiscal year 1974–75 was 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 since negotiated a number of contracts to deliver services similar to those which they previously offered under MDTA and EOA.

Through contractual arrangements, EDD will receive approximately

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$9.8 million in reimbursements from local prime sponsors during the current fiscal year for employment and training services provided. The same level is projected for fiscal year 1976–77.

In addition to the reimbursements from prime sponsors, the department receives federal reimbursements for services rendered under various CETA programs which are funded directly by the Department of Labor. During 1976–77 EDD expects to receive about $2.3 million in federal funds for (1) administering state agency participation in public service employment programs, (2) recruiting and enrolling disadvantaged young men to fill California's quota of openings in Job Corps, (3) providing managers of manpower development for the National Alliance of Businessmen (NAB) on-the-job training program and (4) providing labor market information services to California prime sponsors. Table 4 shows the program element costs and source of funding and the number of positions authorized for the Comprehensive Employment and Training Program.

Table 4
Program Elements of Comprehensive Employment and Training Program
1976–77

Element	*Positions*	*Cost*	*Source of Funding*
1. Comprehensive Manpower Services (CETA Title I)	258.6	$9,800,000	Prime sponsor reimbursements
2. Public Service Employment	6.1	101,410	Federal funds
3. Job Corps (CETA Title IV)	54.0	1,057,881	Federal funds
4. Managers of Manpower Development (NAB)	15.0	396,329	Federal funds
5. Labor Market Information (CETA Title III)	48.8	698,669	Federal funds

UNEMPLOYMENT INSURANCE PROGRAM

The Unemployment Insurance (UI) Program operates under federal and state laws. 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.

Maximum regular benefit entitlement is limited to 26 weeks, but during periods of high unemployment such as 1975, Congress has extended entitlement in 13-week segments up to 65 weeks total. Benefits are paid through the State Unemployment Fund and extended benefits are from federal/state unemployment fund resources or from federal resources only.

Revenues to the Unemployment Fund are generated through employer payroll taxes. The fund operates on an insurance principle, building reserves in good times against future contingencies in the economy over which there is no control. Taxes vary according to the size of the fund's reserves and the experience of the individual employers in terms of the benefits paid to former employees. The adequacy of the fund to pay millions of dollars in extra benefits for the jobless is severely tested in periods of economic recession such as we experienced during 1975.

Unemployment Fund Balance

Solvency of the Unemployment Fund is traditionally related to the total and taxable wages of "covered employment" (all employees who are covered by the UI program). The estimated fund balance at the end of 1975 was about $575 million, 2.2 percent of taxable wages and 1.0 percent of total wages. This is the lowest ratio the balance has reached since the program was implemented in California. Table 5 depicts the fund balance at the end of each calendar year, the relation the balance bears to total and taxable wages, and the total income and expenditures of the fund from 1968 through 1975.

Table 5
Unemployment Fund Balance and Total Income and Expenditures 1968–1975

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	1,160,000,000E	4.3	2.0	816,900,000E	931,700,000 (est.)	114.1
1975	575,000,000E	2.2	1.0	875,000,000E	1,460,000,000 (est.)	166.9

[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.

The taxable wage base represents that portion of each employee's annual wage on which employers pay the UI tax. Through calendar year 1975 employers paid a tax on the first $4,200 paid each employee in a calendar year. The taxable wage base will be increased to $7,000 during 1976. This change will help to assure that the fund will not be exhausted, but it is expected that it will take several years to replenish the fund level to a point of relative solvency. Another major economic recession in the next few years would seriously jeopardize the fund.

Major Program Changes

State changes. There were two major legislative enactments during the past year that affected the Unemployment Insurance Program in California. Chapter 591, Statutes of 1975, (AB 118) extended unemployment insurance coverage to employees engaged in agricultural labor. This act extended unemployment insurance coverage to an estimated additional 250,000 workers at a cost of an estimated $80 million during a calendar year similar to 1975. The employer contributions will be increased by an estimated $41 million during a calendar year similar to 1975.

The second major enactment was Chapter 1256, Statutes of 1975, (AB 91) which increased the taxes to employers by raising the portion of each

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employee's annual earnings on which employers are taxed from $4,200 to $6,000 or $7,000 (depending on the relationship of the Unemployment Fund expenditures to revenue). The act also made some other adjustments to the tax rate system and raised the maximum weekly benefit amount from $90 to $104 and the minimum weekly benefit amount from $25 to $30.

These changes will result in estimated increased expenditures from the Unemployment Fund of $73.7 million in a calendar year like 1975 and will increase the revenue to the Unemployment Fund by an estimated $600 million during calendar year 1976.

Federal Changes. One of the major federal changes during 1975 extended emergency unemployment compensation up to a total of 65 weeks. Persons who apply and qualify for extended benefits prior to December 31, 1976, are eligible to receive benefits up to March 31, 1977. The second major federal change provided for special unemployment assistance (SUA) which covered workers not ordinarily covered under the federal unemployment insurance program. This temporarily extended coverage to farm workers, domestic workers, and state and local government workers. Benefits may be applied for through December 31, 1976, and the cut-off date for payments is March 31, 1977.

Concerns for Future Program Changes

We recommend that future legislative changes in the Unemployment Insurance (UI) program be considered in the light of the total program rather than as individual parts.

The primary goals of the UI Program are:

1. To provide a minimum level of protection against wage loss to all individuals who are regularly attached to the labor market; and

2. To provide counter-cyclical economic pressures by (a) maintaining the workers' purchasing power during periods of unemployment and by (b) to the extent possible, reducing employers' taxes during periods of economic slumps and increasing taxes during periods of economic strength.

In order to achieve these goals, the program must be balanced in terms of income to and disbursements from the fund. Several factors need to be kept clearly in mind in order to maintain such a balance. In the past, benefits have been expanded or coverage extended without giving adequate consideration to the effect on the financing of the fund.

Fund Balance Level. The Unemployment Fund reserve must be kept at a level which will be sufficient to absorb deep and sustained periods of economic decline. On the other hand, the taxing mechanism should be designed to maintain employer taxes at the lowest level consistent with a solvent fund balance. Chapter 1256, Statutes of 1975, changed both the taxing mechanism and the fund balance level at which the higher or lower taxing rates are triggered. These two factors need to be gauged in terms of experience in the next few years to determine if these new mandates are achieving the desired balance. We prefer a taxable wage base which is tied to a fixed percentage of the average annual salary in covered employment (around the two-thirds range).

Qualifying Requirement. California's current earnings requirement of $750 during the base year fails to establish that the claimant is attached to the labor market. An individual working at the average weekly salary in covered employment could qualify with less than four weeks of work in the base year. A requirement should be enacted which, on the basis of recent employment history, would establish that the claimant is attached to the labor market and would screen out of the system those who are not in the labor market. We would suggest a required minimum number of weeks of work, or an equivalent thereof, rather than a flat earnings requirement.

Benefit Standards. The UI program was initially designed with the aim that the weekly benefit award of each claimant would approximate 50 percent of his qualifying average weekly salary. California's benefit schedule pays claimants at about 54 percent or more of their average weekly earnings for lower wage earners, but only 41 percent or less for higher wage earners. In addition, the benefit levels fail to keep pace in a timely manner with prevailing earnings patterns, i.e., inflationary trends continue while the salary replacement level lags behind. A benefit standard which, for all claimants, is automatically tied to a percentage replacement of lost wages (somewhere around the 50 percent range) and a maximum benefit level which is tied to a fixed percentage of the average annual wages in covered employment (somewhere between 60 and 65 percent of the average annual wage) would be more desirable.

DISABILITY INSURANCE PROGRAM

The State Disability Insurance (SDI) 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 $23,078,497 is proposed for administrative support of this program during fiscal year 1975–76, an increase of $583,981, or 2.6 percent, over the estimated expenditure in the current year. There are three primary reasons for the higher projected expenditures: (1) postage cost increases (SDI benefits are paid by mail), (2) medical cost increases and (3) workload increases.

Effect of Economic Recession

The actuarial report of the Unemployment Compensation Disability Fund for 1973, issued in July 1975, indicates that the fund, which had a balance of $138.5 million at the end of 1973 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 $83 million and at 50 percent would be about $166 million during 1973.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The essential need for a solvent fund 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
Change 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

The effects of the economic downturn during 1975 are not known at present because of the lag in data reporting. However, best estimates put the balance at about $122.9 million at the end of 1975. This level would keep the fund within the parameters of the actuarial solvency measure.

Future Program Concerns

There are some program changes suggested by the actuarial report which would improve it. Any such changes should be considered in light of their effect on program financing. We endorse the following SDI program change recommendations.

Qualifying Requirement. The earnings requirement which is designed to establish a claimant's attachment to the labor market is presently set at $300 in the qualifying year. By this standard a claimant who works full-time for 17 days out of the year at the minimum federal wage earns enough to qualify. A requirement should be established which, on the basis of recent employment history, would assure that a claimant is attached to the labor market and would screen out those who are not. We recommend a required minimum number of weeks of work during the base year, or an equivalent thereof, rather than a flat earnings requirement.

Benefit Standards. The current ratio of the benefit standards to gross wages lost due to a claimant's disability is about 55 percent. According to an analysis in the most recent actuarial report, after gross wages are reduced by deductions for normal withholding taxes and benefits and by the costs of out of pocket expenditures related to employment, e.g., transportation, clothing and union dues, a benefit standard of 55 percent of gross wages translates into a benefit which ranges between 90 and 97 percent of the claimants net spendable income. The actuary, therefore, recommends a 20 percent reduction in the benefit standards because benefits which are too close to a total replacement of net spendable income constitute a disincentive to returning to employment. We recommend a replacement ratio set at about 50 percent of wages.

About one-third of the covered workers have annual incomes ranging above $11,400, the present maximum benefit cut-off level. Because about 80 percent of this group of workers has wages at $15,000 per year and above, it is recommended that the wage level on which benefits are computed be increased to the $15,000 level. If both of these recommendations are accepted, weekly benefits would range from $30 to $130 per month.

Taxable Wage Ceiling. If maximum benefits are raised to a level commensurate with an annual wage of $15,000, it is further suggested that the taxable wage base be raised to $15,000. Under current statute employees pay a tax of 1 percent on the first $9,000 of their gross annual earnings, a maximum tax of $90 per year. However, since benefit levels relate to wages up to $11,400 per year an inequity results. An employee paying $90 per year with an annual salary of $9,000 per year, if disabled, would be eligible to benefits of $90 per week whereas another paying $90 in taxes on an annual salary of $11,400 would be eligible to $119 per week. It is suggested, therefore, that the taxable wage base be adjusted to the same salary level on which the maximum benefit is based.

MIGRANT SERVICES PROGRAM

This program provides services to migrant farm workers and their families at 25 locations throughout the state. The primary objective is to provide 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 General Fund expenditure of $3,760,270 in the budget year. In previous years the program has been supported primarily by federal funds.

Construction and seasonal maintenance has from the beginning of the program in 1968 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.

Increased Funding

We withhold recommendation pending clarification of the proposed deficiency funding and the administration's plans for the future of the Migrant Services program (Item 296(d)).

In 1975 federal funding was at first withheld but eventually granted with the understanding that no further federal support would be given. Although the department applied to several federal programs for the 1976 season no grants were available by the time of the printing of the state budget. Since the printing of the budget a federal grant of $500,000 has been approved.

The department is requesting a state budget appropriation of $3,760,270 for fiscal year 1976–77. This level of funding will enable the program to operate at its regular level during the fiscal year and will provide $2 million for repair and replacement of deficient housing in the 25 sites.

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There are 874 houses in need of replacement during the next three years and 325 houses in need of additional sanitation facilities. The $2 million proposal for housing rehabilitation is identified as the first year of a three-year program to upgrade the existing units.

There are now at the 25 sites a total of 2,118 houses available to migrant farm laborers during the normal six-month work season. The houses, which are federal property, 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 of the original units have been replaced by newer, better constructed units. Others are now in their ninth 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 toilet and shower in each unit.

A major question arises as to how the department will be able to renovate and replace the housing at the proposed budget level. Plans call for houses which meet code to be erected on the existing sites at a cost of $4,750 each. The director of the migrant services program states that the only way houses can be erected for this amount is through the establishment of a prefabrication factory to be operated by the program. Many of the present houses were constructed through such a factory which was previously operated by the program. The factory doubled as a work training program. The administration has not indicated that it is willing to reestablish such a program. This should be clarified before funds for housing rehabilitation are approved.

Proposed Deficiency Appropriation

A second point which needs to be clarified before the budget request is approved relates to a proposed deficiency appropriation identified in the budget. Under federal funding, the migrant services program has run on a fiscal year of April 1 through March 30. Therefore, the period of April 1, 1976 through June 30, 1976 is unfunded. The department is seeking special legislation to fund this deficiency in the amount of $392,795.

In early January 1976, the department received notice that $500,000 in federal funds will be available effective April 1. This will eliminate the need for the state deficiency funding unless it is decided that the federal funds will be used to establish a housing prefabrication factory. This issue needs to be clarified. Therefore, we withhold recommendation.

OFFICE OF ECONOMIC OPPORTUNITY

The State Office of Economic Opportunity (SOEO) is funded under Section 231 of the Community Services Act. Under this section, the Community Services Administration (CSA) is authorized to fund state agencies for the purpose of (1) providing technical assistance to communities and local agencies offering CSA programs, (2) coordinating related state activities, (3) mobilizing state resources, and (4) advising and assisting the CSA Director. Section 242 of the Community Services Act 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 $888,571 is a decrease of $177,641, or 20 percent from the current year's estimated expenditures. The General Fund request of $266,571 is an increase of $46,765, or 21.3 percent, over the current year estimated state costs.

Reduced Matching Requirement

We recommend a reduction of $111,071 in Item 296(c) and the approval of the item in the reduced amount of $155,500.

At the time the office planned its fiscal needs for the 1976–77 budget year, there was a question whether federal regulations would require a 20 percent or a 30 percent match of federal funds allocated to the office. The budget request is based on a 30 percent matching requirement. It has now been determined that the federal matching requirement will be set at 20 percent which would require state funds of $155,500 for the 1976–77 budget year.

State Office Role Change

The role of the state office has undergone a significant change during the past few years. It has moved from a role which was primarily the review and regulatory arm of the Governor toward a posture of exercising positive leadership in statewide poverty programs. The office has begun to develop 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 to some of the long delays community action agencies complained about in the past.

CALIFORNIA VIETNAM ERA VETERAN ON-THE-JOB (OJT) TRAINING 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. Funds will be fully expended by the end of 1975–76.

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 1976–77 of $17,025,520 distributed to the other departmental programs. This is an increase of $2,136,696 or 14.4 percent, over the current-year expenditure estimates.

Health and Welfare Agency
DEPARTMENT OF REHABILITATION

Item 299 from the General Fund — Budget p. 763

Requested 1976–77	$10,977,180
Estimated 1975–76	9,412,169
Actual 1974–75	8,019,974
Requested increase $1,565,011 (16.6 percent)	
Increase to improve level of service $1,302,620	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Improved Level of Services. Recommend approval of requested budget increases to (a) terminate selected third-party agreements, and (b) match new federal money for direct services to the disabled.	592
2. Effectiveness of Department. Recommend comprehensive departmental report highlighting organizational changes, productivity goals and achievements and adequacy of existing resources. Report should be submitted to the Joint Legislative Budget Committee by December 1, 1976.	593
3. Client Fraud. Recommend determination of feasibility of routine verification of client earnings.	597
4. Central Purchase of Equipment. Recommend feasibility study of central purchase of equipment for client employment plans and report to the Joint Legislative Budget Committee by December 1, 1976.	597
5. Industrially Injured Workers. Recommend report to the Joint Legislative Budget Committee by December 1, 1976 from the Department of Rehabilitation and the Department of Industrial Relations.	598
6. California Industries for the Blind. Recommend report to fiscal committees during budget hearings regarding status of workshops.	599

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 programs:

1. Rehabilitation of the Disabled
2. Business Enterprise

3. Development of Community Rehabilitation Resourses
4. Departmental Administration

ANALYSIS AND RECOMMENDATIONS

For the 1976–77 fiscal year, the department's budget proposes a total program expenditure, after reimbursements, of $87,840,521, of which $76,863,341, or 87.5 percent, is from federal funds and $10,977,180, or 12.5 percent, is from the General Fund. The total proposed expenditure for 1976–77 is $6,186,640, or 7.6 percent, more than the amount estimated to be expended during the current year. Expenditures from the General Fund are proposed to be increased by $1,565,011, or 16.6 percent, while expenditures of federal funds are proposed to be increased by $4,621,629, or 6.4 percent.

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

Analysis of the proposed 1976–77 program effort shows that the percentage of resources allocated to the various departmental activities is virtually unchanged from the current year. There will be a slight increase in the direct rehabilitation services program and a slight decrease in the development of community rehabilitation facilities program. Table 1 compares the estimated number of man-years and total expenditures by program for the current year with those proposed for 1976–77.

Table 1
Department of Rehabilitation
Man-Years and Gross Expenditures by Program

	Estimated man-years 1975–76	*Proposed man-years 1976–77*	*Estimated expenditures 1975–76*	*Proposed expenditures 1976–77*
I. Rehabilitation of disabled	2,112.6	2,117.3	$81,920,970	$87,594,784
II. Business enterprise	35.2	35.8	790,862	814,957
III. Development of community rehabilitation resources	28.6	29.3	2,857,479	2,772,258
IV. Departmental administration distributed to other programs	(311.5)	(302.9)	(7,455,453)	(7,362,425)
Total (before reimbursements)	2,176.4	2,182.4	$85,569,311	$91,181,999

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 160 district and local offices throughout the state.

The department conducts an ongoing cost-benefit analysis of the program which indicates that in a relatively brief time costs of the program

DEPARTMENT OF REHABILITATION—Continued

are returned to government through savings in other social programs such as welfare, Medi-Cal and social security, together with increased tax revenues through earnings of rehabilitants. The department estimates that because benefits will continue to be realized on an annual basis, it will take only about 3.7 years on the average for 1974–75 rehabilitants to return to government the full cost of the rehabilitation services they received. Table 2 presents a summary of the department's cost-benefit analysis for persons rehabilitated during fiscal year 1974–75.

Table 2
Summary of Cost-Benefits for Rehabilitants
Fiscal Year 1974–75

Disabled persons rehabilitated	15,537
Estimated annual earnings of rehabilitants	$96,785,416
Estimated annual benefits to government	$19,410,807
Federal/state costs of the program	$72,277,915
Average cost per rehabilitation	$4,652
Average benefit per rehabilitation	$1,249

Budget Increases to Improve Level of Services

We recommend approval of the proposed increased expenditures to improve the level of services.

The department is requesting a total increase in the General Fund appropriation of $1,565,011. A portion of the increase, $262,391, is for the normal price increases. The major increase, $1,302,620, is being requested to improve the level of services by: (1) replacing matching funds in the amount of $802,620 which are currently being supplied through selected third-party agreements and (2) providing $500,000 state money to match $2 million in federal funds which were previously used for the development of rehabilitation facilities.

Third-Party Agreements. During the current budget year, 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 through cooperative agreements with local and state agencies.

In our *Analysis of the Budget Bill* for fiscal year 1975–76, we pointed out that these third-party cooperative agreements were potentially adverse to an effective rehabilitation program in that (1) the fragmented funding leads to administrative inefficiency, (2) unequal opportunities are created for various categories of the disabled and (3) services may be provided to some persons whose disability is minor and secondary to other needs while services to the more severely disabled are denied due to lack of available funding. We also suggested that some of these cooperative agreements may be out of conformity with federal regulations.

The department has proposed in its budget request to discontinue the cooperative agreements with the Departments of Corrections and Youth Authority and the Office of Alcoholism. This will allow the department to serve the more severely disabled. It will also alleviate a potential conformity issue with the federal government regarding the public offender agreements. The department is requesting that $802,620 be directly appropriated to it to replace the funds previously reimbursed through the cooperative agreements. We recommend approval.

New Funds for Rehabilitation Services. For several years funds which could have been used for direct rehabilitation services have been allocated to the development of rehabilitation facilities program.

The department budget requests $500,000 additional state funds to match $2 million in federal funds which were previously allocated to the development of rehabilitation facilities. This action will fund more direct services to the disabled. We agree with this shift in priorities. There will not be a reduction of $2 million in the rehabilitation facilities program because the department anticipates receiving a $2 million federal grant in research and development funds which it will use for this purpose.

Achievement Record

In our *Analysis of the Budget Bill* for fiscal year 1975–76, we pointed out that when California's achievement record is compared with the national average, the state is found consistently at the low end of the scale. The most recent data published by the U.S. Department of Health, Education, and Welfare are for fiscal year 1973–74. The state, with 13,872 rehabilitations, ranked eighth among the top 10 states in terms of total rehabilitations. When compared with the top 10 states in terms of cost per client successfully rehabilitated and the average number of rehabilitations per year achieved per counselor, California ranks last.

California spent about twice as much per rehabilitation as any of the other leading states. Counselors in California worked with fewer clients and achieved fewer rehabilitations per year (see Tables 3 and 4).

Table 3
Rehabilitation Costs and Achievements Compared Among Top Ten States
1973–74

	Rehabilitations		Total	Average Cost Per
State	*Rank*	*Number*	*Expenditures*	*Rehabilitation*
California	8	13,872	$57,262,658	$4,128
Texas	1	28,847	56,391,681	1,955
Pennsylvania	2	21,692	43,990,628	2,028
New York	3	15,783	43,708,200	2,769
Ohio	4	15,229	36,872,883	2,421
Florida	5	14,829	30,556,288	2,061
North Carolina	6	14,326	28,739,320	2,034
Georgia	10	11,438	24,534,473	2,145
Virginia	7	13,978	17,846,864	1,432
South Carolina	9	13,046	17,036,861	1,445

Legislative Report on Effectiveness of the Department

We recommend that the department report to the Joint Legislative Budget Committee on or before December 1, 1976 on the effects of organizational changes, the status of productivity goals and achievements and the adequacy of existing resources for serving California's vocationally handicapped population.

DEPARTMENT OF REHABILITATION—Continued

Table 4
Counselor Caseload and Successful Rehabilitations Compared Among Top Ten States
1973–74

State	*Average Cases Served Per Counselor Per Year*	*Average Cases Rehabilitated Per Counselor Per Year*
California	95	25
Texas	165	54
Pennsylvania	153	47
New York	167	44
Ohio	104	38
Florida	92	31
North Carolina	112	33
Georgia	110	36
Virginia	159	60
South Carolina	314	100

The Legislature in supplemental language to the 1975 Budget Act directed our office to submit a report to the fiscal committees of the Legislature by January 31, 1976 presenting alternatives for increasing the effectiveness of the department. We have incorporated the required report into this Analysis because many of the problems we identified during our review are now being addressed by the new administration. A number of significant changes in the rehabilitation program and the administrative organization and procedures are being implemented.

There are, however, a number of issues which need to be raised in order to assure that the needs of California's vocationally disabled are being met to the greatest extent possible. We recommend that the department address these issues in a comprehensive report in order that the issues may be thoroughly reviewed prior to the budget hearings for fiscal year 1977–78. The following presents the issues which should be addressed in that report.

Priority Order of Eligible Clients. In November 1975, the department adopted a new priority system for serving the disabled by which only those persons who have moderate to severe functional limitations will be served. This priority system is in accord with the Rehabilitation Act of 1973 under which the department receives federal funding.

We concur with the emphasis of providing services to the severely disabled. At the same time, we are concerned about how this will be implemented and how it will affect the number of vocationally handicapped persons who receive services. It is certain to reduce both the number of persons served and those rehabilitated. The extent of that reduction is the key issue.

The department estimates that there are 530,000 disabled Californians of working age who need basic vocational rehabilitation services to obtain or retain employment. It further estimates counselors will write new plans during 1976–77 for 34,300 disabled persons, or 6.5 percent of the needy population. During the same year, the department expects to rehabilitate

17,800 persons, 3.4 percent of the target population. Given the very small proportion of the population which can be served within the limits of current resources, it is essential that a proper balance between the level of needs and the cost-benefit of services be established. One basic element which is needed for successful rehabilitation is motivation of the disabled client. Outreach efforts to the severely disabled should not neglect this vital factor.

The proposed report should answer questions including but not limited to: (1) what are department definitions of the severely and moderately disabled? (2) what types of potential clients are being denied services under the new priority system and what other community resources are available to meet their needs? and (3) what are the differences in the types of resources needed, the average length of time required to achieve a successful rehabilitation and the number of cases a counselor can carry under the new priority system?

Management Factors

In our review of the department, we found a number of management factors which could be adjusted to improve efficiency and effectiveness. The department has begun to work on a number of these problems.

Rehabilitation Counselors. The department has maintained a high standard for rehabilitation counselors. Those interviewed were almost universally dedicated to serving the needs of the disabled. The majority have obtained a masters degree in rehabilitation counseling or a related field. Most expressed a high degree of job satisfaction.

However, the department has not given staff adequate support or direction. During the 1974–75 budget hearings, we criticized the department for its failure to provide clearly defined and realistic goals by which to evaluate counselor job performance. Nothing has been done to meet that need. Because there are different degrees of difficulty in successfully rehabilitating a client, there must be a system of case weighting which will provide a measure for evaluating job performance of counselors.

There is also the need to develop effective placement practices among counselors. Counselors are generally well equipped to provide emotional support and personal counseling. They are also well trained in identifying medical problems and determining how those problems hamper the client's entrance into the labor market. Counselors are less effective in establishing a training program for the client which will lead to eventual employment, and a significant number of counselors express a lack of knowledge and even disinterest in the area of job placement. The department has not taken a strong leadership role in emphasizing in a practical way the extent to which the job objective should be vocational rather than therapeutic, educational, medical or social rehabilitation.

Rehabilitation Supervisors. A report completed by the Department of General Services in August 1974 discussed among other problems the absence of clearly stated or understood duties of rehabilitation supervisors. Supervisors have had varied workload responsibilities many of which are unrelated to supervising or training counselors.

In November 1975, the department announced a change which was designed to remove many of the housekeeping and business activities from the first-line supervisory class. The supervisor will now be responsible for a larger number of counselors and will be required to focus more of his energies on helping counselors to serve clients. However, there is a question as to how many outside duties still remain which will detract from effective supervision. How are offices handling community liaison work and resource development? Do these activities still occupy a great deal of the supervisors time?

There is also the need for special training of the supervisor in the area of structuring his work with counselors in such a way as to define effectively his own role and those of his subordinates toward measurable goal attainment. The department has grown rapidly resulting in the placing of some workers into the supervisory role without adequate preparation. More training programs should be initiated to correct this deficiency.

District Managers. District managers need to be trained and supported by departmental administration to use better management practices. For example, client training resources should be evaluated in terms of which schools are better for which types of clients. This information should be made clear to all counselors in the district. Too often present counselors develop individual resources and fail to gain from the experiences of others in a systematic way. Clients are often placed in inappropriate training or work situations because of a lack of clear direction from management.

Methods of identifying counselors who overutilize long-term educational plans should be developed. Equipment purchase resources should be better identified and the best resources utilized by the district. Medical verification processes need to be streamlined to shorten the time between initial interviews and entrance into a plan of rehabilitation. All or part of these actions are undertaken by some district managers, but few approach the job with an eye to establishing an efficient operation which will enable counselors to work more effectively with clients.

Central Staff. The department administrative practices have failed to keep pace with the growth of the department. More support systems and guidelines for field staff need to be developed. There have been too many overlapping review teams and not sufficient procedural and accounting systems development to assure efficient and effective operations.

The purchase of services procedures need to be revised so that staff are fully accountable. Recent audits have uncovered disturbing instances in which personnel have been careless and in some instances dishonest with case service funds. The department is now developing internal accounting procedures to preclude similar instances in the future.

Clerical Support. In our *Analysis of the Budget Bill* for 1975–76 we pointed out that according to a General Services report regarding the ratio of clerical positions to counselors, the department was short by about 190 clerical positions. National statistics indicate that those states which achieve a higher per capita number of rehabilitated clients have a higher ratio of clerical to counselor staff. We, therefore, recommended at that time that the department establish a pilot program to test the hypothesis that productivity will be increased when the ratio of clerks to counselors is increased.

The Legislature, in supplemental language to the Budget Act of 1975, recommended that the department use federal funds (available through the Comprehensive Employment and Training Act of 1973) to add 190 clerical personnel to relieve professional staff from clerical functions.

The department has added 32 clerical positions in response to the legislative directive. It has also increased funds set aside for temporary help by $300,000 which will provide for an equivalent of 30 clerical positions. The reorganization of the department is expected to eliminate a total of 100 professional positions by July 1, 1976 through attrition and early retirement. This will release about 66 more clerical positions from current functions to support counselor staff. It is too soon to determine what effect these clerical changes will have on the productivity of the department.

We recommend that the department address all of these management issues of staffing and organization in a comprehensive report.

Client Fraud

We recommend that the department determine the feasibility of routinely verifying client earnings through use of the wage and earnings data at the Employment Development Department.

Recent internal audits disclosed some instances of clients receiving case service funds while being employed full-time. Examples include clients employed full-time who have received several thousand dollars over periods of three and four years. Clients are periodically required to certify the receipt of earnings while receiving assistance through the department. It is unknown to what degree client fraud is a problem. We suggest that the department explore the feasibility of systematically verifying wages and earnings through use of the computerized employment earnings records at the Employment Development Department.

Central Warehouse Purchase of Equipment

We recommend that the department study the feasibility of the central purchase of equipment for client employment plans and report to the Joint Legislative Budget Committee by December 1, 1976.

One of the unique features of the services provided by the department is the purchase of equipment for use by clients for independent living and for entrance into the labor market. Purchase of the equipment is generally arranged by the individual counselor at the time a rehabilitation plan calls for it. We understand that some states such as Texas have arranged for centralized purchase of equipment. Some of the potential advantages are: (1) reduced prices through block purchase, (2) reduced counselor time in locating and arranging purchase of the needed equipment, and (3) availability of central storage facilities for repossessed equipment when a client does not follow through with the rehabilitation plan.

Because obtaining and maintaining a central warehouse may prove not to be cost beneficial, we recommend that the department study the feasibility for the central purchasing of equipment in terms of costs and effectiveness of services.

DEPARTMENT OF REHABILITATION—Continued

Industrially Injured Workers

We recommend that the Department of Rehabilitation and the Division of Industrial Accidents of the Department of Industrial Relations jointly report to the Joint Legislative Budget Committee on or before December 1, 1976, regarding the most effective and cost-beneficial method of providing rehabilitation services to industrially injured workers.

There is a potential for substantial recovery of funds currently being expended for the rehabilitation of industrially injured workers through the state workers compensation program and related insurance programs. In California about 300,000 disabling industrial injuries or illnesses are reported each year. Under the provisions of Chapter 1435, Statutes of 1974, (AB 760), vocational rehabilitation is a mandatory workers compensation benefit. The cost of the appropriate rehabilitation service is to be paid by the employer or his insurance carrier.

There are indications that the rehabilitation benefits are being contested and settlements delayed, thus postponing the early retraining and return to employment of many of the industrially injured. For example, during 1974–75 the department served 16,519 industrially injured clients at a cost of $6.9 million from the regular federal/state funding of the department. During the first six months (January–June 1975) of operation under Chapter 1435, only 60 referrals were authorized by insurance carriers.

The cost-benefit of rehabilitation services has been well-documented. It is also clear from experience that the sooner a plan of rehabilitation is established after a disabling injury occurs, the better the chance for successful rehabilitation. There is, therefore, a clear advantage to early identification, referral and delivery of services to the industrially disabled. By utilizing funds under insurance programs for this purpose, more of the federal/state rehabilitation funds will be released to serve other disabled persons.

At least two alternatives for improving the system should be explored: (1) an aggressive collection policy by the department; and (2) legislation to assess one percent or less of all settled workers' compensation claims, the assessment to be placed in a central rehabilitation trust fund and used to rehabilitate all industrially injured clients referred to the department. Discussion of these alternatives should be included in the report to be completed by the department and the Division of Industrial Accidents.

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 1976–77, the budget proposes total expenditures of $814,957 to support this program. Of this amount, $651,966 is from federal funds while $162,991 is from the General Fund. The 1976–77 budget represents an increase of $24,095 over 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 attempts 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 rehabilitation workshops and centers, special facilities for the blind and deaf, halfway houses and alcoholic recovery houses. The program has two basic elements: (1) technical consultation to rehabilitation facilities and (2) grant administration.

Emphasis on Facility Development

The department is reducing its support to existing facilities in favor of providing grants for development of facilities in rural areas and minority urban areas. There is also a greater emphasis on the facilities becoming more involved in job development and placement of disabled persons. We concur with these emphases.

California Industries for the Blind

We recommend that the department present a report to the legislative fiscal committees during the budget hearings on the status of the California Industries for the Blind.

Beginning in the 1950's, industries for the blind workshops were established and operated by the State of California to provide extended employment opportunities to severely handicapped persons who are unable to work in a competitive situation. Workshops were operated in three centers: Berkeley, Los Angeles and San Diego. During fiscal year 1971–72, the workshops were transferred to the privately sponsored California Industries for the Blind (CIB).

The department has continued to support CIB through grants and technical assistance. During the current fiscal year, however, it has become apparent that the facilities are unable to continue without a substantial increase in financial assistance. There are indications of gross mismanagement. California still holds legal title to some of the property. These issues and the current status of CIB should be presented to the fiscal committees during budget hearings.

IV. DEPARTMENTAL ADMINISTRATION

This program includes the executive office and the divisions of Administration Services, Program Support, Program Development and Field Operations. These activities provide executive direction, planning, policy determination and staff support for the operation of all departmental programs.

The budget proposes the expenditure of $7,362,425 to support this program in 1976–77, a decrease of $93,028 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.

Departmental Reorganization

The major change in this program during the current fiscal year and carrying over into fiscal year 1976–77 is the departmental reorganization. The five regional administrative offices have been eliminated for a gross reduction of 40 staff positions. Concomitantly, 29 positions are being added

DEPARTMENT OF REHABILITATION—Continued

to the administrative services division leaving a net reduction in the departmental administration of 11 positions.

DEPARTMENT OF BENEFIT PAYMENTS

General Summary

Funds for the Department of Benefit Payments are contained in seven items and one control section of the 1976–77 Budget Bill. For fiscal year 1976–77 the department is requesting a total of $1,338,065,845 from the General Fund, a $99.5 million, or 8 percent increase over estimated 1975–76 expenditures.

Table 1 compares the current year and budget year by item indicating areas of increase.

Table 1
Department of Benefit Payments
General Fund Request for 1976–77

Budget Bill Item	*Purpose of Expenditure*	*Estimated 1975–76*	*Proposed 1976–77*	*Increase*	*Percentage Increase*
	Departmental operations				
300	(a)	$14,834,411	$15,367,162	$1,212,934	8.2%
301	(b)	0	680,183		
302	Adult cash grants	637,117,300	679,581,400	42,464,100	6.7
Control section 32.5	AFDC cash grants	516,740,800	561,091,200	44,350,400	8.6
303	Foster care legislation	0	2,700,000	2,700,000	N/A
304	Special Programs for adults	3,431,650	3,845,400	431,750	12.6
305	County welfare department operations	66,474,100	74,500,500	8,026,400	12.1
306	Legislative Mandate	203,164	300,000	96,836	47.7
		$1,238,801,425	$1,338,065,845	$99,264,420	8.0%

Health and Welfare Agency

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET

Item 300 from the General Fund Budget p. 770

Requested 1976–77	$15,367,162
Estimated 1975–76	14,834,411
Actual 1974–75	12,206,929
Requested increase $532,751 (3.6 percent)	
Total recommended reduction	$676,984

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Employment Tax Division. Withhold recommendation on the requested 472.1 positions pending development of a workload budgeting model similar to that used to justify fair hearings staff increases or decreases. 603
2. Child Support Collections Program. Withhold recommendation of 43.5 requested new positions. 606
3. Food Stamp Program. Withhold recommendation on 36 of 83.5 requested new positions. 607

4. Blanket Funds. Recommend funding for temporary help and other purposes be appropriated to the Department of Finance for allocation. Further recommend that Legislature be notified of changes in purpose for which blanket funds are used. 608
5. *General Fund Surplus. Reduce Item 300 by $676,984.* Recommend reduction in anticipation of salary savings. 609
6. AFDC Cash Grants and Control Section 32.5. Withhold recommendation on amount for AFDC aid payments pending receipt and review of May 1976 subvention estimates. 610

GENERAL PROGRAM STATEMENT

The Department of Benefit Payments was created by 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 programs, the collection, auditing and accounting of payroll taxes from California's employers, and the auditing of certain health care programs. The payroll tax collection program of the Department of Employment Development and the health auditing program of the Department of Health were transferred to the Department of Benefit Payments on July 1, 1974.

ANALYSIS AND RECOMMENDATIONS

This item of the Budget Bill proposes a General Fund appropriation of $15,367,162 for the operation of the Department of Benefit Payments which is $532,751 or 3.6 percent, more than is anticipated to be expended during the current year. Additional General Fund money is available to the department in the form of reimbursements from the Franchise Tax Board for the collection of state withholding taxes. The Governor's Budget proposes a total of $68,027,777 (all funds) to operate the department in fiscal year 1976–77.

Fifty-nine percent of the department's operating funds, or $40,092,109, come from other state departments as reimbursement for services performed. The balance of the department's operating funds, $27,935,668, is composed of two parts. The first part, is the requested General Fund appropriation contained in Items 300 and 301. The balance, $11,888,323, is anticipated federal matching funds, primarily for the department's welfare operations.

For fiscal year 1976–77 the budget proposes the addition of 765.7 new positions. Table 1 shows, by major program, where the 765.7 requested new positions are to be located in the department. Most of these were established administratively during the current year and are shown as proposed new positions for the budget year. Due to the magnitude of the number of positions proposed we defer recommendation so that we can respond specifically to each proposal at the time of the budget hearings.

Employment Tax Division

In December 1975, a reorganization implemented by the Department of Benefit Payments separated the Employment Tax program from the Health Operations program. The Employment Tax Operation was made

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

Table 1
Requested New Positions for the Department of Benefit Payments
1976–77

	Requested new Positions
A. Employment Tax Operations	
1. Increased Unemployment Insurance Workload	258
2. Extended Program: Unemployment Insurance for Agricultural Workers	106
3. Increased federal funding of U.I. Program	108.1
Subtotal	472.1
B. Health Operations	
1. More audits	13
2. Increase Recovery from Insurance Companies	13.5
Subtotal	26.5
C. Welfare Operations	
1. Fair Hearing—Transfer 33 positions, add 7 more	40
2. Data Processing—Add 47 positions (see Item 301)	47
3. Child Support Collection Program—add 43.5 positions	43.5
4. Food Stamps—federal regulations—add 83.5 positions	83.5
5. Administrative cost control—add 15 positions	15
6. Conversion of temporary clerical help to permanent positions	+21.6 -21.6
7. Other new positions	38.1
Subtotal	267.1
Departmental Total	765.7

a division within the department and the Audits and Collections Division was abolished. The Governor's Budget requests $35,872,829 to operate the division in 1976–77 which is an increase of $4,860,998, or 15.7 percent, over anticipated expenses for the current year. The division is supported by reimbursements from the Employment Development Department and the Franchise Tax Board. Table 2 shows the areas of increased expenditure for this division.

Table 2
Employment Tax Division
Increases in Administrative Costs by Program
1976–77

Reimbursing Department	*Tax Collection, Auditing and Accounting Program*	*Cost of Administration 1975–76*	*1976–77*	*Percent Change*
Employment Development	Unemployment Insurance	$20,401,204	$24,895,548	+22.0%
Employment Development	Disability Insurance	3,696,936	3,797,782	+2.7
Franchise Tax Board	Withholding of state Income Tax	6,662,404	6,910,995	+3.7
Employment Development	Classified School Employees	251,287	268,504	+6.8
		$31,011,831	$35,872,829	

The Employment Tax Division collects, audits and accounts for payroll taxes which California's employers withhold for unemployment insurance, disability insurance and state personal income taxes. It is anticipated that over $4.8 billion in payroll withholding taxes will be collected from approximately 495,000 employers in fiscal year 1976–77. Table 3 shows the estimated tax collections and number of contributing employers by program.

Table 3
Employment Tax Division
Estimated Tax Collections and Contributing Employers
1976–77

	Employers	*Tax Revenues*
Unemployment Insurance	445,000	$1,443,500,000
Disability Insurance	495,000	521,945,288
Personal Income Tax	428,360	2,867,000,000
		$4,832,445,288

In order to carry out its tax related responsibilities the Department of Benefit Payments has organized the Employment Tax Division into three branches: Field Operations, Technical Services and Central Operations. The Field Operations Branch has 37 field offices which register new employers, audit employer's books, collect delinquent taxes and wage reports as well as determine the amount of wages actually paid in cases where the amount of unemployment insurance benefit is in question.

The relatively small Technical Services Branch provides the rest of the division with administrative and policy direction. Specifically, this branch develops program and workload data needed for managing and budgeting. It also develops and interprets regulations, develops operating procedures, analyzes legislation, works with the Employment Development Department to improve data processing services and assists in the planning of organizational changes.

The Central Operations Branch is a large organization with a number of specialized units processing various portions of the branch's total workload. This branch is organized into four bureaus: Tax Accounting, Insurance Accounting, Tax Audits and Collections, and Classified School Employees Trust Fund. These bureaus process tax revenues, review tax forms for accuracy, maintain employer registration files, process contested unemployment insurance payments, charge benefits paid to the proper accounts, process tax refunds, handle tax appeals and collect unemployment insurance related taxes from school districts.

Table 4 shows the currently authorized positions and the 472.1 requested new positions for the Employment Tax Division.

Table 4
Employment Tax Division
Currently Authorized and Requested New Positions
1976–77

	Currently Authorized	*1976–77 Requested New Positions*
A. Tax Division Administration	7	0
B. Field Operations Branch (37 Field Offices)	551.2	85
C. Technical Services Branch	30	11.4
D. Central Operations Branch	2	0
1. Insurance Accounting Bureau	586.1	173
2. Tax Accounting Bureau		73
3. Audits and Collections Bureau	78	12
4. Classified School Employees Bureau	13.5	0
5. Temporary Help	79.6	0
E. Unallocated requested new positions	0	108.1
Employment Tax Division	1,347.4	472.1

Workload Budgeting

We recommend that prior to budget hearings the Department of Bene-

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

fit Payments develop, in consultation with the Department of Finance and the Legislative Analyst's office, a workload budgeting model to justify staff increases or decreases in the Employment Tax Division similar to that used for departmental fair hearings.

Further, we withhold recommendation on the requested 472.1 positions until the new budgeting model is presented to the fiscal subcommittees which hear the department's budget.

Last year the Employment Tax Division requested and received 178.5 new positions. This year the division is requesting 472.1 new positions. All the proposed positions will be funded with federal unemployment insurance money. There are three major reasons which account for the availability of additional federal funds. First, the U. S. Department of Labor increases funds for staffing as workload increases, and increased unemployment has significantly increased this division's workload. Secondly, recent federal and state law extended unemployment insurance coverage to agricultural workers which increased workload in the tax collection area and in the area of benefit payments to unemployed agricultural workers. Finally, in this period of high unemployment the federal government has liberalized its formula for making funds available to states so that backlogs and other factors causing delays in the timely payment of unemployment benefits can be minimized.

We have recommended the development and use of a budgeting procedure similar to that used in the department's fair hearings activity because we are not satisfied that the documentation submitted to date adequately identifies workload elements, existing standards of productivity or projected workload trends. The positions proposed for the Employment Tax Division should be based on best estimates of anticipated workload rather than on a combination of anticipated federal funding and anticipated workload. We believe that data developed for the federal cost model can be utilized to produce an objective and comprehensible budgeting procedure which is suitable for state budgeting purposes. For this reason, we recommend that the Legislature withhold approval of the division's 472.1 proposed positions until a more suitable budgeting model is developed.

Health Operations

The Department of Benefit Payments is responsible for fiscal audits of organizations which provide health care services through the Medi-Cal, Crippled Children, Short-Doyle and other state and federally funded health care programs. In addition to the recovery of overpayments made to health care providers, this program also attempts to recover funds from any insurance companies which have an obligation to pay all or part of a Medi-Cal recipient's bills for medical services received. The Governor's Budget requests $4,903,011 (state and federal funds) to operate the Health Operations program in fiscal year 1976–77 which is $803,743, or 19.6 percent, more than is anticipated to be expended during the current year.

For fiscal year 1976–77 the Governor's Budget requests 26.5 new positions. Table 5 shows the location of the authorized and proposed positions for the 1976–77 fiscal year.

Budget Request—Health Operations

We recommend approval of the 26.5 requested new positions for the Health Operations Branch.

The Health Recovery Bureau has requested authority to expend an additional $194,563 in order to recover an estimated $2,557,000 essentially from insurance companies which have an obligation to pay all or part of a medical bill which was paid for by the state through the Medi-Cal program. Ten of the 13.5 positions for the Health Recovery Bureau are proposed to improve the speed with which insurance companies are billed for their portion of medical bills. This is accomplished by more rapid coding of documents for the automated billing system. Two additional positions are to be used to secure approximately $135,000 in reimbursements from health providers for overpayment resulting from improper provider billings. The remaining position is to be devoted to collecting approximately $250,000 in accounts receivable from medically indigent persons.

Table 5
Health Operations Program
Existing and Proposed New Positions
1976–77

Location of Positions	*Currently Budgeted Positions*	*Proposed new Positions*
Chief of Health Operations	2	0
Health Audits Bureau	121	12
Health Recovery Bureau	72	13.5
Health Appeals Bureau	13	1
Support staff in other bureaus	10.4	0
	218.4	26.5

The Health Audits Bureau has requested 12 new positions to improve the timeliness of audits in the Short-Doyle program and to audit new programs. Five of the positions are to reduce the backlog of unaudited local Short-Doyle programs. Four positions are proposed for audits of the alcoholism program, one for drug abuse programs and two for the social rehabilitation services programs. On the basis of the anticipated revenue and improved program administration resulting from increased recovery and audit activity we recommend the approval of the requested 26.5 positions.

WELFARE OPERATIONS

The Welfare Operations portion of the Department of Benefit Payments includes all functions in the department except those in the Employment Tax Division and the Health Operation program discussed earlier. The principal reason for the existence of Welfare Operations is to service the fiscal and program needs of county welfare departments either directly or indirectly. Table 6 shows the number of positions in each unit within the Welfare Operations portion of the department.

Budget Request—Administrative Hearings

We recommend the transfer of 33 fair hearings positions from the Office of Administrative Hearings and approval of seven new fair hearings positions.

The budget proposes the transfer of the 33 Office of Administrative

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

Table 6
Welfare Operations—Number of Positions by Function

	Currently Authorized Positions
A. Welfare Program Administration	
1. AFDC/Food Stamp/Adult/Support Enforcement Branches	82
2. Legal/Planning/Legislative/Regulations/Public Inquiry	87
3. Casework Review-Error Detection/Management Consulting	110
B. Fair Hearings	112
C. Claiming and Accounting Functions	112.4
D. Program Statistics and Cost Estimating	63
E. Support Functions	333
F. Director's office plus non-welfare units in welfare operations	15
G. Responsible Relative Program (phasing out)	55
	969.4

Hearings (OAH) positions to the Department of Benefit Payments. By budgeting the positions in the department rather than in OAH, the department has estimated that savings of $230,000 will be achieved. A study of 498 randomly selected cases indicates that the quality and impartiality of fair hearing decisions should not suffer if transferred to the Department of Benefit Payments.

Recent legislation required the department to review fair hearings referees' proposed decisions within 30 days or else the proposed decision becomes operative without review. To meet the 30-day review deadline, the department has administratively established five positions funded through a contract with McGeorge Law School. In the budget year, the administration proposes to directly fund the central review unit through the operating budget rather than through contract.

The department grants or denies requests for rehearing of fair hearing decisions. Currently, the workload involved in deciding whether or not a case shall be reheard is processed by McGeorge Law School students working under contract. For the budget year, the department proposes to establish two hearing assistant positions within the Chief Counsel's office to process this workload.

Budget Request—Child Support Collections

We withhold recommendation on 43.5 requested new positions for the Child Support Collections program.

PL 93-647 (Title IV-D of the Social Security Act) and state implementation legislation, Chapter 924, Statutes of 1975, (AB 2326) reformed California's system for collecting child support payments from absent fathers whose children are on welfare. Part of the federal reform imposed significant new accounting and reporting requirements on counties and on the state. In order to fulfill its additional responsibilities, the department has requested 43.5 new positions. Table 7 shows the bureaus scheduled to receive the positions.

Prior to making recommendations on these positions, we plan to review more completely the justification for the scope of activities performed, the overall system designed to handle the flow of reports from counties, and the workload actually experienced in this program to date.

Table 7
Distribution of Child Support Program
New Positions by Bureau

Accounting Bureau	13.5
Claims Audit and Control Bureau	15.0
Financial Planning Bureau	8.0
Estimates Bureau	1.0
Information Development Bureau	1.0
Child Support Office	1.0
Computing Facilities Bureau	4.0
	43.5

Budget Request—Food Stamp Program

We withhold recommendation on 36 of the 83.5 new positions requested for the Food Stamp program.

The department is requesting continuation of the 83.5 new positions administratively established in the current year to review the quality of casework in county operated food stamp programs. These positions were established in response to recently issued federal efficiency and effectiveness regulations. The regulations aim to determine why and to what extent food stamp recipients either pay the wrong amount for food stamps or why and to what extent ineligible persons are provided food stamps. These determinations are made by the random selection and in-depth review of at least 1,260 case files each six months. When the results of the review are available, the state must work with counties to correct the pattern of casework errors discovered.

We recommend that the 27 positions for the Quality Control Bureau be approved for the federally mandated review of 1,260 cases each six months. The department's request for these positions is based on experience in the AFDC program. In AFDC, production averaged 12.5 completed case reviews per month per worker which is considerably better than the eight cases per month workload standard suggested by federal regulations. The department's food stamp request is based on the assumption that 12.5 cases will be reviewed per worker per month. The 27 positions include three supervisors and three clerical positions plus four analysts to review the required sample of 800 denied cases.

We further recommend the approval of the 14 positions requested for the food stamp branch to work with the counties to correct the problems discovered by the reviews.

We withhold recommendation on the 36 positions for the Program Review Bureau pending further review of options available to the state in responding to the federal mandate to review food stamp operations in 37 counties each year. The requested 36 new positions for the Program Review Bureau are in essence to be used to perform case reviews to determine what the quality of food stamp casework is in a particular county rather than in the state as a whole. We are not convinced that the use of 36 positions on the Food Stamp program alone is of the highest priority. We are more concerned about the quality of casework performed by county welfare departments in the Medi-Cal program because the state has a much larger fiscal involvement in the payment of medical bills and the payment of administrative expenses. The state has no fiscal involvement in the food stamp program except in administrative costs.

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

The Department of Benefit Payments is responsible for determining the quality of casework in the Medi-Cal program as well as in the AFDC and Food Stamp programs. Such Medi-Cal case review work is funded through a contract with the Department of Health. From the state's perspective, it would be preferable to improve the quality of casework in Medi-Cal areas before focusing resources on the Food Stamp program. Currently, there are no plans to conduct in-depth individual county casework reviews for the Medi-Cal program in 1976–77.

Budget Request—County Administration

We recommend the approval of 15 positions related to the county administrative cost control.

The department proposes the continuation of 12 positions administratively established this year to make the county administrative cost control effort operational and the addition of three new positions in the AFDC branch which would also work in the administrative cost control area. The three additional positions would be used to improve liaison with the counties in the area of administrative cost control.

Budget Request—Specialized Services

We recommend approval of the conversion of 21.6 temporary clerical positions to full-time permanent positions.

Over a period of time, the clerical workload in the Specialized Office Services Bureau and the Program Information Bureau has increased. As workload increased, the department has hired temporary help from blanket funds available to it. From the department's perspective, the problem with the long-term use of temporary help is that too many temporary employees leave soon after they are trained either to accept permanent employment or because of expiration of their appointment. Thus, a good deal of time is lost in the recruitment and training of temporary personnel.

Blanket Funds

We recommend that blanket funds for temporary help and other purposes be adequately budgeted but be appropriated to the Department of Finance for allocation.

We further recommend that such blanket funds not be used to fund permanent new departmental activities and that the Legislature be notified of changes in the purposes for which such funds are expended.

The State Administrative Manual (SAM) defines the term "blanket" or "blanket funds" as follows:

> "A temporary or seasonal position or blanket is an authorization in the approved budget in terms of the amount of salaries and wages that may be spent for a specified purpose rather than in terms of the number of classifications of individuals to perform the activity. - - -
> The approved Governor's Budget contains authorization for various types of blankets. A blanket authorization specifies the amounts of dollars that may be expended for the budgeted purpose such as temporary help, seasonal help, and indefinite military leave."

The Department of Benefit Payments welfare operations uses blanket funds to hire clerical and other personnel on a limited term basis (1) to process peaks of workload, (2) to pay overtime salary costs, (3) to pay lump sum vacation obligations when an employee is leaving, (4) to recruit and hire minority employees, and (5) to overlap positions so that a new employee can learn the assignment of an existing employee who is leaving. During the past fiscal year, expenditures for the above purposes totaled $840,000. For the current year, such expenditure levels appear to be continuing at the same level. The 1976–77 budget as introduced contains only $147,000 for these purposes.

It is possible for the department to redirect positions from one bureau to another bureau for a new or expanded activity and then fill in behind the transferred positions using temporary help from the blanket. Later the temporary help can be converted to permanent positions with the justification that continuing workload necessitates permanent positions.

We understand that the Department of Finance has, in the past, increased the amount of funds available for blanket expenditures during the course of a fiscal year by approving budget revision letters which transfer money from salary savings to the appropriate blanket. This procedure provides the Department of Finance with a control mechanism over funds which could otherwise be used for almost any purpose the department wishes. However, the existing procedure is defective in that it does not provide for adequate legislative review.

We recommend that the following procedure be established for the use of blanket funds. First, that blanket funds be adequately budgeted by blanket number but appropriated to the Department of Finance to be allocated as needed to the Department of Benefit Payments. This procedure allows continued oversight by the Department of Finance but it also provides the Legislature the opportunity to review departmental activities conducted through blanket appropriations. Under current procedure funding for blanket activities is contained within salary savings and is not easily subject to review. We also recommend that blanket funds not be used either directly or indirectly to fund new activities within the department.

Unexpended General Fund Money

We recommend reduction of $676,984 in Item 300 from the departmental appropriation in anticipation of salary savings and lower than the projected employee benefit costs.

For the past several years the Department of Benefit Payments has experienced large unexpended General Fund balances at the end of the fiscal year as is shown on Table 8.

Large unexpended General Fund balances can accrue for a variety of reasons including the following: improper estimates of salary savings, overestimates of General Fund sharing ratios, overestimates of employee benefit costs and overestimates of operating equipment and expenses.

Last year, when the Legislature considered the department's operating budget, it was thought that at the end of the 1975–76 fiscal year the unexpended General Fund balance would again be large. In recognition of this probability, the Legislature transferred $800,000 from the main

DEPARTMENT OF BENEFIT PAYMENTS OPERATING BUDGET—Continued

Table 8
Unexpended General Funds
Department of Benefit Payments

Fiscal Year	*Estimated Savings in "current year" Budget*	*Actual Unexpended General Fund Money*
1972-73	$654,620	$3,755,688
1973-74	362,254	1,751,501
1974-75	380,221	2,355,022
1975-76	283,284[a]	—

[a] Estimated in 1976-77 Governor's Budget.

appropriation for the department into a separate item rather than remove the entire amount from the department's budget. The Department of Finance was then provided authority to allocate the $800,000 to the department if the need should arise. Later the amount available for allocation to the department was reduced to $492,000 by the Governor.

During the current fiscal year the Department of Finance has approved the establishment of many new positions which has reduced the amount of anticipated General Fund savings. The major staff additions which affect the General Fund are shown in Table 9.

Table 9
Cost of 1975-76 Mid-year Staff Changes
Department of Benefit Payments
As Contained in 1976-77 Governor's Budget

	1975-76 General Fund Cost
1. Model Modular EDP Project	$522,710
2. Food Stamp Efficiency and Effectiveness Regulations	503,816
3. Child Support Collections: PL 93-647	130,287
4. Other Staff Increases	200,743
5. Augmentations to Blanket Funds	300,000
6. Phase-out of Responsible Relative Program and Elimination of Prepaid Health Plan Audits	−340,000
	$1,337,556

Our estimate of unexpended General Fund balances for 1976-77 is $676,984 which is based on the assumption of a 54 percent state share for the support of the health operations program and an increase in salary savings which we believe more accurately reflects the department expenditures based on prior year's experience of unexpended balances.

AFDC Cash Grants and Control Section 32.5

We withhold recommendation on the appropriate amount for Control Section 32.5 pending receipt and review of the May 1976, subvention estimates.

The budget bill does not contain an item which appropriates funds for the Aid to Families with Dependent Children (AFDC) program because the Welfare and Institutions Code provides a continuous appropriation for AFDC aid payments. However, Control Section 32.5 of the Budget Bill limits funds available to a specified dollar amount and provides that the

Director of Finance may increase the expenditure limit in order to provide for unexpected caseload growth or other changes which increase aid payment expenditures.

The budget proposes an appropriation of $561,091,200 for AFDC aid payments which is $44,350,400 or 8.6 percent more than estimated to be expended in the current year. However, the requested amount will be changed when the Department of Finance submits the May Revenue and Expenditure Budget Revision to the Legislature. The budget revision will be based on the department's May 1976, subvention estimates which take into account the latest available caseload and expenditure data. We will review these estimates and make our recommendations at that time.

AFDC Caseload and Cost Trends

The Governor's Budget anticipates very little change in AFDC caseload in the budget year. The AFDC Family Group caseload is projected to decline by two-tenths of one percent while the AFDC-Unemployed caseload is projected to decline by 5.4 percent. The Foster Care caseload is expected to increase by eight-tenths of one percent.

Table 10 shows the anticipated AFDC caseload changes.

Table 10
1976–77 Governor's Budget
Projected AFDC Average Monthly Caseload Changes
(Persons Count)

	Actual 1974–75	*Estimated 1975–76*	*Estimated 1976–77*	*Change Caseload*	*Change Percent*
AFDC-Family Group	1,205,321	1,233,000	1,230,490	−2,510	−0.2%
AFDC-Unemployed	140,655	174,160	164,725	−9,375	−5.4%
AFDC-Foster Children	30,385	29,300	29,540	+240	+0.8%
	1,376,361	1,436,500	1,424,755	−11,745	−0.8%

The AFDC caseload projections reflect an anticipated improvement in the economy. If the economy does not improve or if there is no drop in caseload in spite of a modest economic upturn, the budget year caseload in May 1976 subvention estimates should show increased caseload.

The Governor's Budget requests an increase of $44,350,400 over the amount anticipated to be expended this fiscal year. Table 11 shows the areas of requested increase.

Table 11
AFDC Program—General Fund Expenditures

AFDC Program	*Actual 1974–75*	*Estimated 1975–76*	*Estimated 1976–77*	*Change Amount*	*Change Percent*
Family Group (FG)	$375,134,562	$427,352,300	$469,828,500	$42,476,200	9.9%
Unemployed (U)	47,035,508	65,723,000	67,496,900	1,773,900	2.7%
Foster Care (BHI)	25,889,159	23,665,500	23,765,800	100,300	.04%
	$448,059,229	$516,740,800	$561,091,200	$44,350,400	8.6%

The Governor's Budget indicates that $37 million of the increase in AFDC-FG program results from the annual cost-of-living increase. The Department of Finance informs us that the remaining portion of the AFDC-FG increase, $5,476,200 is related to increased average grant costs resulting from less full and part-time employment among AFDC recipients.

In the AFDC-U program the Governor's Budget indicates the cost-of-living increase of $4.5 million will almost be offset by a caseload decrease estimated to save $4.1 million. The remainder of the AFDC-U increase, $1,373,900, is related to expected decreases in recipient income which increases grant cost.

AFDC Cost-of-Living Increase

AFDC recipients receive cost-of-living increases in July of each year. The increases are based on changes in the consumer price index. The increase payable in July 1976 anticipates an 8.7 percent change in the consumer price index, based on 12 months of inflation, measured from December 1974 to December 1975.

Department of Benefit Payments
MODEL MODULAR DATA PROCESSING PROPOSAL

Item 301 from the General Fund — Budget p. 773

Requested 1976–77	$680,183
Estimated 1975–76	N/A
Total recommended reduction	$581,082

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *County EDP Systems Review Function. Reduce Item 301 by $581,082.* Recommend staff reduction of 43 of 47 positions requested. 613
2. EDP Guidelines. Recommend establishment of guidelines to preclude review of minor county EDP projects. 614
3. Los Angeles County Welfare System. Recommend increased monitoring of the management information system development and steps to limit state support to an appropriate level. 614
4. Need for Adequate County Data. Recommend Budget Act language to enable improved county reporting of costs and recovery of state funds when county savings do not materialize. 615

Model Modular County EDP System

In 1974 the Department of Benefit Payments initiated a joint state-county effort to explore the feasibility of developing what it termed a model modular county EDP system. This effort has been continued in the current year and represents the latest in a series of departmental attempts to achieve economies relative to the development and operation of automated county welfare information systems. For the most part, such system development and operation has been conducted on an independent county basis. It has been the department's contention that substantial savings can be realized if model systems are developed from selected components of existing county automated systems and used by the counties (in lieu of independent county systems). Impetus for the department's model system effort was prompted by an increase in the cost of automated county welfare processes (a cost shared by the state) from $6 million in 1970–71 to an estimated $14 million in 1975–76 and a projected $25 million annually in the near future, and by the desire to avoid duplication of effort in many counties.

Funds totaling $1,045,420 ($522,710 federal) are provided in Item 287.2 of the current budget for initial implementation of the model system. Language in Item 287.2 precludes the expenditure of these funds until the department has prepared a detailed estimate of resources required and schedule of events and has received Department of Finance approval of a feasibility study.

Feasibility Study Completed

The joint state-county effort to explore feasibility of the model system effort was completed in October 1975. The study explores a number of alternatives which range from development of a totally centralized and state-operated system to the alternative of maintaining the status quo (whereby the department's County EDP Bureau monitors county systems and has approval authority for proposed changes and additions to each system).

The study conclusion rejects direct implementation now of a central or regional standardized data-processing operation and favors instead a gradual approach to increased sharing of systems. The department proposes to accomplish this by substantially increasing staff assigned to the department's County EDP Bureau, and upgrading the bureau to branch level. According to the study, the increased staff will be used primarily to (1) develop a standard set of data elements for eventual use in all county systems, (2) develop a central program library, (3) effect greater staff involvement in evaluating proposed and current county welfare EDP development, and (4) develop other packages for use by the counties such as a manual of guidelines for system development and a catalog of input and output forms.

Staff Augmentation Excessive

We recommend deletion of 43 positions from the expanded county EDP systems monitoring function for a savings of $1,162,164 ($581,082 General Fund).

The alternative recommended by the department includes augmenting the present County EDP Systems Bureau staff of eight by administratively adding 47 positions in the current year using funds available in Item 287.2. The proposed budget includes $1,360,325 to continue operation of the expanded function at the 55-position level.

Assuming that county welfare EDP costs will increase to $25 million annually in the near future as estimated by the department, the state's

MODEL MODULAR DATA PROCESSING PROPOSAL—Continued

annual share under current sharing ratios will be approximately $6 million. The department could not provide a reasonable estimate of how much of this $6 million is systems development. If we assume an annual systems development cost of $3 million (undoubtedly a high estimate), the department would under its current plan expend $1.3 million each year to monitor and evaluate a $3 million development effort. The funds would not be used to develop a new system. The additional employees would only facilitate exchange of knowledge among counties.

Further, although many of the department's objectives in augmenting County EDP Bureau staff may be desirable, the potential for attaining a successful cost-benefit result is doubtful. In this instance, we believe a reasonable alternative is to provide a small state staff to work with the counties. Such a state effort would serve as a catalyst in assisting counties to reach agreement on practical systems goals which then can be implemented through a cooperative effort.

Our conclusion after a thorough evaluation of the model system feasibility study and discussions with the department regarding the alternative chosen is that (1) the staffing level proposed is not justified, (2) the end product would not necessarily cause substantial improvements in county data processing systems, and (3) 47 new positions could more profitably be used elsewhere. We recommend the elimination of 43 positions for a savings of $581,082 in state funds. We recommend approval of four new positions including one governmental program analyst, two associate data processing analysts and one clerk-typist II. These positions when added to the eight currently authorized in the County EDP System Bureau can provide increased benefits to the state which are more in line with practical responsibilities of the department and the fiscal magnitude of pending systems projects. We recommend the department defer the administrative establishment of the 47 positions during the current year pending the hearing of the budget by legislative committees.

Guidelines Needed

We recommend that guidelines be developed which will focus county EDP bureau staff resources on significant county welfare EDP projects.

At present, County EDP Bureau staff review proposed changes to county welfare EDP systems without regard to the significance of the change. This practice does not allow an optimum use of staff. The department should develop guidelines which will eliminate the review of relatively insignificant documents and focus staff activity on selected major county proposals which we believe demand closer monitoring, especially in the early stages of implementation while it is still possible to influence the course of events.

Welfare Case Management Information System (WCMIS)

We recommend that the department increase and maintain close monitoring of the Los Angeles County Welfare Case Management Information System.

We recommend further that the department take steps to ensure that the state does not pay for unused computer capacity and associated com-

puter operations which the department determines to be excessive.

In 1971, Los Angeles County initiated a major welfare EDP system development effort intended to replace existing welfare information-handling processes, many of which were not automated, with a new and comprehensive automated system known as the Welfare Case Management Information System (WCMIS). According to the department, the total cost of the development effort as of June 30, 1975 was approximately $4.2 million.

The 1975–76 cost is estimated at $6 million. Although the department was not able to identify the state's share of these costs, we assume that the state cost as of June 30, 1975 will approximate $1 million and there is a potential $1.5 million additional state cost for 1975–76.

The project is intended to result in substantial net savings. However, information obtained from the department based on its monitoring of WCMIS indicates the project has been redefined, the scope has now changed and anticipated savings have been postponed. Also, substantial computing capacity may have been acquired prematurely. Further, despite the expenditure of considerable amounts of funds to date, no phase of the system is operational. However, the current revised schedule indicates that a central recipient index will be operational this spring.

The department's monitoring of WCMIS has resulted in some reappraisal of the level of state financial support of this project. The department recognizes that it needs to increase the level of monitoring and intends to assign one of the proposed new positions to assist in monitoring WCMIS. We concur and recommend that the department assign an additional position to WCMIS to continue close surveillance of this effort. This activity can be accomplished within the staff which we have recommended for such purposes.

We believe also that the department should determine whether or not Los Angeles County has acquired computing capacity and associated equipment prematurely. If this is the case, the state should not pay for such unused resources. We raise this question because Los Angeles installed a large UNIVAC 1100 computer and is acquiring 330 remote terminals in the current year, many of which are, according to the department, apparently assigned at least temporarily to warehouse facilities.

Although the department has not succeeded in obtaining information from Los Angeles County regarding current computer usage, we expect that usage may be low because WCMIS is not operational. The department must take steps now to determine if significant costs will be incurred with little productivity. If there is a cost to the state associated with any premature delivery of equipment, the department should develop a means of limiting state support of WCMIS to a level which is commensurate with the goals of state funding.

Need for Adequate County Data

We recommend that Budget Act language be added to authorize the department to (1) withhold state financial support of county welfare EDP operations where a county does not provide a breakdown of welfare EDP costs as requested by the department, and (2) enter into agreement with *the counties wherein state support is tied to savings projected by the counties and state funds are recovered to the extent that savings do not materialize.*

We understand that the county EDP Systems Bureau has been unable to obtain from the counties sufficient breakdowns of county welfare EDP costs. This imposes a severe limitation on the bureau's ability to perform its functions, and results in the bureau being unable to determine the actual cost of county projects approved by the department. The counties can provide this information because the data are a necessary element of proper project management.

The WCMIS experience to date suggests the need for the state to protect its investment in system development efforts which are "sold" to the state on the basis of anticipated savings. In such cases it would be appropriate for the state to guarantee its support of a county project to the extent that the county will guarantee savings to the state. In order to provide the department with the ability to enter into agreements which will provide this guarantee, we recommend adoption of appropriate Budget Act language.

Lack of Compliance with Budget Act Language

Item 291 of the Budget Act of 1975 states in part that ". . . the department may authorize not more than $1 million (all funds) for expenditure by county welfare departments for the development of data processing systems in 1975–76, and all such approvals shall relate specifically to the development of the Model Modular EDP system and shall not contribute to the improvement of independent county EDP systems."

We believe that the department has failed to comply with this stipulation by approving the first phase of WCMIS which alone exceeds the $1 million limitation. Although we pointed out to the department the Item 291 restriction at the time approval of WCMIS was under consideration, the department obtained from its counsel a legal opinion which supported the approval. Our analysis of this opinion suggests that it is constructed simply to supply an interpretation of Item 291 which supports the departmental position.

Department of Benefit Payments
STATE SUPPLEMENTAL PROGRAM FOR AGED, BLIND AND DISABLED

Item 302 from the General Fund — Budget p. 775

Requested 1976–77	$679,581,400
Estimated 1975–76	637,117,300
Actual 1974–75	488,264,414
Requested increase $42,464,100 (6.7 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. May Caseload Estimates. Withhold recommendation on appropriate amount for Item 302 pending review of May 1976, subvention estimates. 617
2. Cost-of-Living Adjustment. Recommend Legislature review optional methods for calculating cost-of-living grant increases. 618

GENERAL PROGRAM STATEMENT

On January 1, 1974, the federal Social Security Administration assumed responsibility for direct administration of cash grant welfare assistance to California's approximately 655,000 aged, blind and disabled recipients with the establishment of the Supplemental Security Income program (SSI). Prior to that time California's 58 county welfare departments had administered cash grant programs for these recipients. Under provisions of state and federal law, California supplements the basic federal grant payment with an additional state payment, referred to as the State Supplementary Program (SSP). Each year the state supplemental payment is automatically increased to provide recipients with a cost-of-living adjustment. The adjustment is calculated based on changes in the Consumer Price Index.

ANALYSIS AND RECOMMENDATIONS

We withhold final recommendation on the appropriate amount for Item 302 pending receipt and review of the May 1976, subvention estimates.

The budget proposes an appropriation of $679,581,400 for the state share of the cost of aid payments to aged, blind and disabled recipients. However, in April the Department of Benefit Payments will prepare updated estimates based on the most recent caseload and cost experience which will be included in the May Revenue and Expenditure Budget Revision submitted to the Legislature by the Department of Finance. We will review the May 1976, subvention estimates and make our recommendations at that time.

Department of Benefit Payments

STATE SUPPLEMENTAL PROGRAM FOR AGED, BLIND AND DISABLED—Continued

The Size of the Cost-of-Living Adjustment

We recommend that the Legislature review the optional methods for calculating adult cost-of-living grant increases prior to approving Item 302 and that the Legislature specify a comparison month for purposes of calculating a cost-of-living adjustment.

For fiscal year 1976–77, the methodology used to calculate the cost-of-living adjustment for aged, blind and disabled recipients is especially important because it will determine whether most recipients will receive a $7 or a $14 monthly increase. The Governor's Budget proposes the use of a methodology which would result in a $7 monthly increase at a General Fund cost of $61.1 million. A $14 monthly increase would result in an additional General Fund cost of approximately $61 million or $122 million total cost.

Historical Perspective. In order to understand why the law which governs the calculation of the cost-of-living increase is susceptible to interpretation, it is necessary to review changes in procedure over the last several years. Prior to the implementation of the federal HR 1 legislation, which established the SSI/SSP program, cost-of-living increases were based on year-to-year percentage changes in the Consumer Price Index (CPI), just as they are now. However, the dates used to calculate the percentage change were different. At that time, the change was measured from June of one year to June of the following year. Six months later, in December, the cost-of-living increase was implemented.

However, Chapter 1216, Statutes of 1973 (AB 134), provided that the annual cost-of-living adjustment be paid in July, or six months later than it had been. The initial effect was a one-time six-month delay in the payment of the cost-of-living adjustment. The first cost-of-living adjustment under the new law was to take place in July, 1975.

The Governor's Budget for 1975–76, as introduced, proposed a cost-of-living adjustment for the current year which would have compensated recipients for 12 months of inflation at an estimated General Fund cost of $114 million. The increase proposed in the Governor's Budget was based on changes in the CPI between June 1973 and June 1974, the increase to be paid July 1, 1975 one year later. However, the Legislature augmented the 1975–76 Budget Act by $65.2 million which took the one-time six-month delay into account, and gave recipients an 18-month cost-of-living increase, rather than the 12-month increase proposed by the Governor's Budget. The increase covered the period from June 1973 to December 1974, and was paid in July 1975, six months later.

This year the Governor's Budget proposes a $7 cost-of-living increase which is based on six months of additional inflation as measured by changes in the CPI from December 1974 to June 1975. The lag period, the time between the final month used to measure inflation and the payment month, is again 12 months. The logic used to support this increase is that the 1975–76 increase was composed of two elements. The first element was the normal 12-month cost-of-living increase which was based on changes in the CPI between June 1973 and June 1974. This was a $16 increase. The second element was a special $8 monthly advanced payment which was based on changes in the CPI between June and December 1974.

The 1976–77 Governor's Budget assumes that the six month's special increase has already been provided and is currently part of the grant amount. This is the special $8 advanced payment referred to above. Therefore, from that perspective, it is only necessary to compensate recipients for the six additional months of inflation which occurred between December 1974 and June 1975.

Prior to the release of the Governor's Budget, we assumed that recipients would receive compensation for 12 months of inflation. Except for the July 1975 increase, recipients have routinely received an annual cost-of-living increase based on 12 months of inflation. The lag period (the period between the last inflation month and the payment month) has always been six months. We had assumed that legislative intent, in providing the special augmentation last year, was to grant recipients permanent compensation for the six-months delay related to transition to the new program. If that were legislative intent, then December would be established as the comparison month for calculating cost-of-living increases, rather than the preceding June as is proposed by the Governor's Budget.

In implementing the 1975–76 cost-of-living adjustment, the Department of Benefit Payments did in fact use December as the comparison month. However, the department was not mandated by Budget Act language to use any particular comparison month in calculating the 1975–76 cost-of-living increase. The Budget Act language provided only that the cost-of-living adjustment could not be more than $24 a month for an aged or disabled recipient, or $27 a month for a blind recipient. In other words, the Legislature gave the administration the latitude of increasing grants beyond that proposed in the Governor's Budget up to the amounts suggested by the Legislature. The Governor chose to give the full cost-of-living increase which recognized a six-month lag period.

If the Legislature believes recipients should receive a cost-of-living adjustment in July 1976, which reflects a six-month lag rather than a 12-month lag, then Budget Act language should be added to Item 302 which would specify that the cost-of-living adjustment for 1976–77 will be based on changes in the Consumer Price Index as measured from December 1974 to December 1975. This change would require the item to be augmented by approximately $61 million. If the Legislature desires a 12-month lag in the cost-of-living adjustment as proposed in the Governor's Budget, then no augmentation is required. The present budget proposal would provide $7 more a month to the average aged or disabled recipient living alone.

This is approximately a 2.7 percent increase in spendable income. A return to the six-month lag period would result in a $14 monthly increase. This increase represents approximately a 5.8 percent increase in spendable income.

Department of Benefit Payments

STATE SUPPLEMENTAL PROGRAM FOR AGED, BLIND AND DISABLED—Continued

Caseload and Cost Trends

The Governor's Budget anticipates a 4½ percent increase in the aged caseload and 16.8 percent increase in the disabled caseload in 1976–77. The blind caseload is projected to remain essentially stable. The reasons for the projected growth in adult caseloads are: first, the changes in the definition of disability, from permanently disabled to temporarily disabled, makes a larger percentage of the population eligible. Second, the federal Social Security Administration has had difficulty in annually redetermining eligibility for all cases. Therefore, the discontinuance rate is low which keeps caseload larger than it otherwise would be. Third, the higher grant levels of the new program allow more people to qualify for assistance. Finally, high cost of medical care and drugs causes many persons who only qualify for small grants to join the program so that they will have a Medi-Cal card and free medical care.

Table 1 compares current year and budget year caseloads.

Table 1
1976–77 Governor's Budget: Average Monthly Adult Caseload Comparison

	1974–75	*1975–76*	*1976–77*	*Increase Amount*	*Increase Percent*
Aged	312,970	335,100	350,300	15,200	4.5%
Blind	12,838	12,800	12,900	100	.7%
Disabled	267,169	318,000	371,300	53,300	16.8%
Total	592,977	665,900	734,500	68,600	10.3%

The Governor's Budget projects that aid payment expenditures for adult recipients will increase by $42.5 million in 1976–77. The major factors contributing to this are caseload growth and the cost-of-living adjustment increases, offset by a number of anticipated savings. Table 2 shows the increases and anticipated savings.

Table 2
Factors in the Net $40 Million Increase for Adult Program Aid Payments 1976–77

	General Fund Cost or Savings in Millions
Increased Costs	
1. Cost-of-living adjustment	$+61.1
2. Caseload growth	+34.7
Offset Savings	
3. Increased county contributions	−11.8
4. Hold harmless/baseline savings	−29.4
5. Declining mandatory supplement payments	−4.7
6. More countable recipient income	−7.4
Net General Fund increase	$+42.5

County Contributions

County contributions toward this program grow from year to year and are related to the percentage growth in the assessed value of property in a county. County contributions are estimated to be $131.4 million this year and $143.2 million in 1976–77, a 9 percent increase.

Hold Harmless Savings

The Governor's Budget anticipates that the state's so-called hold harmless or baseline payment will decline from $381.4 million in the current year to $352 million in the budget year. This savings results because federal cost-of-living adjustments partially offset state costs.

Mandatory Supplements

When the new adult program started, certain cases had to be given special supplementary payments so their grants would not be lower under the new program than under the old. With the passage of time there are fewer such cases.

More Recipient Income

The state is entirely responsible for adult grant costs above $217 a month. If a recipient has a monthly income above $217, the excess income reduces the amount of the grant the state furnishes. The Governor's Budget anticipates approximately $7.4 million will be available to recipients with monthly incomes of $217 or more. This increase in income results primarily from Social Security increases.

Department of Benefit Payments

FOSTER CARE PROGRAM

Item 303 from the General Fund — Budget p. 774

Requested 1976–77	$2,700,000
Estimated 1975–76	None
Total recommended reduction	$2,700,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Eliminate Item 303. Delete $2,700,000.* Recommend the amount required for the foster care program accompany proposed legislation. 622

GENERAL PROGRAM STATEMENT

Under current law the state will pay up to $40.50 a month toward the care of a foster child, if the case is eligible for federal matching funds. If the case is not eligible for federal funds, the state will pay up to $81.00 a month. In November 1975, the average foster care case cost $318 a month. Because the state share is a fixed amount which does not increase from year to year, counties have, in recent years, absorbed a larger percentage

FOSTER CARE PROGRAM—Continued

of total foster care and payment costs.

ANALYSIS AND RECOMMENDATIONS

We recommend the deletion of $2,700,000.

The administration requests the appropriation of $2,700,000 in anticipation of legislation which would increase state obligations in the funding of the foster care program. We recommend deletion of this request because the Governor's Budget does not explain or justify changes to be made in the foster care program. In addition, we do not know the cost of the final version of a foster care bill. We recommend also that the necessary funds be amended into the implementing legislation.

Department of Benefit Payments
SPECIAL ADULT PROGRAMS

Item 304 from the General Fund — Budget p. 776

Requested 1976–77	$3,845,400
Estimated 1975–76	3,431,650
Actual 1974–75	1,908,529
Requested increase $413,750 (12.1 percent)	
Total recommended reduction	Pending

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
304 (a)	Special Circumstances	General	$911,000
304 (b)	Special Benefits/Excess Value Homes	General	1,086,500
304 (c)	Aid to Potential Self-Supporting Blind	General	473,300
304 (d)	Emergency Payments, Loan Losses	General	1,374,600
			$3,845,400

GENERAL PROGRAM STATEMENT

Chapter 1216, Statutes of 1973, (AB 134) established a program to provide for the emergency and special needs of adult recipients. The program's special allowances, paid entirely from the state General Fund, are administered by the county welfare departments, rather than the federal Social Security Administration.

ANALYSIS AND RECOMMENDATION

We withhold final recommendation on the appropriate amount for Item 304 pending receipt and review of the May 1976 subvention estimates.

The budget proposes an appropriation of $3,845,400 for special adult programs which is $413,750, or 12.1 percent, more than is estimated to be expended during the current year. In May the Department of Benefit Payments will finalize updated estimates based on the most recent caseload and cost information which will be included in the May Revenue and Expenditure Budget Revision submitted to the Legislature by the Department of Finance. We will review the May 1976 subvention estimates and make recommendations at that time.

Special Circumstances (Item 304(a))

The Special Circumstances program is intended to provide adult recipients with special assistance in times of emergency. Payments can be made for replacement of furniture, equipment or clothing which is damaged or destroyed by a catastrophe. Payments are also made for moving expenses, housing repairs and emergency rent. The Budget Act of 1975 appropriated $2,222,700 for special circumstances. However, if current expenditure trends continue only $885,000 will be expended. It appears that two factors account for the low levels of expenditure. First, current regulations require recipients to use up all liquid assets before they are eligible for the benefits of this program. Secondly, it appears that many recipients are not aware of the existence of this special program.

Special Benefits/Excess Value Homes (Item 304(b))

The Excess Value Home program provides aid payments to aged, blind or disabled persons who would qualify for the regular SSI/SSP program except that they own homes valued at $25,000 or more. The Budget Act of 1975 appropriated $1,279,000 for this program. However, if current expenditure trends continue only $653,800 will be expended.

Aid to Potential Self-Supporting Blind Program (Item 304(c))

The Aid to Potential Self-Supporting Blind program allows blind recipients to retain more earned income than the basic program for blind recipients as an incentive for recipients to become economically self-supporting. Expenditures for this program have been very close to the amounts budgeted.

Uncollectable Loans (Item 304(d))

Chapter 1216, Statutes of 1973, (AB 134) mandated that counties provide emergency loans to aged, blind or disabled recipients whose regular monthly check from the federal Social Security Administration has been lost, stolen or delayed. In the event a county cannot obtain repayment of the emergency loan, the state must reimburse the county for the loss. If current trends continue, it appears that approximately $900,000 of the $2,281,600 appropriated for reimbursement of uncollectable loans will not be expended in the current year. In part, this is because a procedure has been worked out with the federal government whereby the counties can deduct the loan amount from the federal check before it is forwarded to the recipient. Also the Social Security Administration is doing a better job of delivering checks to recipients.

Because three of the four programs funded through Item 304 are relatively new and have not yet settled into predictable expenditure patterns, expenditures for the remainder of this fiscal year will be important in

SPECIAL ADULT PROGRAMS—Continued

determining how much should be budgeted for 1976–77.

Department of Benefit Payments
ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS

Item 305 from the General Fund — Budget p. 777

Requested 1976–77	$74,500,500
Estimated 1975–76	66,474,100
Actual 1974–75	56,949,223
Requested increase $8,026,400 (12.1 percent)	
Total recommended reduction	Pending

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
305			
	A. AFDC Administration	General	$52,296,100
	B. Administration of Special Adult Programs	General	1,351,400
	C. Food Stamp Administration	General	20,253,000
	D. Emergency Payments Administration	General	600,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. May Caseload Estimates. Withhold recommendation on appropriate dollar amount for Item 305 pending receipt and review of May 1976 subvention estimates. 624

GENERAL PROGRAM STATEMENT

Item 305 of the 1976–77 Budget Bill contains the General Fund appropriation for the state's share of the costs which the 58 county welfare departments incur in making eligibility determinations and benefit payments in the AFDC and Food Stamp programs. State funds for the administration of the small special benefit program for aged, blind and disabled recipients still operated by county welfare departments are also included in this item. Funds for county welfare department social service programs and for Medi-Cal eligibility determination programs are not included within this item. However, funds to cover the administrative expenditures of district attorneys' offices related to the AFDC child support collections program are included. Table 1 shows anticipated total administrative expenditures and sharing ratios for Item 305.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the appropriate dollar amount for Item 305 pending receipt and review of the May 1976 subvention estimates.

Table 1
1976–77 Governor's Budget—Item 305
County Administrative Costs and Sharing Ratios

Programs	*Total administrative expenditures (all funds)*	*Percentage of cost* Federal	State	County
1. AFDC				
a. County welfare departments	$204,887,500	50%	25%	25%
b. District Attorneys—Child support	31,533,600	75	—	25
2. Food Stamps (nonwelfare cases only)	83,906,100	50	25	25
3. Adult Programs				
Administration of special benefits	1,351,000	—	100	—
Administration of emergency loans	600,000	—	100	—
Total (All Funds) Item 305	$322,278,200			

In April and May 1976, the Department of Benefit Payments will prepare updated county administrative cost estimates for 1976–77 based on the most recent administrative expenditure claims and workload data submitted by the counties. Upon completion of these updated estimates, the Department of Finance will submit a budget letter changing the amount of the request for Item 305. We will work closely with the department to review data and estimating methods. If this item is again to be a closed-ended appropriation used in conjunction with a cost control plan, it is important that the item be carefully budgeted and that the data and assumptions used to develop the appropriation be available for detailed review.

The budget proposes an appropriation of $74,500,500 for Item 305 which is 12.1 percent, or $8,026,400 more than the amount the Governor's Budget estimates will be expended in the current year. The amount requested was derived based on the following assumptions.

AFDC Program. First, 1976–77 estimates assume no growth in AFDC county welfare department workload because caseload is projected to remain essentially constant.

Secondly, increases in salaries, benefits and operating expenses are expected to average only 6.7 percent in 1976–77 on a statewide basis.

Food Stamp Program. It is assumed that food stamp administrative costs will increase rapidly in the current year and in 1976–77 because of cost-of-living increases, and workload increases. Administrative cost per case, the basic unit used for estimating purposes, received a 9.98 percent cost-of-living increase for the current year to reflect actual increases in county salary and benefit costs. For 1976–77 the unit cost per case was increased an additional 6.7 percent to reflect anticipated county cost-of-living increases for employees. The Governor's Budget also anticipates significant workload increases in the current year and in 1976–77 resulting from the food stamp outreach program and normal program growth. The outreach effort is intended to make potential food stamp users aware of the program, thus increasing the applications workload and the workload for maintaining ongoing cases. Workload increases related to outreach are expected to increase administrative costs by $6.9 million this year and

ADMINISTRATION OF COUNTY WELFARE DEPARTMENTS—Continued

$10.4 million in 1976–77, all funds. New federal mandates will require counties to have additional staff to concentrate on the improved management of the Food Stamp Program.

In preparing the budget for the 1976–77 fiscal year, the Department of Finance reduced the 1975–76 expenditure estimate by $2.4 million based on the assumption that the department's administrative cost control effort will reduce expenditures. For 1976–77 the Department of Finance assumed savings related to the administrative cost control effort would increase by an additional $500,000. Table 2 summarizes the major areas of anticipated growth in county administrative costs.

Table 2
1976–77 Governor's Budget—Item 305
Estimated Changes in County Welfare Department Administrative Costs

	General Fund (millions)
1. 1975–76 Base	$66.4
2. AFDC workload increases	-0-
3. AFDC—Salary/Benefit/Operating Expenses/Equipment increases	3.3
4. Transfer to Item 304(d): Uncollectable loans	−1.3
5. Food Stamp Salary/Benefit/Operating Expenses/Equipment increases	2.4
6. Food Stamp Workload—outreach and normal growth	4.1
7. Federal mandate: improved management	.3
8. Other minor increases and offsets	—.2
9. Additional cost-control-plan savings	—.5
1976–77 General Fund Request	$74.5

A full discussion of problems related to the administration of the AFDC and food stamp programs at the county level and the issues related to administrative cost control are discussed as part of Item 290, Medi-Cal administration.

Department of Benefit Payments
LOCAL MANDATED COSTS

Item 306 from the General Fund — Budget p. 782

Requested 1976–77	$300,000
Estimated 1975–76	203,164
Actual 1974–75	97,742
Requested increase $96,836 (47.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

In January 1972, classified employees of local school districts were covered by unemployment insurance. School districts reimburse the Unemployment Insurance Fund for the actual cost of insurance benefits paid to classified staff when they become unemployed. Chapter 1012, Statutes of 1973, and Chapter 1256, Statutes of 1975, (AB 91) increased weekly unemployment insurance benefits from $75 to $104.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The increased benefits levels would increase local reimbursement costs except that Section 2231 (a) of the Revenue and Taxation Code requires the state to reimburse local school districts for additional costs resulting from state requirements imposed after January 1, 1973.

DEPARTMENT OF CORRECTIONS

Items 307- 311 from the General Fund — Budget p. 786

Requested 1976–77	$205,011,442
Estimated 1975–76	199,057,249
Actual 1974–75	178,919,131
Requested increase $5,954,193 (3.0 percent)	
Increase to improve level of service $300,000	
Total recommended reduction	None

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
307	Departmental Operations	General	$202,212,508
308	Transportation of Prisoners	General	200,000
309	Returning Fugitives from Justice	General	700,000
310	Court Costs and County Charges	General	1,598,934
311	Local Detention of Parolees	General	300,000
			$205,011,442

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. San Quentin Replacement or Reconstruction. Recommend population at San Quentin State Prision be reduced to 1,000 inmates, subject to adoption of recommendations in capital outlay portion of this analysis. 631
2. Unallocated Redirection. Recommend identification of program reductions to effect savings equal to proposed transfer of $683,000 to the Department of Rehabilitation. 637

DEPARTMENT OF CORRECTIONS—Continued

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, 18 camps, three community correctional centers and 60 parole units. The department estimates these facilities and services will be used by approximately 20,870 adult felons and nonfelon drug addicts and 20,955 parolees in 1976–77.

ANALYSIS AND RECOMMENDATIONS

The total operations of this department, the term-setting boards and special items of expense from all funding sources are summarized in Table 1.

Table 1
Budget Summary

			Change from Current Year	
Funding	*Estimated 1975–76*	*Proposed 1976–77*	*Amount*	*Percent*
General Fund	$199,057,249	$205,011,442	$5,954,193	3.0%
Correctional Industries Revolving Fund	16,109,950	16,793,068	683,118	4.2
Inmate Welfare Fund	5,069,990	4,470,137	−329,853	−6.5
Federal Funds	42,063	42,063	-	-
Reimbursements	3,129,241	1,878,975	−1,250,266	−40.0
Total	$223,408,493	$228,465,685	$5,057,192	2.3%
Program				
I. Reception and Diagnosis	$2,400,242	$2,444,977	$44,735	1.9%
Man-years	126	126	-	-
II. Institution	$183,740,959	$188,443,243	$4,702,284	2.6%
Man-years	6,825.8	6,766.6	−59.2	−0.9
III. Releasing Authorities	$2,839,556	$2,707,100	$−132,456	−4.7%
Man-years	84	76	−8	−9.5
IV. Community Correctional	$24,684,987	$25,042,806	$357,819	1.4%
Man-years	984.9	952.9	−32	−3.2
V. Administration (Undistributed)	$6,943,815	$7,711,625	$767,810	11.1%
Man-years	242	239	−3	−1.2
VI. Unallocated Redirection [a]	-	$−683,000	$−683,000	-
VII. Special Items of Expense	$2,798,934	$2,798,934	-	-
Total expenditure	$223,408,493	$228,465,685	$5,057,192	2.3%
Total man-years	8,262.7	8,160.5	−102.2	−1.2

[a] Reflects the retention of federal funds by the Department of Rehabilitation as discussed in this analysis.

Although departmental expenditures from all funding sources listed in Table 1 are projected to increase by $5,057,192 (or 2.3 percent over the current year), the proposed General Fund portion would increase by

$5,954,193 or 3.0 percent. This difference reflects a net reduction of $897,001 or 3.7 percent in the other funding sources shown in Table 1.

The increase of $683,118 or 4.2 percent in expenditures from the Correctional Industries Fund (also shown in Table 1) reflects merit salary adjustments and price increases. The reduction in Inmate Welfare Fund (IWF) expenditures results primarily from population decline and the transfer of $160,000 of expenditures for inmate benefits to the General Fund pursuant to Chapter 382, Statutes of 1975. This enactment prohibits the use of IWF monies to finance (1) staff overtime for special entertainment events for inmates, (2) the purchase and repair of television sets and (3) the purchase of athletic and recreation uniforms and supplies. Chapter 382 appropriated $160,000 for current year expenditures for such purposes and this level is proposed for 1976–77.

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 violation and nonfelon 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.

The proposed expenditure of $2,444,977 for this program is $44,735 or 1.9 percent above estimated current-year expenditures. The increase represents merit salary adjustments and price increases to continue the existing program level.

II. INSTITUTION PROGRAM

This program operates the department's 12 institutions, which range from minimum to maximum security, including two medical-psychiatric institutions and a treatment center for narcotic addicts under civil commitment.

Major 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 18 camps which will house an estimated 950 inmates during 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 20,870 inmates in the budget year, an increase of 45 inmates over the current year.

This program proposes an expenditure of $188,443,243, which is an increase of $4,702,284 or 2.6 percent over estimated current-year expendi-

DEPARTMENT OF CORRECTIONS—Continued

tures of $183,740,959. The budget year and current-year expenditures substantially exceed the 1974–75 fiscal year actual expenditures of $170,576,308 even though the institution population is projected to decline from an average daily population of 24,636 in 1974–75 to 20,870 in the budget year. This is due to the fact that population reduction savings of approximately $2.8 million in 1975–76 and $3.2 million in the budget year will be more than offset by price increases over the two-year period for food, utilities and other operating costs, plus salary and staff benefit increases and other adjustments discussed separately in this analysis.

Inmate Benefits

As noted earlier, Chapter 382 provided for a shift of $160,000 in Inmate Welfare Fund expenditures to the General Fund. This is one of the program changes resulting in increased General Fund costs even though there has been a significant reduction in institution population.

Training Academy

The department proposes a General Fund expenditure of $333,999 for support of the regional training academy which has been financed by a combination of state and federal funds through the Office of Criminal Justice Planning (OCJP). The academy provides initial and inservice training to employees of this department and the Department of the Youth Authority. Because OCJP funding is limited (generally to three fiscal years), all future costs of this training center will be a General Fund responsibility. The Department of the Youth Authority also will contribute $324,118 for this purpose in the budget year.

Retirement Costs

The department anticipates costs of approximately $800,000 in both the current and budget years to cover the employer's contribution for industrial retirement benefits granted to designated employees by 1975 legislation. Recent actuarial data reveal that the existing employer contribution rate for these employees is too high, and Assembly Bill 2325 has been introduced to adjust it. The amounts proposed for the current and budget years are based on the enactment of AB 2325 or similar legislation. If such legislation is not enacted, this budget item would be underfunded by approximately $1 million.

Inmate Pay Increases

Another factor contributing to increased costs is a proposed $100,000 augmentation for inmate pay. Of the 8,500 inmates employed within the institution (other than for Correctional Industries and the Inmate Welfare Fund), 6,241 are paid an average of $152 per annum or $12.67 per month. The additional $100,000 would provide an average increase of 10.5 percent or $16 per year. This increase appears to be justified because of the price increases which affect the cost of items purchased by inmates from the prison canteens.

General Fund Support for Family Visiting Facilities

The family visiting program, which entails 24-hour visiting of inmates with family members in private facilities, was initiated in 1968 at the California Correctional Institution at Tehachapi. To implement the program, inmate labor and Inmate Welfare Fund (IWF) monies were used to convert unused employee housing to suitable visiting quarters. This program was subsequently expanded to all institutions through acquisition of used house trailers and remodeling of unneeded offices and other accommodations using IWF resources and inmate labor. The department proposes an expenditure of $300,000 from the General Fund to provide an additional 38 family visiting units. This proposed increase in the level of service provided in this function represents the initial General Fund support of the program. The money would provide an averge of approximately three new units at each of the 12 institutions.

The department believes this program contributes to inmate welfare by reducing tensions within the institutions and by strengthening and retaining family ties which assist in the inmates' rehabilitation upon release. There has been some evidence presented in the past which shows that inmates having close visiting ties with family members perform better on parole. It is not certain whether this is due to the visiting program or whether the type of inmate who has regular and frequent use of visiting privileges would do well on parole regardless of such visits.

Because of the wide acceptance of this program and the need to provide additional facilities to meet increased demand, we support this proposed increase in the level of service from the General Fund.

Population Reduction Savings

The institution population projections for the current and budget years reflect substantial reductions (3,811 and 3,766, respectively, in the average daily institution population below the 1974–75 population total). In the proposed budget, the approximately $2.8 million in savings resulting from population reduction in the current year partially offsets price and other increases in the total expenditures. Item 292 of the Budget Act of 1975 provides, ". . . that subject to approval by the Department of Finance, any reallocation of savings due to reduction in population, other than those resulting from decreased court commitments, shall be used to give primary emphasis to the development of transition programs in the community for persons being released from prison."

If the on-going parole program qualifies as a transition to the community program within the meaning of this language, increased expenditures of approximately $3.5 million for paroles in the current year would appear to comply with the requirements of Item 292. However, if the Legislature's objective was to secure enriched community services over those provided routinely by parole supervision on a workload increase basis, the intent of the budget language has not been implemented.

Male Felon Institution Requirements

We recommend that the population at San Quentin State Prison be reduced to 1,000 inmates in line with our recommendations to limit utilization of this prison and to provide replacement facilities as discussed in the

DEPARTMENT OF CORRECTIONS—Continued

capital outlay portion of this analysis.

The average daily population for male felon institutions is projected at 17,965 for the budget year. The present rated capacity of male felon institutions (exclusive of the California Men's Colony, West Facility, which is presently closed) is 20,914. This represents a gross excess capacity of 2,949 over the anticipated average daily population (ADP). After providing a 5 percent operating vacancy factor to allow for inmates temporarily out to court and to provide for peaks in population fluctuation, there is a net capacity of 19,868 or an excess of 1,903 over projected ADP for the budget year.

The department estimates that felon institution population will increase to 18,845 on June 30, 1977, and to 19,370 on June 30, 1978. On this basis, the net capacity available during the budget year would be sufficient to permit the closure of a major institution, but the projected increase by June 30, 1978, would require a reopening of the facility during the 1977–78 fiscal year if the legislative policy against double celling is to be followed.

The department's projected increase in ADP is based primarily on the estimated impact of Chapters 1004 and 1087, Statutes of 1975, which prohibit the granting of probation under specified circumstances. If the commitments relating to these recent enactments do not reach the anticipated level, the net excess capacity will be significantly greater than currently projected.

In order to avoid closing an institution, which would have to be reopened within a year, resulting in added expense of transferring employees and inmates to other facilities and possible loss of experienced personnel, the department plans to close living units within all male felon institutions during the current and budget years. These units would then be reopened as the population increases.

Our recommendation provides for reducing the inmate population at San Quentin to 1,000 and transferring the remaining 1,191 inmates budgeted for this institution to other institutions. This would permit substantially the same housing flexibility as the department's proposal, possibly provide some savings in the support budget, and also provide for the eventual replacement or reconstruction of San Quentin State Prison.

New Positions

A total of 62.5 new positions with a salary cost of $902,493 are proposed for the institution program. These positions, listed on pages 798 and 799 of the Governor's Budget, can be grouped into six categories as follows:

a. 6 teachers to replace a like number of positions currently employed under contract with local school districts.
b. 4.5 positions for the regional training center previously provided by contractual services and reimbursed by federal funds. This request merely authorizes the establishment of the positions and does not increase the program level.
c. 1.6 clerical positions previously provided under operating expenses which have been reduced to reflect this change.
d. 14.8 positions for the opening of additional housing units at the Cali-

fornia Rehabilitation Center. This institution provides housing and treatment for nonfelon narcotic addicts. The positions are requested under previously approved workload formulas to staff two additional male and one additional female living units which are needed on the basis of projected increases in the nonfelon addict population. Narcotic addicts who have committed felonies may be committed to this program by the courts after being convicted but not sentenced on the felony charge when it is determined that the felony was related to the narcotic habit. Narcotic addicts may also be committed voluntarily for treatment without being convicted of a felony.

e. 7 technical and clerical positions for workload increases attributable to the California Supreme Court decision in *Gee vs. Brown,* which is discussed in the Releasing Authorities program section of this analysis.

f. 28.6 temporary help positions for various functions which were abolished under the provisions of Section 20, Budget Act of 1975. Section 20 requires abolition of positions continuously vacant from October 1, 1974 to July 1, 1975. A number of the positions classified as temporary help were never filled because the department used the funds to provide the services required on an overtime or extra shift basis. The other positions were not filled because of recruitment problems and the funds were used to provide required services on a contractual basis.

On the total 62.5 new positions, only the 26.3 positions (representing $401,122 of the total cost) requested (1) for the training center, (2) for opening additional housing units for nonfelon addicts and (3) for the *Gee vs. Brown* decision workload, represent additional staff over the current level.

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.

In 1972, the U.S. Supreme Court in the case of *Morrissey vs. Brewer* 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

DEPARTMENT OF CORRECTIONS—Continued

be provided another opportunity to present his case. In 1973 the U.S. Supreme Court in *Gagnon vs. 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, 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.

New Court Decisions Increase Costs

In the case of *Gee vs. Brown,* the California Supreme Court granted state prison inmates a limited right to legal representation at parole board hearings at which a previously set parole date may be rescinded. Seven additional positions at a cost of $277,754 are requested in the institution program and 2 new hearing representatives and 1 senior stenographer for this program at a salary cost of $59,812 to:

1. Review all inmate disciplinary cases to be heard in the institutions to determine which would require the presence of an attorney,
2. Ascertain whether the inmate wishes to waive his right to have an attorney present, and
3. Schedule and participate in parole board hearings at which attorneys will be present.

Additionally, the California Supreme Court in the matter of *In re Rodriguez* held that a primary sentence must be set for all inmates proportionate to the inmate's culpability for his crime. Consequently, all inmates who have served more than the usual length of time in prison for an offense must be given a hearing to set a primary term. These decisions will increase costs by $134,310 in the budget year for eight temporary hearing representatives.

Fluctuation in Parole Releases

In recent years there have been two dramatic shifts in Adult Authority policies relative to the release of inmates to parole supervision in the community. The first change occurred in 1972 when the release policy became more restrictive and contributed to a substantial increase in institution population.

From 1965 to 1972, the number of male felon inmates released to parole averaged 7,424 per year, ranging from a low of 6,021 in 1968 to a high of 9,489 in 1971. From mid-1972 through 1974, the Adult Authority's more restrictive policies relating to the setting of parole dates and parole releases resulted in a decline in male felon releases to 4,899 in 1973 and to 4,717 in 1974.

In 1975, this trend reversed, largely as a consequence of three factors:

1. Adoption of more liberal parole release policies of the Adult Authority.
2. A larger institution population from which paroles could be granted —a result of population build-up during the period mid-1972 through

1974 when the release policy was more restrictive.

3. The impact of recent court decisions which placed limits on the term of incarceration (Rodriquez decision) and granted inmates a limited right to legal counsel at hearings to rescind previously set parole dates for disciplinary reasons (Gee decision).

As a result, 10,578 male felons were released to parole during 1975, of which 7,949 were paroled during the last six months.

It is anticipated that the release rate will normalize as the backlog of inmates held in prison by the more restrictive policies of the 1972 through 1974 period have been released. The new yearly release rate may exceed the rate prior to 1972 due to the impact of the Gee and Rodriquez decisions. The Rodriquez decision may shorten the average period of incarceration of certain inmates, and the Gee decision may reduce the number of previously granted parole dates which are rescinded.

Impact of Increased Releases on Crime

The substantial increase in the number of inmates released to parole probably will result in an increase in the crime rate. From 1965 through 1972, the rate of parolees returned with new felony commitments averaged 10 percent by the end of the second year of parole. On this basis, the 4,717 male felons released to parole during 1974 would result in a return of 472 for new felony convictions during the specified period, compared to the approximately 1,058 which can be expected to be returned for that reason from the 10,578 releases in 1975.

Parole Returns

Along with the substantial fluctuation in the number of male felons released to parole, there also has been considerable variation in the number of parolees returned to prison for parole violations, particularly in those returns not involving new court commitments. This group declined from a return rate of approximately 575 parolees per quarter at the beginning of 1968 to a low of less than 300 in the last quarter of 1971. In 1972 and the first half of 1973, the number returned per quarter steadily increased to 620 in the second quarter of 1973. These returns declined to 200 in the first quarter, 280 in the second, and 175 in the third quarter of 1975.

The dramatic increase in these parole returns in 1972 and the first half of 1973 is due partly to an increase in the total parole population which was caused by the larger than average number of paroles granted from 1969 through 1971. However, a more significant factor was the change in parole recision policies of the Adult Authority in 1972. The substantial quarterly decline in parole returns without new commitments commencing in 1973 and continuing through 1975 reflects:

1. More lenient parole return decisions by the Adult Authority.
2. The impact of court decisions guaranteeing the parolees' rights to counsel, to confront adverse witnesses and to present evidence in their own behalf.

DEPARTMENT OF CORRECTIONS—Continued

IV. COMMUNITY CORRECTIONAL PROGRAM

The community correctional 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 parolees to assist them in achieving successful parole adjustment.

Total expenditures of $25,042,806 are requested for this program in the budget year, consisting of $24,814,638 in state General Funds and $228,168 in reimbursements. The proposed General Fund expenditure represents an increase of $1,167,436 or 4.9 percent over the current year resulting from parole population and price increases, merit salary adjustments and a reduction in federal reimbursements related to the Sacramento Community Correctional Center.

Proposed Workload Positions

A total of 47 parole positions at a salary cost of $809,325 are requested on the basis of approved workload formulas to handle parole population increases. An additional 1.2 positions at a salary cost of $18,043 are proposed to restore previously approved workload positions deleted under the provisions of Section 20, Budget Act of 1975.

Closure of Vinewood Community Correctional Center

The department plans to close the Vinewood Center for female nonfelon addicts as an uneconomical operation and transfer the population (approximately 25 persons) to another community center along with a portion of the staff. The resulting savings will be utilized to support the female parolees at their new location and expand other community programs for parolees.

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 adminstrative 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.

The support requirements for administration (not prorated to other programs) are estimated at 239 man-years and $7,711,625, which includes a General Fund appropriation of $7,331,227 and reimbursements of $380,-398. The increase of $767,810 or 11.1 percent over the current year represents merit salary adjustments, price increases, full-year operating costs of the regional training academy (formerly funded with federal funds) and other minor adjustments.

VI. UNALLOCATED REDIRECTION

We recommend that the Department of Corrections identify the program reductions which must be made to accomplish the proposed transfer of $683,000 from this agency to the Department of Rehabilitation.

In 1971 federal funds became available through the Department of Rehabilitation for support of public offender programs. The prior administration choose to apply a portion of such funds to offset partially previously established General Fund supported programs in the Department of Corrections and thereby reduce General Fund expenditures. The Governor's Budget proposes to return these funds, totaling $683,000, to the Department of Rehabilitation to expand programs for physically disabled persons. We are not opposed to the transfer, but since the Governor's Budget does not replace these funds with General Fund monies to fully finance the Department of Corrections' programs we believe the $683,000 reduction must be identified.

VII. SPECIAL ITEMS OF EXPENSE

Items 308–311 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.

The Governor's Budget proposes continuation of the current year's estimated expenditure level.

DEPARTMENT OF THE YOUTH AUTHORITY

Items 312–318 from the General Fund — Budget p. 806

Requested 1976–77	$112,026,378
Estimated 1975–76	110,139,336
Actual 1974–75	98,986,817
Requested increase $1,887,042 (1.7 percent)	
Total recommended reduction	$55,060

1976–77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
312	Department support	General	$87,836,698
313	Transportation of persons committed	General	43,540
314	Maintenance and operation of county juvenile homes and camps	General	3,825,840
315	Construction of county juvenile homes and camps	General	400,000
316	County delinquency prevention commissions—administrative expenses	General	33,300
317	County delinquency prevention commissions—research and training grants	General	200,000
318	Assistance to county special probation supervision programs	General	19,687,000
			$112,026,378

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Transfer of Funds. Recommend identification of program reductions to effect savings equal to proposed transfer of $623,770 to the Department of Rehabilitation.	643
2. Funding Level. Recommendation withheld pending May revision of population estimate.	643
3. *Staff Benefits. Reduce $21,000 (Item 312).* Recommend reduction to reflect more accurate estimate of benefit costs for new positions.	644
4. *Psychiatric Services. Reduce $34,060 (Item 312).* Recommend elimination of contract psychiatric services.	644

GENERAL PROGRAM STATEMENT

The responsibility of the Youth Authority Board and the Department of the 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 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 administers state grants to subsidize certain local programs relating to delinquency and rehabilitation. Program elements are as follows.

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 to assist in the improvement of local juvenile enforcement, rehabilitation, and delinquency prevention programs by providing training and consultation services to local agencies.

Financial Assistance

The department administers state subsidies to local government for construction, maintenance and operation of ranches, camps, and homes for delinquents, special probation programs, and delinquency prevention programs. 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 was 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 5,041 wards, plus a community parole caseload program involving 7,431 wards for a projected total daily average population of 12,472 wards in fiscal year 1976–77 (Table 1). The department estimates it will handle a daily average of 214 additional institutional wards but 322 fewer parolees in 1976–77 than in the current year.

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. Sixty-three percent have reading comprehension levels three or more years below their age-grade expectancy and 85 percent are similarly deficient in math achievement levels. Many also have psychological disorders or anti-social behavior patterns.

Diagnosis

All wards received by the Department of the Youth Authority undergo a diagnosis procedure at one of three departmental reception centers, which includes interviews, psychological and educational testing, and medical and dental examinations. Based on this information, staff develops

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

Table 1
Average Daily Population of Youth Authority Wards

	1974–75	*1975–76*	*1976–77*
Reception centers	675	660	660
Facilities for males	3,660	3,977	4,191
Facilities for females	179	190	190
Subtotal (Institutions)	4,514	4,827	5,041
Change from prior year	—	+313	+214
Parole caseload	8,327	7,753	7,431
Change from prior year	—	-574	-322
Total Wards	12,841	12,580	12,472

recommendations to assist the Youth Authority Board in determining institutional assignments and treatment programs for the individual wards.

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 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 $112,026,378 and 3,884.3 man-years of effort. Additionally, the department anticipates budget-year reimbursements amounting to $5,860,803 and federal grants totaling $259,140 for a total expenditure program of $118,146,321.

Table 2 summarizes the budget request, showing sources of funding by category, expenditure levels by program area, and proposed dollar and position changes. It should be noted that the comparisons between the current and budget years do not realistically portray support needs in that costs associated with projected population increases which have been acknowledged in the current year are not funded in the budget year. As discussed later, this budgeting technique materially understates 1976–77 support costs of the department.

Table 2
Budget Summary

	Current Year	*Proposed*	*Change from Current Year*	
			Amount	*Percent*
Funding				
General Fund	$110,139,336	$112,026,378	+1,887,042	+1.7%
Reimbursements	10,170,951	5,860,803	−4,310,148	−42.4
Federal Funds	491,578	259,140	−232,438	−47.3
Totals	$120,801,865	$118,146,321	$−2,655,544	−2.2%
Programs				
Youth Authority Board	$1,207,053	$1,328,767	$+121,714	+10.1%
Man-years	32.5	37	+4.5	+13.8
Administration	$4,749,897	$4,873,058	$+123,161	+2.6
Man-years	177.2	172.2	−5.0	−2.8
Community Services	$27,591,160	$26,129,533	$−1,461,627	−5.3
Man-years	59.8	58.8	−1.0	−1.7
Rehabilitation Services	$85,043,860	$84,886,503	$−157,357	−0.2
Man-years	3,589.1	3,548	−41.1	−1.1
Research	$2,209,895	$1,552,230	$−657,665	−29.8
Man-years	84.5	68.3	−16.2	−19.2
Unallocated Redirection [a]	—	$−623,770	$−623,770	—
Totals	$120,801,865	$118,146,321	$−2,655,544	−2.2%
Man-years	3,943.1	3,884.3	−58.8	−1.5

[a] Reflects the retention of federal funds by the Department of Rehabilitation as discussed in this analysis.

Budget Anticipates Reduced Retirement Costs

The current employer contribution rate for members of the "industrial" category of the Public Employees' Retirement System (i.e., noncustody employees) is 16.90 percent. This rate has been actuarially determined to be too high, and legislation (AB 2325) is currently pending to reduce it by 2.86 percent. The department's budget is based on the assumption that the lower rate will become law. If AB 2325 or a similar bill is not enacted, departmental costs will increase by about $342,000 in the budget year.

Court Decisions Increase Costs

The department proposes to add $866,335 and 48 positions to comply with court decisions affecting due process procedures for wards and parolees. These decisions and the costs of compliance are discussed below.

In *Wolff vs. McDonnell,* the U.S. Supreme Court specified procedural due process standards for residents of correctional institutions who are subject to disciplinary actions. The decision established the following requirements for determining misconduct.

1. Advance written notice of charges must be given to the accused.
2. The accused shall be allowed to call witnesses and present evidence.
3. Substitute counsel should be provided in some cases.
4. The fact finder must be impartial.
5. The fact finder must make a written statement as to the evidence relied on and reasons for the disciplinary actions.

The budget contains $480,400 and 31 man-years (22 parole agents and

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

nine clerical positions) to implement these provisions.

Court decisions in *re Olson* and *re Dennis Love* authorized inmates and parolees to review their files maintained by the department. The budget contains $5,000 for temporary help to comply with this decision.

In *Gee vs. Brown,* the California Supreme Court required higher "due process" standards for institutional residents who, having been referred to parole, are subsequently accused of a rule or law violation which may result in the rescinding of referral to parole. The budget contains $61,038 and three positions for determining whether wards should be represented by counsel during the factfinding and disposition hearings in these cases.

In *re LaCroix* and *re Valrie,* the California Supreme Court found that pending criminal proceedings do not constitute probable cause for a paroling authority (the Youth Authority Board) to detain a parolee without conducting a timely pre-revocation proceeding. The budget contains $319,897 and 13 positions to conduct the hearings required by these two decisions.

Other Program Changes

Dental Care. The department requests $51,731 to add one dentist and one dental assistant at DeWitt Nelson Training Center. This center, which provides pre-camp training for all wards scheduled to be transferred to the five Youth Conservation camps, is currently staffed with a half-time dentist and half-time dental assistant who are unable to perform all required dental work on the pre-camp and other wards. The additional dental staffing should improve the dental care level of wards released directly to parole and insure that wards transferred to the camps are in good dental health, thereby reducing the need for transporting them from camp to a Youth Authority institution for dental work.

Camp Teachers. The budget contains $104,133 to continue support for a teacher at each of the five camps. Until September 1974, the camp teacher positions were funded by Title 1 of the Elementary and Secondary Education Act (ESEA). However, this was determined to be inappropriate because Title 1 ESEA funds are intended to supplement, rather than fully support, state programs. From September 1974 until August 1976, the positions will be funded from the Governor's 4 percent discretionary funds under the Comprehensive Employment Act (CETA). However, the Employment Development Department, which administers CETA, has indicated that these funds will not be available after August 31, 1976. The $104,133 will support these positions for the remainder of fiscal year 1976–77.

Camp Supervisors. The budget also contains $63,025 to provide a second group supervisor during the 11 p.m. to 7 a.m. shift at each of the four camps which now have only one group supervisor on duty during that time. The fifth camp, Oak Glen, is presently staffed at the level requested for the other camps.

Ward Pay. The department requests $14,500 to increase ward pay by an average of 6.7 percent. Under this program, older and more sophisticated wards are paid 4 cents to 12 cents per hour for work relating to institutional operations.

More Staff for Youth Training School. Funds are included to provide increased parole agents and an in-house psychiatric capability at the Youth Training School (YTS). Presently, YTS has one parole agent for each one hundred general population wards. The budget proposes sixteen and one-half man-years at a cost of $201,562 to provide a 50 to 1 ward/parole agent ratio. The proposed ratio is the same as that used at other Youth Authority institutions. Seven additional positions costing $156,601 are proposed for psychiatric services at YTS. The YTS psychiatric program is discussed later in this analysis.

Transfer of Federal Funds Requires Unspecified Program Cuts

We recommend that the Department of the Youth Authority identify the program reductions which must be made to accomplish the proposed transfer of $623,770 from this agency to the Department of Rehabilitation.

In 1971 federal funds became available through the Department of Rehabilitation for support of programs for treating disabled offenders. The previous administration chose to transfer a portion of those funds to the Youth Authority to offset some of the costs of previously established General Fund programs and thereby reduced General Fund expenditures. The last item in Table 2, "Unallocated Redirection," identifies these federal funds (totaling $623,770) which, in the budget year, will be retained by the Department of Rehabilitation to expand its programs for severely handicapped persons. No provision is made to replace these funds with General Fund monies. Thus, unspecified Youth Authority programs will have to be reduced to compensate for this funding loss.

Institutional Population Underbudgeted

We withhold recommendation on the Youth Authority support budget pending the May revision of the population estimate.

As reflected in the Governor's Budget, the department has increased its estimate of current-year program requirements by $1,040,888 and 64.8 man-years over the originally budgeted level as a result of population increases. However, corresponding adjustments have not been extended to the budget year, even though the 1976-77 institutional population estimate reflected in the budget narrative shows a further increase.

The administration recognizes that present and projected population levels will necessitate higher budgetary support if present policies remain unchanged. However, the budget states that the department will examine institutional length of stay with the view of reducing commitment time as an alternative to providing additional General Fund support. We find this position a possible change in policy which is inconsistent with the department's experience with wards presently committed as described on page 808 of the Governor's Budget:

"The prior offense records of youth currently being committed . . . are more extensive than previously. . . . There has been a marked increase in violent behavior by Youth Authority wards in institutions. . . . As a result of the screening process resulting from improved probation resources, *the Youth Authority is receiving older, more criminally experienced, difficult youths requiring longer periods of institutional and*

DEPARTMENT OF THE YOUTH AUTHORITY—Continued

parole treatment and supervision. The Youth Authority Board has increased length of stay from an average of 8.6 months in 1961 to 12.3 months in 1974." (Italics added).

In view of these statements, we believe it would be unwise for budgetary pressure to influence the Youth Authority Board to shorten lengths of stay. The board must consider many factors, including the need to protect the public from further criminal acts, when establishing periods of incarceration. For these reasons, we withhold recommendation on the department's institutional support needs pending the May revision. Support is underbudgeted by approximately $2.5 million on the basis of population estimates contained in the Governor's Budget.

Staff Benefits Overbudgeted

We recommend a reduction of $21,000 to reflect more accurate estimate of benefit costs for new positions (Item 312).

The department's budget request for new positions includes $220,174 for staff benefits. This amount, which is based on a percentage of payroll, provides funds for the state's share of the costs of retirement benefits, social security, unemployment and workers' compensation benefits and health benefits. The health benefits component was budgeted at 6.23 percent of payroll. In conjunction with the department, we have reviewed this component and find that it approximates 3.6 percent rather than 6.23 percent of payroll. The difference, when applied to payroll costs for the new positions, amounts to approximately $21,000.

Psychiatric Services—Youth Training School

We recommend a reduction of $34,060 to eliminate contract psychiatric services for wards at the Youth Training School (YTS) (Item 312).

Presently, YTS does not have an in-house psychiatric staff. A minimal level of psychiatric service is provided by one consulting psychiatrist and one consulting psychologist on a part-time basis. Costs of these services were $47,276 in 1974–75 and are estimated at $32,750 for 1975–76. The sum of $34,060 is requested to continue these services in the budget year.

In addition to these part-time consultants, the budget also proposes to add one psychiatrist, two staff psychologists, two psychiatric social workers and two stenographers to the YTS staff at a General Fund cost of $156,601. While we believe that the in-house psychiatric program would provide a desirable improvement in the level of such services, it should offset the need to continue the consulting psychiatric services. We therefore recommend elimination of the consulting contracts for a General Fund savings of $34,060.

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 319 from the California
Health Facilities Commission
Fund Budget p. 824

Requested 1976–77	$1,062,939
Estimated 1975–76	955,728
Actual 1974–75	507,083
Requested increase $107,211 (11.2 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 includes provisions related to skilled nursing and intermediate care facilities in addition to those for the hospitals. The commission is responsible for (1) the preparation of a uniform accounting and reporting system for hospitals, and skilled nursing and intermediate care facilities; and (2) 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 which are 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, required the commission to prepare and submit a proposal for a state health facility economic stabilization program to the Legislature before July 1, 1975. This proposal was submitted to the Legislature on March 29, 1975.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $1,062,939 from the California Health Facilities Commission Fund for support of the commission during the 1976–77 fiscal year which is an increase of $107,211, or 11.2 percent, over estimated current year expenditures. Total expenditures, all funds, are estimated to increase by $52,211, or 5.2 percent, in 1976–77, as shown in Table 1.

The federal funds shown for the 1974–75 and 1975–76 fiscal years are from a contract with the Department of Health, Education and Welfare (DHEW) requiring the development of specified hospital care statistics. These funds enabled acceleration and augmentation of this activity already required by state law. This project will be completed during the current year thereby eliminating the source of federal funds for the budget year. The commission is currently seeking to obtain another contract with DHEW for a pilot project involving rate setting for hospitals and/or skilled nursing and intermediate care facilities.

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

Table 1
California Health Facilities Commission
Estimated Expenditures and Source of Funds
1974–75 through 1976–77

	Actual 1974–75	*Estimated 1975–76*	*Proposed 1976–77*
Estimated Expenditures			
Uniform accounting and reporting:			
Hospitals	$588,446	$709,688	$690,910
Skilled nursing and intermediate care facilities	—	301,040	372,029
Economic stabilization program	33,805	—	—
Total Expenditures	$622,266	$1,010,728	$1,062,939
Source of Funds			
California Health Facilities Commission Fund	$507,083	$955,728	$1,062,939
Federal funds	$115,183	$55,000	—

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 which 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 is being developed during the current year for use on or after July 1, 1976. Therefore, funds appropriated in the budget year will be used to (1) process the first annual financial reports from all hospitals which should be received by November 1976, (2) complete the development phase for regulations and the accounting and reporting manual for skilled nursing and intermediate care facilities, and (3) begin processing of the first annual reports received from the skilled nursing and intermediate care facilities.

The increase in estimated expenditures for 1976–77 is mainly due to the proposed addition of three positions. This would increase the total authorized positions from 23.5 to 26.5 with the addition of one legal counsel, one programmer and one clerk. These increases are supported by comparable estimated increases in workload. In addition, the appointment of an attorney to the staff is authorized by state law. Therefore, we are recommending approval of the amount requested.