Waste Facility Siting program, and $424,000 (7.9 personnel-years) for board activities pursuant to the federal Resources Conservation and Recovery Act (RCRA).

- ***State Hazardous Waste Facility Siting.*** The DHS is the lead agency in this program to site and establish additional hazardous waste disposal areas in California. The department indicates that all activities related to the board's responsibilities are being completed in the current year, and that no contract is needed in the budget year. Therefore, we recommend the elimination of $111,059 (2.1 personnel-years) in reimbursements to Item 3940-001-001.
- ***Resources Conservation and Recovery Act (RCRA).*** The DHS is also the lead agency in this federally funded effort to develop a comprehensive hazardous materials program in California. At the time this analysis was written, DHS and the board were negotiating a contract for both the current and budget years. DHS staff indicate that funding is likely for the budget year but not at the level proposed in the budget. Both agencies agree that the final amount will be resolved prior to budget hearings. Therefore, we withhold recommendation on $424,000 in reimbursements to Item 3940-001-001, pending completion of contract negotiations on the RCRA program.

Health and Welfare Agency

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES

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

Requested 1982–83	$3,139,000
Estimated 1981–82	4,033,000
Actual 1980–81	2,890,000
Requested decrease (excluding amount for salary increases) $894,000 (−22.2 percent)	
Total recommended reduction	None

1982–83 FUNDING BY ITEM AND SOURCE

Item Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal Trust	$3,139,000
—Support		(674,000)
—Transfer to Developmental Disabilities Program Development Fund		(981,000)
—Transfer to Area Boards on Developmental Disabilities		(1,484,000)
4110-001-001—Area Boards on Developmental Disabilities, Support	Reimbursements	—

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

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Funding Source for Salary and Benefit Increases. Recommend that the area boards explain during budget hearings how they will fund staff salary and benefit increases. 727

GENERAL PROGRAM STATEMENT

The State Council on Developmental Disabilities operates pursuant to the provisions of the Lanterman Developmental Disabilities Services Act (Ch 1365/76) and related federal law. The council is responsible for planning, coordinating, and monitoring services for developmentally disabled persons, allocating federal funds, and reviewing executive branch plans and budgets.

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

The state council and area boards are authorized 54 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $3,139,000 from federal funds for support of the state council and area boards in 1982–83. This is a reduction of $131,000, or 4.0 percent, below estimated current-year expenditures. The budget document shows a decrease of $894,000 in 1982–83. This decrease is misleading because $763,000 in funds included in 1981–82 were actually used to fund expenses incurred in 1980–81.

The proposed budget is based on funding levels provided for in the latest continuing resolution covering the federal 1982 budget. The amount of federal funds available may change when Congress takes final action on the 1982 budget.

Table 1 displays the proposed allocations of federal funds to the state council, area boards, and the Program Development Fund.

Table 1
Allocation of Federal Developmental Disabilities Funds (in thousands)

	Estimated 1981–82	*Percent*	*Proposed 1982–83*	*Percent*	*Percent Change*
State Council	$818	25.0%	$674	21.5%	−17.6%
Area Boards	1,471	45.0	1,484	47.3	0.9
Program Development Fund	981	30.0	981	31.2	—
Totals	$3,270	100.0%	$3,139	100.0%	−4.0%

The budget proposes a total of 54 positions for these programs, including 13 for the state council and 41 for the area boards. This is the same number authorized in the current year.

State Council Budget Maintains Current Program

The budget proposes to reduce the allocation to the state council by $144,000, or 17.6 percent. To achieve this reduction, and to reserve $20,000 in federal funds for estimated 1982–83 salary and benefit increases, the state council proposes to reduce its contractual services budget by $164,000 and to hold other operating expense items at the current-year level. Specific contracts proposed for elimination include (a) $60,000 for a study of the impact of adopting the federal definition of a developmental disability, as required by Ch 1237/80 (SB 1742), and (b) $104,000 for financial assistance to the area boards. Elimination of these items will not significantly affect the state council's ongoing program.

Area Board Budget Insufficient to Support Current Program

In 1980–81, the area boards administratively established five new community program analyst positions, which provided each of the 13 boards with two professional staff. The new positions were funded with (1) a one-time supplemental grant award from the federal government and (2) redirections from operating expenses. The 1981 Budget Act permanently established the five positions and funded them with additional redirections from operating expenses because continued federal support was not available. This resulted in operating expense reductions of over 50 percent between 1979–80 and 1981–82.

As we pointed out in our *Analysis of the 1981–82 Budget Bill,* it was unreasonable to expect that area boards would be able to achieve such reductions in their operating expenses. In fact, area boards are incurring large operating deficits in the current year, despite receiving $104,000 in financial assistance from the state council. Some area boards are holding positions vacant, and at least two face the prospect of laying off staff.

The budget proposes expenditures of $1,484,000 for the area boards in 1982–83, which is a decrease of $91,000 or 5.8 percent below the total funds available (including financial assistance provided by the state council) to the area boards in the current year. The budget proposes to continue the 41 positions authorized in the current year. Because the proposed allocation to the area boards is insufficient to support these positions and associated operating expenses, the budget proposes a salary savings rate of 11.1 percent. This rate is significantly higher than the savings area boards would experience if sufficient funds were available. To achieve this salary savings level, area boards will therefore be forced to keep some positions vacant and may have to lay off staff in 1982–83.

Salary Increase Is Not Funded

We recommend that the area boards explain during budget hearings how they will fund any authorized staff salary and benefit increases.

The budgets for the area boards and all other state agencies are based on current-year salaries and staff benefits. On July 1, 1982, the State Controller will authorize salary and benefit increases for all state staff, including the 41 staff of the area boards, in line with the increases approved by the Legislature in the Budget Act. Unlike other years, the federal grant allocation for 1982–83 will not include adequate funds to support increased salaries and benefits. Consequently, in order to provide increases, significant additional program reductions will be necessary. Such reductions could involve increasing salary savings above the budgeted level by holding positions vacant, laying off staff, or downgrading positions.

We recommend that the area boards identify at budget hearings the specific program reductions they will make in order to provide funds for staff salary and benefit increases.

Health and Welfare Agency

EMERGENCY MEDICAL SERVICES AUTHORITY

Item 4120 from the General Fund — Budget p. HW 4

Requested 1982–83	$984,000
Estimated 1981–82	984,000
Actual 1980–81	51,000
Requested increase (excluding amount for salary increases)—None	
Total recommended reduction	$221,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4120-001-001—Support		General	$984,000
4120-001-890—Grants to local agencies		Federal	(1,100,000)
Total			$984,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Northern California Emergency Medical Care Council—Double Budgeting. Reduce Item 4120-001-001 by $221,000.*** Recommended deletion of funds for this agency because it is receiving federal funds to support its operations. 729
2. General Fund Portion of the Local Assistance Program—Legislative Guidance Needed. Recommend adoption of legislation and Budget Bill language establishing guidelines for the authority to follow in awarding and monitoring the use of state funds. 730
3. Federal Block Grant. Withhold recommendation on $1.1 million in federal block grant funds proposed for allocation to local agencies, pending receipt of the administration's proposal for administering the preventive health services block grant. 731

GENERAL PROGRAM STATEMENT

The Emergency Medical Services Authority was created by Ch 1260/80 (SB 125) and given broad responsibility to review local emergency medical services (EMS) programs and to set uniform statewide standards for training, certification, and supervision of prehospital personnel classifications, including paramedics.

Prior to 1981–82, the Department of Health Services was responsible for medical disaster planning. The 1981 Budget Act, however, transferred funding for this activity to the authority, consolidating state emergency medical planning within a single agency. The authority has 10.8 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $984,000 from the General Fund for support of the authority's programs in 1982–83. This is the same level of expenditures estimated for the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The proposed level of expenditures from all funds is $2,084,000, which is an increase of $1.1 million, or 111.8 percent, above estimated current-year expenditures. The increase reflects the anticipated receipt of $1.1 million in federal money under the preventive health services block grant.

Northern California Emergency Medical Care Council

We recommend the deletion of $221,000 from the General Fund in Item 4120-001-001, proposed for allocation to the Northern California Emergency Medical Care Council, because the council anticipates receiving federal funds to support its operations in 1982–83.

The budget requests $408,000 from the General Fund to continue supporting three regional EMS agencies. This is a decrease of $2,000, or 0.5 percent, below estimated current-year expenditures. The authority has not determined the exact amounts which would be allocated to each agency in 1982–83. Assuming that all three agencies continue to receive the same proportion of available funds in the budget year, the amount awarded to each agency would be as follows: Northern California Emergency Medical Care Council ($221,000), Sierra-Sacramento Valley EMS Agency ($111,000), and North Coast EMS ($76,000).

When the Legislature approved funds in the 1981–82 budget for the northern California agency, it did so with the understanding that the agency was not receiving federal funds. During the current year, however, the agency did receive $334,000 in federal funds for the first year of a two-year grant to develop an advanced life support system. Thus, the agency has been double-funded in 1981–82. Because the northern California agency anticipates receiving the second part of its two-year grant in the budget year, our analysis indicates that it does not need state funds. We therefore recommend that this agency's proportionate share of the funds requested be deleted, for a General Fund savings of $221,000.

Federal EMS Program

Since 1972, the federal government has provided grants for planning, establishment, and improvement of local emergency medical services systems. The grants were to be awarded over a six-year period in the following sequence: (1) basic life support systems planning (one year), (2) basic life support systems development (two years), (3) advanced life support systems planning (one year), and (4) advanced life support systems development (two years). To receive federal funding for systems development, local agencies are required to demonstrate that the ongoing operating costs of the EMS system can be funded by the agencies using local resources after federal start-up funding is phased out.

In federal fiscal year 1981 (FFY 81), local EMS regions in California received approximately $1.9 million under the federal program. Of the 15 EMS regions in California, four have completed the full six-year cycle, and two more will complete it during the current year. Two regions are cur-

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

rently in the first year of the two-year "basic" development process, and one is in the first year of the two-year "advanced" level.

Legislative Guidance Needed for the General Fund Component of Local Assistance Program

We recommend adoption of legislation and Budget Bill language establishing guidelines for the authority to follow in awarding and monitoring contracts under the General Fund local assistance program.

In the past, support for EMS services has been primarily a local responsibility. While the federal government has provided start-up grants to develop EMS systems, it has done so on the condition that the local agencies receiving the grants demonstrate a commitment to continue operating the systems with local resources. The federal government anticipated that, after the start-up period, the agencies receiving development funds can be significantly curtailed, and that the "systems" will be able to operate with minimal central administrative direction.

State involvement in funding the development of EMS systems has been limited. During the last three years, the Legislature has added funds to the budget in order to continue support for three regional agencies located in rural areas after the start-up period and federal grants are halted. These funds were provided, despite the commitments made by the recipient agencies to continue operating the systems using local resources, on the basis that utilization of EMS systems in the service areas is unusually high because of demands placed on the systems by nonresidents.

If the Legislature continues to fund local EMS agencies, it needs to establish in legislation guidelines for the authority to follow in administering the funds. Such guidelines are needed because the authority (1) does not use specific criteria for determining which agencies are eligible for funding, (2) does not apply uniform requirements with respect to local agency matching funds, (3) has not adopted guidelines defining essential EMS services which would be appropriate for state funding, (4) does not monitor recipient agencies to assure that systems receiving state funds are effective, (5) does not limit state support to those agencies that are not being funded by the federal government, (6) has not formulated guidelines for phasing out state support, and (7) does not follow competitive procedures which would allow other regions in the state to seek state funding.

We recommend that the Legislature establish the following guidelines for the authority to follow in administering the local assistance program:

(1) Funding eligibility shall be limited to regions that demonstrate a heavy use of the EMS system by nonresidents.

(2) Local agencies shall provide matching funds of at least one dollar for every dollar of state funds they receive.

(3) State funding shall be used to provide only essential, minimum services necessary to operate the system, as defined by the EMS Authority.

(4) No region shall receive both federal grants to develop systems and state funds in the same fiscal year. This would prevent double-funding, which occurred in the current year.

(5) The authority shall develop a competitive process for awarding funds to eligible applicants.

(6) The authority shall monitor the use of funds by recipients to assure that these funds are used in an appropriate manner.

We recommend adoption of Budget Bill language to establish these guidelines for 1982–83.

Finally, we recommend that the Legislature amend Section 419 of the Health and Safety Code to transfer the statutory authority for distributing funds to local EMS agencies from the Department of Health Services to the EMS Authority. Currently, the authority distributes funding to local agencies under the provisions of an interagency agreement with the Department of Health Services. It would simplify administrative procedures and follow legislative intent to consolidate EMS-related functions within the EMS Authority in statute.

Federal Block Grant

The federal Omnibus Budget Reconciliation Act of 1981 consolidated a number of programs, including EMS, into a preventive health services block grant, and authorized funding the new program at a level approximately 4 percent below the combined funding level for the consolidated programs in FFY 81. The December continuing resolution appropriated an amount that is 17.8 percent below FFY 81 appropriations.

States had the option to assume administrative responsibility for the grants beginning on October 1, 1981. The Legislature decided not to take over the administration of this program during the current fiscal year. As a result, federal officials in the Department of Health and Human Services are distributing California's share of the funds. The state must assume responsibility for administering the new program by October 1, 1982, or California's share of the funds will be reallocated to other states.

The non-EMS programs included in the block grant are administered by the Department of Health Services (DHS), and we discuss the block grant program in greater detail as part of our analysis of DHS's budget (Item 4260).

The reconciliation act requires any state that assumes responsibility for the block grant program in FFY 82 to continue funding EMS agencies which would have been in the second year of a two-year funding cycle. After FFY 82, the reconciliation act does not require states to fund EMS programs. The act, however, prohibits states electing to fund EMS agencies from using federal funds for equipment or ongoing system operating costs. The act allows a state to use up to 10 percent of the block grant funds for administration.

Budget-Year Proposal for Block Grant Funds

We withhold recommendation on the $1.1 million in federal block grant expenditures proposed for 1982–83 pending receipt from the administration of (1) a comprehensive proposal for the use of preventive health services block grant funds and (2) proposed guidelines for distributing grants to local EMS agencies.

The budget includes $1.1 million from the federal block grant for allocation to local EMS agencies in 1982–83. This is equal to nine months' funding from the block grant and is based on the assumption that the state will not take over the block grant until October 1, 1982. If the state takes over administrative responsibility for the block grant beginning on July 1, 1982, it is likely that additional funds would be available.

The Governor's Budget assumes that the FFY 83 budget will continue the funding level authorized for FFY 82 in the omnibus reconciliation act. Actual appropriations for FFY 82 in the latest continuing resolution, however, are significantly lower than the reconciliation act. Therefore,

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

the amounts displayed in the budget are probably optimistic. Actual appropriations for FFY 83, and the amount which would be available to California, are highly speculative at this time.

The EMS Authority does not have either the staff or the procedures needed to competitively award local assistance funding. The budget states that a budget amendment letter will be submitted in the spring to identify the administrative costs of operating this activity.

Chapter 1186, Statutes of 1981 (AB 2185), (1) provides that the state shall assume the preventive health services block grant no earlier than July 1, 1982, and (2) requires the administration to submit a detailed proposal for implementing the block grant.

The administration has failed to provide the Legislature with a comprehensive proposal for the use of the preventive health services block grant as required by Chapter 1186. Further, the EMS Authority has not provided the Legislature with any proposed guidelines for the use of the portion of these funds allocated for EMS programs.

Consequently, we withhold recommendation on the $1.1 million in block grant funds proposed for expenditure in 1982–83, pending receipt of (1) a comprehensive proposal for using the preventive health services block grant and (2) guidelines for administering the EMS portion of the program. We recommend that the Department of Finance submit these materials to the Legislature and our office by March 15.

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

Item 4130 from the Health and Welfare Data Center Revolving Fund — Budget p. HW 6

Requested 1982–83	$29,629,000
Estimated 1981–82	18,970,000
Actual 1980–81	12,800,000
Requested increase (excluding amount for salary increases) $10,659,000 (+56.2 percent)	
Total recommended reduction	$524,000
Recommendation pending	$7,441,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. SPAN Funding Requirements. Withhold recommendation on $7,441,000 budgeted for the Statewide Public Assistance Network (SPAN), pending receipt of amended feasibility study which will enable a more precise determination of funding requirements. 734
2. *Unjustified Proposal. Reduce by $524,000.* Recommend reduction to delete unjustified funds for technical communications consulting and special purpose computer for the SPAN project. 735
3. Optimum Use of Capacity. Recommend evaluation of al- 736

ternative charging methods to determine which method would result in the most cost-effective use of computing capacity.

4. Storage Technology. Recommend evaluation of alternative data storage media in order to reduce costs. 737

GENERAL PROGRAM STATEMENT

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

The Health and Welfare Agency Data Center (HWDC) has 179.2 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $29,629,000 from the Health and Welfare Data Center Revolving Fund for support of the data center in 1982–83. This is an increase of $10,659,000, or 56.2 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Approximately $3.3 million of the increase would support 130 new positions. Most of the remaining increase would be allocated to the purchase of computing equipment.

Significant Program Changes

Table 1 displays the primary components of the increase in the data center's budget for 1982–83.

The size of the proposed increase in the HWDC's budget—56.2 percent—is due primarily to the continued development of the Statewide Public Assistance Network (SPAN), a major new automated welfare information system being implemented by the Department of Social Services. A description of SPAN is included in our analysis of Item 5180-001-001 (Department of Social Services).

Other increases in the budget year are due to additional equipment requirements in both the central computing facility and customer department locations. This equipment is required to meet customer workload increases.

Table 1
Health and Welfare Agency Data Center
Significant Program Changes
(dollars in thousands)

Activity	*Proposed Amount*	*New Positions*
1. Statewide Public Assistance Network	$7,965	107
2. Remotely-located equipment dedicated to specific users	826	8
3. Central facility equipment for workload increases	283	11
4. Distributed computing system support	167	4
Totals	$9,241	130

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

Significant Improvements in Data Center Operations

In last year's *Analysis,* we discussed serious operational problems at HWDC which had an adverse effect on customer department programs, and thus limited the data center's effectiveness. The Legislature adopted Budget Act language which restricted payment of the director's salary pending the receipt of a report by HWDC indicating significant progress toward improving data center operations.

The report was issued on November 1, 1981. It indicates that significant improvements have occurred which have provided a more stable operating environment. This finding has been corroborated by the major customer departments of the center.

The proposed budget includes additional positions and associated resources in critical areas where deficiencies have been acknowledged or workload growth is significant, such as data communications. These additional resources should enable HWDC to maintain a satisfactory level of service in 1982–83.

SPAN Funding Requirements Uncertain

We withhold recommendation on $7,441,000 budgeted to provide services to the Department of Social Services in connection with the Statewide Public Assistance Network (SPAN) project, pending receipt and analysis of revisions to the implementation plan which are being prepared by the department.

The proposed budget includes $7,965,000 and 107 new positions for support of the Department of Social Services' Statewide Public Assistance Network (SPAN). Table 2 displays the components of the budgeted amount.

Table 2
SPAN Support Components
Health and Welfare Agency Data Center

Component	*Amount*
1. Personnel, including travel and training	$3,362,510
2. Central site equipment	2,118,928
3. Central computing facility	900,000
4. Data communications	669,536
5. Data communications consultant	350,000
6. Computer software	240,349
7. Distributed data processing	223,799
8. EDP supplies	100,000
Total	$7,965,122

Our analysis of HWDC's plan to provide computing support to the SPAN project indicates that the amount budgeted is based on a request for proposal (RFP) released by the Department of Social Services to commercial equipment vendors in October 1981. The purpose of the RFP was to solicit bids from vendors in response to SPAN's computing equipment requirements, as determined by the Department of Social Services. Subsequent to issuance of the RFP, however, the department canceled the procurement and announced a major modification to its implementation plans. According to the department, an amendment to its feasibility study report for SPAN will be available soon. The amendment is expected to provide additional information upon which to evaluate the fiscal and program impact of this latest in a series of significant changes in the direction of this project.

For these reasons, we have no basis for making a recommendation at this time as to the amount of resources which will be required by HWDC to support SPAN development in 1982–83.

Unjustified Expenditures for SPAN

We recommend deletion of unjustified expenditures proposed for the SPAN project, for a reduction of $524,000.

Although we will be unable to assess the total need for the SPAN project in 1982–83 until we have analysed the revised feasibility study report, we have identified two instances in which funds proposed for the SPAN project are not justified.

Data Communications. The Department of Social Services' current plan for implementing SPAN includes a pilot county operation in Orange, Shasta, Stanislaus and Sutter Counties *prior* to statewide implementation. The data center plans to hire a consultant to review actual data communications workload processing in the pilot counties in order to develop a network design for the statewide SPAN. The budget includes $350,000 for this purpose.

Our analysis indicates that these funds are not justified. First, the $350,000 estimate is based on an estimate by the Department of General Services of *its* anticipated cost to perform a comprehensive *statewide* data communications study, using outside consultants. Second, the data center's budget includes an *additional* $51,000 to hire a communications consultant to evaluate the data center's network design. Finally, even assuming that *some* consulting would be required to review the SPAN network design, the request for funds in the budget year is premature. This conclusion is based on information provided by the Department of Social Services in support of the SPAN budget, which reveals that the technical specifications which are necessary before pilot county operations can begin will not be completed until April 30, 1983. Consequently, there will be insufficient actual communications workload and processing experience available for a consultant to review in 1982–83. For these reasons, we recommend deletion of the $350,000 budgeted for communications consulting.

Special Purpose Computer. The data center's budget to support SPAN includes $174,000 to provide for the acquisition of a computer which would be used to test computer system control programs. The amount which has been budgeted is one-half the cost of the computer. No additional funds have been budgeted to pay for the other half. Further, no justification has been provided which would support the need for the type of computer which is proposed. For these reasons, we cannot substantiate the need for these funds, and recommend a further reduction of $174,000 in the amount budgeted for SPAN.

Should Prime Time Customers Pay More?

We recommend that supplemental report language be adopted requiring the data center to (1) evaluate alternatives to its current charging method to determine which method would result in the optimum use of the data center's computer processing capacity, and (2) report its findings and recommendations to the Legislature by November 1, 1982.

Most large commercial and governmental data centers operate on a

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

continuous around-the-clock basis for two primary reasons. First, data center management cannot afford to allow expensive computing facilities to remain idle. Second, costly upgrades to data center equipment can be deferred as a result of distributing the processing workload demand over all available work shifts.

The HWDC charges the same basic rates whether a customer's work is processed during the day, at night, or on the weekend. This charging method is in direct contrast to that used by the Stephen P. Teale Consolidated Data Center, which offers discounts of 50 percent of the prime time (day shift) rate for evening and night-time processing, and an 80 percent discount for weekends and holidays. The Teale Center adopted this charging scheme in order to reduce customer demand for prime time computing capacity. It is highly desirable to reduce prime time demand because (1) this demand dictates the amount of computing capacity and the size of the computer facility necessary to process the customer workload, and (2) there is often excess capacity during other shifts. Teale Data Center staff believe that the data center's use of shift discounts, which has encouraged customers to balance their workloads over *all* work shifts, has forestalled data center cost increases which would have occurred otherwise.

Because of the continued increases in HWDC costs resulting from increasing demands for prime time computing capacity, we discussed the concept of off-prime time discounts with HWDC staff. According to HWDC, the nature of the center's workload growth indicates that shift discounts would not produce the beneficial effects that staff of the Teale Data Center believe have accrued to that center.

Our discussions with HWDC staff and customer departments indicate, however, that the feasibility of establishing shift discounts at HWDC has not been evaluated adequately. There is not, for example, any study which demonstrates that the flat rate schedule adopted for HWDC is the most cost-effective charging method. Further, there is no analysis which indicates the extent to which customer departments *would* shift workload if discounts were available.

The lack of discounts provides *no* incentive to customer departments to schedule work for processing on other than the prime time period. The use of discounts would, however, have the effect of increasing costs to departments with large on-line processing workloads which is normally handled during the prime time period. The workload associated with on-line processing, however, is the determining factor in the size of HWDC's budget. Therefore, it appears reasonable to process such workload at a rate which recovers the cost of unused capacity on other shifts.

The use of discounts or other methods which would make it possible to achieve a more optimum use of HWDC's substantial computing capacity should be evaluated. For these reasons, we recommend adoption of the following supplemental report language:

> "The data center shall (1) evaluate alternatives to its current charging method to determine which method would result in the most cost-effective use of available computing capacity, and (2) report its findings and recommendations to the fiscal committees and the Joint Legislative Budget Committee by November 1, 1982."

Alternative Data Storage Technology Needs to be Evaluated

We recommend the adoption of supplemental report language requiring the data center to (1) determine the feasibility of installing a mass storage capability as a means to reduce data storage costs, and (2) report to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1982 on progress in complying with this requirement.

Most state data centers have experienced rapid growth in customer requirements for disk and tape storage media. At HWDC, continued increases in disk storage and magnetic tape equipment have resulted in the increased allocation of scarce computer room floor space to house the additional equipment and accommodate an expansion of the tape library.

To control this growth, some data centers have installed "mass storage" devices as one way to conserve floorspace and reduce overall data storage costs. For example, the Teale Data Center has realized a net reduction in personnel and reduced computer room space devoted to tape and disk storage as the result of installing two mass storage devices.

For these reasons, we recommend adoption of the following supplemental report language:

> "The data center shall (1) determine the feasibility of installing a mass storage capability to reduce data storage costs, and (2) report its progress on this study to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1982."

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Item 4140 from the General Fund and various special funds — Budget p. HW 10

Requested 1982–83	$7,666,000
Estimated 1981–82	8,911,000
Actual 1980–81	9,703,000
Requested decrease (excluding amount for salary increases) $1,245,000 (−14.0 percent)	
Total recommended reduction	None
Recommendation pending	$3,642,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4140-001-001—Support		General	$1,425,000
4140-001-121—Support		Hospital Building Account, Architecture Public Building	2,253,000
4140-001-518—Support		Health Facilities Construction Loan Insurance	896,000
4140-001-890—Support		Federal Trust	(2,482,000)
4140-101-001—Local Assistance		General	2,880,000
4140-111-001—Legislative Mandates		General	212,000
Total			$7,666,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Federal Budget. Withhold recommendation on the office's proposed expenditure of $3,642,000 in various state funds and $2,482,000 in federal funds for health planning and certificate-of-need activities, pending final Congressional action on the federal 1982 budget.	742

GENERAL PROGRAM STATEMENT

The Office of Statewide Health Planning and Development is responsible for developing a state health policy which assures the accessibility of needed, appropriate health services to the people of California at affordable costs. The office administers four major programs which have the following functions:

1. The *Health Planning Division* has overall responsibility for carrying out health planning activities and developing statewide health policy. The division accomplishes this in conjunction with the state's 14 Health Systems Agencies by developing a State Health Plan, which establishes priorities for delivery and financing of health services.

2. The *Certificate-of-Need Division* administers the state's certificate-of-need law (Ch 854/76), which requires state approval of major capital outlay projects proposed by licensed health facilities.

3. The *Health Professions Development Division* administers special health manpower programs, including the Song-Brown Family Physician Training program and the Health Professions Career Opportunity program.

4. The *Facilities Development Division* reviews health facility construction plans for conformance with federal and state building requirements, and reviews health facility applications for construction loan insurance.

The office has 183.4 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $4,517,000 from the General Fund to support the Office of Statewide Health Planning and Development (OSHPD) in 1982–83. This is an increase of $25,000, or 0.6 percent, above estimated current-year General Fund expenditures. Total expenditures are proposed at $13,366,000, which is an increase of $252,000, or 1.9 percent, above estimated current-year expenditures for ongoing programs. (For purposes of comparison, we have excluded certain one-time expenditures in 1981–82 in calculating the increase for the budget year.) Table 1 and Chart 1 display the office's program expenditures and funding sources.

Budget Changes. Table 2 shows the adjustments to the current-year budget proposed for 1982–83.

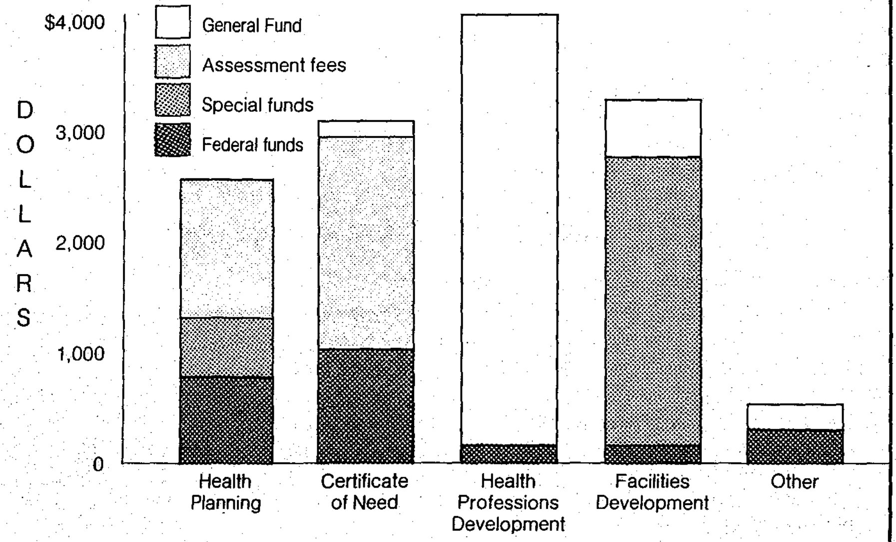
The budget proposes a total of 179.9 positions in 1982–83, which is an increase of 10.0 above the number authorized for continuation into the budget year. Five of these are existing limited-term positions proposed for continuation. Table 3 shows how these positions will be used, their cost, and the source of funds for the positions.

Table 1
Office of Statewide Health Planning and Development
Program Expenditures and Funding Sources
(in thousands)

Program	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
Health Planning	$1,845	$2,494	$2,549	$55	2.2%
Certificate of Need	2,652	2,881	2,945	64	2.5
Health Professions Development:	6,125	5,310	3,948	−1,362	−25.6 [a]
Ongoing programs	(3,123)	(3,923)	(3,948)	(25)	(0.6)
Carry-over appropriation	(3,002)	(1,387)	(—)	(−1,387)	(−100.0)
Facilities Development	3,912	3,257	3,358	101	3.1
Other	743	559	566	7	1.3
Totals	$15,277	$14,501	$13,366	−$1,135	−7.8% [a]
General Fund	*$7,107*	*$5,878*	*$4,517*	*−$1,361*	*−23.2%*
Hospital Building Account, Architecture Public Building Fund	*2,228*	*2,177*	*2,253*	*76*	*3.5*
Health Facilities Construction Loan Insurance Fund	*368*	*856*	*896*	*40*	*4.7*
Federal Trust Fund	*3,079*	*2,581*	*2,486*	*−95*	*−3.8*
Health Facilities Assessment Fees	*2,495*	*3,009*	*3,218*	*209*	*6.9*

[a] The 1981–82 expenditure estimates for Health Professions Development include $1,387,000 for 1980–81 Song-Brown program activities. Excluding this amount from the current-year estimates, the budget proposes an increase of $25,000, or 0.6 percent, for Health Professions Development, and $252,000, or 1.9 percent, in total.

Chart 1
Office of Statewide Health Planning and Development
Program Expenditures and Funding Sources
1982–83 (in thousands)



OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

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

	General Fund	*All Funds*
Adjusted base budget, 1981–82	$5,878	$14,501
A. Changes to maintain existing program	−1,303	−1,282
1. Carry-over appropriation	(−1,387)	(−1,387)
2. Limited-term positions	(—)	(−283)
3. Price adjustment	(51)	(286)
4. Restore 2 percent budget cut	(28)	(28)
5. Merit salary adjustment	(10)	(79)
6. Office of Administrative Law	(−5)	(−5)
B. Budget change proposals	−58	147
1. Facilities inventory	(—)	(78)
2. Health data system	(—)	(66)
3. Human subjects protection	(—)	(24)
4. HSA liaison	(—)	(37)
5. 5 percent budget cut	(−58)	(−58)
Proposed budget, 1982–83	$4,517	$13,366

Table 3
Office of Statewide Health Planning and Development
Proposed Changes in Authorized Positions

Description	*Positions*	*Cost*	*Funding Source*
1. Facilities inventory	2.0[a]	$78,000	Hospital Building Account
2. Certification of hospital equipment anchorage	2.0[a]	—	Redirection
3. Health data system	6.0	66,000	Fees
4. Human subjects protection	1.0	24,000	Reimbursements
5. HSA liaison	1.0[a]	37,000	Fees
6. Data processing	2.0	—	Redirection
7. Hearing officers	−4.0	—	Redirection
Totals	10.0	$205,000	

[a] Existing limited-term positions proposed for continuation.

HEALTH PLANNING AND CERTIFICATE OF NEED

Summary of Recent Federal Actions

The state's health planning and certificate-of-need programs are supported in large part by a federal grant received pursuant to the federal Health Planning and Resources Development Act (PL 93-641, as amended by PL 96-79). California's federal fiscal year 1981 (FFY 81) grant amounted to $2,560,000. This grant supports current-year activities. It offsets 41.8 percent of the cost of the state's programs. In addition, the state's 14 health systems agencies (HSAs) are supported almost entirely by direct federal grants. Local grants from FFY 81 appropriations were approximately $8,984,000. Grants to local agencies in 1981–82 are derived from FFY 81 and

FFY 82 appropriations.

Recent federal actions have reduced significantly federal support for state and local health planning. Table 4 displays the recent history of federal funding for state and local health planning.

Table 4

Federal Funding of Health Planning and Certificate-of-Need Programs: All States (in millions)

	State Health Planning	*Local Health Planning*
FFY 81 appropriations	$32.0	$82.9
FFY 82 authorization (Omnibus Budget Reconciliation Act)	35.0	65.0
Appropriations		
House	32.0	50.0
Senate	20.0	40.0
House Joint Resolution 370	19.2	38.4

House Joint Resolution (HJR) 370, the most recent continuing resolution for FFY 82, provides $19.2 million for state planning, which is a reduction of $12.8 million, or 40.0 percent, below 1981 appropriations. HJR 370 also provides $38.4 million for local planning, which is a reduction of $44.5 million, or 53.7 percent, below 1981 appropriations.

Impact of Federal Actions

The impact of these reductions in federal funding for health planning and certificate-of-need programs will not be known until Congress makes final appropriations for FFY 82. Table 5 shows the impact on OSHPD and the HSAs for two alternative funding levels—the maximum funds authorized for 1982 by the Omnibus Budget Reconciliation Act and the amount provided by HJR 370.

Table 5

Impact of Federal Fiscal Year 1982 Budget Actions on Office of Statewide Health Planning and Development (OSHPD) and Health Systems Agencies (HSAs) (in thousands)

	OSHPD		*HSAs*	
	1981–82	*1982–83*	*1981–82*	*1982–83*
Current federal funding level[a]	$2,560	$2,560	$8,984	$8,984
Maximum authorized by reconciliation act	N/A	2,482	8,452	7,055
Difference: Amount	N/A	−$78	−$532	−$1,396
Percent of total funds	N/A	−1.2%	−5.6%	−14.5%
House Joint Resolution 370	N/A	$1,363	$7,657	$4,174
Difference: Amount	N/A	−$1,197	−$1,327	−$4,810
Percent of total funds	N/A	−19.5%	−13.8%	−49.9%

[a] Assumes federal funding continues at FFY 81 level.

State Planning. The federal reductions have no impact on OSHPD in 1981–82, because the office's current-year program is supported entirely by FFY 81 appropriations. If Congress makes 1982 appropriations in the amount authorized by the reconciliation act, OSHPD would lose $78,000 in 1982–83, which is 1.2 percent of current-year expenditures. If, however, the 1982 appropriauions are as low as the levels provided in the continuing resolution, then OSHPD would lose approximately $1,197,000 in federal funds in 1982–83, which represents 19.5 percent of the total cost of the health planning and certificate-of-need programs.

Local Planning. The federal 1982 budget cuts affect individual health systems agencies at different times because their contracts are renewed at different times throughout the year. In 1981–82, federal 1982 budget cuts affect four health systems agencies—Los Angeles, Central Valley, West Bay, and Alameda/Contra Costa. If Congress makes 1982 appropriations in the amount authorized by the reconciliation act, these four HSAs will lose a minimum of $532,000 in 1981–82, representing 5.6 percent of the total local planning program. If the 1982 appropriations are as low as the levels provided by the continuing resolution, these HSAs will lose $1,327,000, which is 13.8 percent of total HSA funding in 1981–82.

The FFY 1982 budget will affect all HSAs in 1982–83. If Congress makes 1982 appropriations in the amount authorized in the reconciliation act, the 14 HSAs will lose a minimum of $1,396,000, which is 14.5 percent of their total funding. If 1982 appropriations are as low as the levels provided by the continuing resolution, HSAs will lose $4,810,000 in 1982–83, which is 49.9 percent of their current funding.

1982–83 Budget Proposal

We withhold recommendation on the office's budget proposal for its health planning and certificate-of-need programs, because of the uncertainty regarding federal funding.

OSHPD proposes expenditures of $3,642,000 in various state funds and $2,482,000 in federal health planning grant funds to support its health planning and certificate-of-need programs and related activities in 1982–83. The proposed expenditure of federal funds is based on the assumption that Congress will appropriate the maximum amount authorized by the reconciliation act. The budget is therefore based on the most optimistic assumption about the availability of federal funds. Table 5 shows that if Congress appropriates the amount provided by House Joint Resolution 370, OSHPD would lose $1,197,000 in 1982–83.

Because of the uncertainty regarding the availability of federal funds, we withhold recommendation pending final Congressional action on the federal 1982 budget.

Impact of Chapter 873, Statutes of 1981

Chapter 873, Statutes of 1981 (SB 930), significantly modified the state's health planning and certificate-of-need (CON) process for health facility capital outlay projects and equipment acquisition. The following summarizes the most important changes:

1. *Certificate-of-Need Coverage.* The statute raises the "threshold" for projects requiring a certificate of need (a) from $150,000 to $400,000 for new diagnostic and therapeutic equipment and (b) from $150,000 to $600,000 for other projects. The act allows general acute-care hospitals having an occupancy rate exceeding 85 percent for the preceding 12 months to increase bed capacity without a CON by the lesser of 10 beds or 10 percent of licensed capacity.
2. *Certificate-of-Exemption Coverage.* The act increases the "threshold" for projects requiring a certificate of exemption from $150,000 to $600,000 for remodeling or replacement projects, and from $150,000 to $400,000 for replacement of diagnostic and therapeutic equipment.
3. *Procedural Changes.* The act authorizes the OSHPD director to

waive specific CON requirements, by regulation, on a case-by-case or category-of-project basis. The act also allows HSAs to forego review and public hearings of CON applications. Finally, the statute allows OSHPD to approve a CON without conducting a public hearing.

4. *Non-Patient-Related Projects.* The act establishes expedited procedures and limits review criteria for projects not directly related to patient care.

5. *Hearing Officers.* The statute transfers administrative responsibility for conducting public hearings of CON applications from OSHPD to the Office of Administrative Hearings in the Department of General Services.

6. *Health Planning.* Chapter 873 establishes an 11-member Health Planning Law Revision Commission responsible for preparing recommendations on "future alternatives to health planning." The act also expresses legislative intent that the state not implement federally required reviews of the appropriateness of existing health services, and requires OSHPD to seek federal waivers from those provisions. Finally, the act requires implementation of a highly curtailed health planning and certificate-of-need program in the event that Congress fails to extend the federal health planning law or fails to appropriate funds for state health planning grants.

1982–83 Budget Changes Related to Chapter 873

The budget proposes to transfer three hearing officers and clerical support to the Office of Administrative Hearings (OAH) to comply with Chapter 873. The positions would be supported in OAH by reimbursements, from OSHPD, from assessment fees. The office estimates that Chapter 873 will not result in any other significant workload changes to the health planning or certificate-of-need programs.

Health and Welfare Agency

DEPARTMENT OF AGING

Item 4170 from the General Fund and Federal Trust Fund — Budget p. HW 19

Requested 1982–83	$5,923,000
Estimated 1981–82	5,756,000
Actual 1980–81	1,863,000
Requested increase (excluding amount for salary increases) $167,000 (+2.9 percent)	
Total recommended reduction	$659,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4170-001-001	—Department of Aging	General	$5,923,000
4170-001-890	—Department of Aging	Federal	(74,964,000)
Total			$5,923,000

DEPARTMENT OF AGING—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. ***Senior Nutrition Volunteer Project. Reduce by $309,000.*** Recommend deletion of $309,000 from General Fund requested to continue the Senior Nutrition Volunteer Project because it duplicates other nutrition programs in the department.	749
2. ***State Administration. Reduce by $350,000.*** Recommend General Fund reduction of $350,000 to correct for overbudgeting.	750
3. Legislative Control of Program Appropriations. Recommend budget bill be amended to include separate items for state administration and local assistance in order to facilitate legislative review of programs administered by the department.	751
4. Area Agency Administration and Program Development. Recommend department report prior to budget hearings on area agency expenditures for area plan administration, program development, and direct services.	751

GENERAL PROGRAM STATEMENT

The California Department of Aging (CDA) is the single state agency charged to receive and administer funds allocated to California under the federal Older Americans Act (OAA). The department uses federal funds to support local social and nutrition services for the elderly, senior employment programs, and related state and local administrative services and staff training. CDA is composed of three major subdivisions: administration and finance; community programs; and planning, evaluation, and research.

The local network for delivery of services consists of planning and coordinating bodies called area agencies on aging (AAAs, often referred to as "triple As"). In California there are 33 AAAs, one in each planning and service area. These service areas have been designated by CDA pursuant to the OAA, as amended in 1978.

The 1981 Budget Act authorized 132.3 positions for the CDA.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $5,923,000 from the General Fund for support of the California Department of Aging (CDA) in 1982–83. This is an increase of $167,000, or 2.9 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total program expenditures for CDA and AAAs are projected at $81,163,000, a decrease of $9,361,000, or 10.3 percent, below estimated current year expenditures.

Table 1 details the proposed changes in the department's budget for 1982–83. The major changes include:

- ***Reduction in federal funds.*** The budget proposes a reduction of $7.2 million in federal funds. These funds are available in the current year on a one-time-only basis and are due to carry over of unexpended federal funds from prior federal fiscal years. This reduction will not result in a reduced level of services to seniors because the funds have been used for such things as capital improvements in senior centers.

• ***Reimbursements.*** The budget reflects the expenditure in the current year of $1.3 million in reimbursements. These funds were received from the Department of Transportation for the purchase of 67 specially equipped vans.

• ***Program Changes.*** The budget proposes an augmentation of $309,000 for continuation of the Senior Nutrition Volunteer Program (SNVP).

Table 1
California Department of Aging
Proposed 1982–83 Budget Changes
(in thousands)

	General	*State Transportation*	*Federal*	*Nutrition Reserve*	*Reimbursements*	*Total*
1981–82 Current Year Revised	$5,756	$200	$82,164	$1,043	$1,361	$90,524
1. Baseline Adjustments:						
A. Increase in existing personnel costs	35	—	54	—	1	90
1. Salary adjustments	(34)	—	(53)	—	(1)	(88)
2. Salary savings adjustment	—	—	(−1)	—	—	(−1)
3. Staff benefits	(1)	—	(2)	—	—	(3)
B. Price increase	81	—	81	—	1	163
C. Funding source adjustment	−134	−200	—	−795	−1,335	−2,464
1. Nonrecurring items:						
a. Senior Nutrition Volunteer Project	(−94)	(−200)	—	(−345)	—	(−639)
b. La Posada	—	—	—	(−55)	—	(−55)
c. Senior Companion Project	(−134)	—	—	—	—	(−134)
2. Restoration of current year reductions:						
a. Restoration of travel reduction	(23)	—	—	—	—	(23)
b. Restoration of 2 percent reduction	(44)	—	—	—	—	(44)
3. State Match to Title III B/C federal funds	(27)	—	—	(−395)	—	(−368)
4. Reimbursements	—	—	—	—	(−1,335)	(−1,335)
D. Five percent reduction in state operations	−124	—	—	—	—	−124
E. Reduction in available federal funds	—	—	−7,335	—	—	−7,335
Total Baseline Adjustments	−$142	−$200	−$7,200	−$795	−$1,333	−$9,670
2. Program Change Proposals:						
A. Continuation funding—Senior Nutrition Volunteer Program	309	—	—	—	—	309
Total Program Changes	309	—	—	—	—	309
Total Budget Changes	$167	−$200	−$7,200	−$795	−$1,333	−$9,361
1982–83 Proposed Expenditures	$5,923	—	$74,964	$248	$28	$81,163
Total Change:						
Amount	$167	−$200	−$7,200	−$795	−$1,333	−$9,361
Percent	2.9%	−100%	−8.8%	−76.2%	−97.9%	−10.3%

DEPARTMENT OF AGING—Continued

- ***Five Percent Reductions.*** In order to achieve a five percent ($124,000) reduction in General Fund support for state operations as required of many agencies by the administration, the department proposes to reduce expenditures in the following areas: general expenses ($25,000), in-state travel ($79,000), and special projects ($20,000). The special projects reductions include decreased funding for the Foster Grandparent program and the Senior Companion Program. This may result in a reduction in the level of services provided through these programs. The reductions in travel and general expenses will have no significant impact on state operations.

Program Expenditures by Funding Source

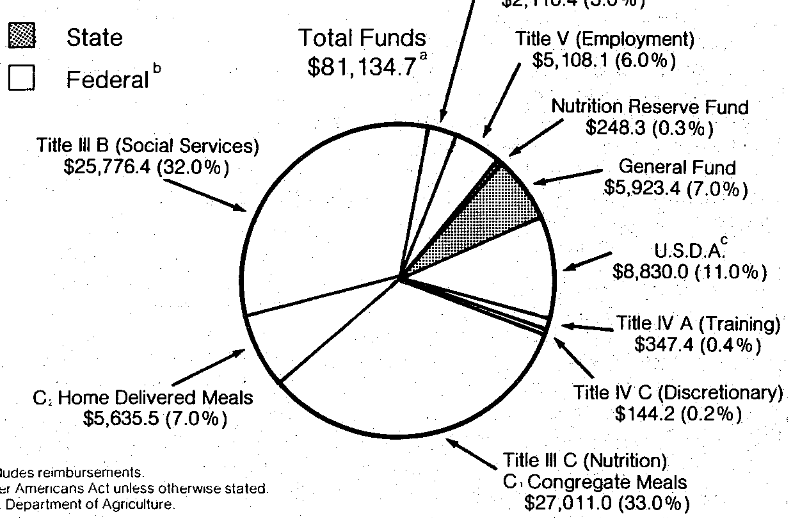
Chart 1 identifies total proposed expenditures, by funding source. It shows that of the approximately $81.1 million proposed in 1982–83, $74.9 million, or 92 percent, is from federal sources, and the remaining $6.2 million, or 8 percent is from state funds.

Program Expenditures by Spending Component

Chart 2 details proposed program expenditures by service or administrative component. The chart indicates that area agencies on aging (AAAs) will spend $71,184,348, or 88 percent, of the department's total budget for local service delivery. It also shows that state operations and AAA administration will each account for about 6 percent of proposed 1982–83 expenditures.

Chart 1

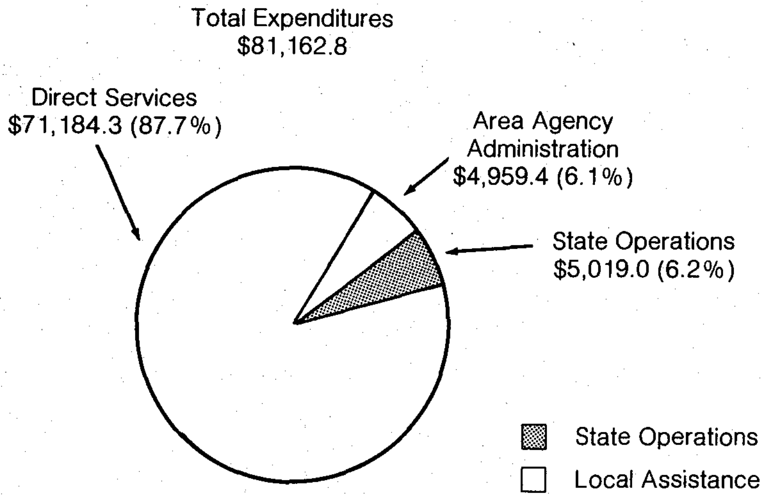
Department of Aging Funding by Source 1982–83 (in thousands)



[a] Excludes reimbursements.
[b] Older Americans Act unless otherwise stated.
[c] U.S. Department of Agriculture.

Chart 2

Department of Aging
Proposed Expenditures—All Funds
1982–83 (in thousands)



Continuation of Salaries of Director and Deputy Director

The 1981 Budget Act required the Director of the Department of Finance to notify the Joint Legislative Budget Committee no later than January 1, 1982, regarding her intention to pay the salaries of the Director and chief deputy director of the California Department of Aging (CDA) for the period February 1 through June 30, 1982.

In addition, the *Supplemental Report of the 1981 Budget Act* (Item 416), expressed legislative intent that the Chairman of the Joint Legislative Budget Committee submit a recommendation to the Director of the Department of Finance as to whether the salaries of the Director and chief deputy director of the CDA should be paid after February 1, 1982. The supplemental report further stated that the Chairman's recommendation should be based on a demonstration by the CDA that it has made progress in improving its fiscal management and accountability and program reporting capabilities, as specified in the 1981 Budget Act.

Our analysis of documentation submitted by the department in response to the Budget Act language and the supplemental report indicated that the department had made progress toward improving its fiscal management and accountability and program reporting capabilities. Based on our findings, the Chairman of the Joint Legislative Budget Committee recommended to the Director of Finance that the salaries of the Director and the chief deputy of the Department of Aging be paid for the period February 1 through June 30, 1982. The Chairman further recommended that the department correct specified deficiencies in the department's report. Specifically the Chairman recommended that the department (1) provide an estimate of the number of low income elderly that currently are not being served by existing nutrition programs and (2) reconcile ledger cards of federal expenditure reports for (Title V of the Older

DEPARTMENT OF AGING—Continued

Americans Act) Senior Centers for 1978–1980.

Suspension of the Letter of Credit

On October 1, 1981, the Commissioner of the federal Administration on Aging (AOA) suspended indefinitely the letter of credit system used to provide CDA programs with funding under Title III of the Older Americans Act. The AOA took this action because of the department's failure to correct long-standing deficiencies in its fiscal and program reporting systems. Specifically, the department had been unable to document properly its allocation and use of funds prior to federal fiscal year (FFY) 1982.

Current Method of Funding CDA. Under the prior letter of credit system, the department received quarterly allocations from AOA, based on its share of the federal appropriation. During the suspension period, funding for the department has been provided through a system of "advance reimbursements." This means that the department receives monthly allocations from AOA which represent one-twelfth of California's share of total funds available for the full year. The department, however, must submit documentation each month of actual, rather than estimated expenditures. Any disallowable claims are offset against a subsequent month's award.

Federal Requirements for Reinstatement of the Letter Credit. In a letter to CDA dated August 21, 1981, the federal Commissioner on Aging indicated that the department could be reinstated on the letter of credit system when, in AOA's judgment, it had fully complied with specified provisions of federal regulations. Specifically, the department must:

1. Provide documentation of all expenditures for FFY 73 through FFY 81. Any claims against its allocations which cannot be adequately documented will be disallowed.

2. Install in the department and AAAs complete budgeting, accounting, and program reporting systems to assure timely, regular, and uniform reporting of program expenditures.

3. Identify all disallowable claims against federal allocations prior to FFY 82, and return the amounts to the federal government. At the time this analysis was prepared, the AOA had identified $388,000 in disallowable costs. If the department ultimately has to return the funds, the General Fund would bear the cost.

Full Compliance Needed Before Letter of Credit Can be Reinstated. The department maintains that it has attained "substantial compliance" with federal regulations. AOA has advised us, however, that before the letter of credit can be restored, the department must achieve *full compliance* with those provisions of federal regulations concerning accounting, budgeting, and program reporting.

In order to determine full compliance, AOA indicated that it would make a series of on-site verifications in the department and 10 randomly selected AAAs. AOA completed its visit to the department during the week of January 11, 1982. Visits to AAAs will begin February 1, 1982, and are expected to be completed by March 22, 1982. After the review process is complete, AOA will determine the status of the department's letter of credit.

The suspension of the letter of credit was regarded by AOA, CDA, and the 33 AAAs as a serious action which expressed strong federal dissatisfaction with past fiscal practices regarding AOA-funded programs in California. AOA has indicated that it believes that the department is making good faith efforts to comply with federal regulations.

Nutrition Reserve Fund

Chapter 1189, Statutes of 1979 (AB 987) appropriated $5 million from the General Fund for transfer to the Nutrition Reserve Fund (NRF). Subsequently, Chapter 1020, Statutes of 1980 (AB 2329), clarified legislative intent with respect to expenditures from the NRF. Specifically, Chapter 1020:

1. Specifies the conditions under which nutrition projects may receive allocations from the NRF to offset increases in costs per meal and increases in the numbers of participants in existing nutrition projects.
2. Provides $1 million as a revolving loan account from which CDA may extend low-interest loans of up to $300,000 to individual nutrition projects.
3. Requires that the department report to the Legislature and the Department of Finance by March 1 of each year on its findings and recommendations regarding those nutrition projects which received NRF assistance.

The amount of funds expected to be available in the NRF at the start of the budget year is $1,297,351. Of this amount, $267,000 has been set aside for the Brown Bag program pursuant to Chapter 1345, Statutes of 1980 (AB 2895), of which $248,000 will be spent in 1982–83. The remaining $19,000 is anticipated to be spent in 1983–84.

Senior Nutrition Volunteer Project

We recommend deletion of $309,000 in General Fund support to continue the Senior Nutrition Volunteer Project (SNVP) because this program duplicates existing federal programs.

The budget requests $309,000 from the General Fund to continue the SNVP in the budget year.

Background. Legislative authority for the Senior Nutrition Volunteer Program (SNVP) was extended from July 1, 1981, through June 30, 1982 by Chapter 251, Statutes of 1981 (AB 1004). Its purpose is to provide meals and transportation to seniors who volunteer their services to community programs. The program emphasizes volunteer opportunities for elderly members of minority groups that involve interaction with youth. The program operates at six locations in Humboldt, Sacramento, and San Diego Counties. Three of the six sites are located in rural areas of these counties.

Chapter 251 provided a total of $500,000 ($325,000 from the Nutrition Reserve Fund and $175,000 from the State Transportation Fund) for the program in 1981–82. The act provided that the six SNVP sites must be integrated into existing federally funded nutrition programs by February 1, 1982.

Budget Proposal. The budget proposes $309,000 from the General Fund to continue the SNVP as a separate, ongoing program during 1982–83. These funds would be used to provide meals and transportation to approximately 450 seniors who would donate an estimated 90,000 hours of volunteer community service.

Program Duplicates Other Federal Programs. Our analysis indicates that continuation of SNVP would duplicate the existing federal Title III C congregate meals programs. Title III C programs provide meals, transportation, and volunteer opportunities to seniors with the greatest social and economic need. Because it duplicates the Title III C program, SNVP results in an inefficient use of available funds by requiring separate facili-

DEPARTMENT OF AGING—Continued

ties and administration to serve the same target group.

Department Should Comply With Legislative Directive. The Legislature recognized that SNVP was duplicative of the Title III C program. Accordingly, Chapter 251 required that the six existing SNVP sites be integrated into existing federally funded nutrition programs by February 1, 1982.

In order to comply with the provisions of Chapter 251 and assure that available funds are used most effectively in serving seniors, CDA should:

a. Close down those SNVP sites which are located near existing Title III C sites and transfer program participants to those sites. The department advises that existing Title III C nutrition programs in most areas could absorb this level of increased use.
b. Encourage the AAAs to designate the remaining SNVP sites as Title III sites in order to qualify them for federal funding.

SNVP sites could qualify for federal funding with minor program changes. Title III centers are required to supply participants with meals providing at least one-third of the USDA required daily amount (RDA) of nutritional value. While SNVP sites are not required to meet this minimum standard in order that they may serve special and ethnic meals, the meals they serve could still qualify for federal funds under Title III B as a social service. Alternatively, meals could be adjusted to meet the RDA requirement and thus qualify for reimbursement under Title III C.

Furthermore, although SNVP sites could no longer provide *cash* reimbursements to program participants for transportation expenses if designated as Title III sites, they could provide *free rides* to and from the sites for any senior who requested them.

We do not believe either of these program changes would significantly affect the quality of services now being provided to program participants. By integrating SNVP sites into existing federal programs, as required by Chapter 251, CDA would no longer need state funds to support these sites.

For these reasons, we recommend deletion of $309,000 from the General Fund proposed by the department to continue the SNVP program as a separate program.

State Administration Over Budgeted

We recommend deletion of $350,000 to correct for over-budgeted administrative expenses for a corresponding savings to the General Fund.

The budget proposes a total of $4,320,000 (all funds) for state administration. This amount includes $350,000 budgeted in anticipation of a deficiency appropriation in the current year.

Background. During hearings on the 1981 Budget, the CDA requested a $700,000 augmentation for 1981–82. The department stated that the augmentation was necessary in order to avert lay-offs and maintain the 1980–81 level of administrative effort. Subsequently, the Legislature augmented the department's budget by $350,000, instead of $700,000, for state administration.

Existence of Deficiency in Current Year is Unknown. In preparing its budget for 1982–83, the department included in its budget base both the $350,000 augmentation provided by the Legislature for 1981–82 and an additional $350,000 which it *expects* to receive through a deficiency appropriation in the current year. As yet, no deficiency measure has been proposed. In addition, we are unable to document that a deficiency exists in the current year. For these reasons, we recommend a General Fund reduction of $350,000.

Legislative Control of Program Appropriation

We recommend that the Budget Bill be amended to include separate items for state administration and local assistance, in order to facilitate legislative review of programs administered by the California Department of Aging.

Items 4170-001-001 and 4170-001-890 of the 1982 Budget Bill appropriate $5,923,000 from the General Fund and $74,964,000 from the Federal Trust Fund, respectively, to the California Department of Aging. These items combine funds for both administration and services (for example, nutrition, social services, and employment services).

As a result, in reviewing the Budget Bill it is difficult to determine how much money is appropriated for administration as opposed to program services. The distribution of funds between these program components is of major importance to the Legislature.

In order to facilitate legislative review and ensure that appropriated funds are expended as approved, we recommend that the Budget Bill contain separate appropriation items for state administration and assistance to local programs. Legislative Counsel has advised that there is no legal barrier to separating the appropriations to identify separately, state administration and local assistance.

Expenditures for Area Agencies Administration and Program Development

We recommend that the department identify, prior to budget hearings, both activities and expenditures which are classified as program development and those which constitute area plan administration.

Background. Title III of the Older Americans Act permits area agencies on aging (AAAs) to spend up to 8.5 percent of total program funds for administration of area plans. AAAs must submit plans each year that outline program activities and assess progress toward meeting program objectives. AAAs may use additional program funds for "program development."

Definition of Program Development is Vague. The federal definition of program development is vague, and can be interpreted as including administrative activities. For example, program development consists of limited-term (one-time-only) activities which contribute to the establishment or expansion of services for seniors, such as home care programs, or senior centers. Federal regulations do not require that AAAs distinguish between administration and program development in their fiscal reporting. As a result, it traditionally has been difficult to determine whether the AAAs have used some of their program development funds for administrative activities. There is no limit on the amount of funds AAAs may spend for program development.

AAA Program Expenditures. Table 2 shows AAA expenditures for area plan administration, program development, and direct services provided to the elderly during 1980–81, the latest year for which we have complete information. Table 2 shows that of the $33,757,000 spent on Title III B social services in 1980–81, AAAs spent $4,756,000, or 14.1 percent, on program development and $1,664,000, or 4.9 percent, for area plan administration, bringing combined expenditures on area plan administration and program development to $6,420,000, or 19.0 percent of Title III B funds. In contrast, $1,535,000, or 3.1 percent, of Title III C funds for congregate

DEPARTMENT OF AGING—Continued

meals were spent on area plan administration and program development.

Table 2
Area Agency on Aging Expenditures for Program Development and Administration 1980-81 (in thousands)

	Title III B		Title III C				Totals	
	Social Services	Percent of Total	Congregate Meals	Percent of Total	Home Delivered Meals	Percent of Total	Amount	Percent of Total
1. AAA administration	$1,664	4.9%	$1,391	2.8%	$252	2.7%	$3,307	3.6%
2. AAA program development	4,756	14.1	144	0.3	21	0.2	4,921	5.3
Subtotal—administration and program development	($6,420)	(19.0)	($1,535)	(3.1)	($273)	(2.9)	($8,228)	(8.9)
3. Direct services	27,337	81.0	47,625	96.9	9,087	97.1	84,049	91.1
4. Total	$33,757	100.0%	$49,160	100.0%	$9,360	100.0%	$92,277	100.0%

Our analysis indicates that this trend has continued in the current year. The 1981–82 budget contained a total of $37,414,000 for Title III B, of which $2,880,316, or 7.7 percent, was budgeted for area plan administration and program development. In the first quarter of the current year, AAAs have spent $5,634,496 for Title III B including $606,322, or 10.8 percent, for program development and area plan administration.

To the extent AAAs are using a portion of Title III B program development funds for administrative activities, it is likely that they are exceeding the 8.5 percent federal cap on administrative expenditures for Title III B social services. In addition, because the program development component of AAA activities is so loosely defined, it is difficult to know whether these funds are being spent in a cost-effective manner.

As a result, we recommend that the department identify, prior to budget hearings, (a) those activities classified as program development and area plan administration, (b) how funds have been expended in 1980–81 for each of these activities, and (c) how budgeted funds will be expended in 1981–82 and 1982–83.

Health and Welfare Agency
COMMISSION ON AGING

Item 4180 from the General Fund — Budget p. HW 27

Requested 1982–83	$212,000
Estimated 1981–82	121,000
Actual 1980–81	—
Requested increase (excluding amount for salary increases) $91,000 (+75.2 percent)	
Total recommended reduction	$21,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *California Senior Legislature. Reduce by $21,000.* Recommend deletion of $21,000 from the General Fund in order to maintain support at current-year level, adjusted for inflation. 754

GENERAL PROGRAM STATEMENT

The California Commission on Aging (CCA) is mandated to act in an advisory capacity to the California Department of Aging (CDA) and to serve as the principal state advocate on behalf of older persons. CCA is composed of 25 members appointed by the Governor, the Speaker of the Assembly, and the Senate Rules Committee. Although the commission is independent of CDA, it receives administrative services from the department. Pursuant to Item 416 of the *Supplemental Report of the 1981 Budget Act,* the Department of Finance has prepared separate budget displays and separate Budget Bill items for the California Department of Aging and the California Commission on Aging.

The 1981 Budget Act authorized 5.0 positions for the California Commission on Aging in the current year. The CCA administratively established 0.5 positions for a total of 5.5 positions in 1981–82.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $212,000 from the General Fund for support of the California Commission on Aging (CCA) in 1982–83. This is an increase of $91,000, or 75.2 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increases approved for the budget year.

Total program expenditures, including expenditures from federal funds, are projected at $393,000, an increase of $66,000, or 20.2 percent, over estimated current year expenditures.

Table 1 details the changes in the commission's proposed budget for 1982–83. The table indicates that two factors primarily account for the $91,000 increase proposed from the General Fund: (1) the increased costs associated with the appointment of six new members to the commission, bringing its membership to 25 persons ($29,000) and (2) a proposal that a California Senior Legislature be convened in October 1982 ($50,000). The commission proposes to establish 0.6 new position for this purpose.

COMMISSION ON AGING—Continued

Table 1
California Commission on Aging
Proposed 1982–83 Budget Changes
General Fund

	Adjustment	*Total*
1981–82 Currenty Year Revised		$121,000
1. Baseline Adjustments		
a. Increase in existing personnel costs	5,000	
b. Price increase	7,000	
c. Increased costs for commissioners' travel and support	29,000	
Total Baseline Adjustments		$41,000
2. Program Change Proposals		
a. California senior legislature	$50,000	
Total Program Changes		$50,000
Total Budget Changes		$91,000
1982–83 Proposed Expenditures		$212,000
Total Increase		
Amount		$91,000
Percent		+75.2%

California Senior Legislature

We recommend a reduction of $21,000 proposed for a California Senior Legislature to reflect anticipated contributions from private sources.

The budget proposes an appropriation of $50,000 from the General Fund to convene the California Senior Legislature (CSL) in 1982–83. The budget anticipates an additional $32,874 in contributions will be available to augment the General Fund support, bringing total expenditures for the CSL to $82,874.

Background. In July 1981, the CCA sponsored the first California Senior Legislature. The CSL was composed of 120 senior legislators—80 Assembly representatives and 40 Senators. The senior legislators were elected from existing Senate and Assembly districts across the state and met in Sacramento for a four-day legislative session. The purpose of the CSL was to acquaint senior citizens with the legislative process and to produce model legislation and make recommendations to the California Legislature on issues of interest to older Californians.

Other Funds Available. Our analysis indicates that the full amount of General Fund support requested for the CSL is not needed, because other funding sources are available. Table 2 compares actual expenditures for the CSL in 1981–82 with proposed expenditures for 1982–83. In the current year, expenditures for the CSL totaled $69,069. Of this amount, the General Fund contribution was $24,268, or 35.1 percent, of the total. The remaining funds—$44,801, or 64.9 percent, of the total—came from private contributions and grants.

The budget assumes that in 1982–83, contributions from non-state sources will total $32,874, providing 39.7 percent of the funds available for the CSL. Thus, despite the administration's stated objective to "hold major fund raising activities to supplement General Fund for the California Senior Legislature," the budget shows a 26.6 percent *decrease* in private contributions, thereby requiring a 106 percent increase in the General Fund contribution.

If CCA obtains grants for the 1982–83 CSL at the same level as in

1981–82, General Fund support could be reduced accordingly. We recommend that CCA General Fund support for the CSL in 1982–83 be kept at the current year level, adjusted for inflation. This would allow a General Fund reduction of $21,000.

Table 2
Funding for California Senior Legislature
1981–82 and 1982–83

			Change	
	1981–82	*1982–83*	*Amount*	*Percent*
General Fund	$24,268	$50,000	$25,732	106.0%
Other funds	44,801	32,874	−11,927	−26.6
Grants	(25,000)	(—)	(−25,000)	−100.0
Contributions	(19,801)	(32,874)	(13,073)	66.0
Total	$69,069	$82,874	$13,805	20.0%

Health and Welfare Agency
DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 4200 from the General Fund and Federal Trust Fund — Budget p. HW 29

Requested 1982–83	$72,228,000
Estimated 1981–82	68,320,000
Actual 1980–81	68,371,000
Requested increase (excluding amount for salary increases) $3,908,000 (+5.7 percent)	
Total recommended reduction	$369,000
Recommendation pending	$500,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4200-001-001	—Support	General	$7,354,000
4200-001-890	—Support	Federal	(2,764,000)
4200-101-001	—Local Assistance	General	61,785,000
4200-101-890	—Local Assistance	Federal	(30,884,000)
4200-111-001	—Cost-of-Living Increase	General	3,089,000
Total			$72,228,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. School-Community Drug Abuse Prevention Program. Withhold recommendation, pending receipt of information regarding the department's plan to administer the program. 758
2. Quality Assurance. Recommend approval of 8.0 positions on limited-term basis for continuation of Quality Assurance program through June 30, 1983. 760
3. *Alcohol, Drug Abuse, and Mental Health Block Grant, Substance Abuse Portion. Reduce by $369,000.* Recommend: 760

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

(a) deletion of 11 positions and $369,000 from the General Fund due to department's failure to document increase in workload during budget year, and (b) department report by March 15, 1982 on efforts to develop a formula to allocate federal funds to local programs, and on the impact of funding reductions on clients and programs.

GENERAL PROGRAM STATEMENT

The Department of Alcohol and Drug Programs (DADP) is responsible for directing and coordinating the state's effort to prevent or minimize the effect of alcohol misuse, narcotic addiction, and drug abuse. The department is composed of the Divisions of Administration, Alcohol Programs, and Drug Programs. The department has 228 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes three appropriations from the General Fund totaling $72,228,000 for support of department activities in 1982–83. This is an increase of $3,908,000, or 5.7 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total 1982–83 expenditures for the Department of Alcohol and Drug Programs from all sources, including federal funds ($33,648,000) and reimbursements ($2,202,000), are projected at $108,078,000. This represents an increase of $3,733,000, or 3.6 percent, over estimated current-year expenditures.

Table 1 shows the changes proposed in the department's budget for 1982–83 by funding source. The most important changes include the following:

• ***Cost-of-Living Adjustments.*** The department proposes a cost-of-living adjustment (COLA) for substance abuse programs totaling $3,089,000, or 5 percent of its 1982–83 budget request. This includes $1,611,000 for alcohol programs and $1,478,000 for drug programs. The COLA reflects an increase in the General Fund portion of the local assistance item in the department's budget.

• ***Five Percent Reduction.*** The department proposes a reduction of $367,000 in operating expenses and equipment to achieve the 5 percent reduction in General Fund support for state operations required of some departments by the administration. The reductions are as follows: equipment (–$28,000), training (–$27,000), consultant and professional services (–$53,000), reduction in costs associated with the development and publication of departmental regulations (–$32,000), facilities operations (–$24,000), in-state travel (–$104,000) and general expenses (–$99,000).

• ***Metropolitan State Hospital.*** The budget proposes a transfer of $356,000 from the budget of the Department of Mental Health (Item 4440) to reflect the total cost of the drug program at Metropolitan State Hospital in the budget of the Department of Alcohol and Drug Programs.

• ***Alcohol Research Center.*** The department proposes to terminate the Alcohol Research Center contract after December 1982 (–$286,000).

• ***Quality Assurance.*** The department proposes to continue 8.0 positions to expand the department's Quality Assurance effort ($416,522).

• ***Block Grant.*** The department proposes to reduce a net of 5.5 authorized positions and $393,000 as a result of reduced administrative workload in the drug program due to the implementation of the substance abuse portion of the Alcohol, Drug Abuse, and Mental Health Block Grant.

- ***School-Community Drug Abuse Program.*** The department proposes $500,000 and 1.5 temporary help positions to establish a School-Community Drug Abuse program.

Table 1
Department of Alcohol and Drug Programs
Proposed 1982–83 Budget Changes
All Funds
(in thousands)

	General	*Federal*	*Reimbursements*	*Total*
1981–82 Current Year Revised	$68,320	$33,787	$2,238	$104,345
Baseline Adjustments				
A. Personnel Costs				
1. Salaries	136	56	5	197
2. Salary savings	1	—	—	1
3. Staff benefits	40	18	2	60
4. Short-Doyle processing	30	—	−30	—
B. Price Increase	3,250	180	—	3,430
C. Planning Estimate Adjustments				
1. Regulations/OAL	−5	—	—	−5
2. CALSTARS/CFIS	9	—	—	9
3. Travel	104	—	—	104
4. 2 percent/5 percent reductions	−227	—	—	−227
5. Metropolitan State Hospital	356	—	—	356
6. Research center	−286	—	—	−286
7. Other	—	—	−13	−13
D. Other:				
Quality assurance	−417 [a]	—	—	−417
Total Baseline Line Adjustments	$2,991	$254	−$36	$3,209
Program Change Proposals				
A. Quality Assurance	417 [a]	—	—	417
B. Block Grant	—	−393	—	−393
C. Prevention program	500	—	—	500
Total Program Change Proposals	$917	−$393	—	$524
Total Budget Changes	$3,908	−$139	−$36	$3,733
Total 1982–83 Proposed Expenditures	$72,228	$33,648	$2,202	$108,078
Total Change from Estimated Current Year Expenditures				
Amount	$3,908	−$139	−$36	$3,733
Percent	5.7%	−0.4%	−1.6%	3.6%

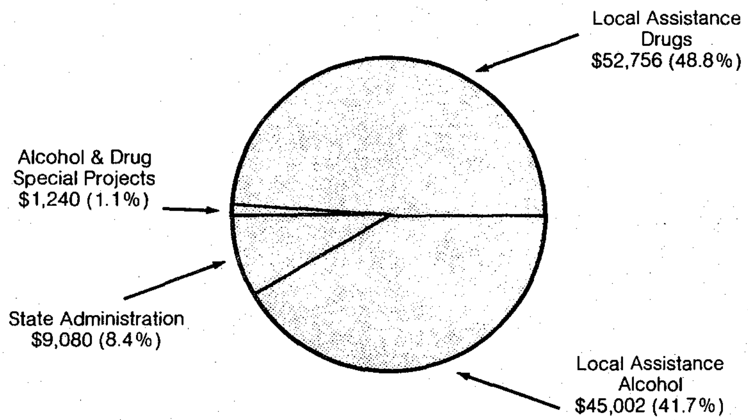
[a] Reflects continuation of Quality Assurance function.

Chart 1 shows total proposed expenditures, all funds, for 1982–83, by spending component. It indicates that local assistance comprises $97,758,000 or 91 percent, of the department's budget. State administration comprises $9,080,000 or 8 percent, of the total budget. The balance, $1,240,000 (a little more than 1 percent), is for special projects.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Chart 1

Department of Alcohol and Drug Programs
Total Projected Expenditures: $108,078
All Funds 1982–83 (in thousands)



Staffing Level

In the budget year, the department proposes to reduce staffing levels by a net of 5.5 positions, bringing total staffing to 222.5 positions. In addition, the department proposes to redirect 11 positions. Of these, 1 position is proposed for redirection within the administration division, 7 positions are proposed for redirection from the drug division to the alcohol division, and 3 positions are proposed for redirection from the drug division to the division of administration. Finally, the department proposes to establish an additional 1.5 temporary help positions to administer the School-Community Drug Abuse Prevention program.

SPECIAL PROJECTS

School-Community Drug Abuse Prevention Program

We withhold recommendation on the department's proposal to add 1.5 temporary help positions and $500,000 from the General Fund to administer a School-Community Drug Abuse Prevention program pending receipt of information regarding the department's plans to administer the program.

Background. The budget proposes $500,000 and 1.5 temporary help positions to administer a School-Community Drug Abuse Program (SCDAP). Chapter 1002, Statutes of 1981 (SB 283), established SCDAP. The purpose of the SCDAP is to provide a mechanism by which county drug abuse program administrators and education officials can develop jointly primary prevention programs. Primary prevention programs are designed to reach youth before drug abuse problems have occurred. The program is targeted to elementary schools and community organizations which provide services to youth. Chapter 1002 did not contain an appropriation for the program.

In addition, Chapter 1002:

- Established a statewide primary drug abuse program in grades 1–12 of county public schools.
- Established a process by which county education officials and drug abuse program administrators jointly may plan a program and apply for funds.
- Established guidelines for cooperation between the Department of Alcohol and Drug Programs and the Department of Education in administering and evaluating SCDAP.
- Provides that available funds be allocated to eligible counties on a per capita basis, with a $5,000 minimum allocation. The department has not formulated a plan for administering SCDAP. As a result, we are unable to determine whether the proposed SCDAP meets the requirements of Chapter 1002. Two features of the budget proposal raise questions regarding the intended use of funds.

Proposal May be Inconsistent with Requirement for a Statewide Program. The department proposes to use the county planning process to solicit applications for funds as required by the act. The department, however, does not plan to allocate SCDAP funds to eligible counties on a per capita basis with a minimum allocation of $5,000 to small counties as required by law. Instead, it will award grants ranging from $50,000 to $100,000 to 5–10 demonstration projects. These projects would be selected on the basis of criteria to be determined by the department in consultation with the Department of Education.

We do not question the merit of SCDAP as proposed by the department. Rather, we question whether the appropriation of $500,000 will allow the department to administer a program which is consistent with the allocation requirements of Chapter 1002. In addition, we question whether the proposed mechanism for the distribution of available funds or the limited number of awards to eligible counties satisfies the requirement that a statewide SCDAP be implemented. We cannot recommend approval of SCDAP as proposed by the department without further clarification by the department as to how its proposal meets legislative intent.

Administrative Funds Overbudgeted. DADP advises that it intends to allocate, by interagency agreement, $250,000 of the proposed $500,000 to the Department of Education, as required by Chapter 1002. Because the act imposes a 5 percent cap on administrative expenditures by each state department and each county program, DADP is permitted to spend no more than $12,500 (5 percent of the $250,000) to administer SCDAP. The department's budget, however, proposes $32,000 and 1.5 temporary help positions to administer the program. This amount exceeds the statutory cap on administrative costs. Furthermore, DADP has not justified the need for 1.5 additional positions.

Recommendation. In view of the above, we withhold recommendation on the department's proposal to establish the SCDAP, pending receipt of information from the department, (a) specifying how the department's proposal meets the requirements of Chapter 1002 and (b) identifying the duties of the 1.5 temporary help positions proposed to administer the SCDAP.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Quality Assurance Program

We recommend that the 8 positions requested to continue the Quality Assurance program be approved for a limited term through June 30, 1983, because the program is a demonstration project scheduled to continue only until June 1983.

The budget proposes 8 positions and $416,522 to continue an expanded Quality Assurance program authorized in the 1981 Budget Act.

Background. Prior to 1981–82, the department's quality assurance activities consisted of certifying alcohol recovery homes (community-based treatment facilities) and detoxification facilities on the basis of advisory guidelines developed in 1975. Under these guidelines, alcohol recovery homes and detoxification facilities serving alcoholics referred by law enforcement agencies as an alternative to jail could be certified on a voluntary basis.

Chapter 679, Statutes of 1979, required DADP to develop program standards for alcohol services in consultation with alcohol program administrators. The law provides that the standards are advisory in nature unless and until they are adopted in the form of regulations.

The Budget Act of 1981 authorized an expansion of the department's Quality Assurance program. This included increased efforts to (1) implement uniform standards for alcohol programs and (2) expand funding for alcohol programs through third-party insurance payments. The department is testing the feasibility of this proposal in the current year—the first year of the expanded effort.

The *Supplemental Language Report of the 1981 Budget Act* requires the department to report to the Legislature by June 30, 1982, on its progress toward securing third-party payments for alcohol services as a result of the increased level of quality assurance provided for in the 1981 Budget Act.

Budget Proposal. Although the Budget Act of 1981 limited additional positions to a one-year term, it was the Legislature's intent that the department continue the expanded effort for a two-year period ending June 30, 1983. As a result, the department is proposing to continue eight positions and $416,522 for 1982–83. These positions would be used to complete the following activities: (1) conduct 276 annual and biannual reviews based on standards for alcohol programs completed in the current year, and (2) develop information and conduct orientations with the insurance industry regarding third-party insurance payments for state-funded alcohol programs.

Because the quality assurance project is a demonstration project and is scheduled to be completed by June 1983, we recommend that the eight positions and $416,522 be approved on a limited-term basis through June 30, 1983. This would allow the department to complete the quality assurance program as intended by the Legislature.

ALCOHOL, DRUG ABUSE AND MENTAL HEALTH BLOCK GRANT

Substance Abuse Portion

The federal Omnibus Budget Reconciliation Act of 1981 consolidated funding for alcohol and drug abuse (substance abuse) programs with funding for mental health programs to create Alcohol, Drug Abuse, and Mental Health (ADAMH) block grant. The block grant replaced categorical substance abuse programs which were authorized under the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment, and Rehabilitation Act (PL 91-616) and the Drug Abuse Prevention, Treatment and Rehabilitation Act (PL 92-225).

The provisions of the ADAMH block grant which apply jointly to mental health and substance abuse programs are discussed in our analysis of the Department of Mental Health's budget (Item 4440).

State Administration

Chapter 1186, Statutes of 1981 (AB 2185), established provisions for state administration of federal block grants. The Department of Alcohol and Drug Programs (DADP) has submitted a program change proposal which identifies its plan for implementation of the substance abuse portion of the ADAMH block grant, beginning October 1, 1982. The proposal details the department's staffing requirements and funding levels. The proposal, however, does not contain an expenditure plan for the allocation of funds to local programs, and does not contain information on the impact of the block grant on programs and clients as required by Ch 1186/81.

Federal Block Grant Requirements

Selected federal provisions and requirements governing the substance abuse portion of the ADAMH block grant are as follows:

Restrictions on the Use of Funds. Under the Reconciliation Act, funds for substance abuse must be allocated as follows:

- At least 35 percent must be spent for alcohol programs,
- At least 35 percent must be spent for drug programs,
- 30 percent is available for distribution at the discretion of the state,
- At least 20 percent of the total grant must be spent for prevention or early intervention,
- Up to 10 percent may be used for administration, and
- Federal funds may not be used to replace nonfederal funds.

Allocation Formula. Under the ADAMH block grant, California will receive the same percent of the national appropriation that it received in FFY 80 for substance abuse and in FFY 81 for mental health.

Matching Requirements. None.

Application Process. Categorical substance abuse programs have had separate application procedures, grant periods, and reporting requirements. The block grant establishes a single process by which the department may apply for ADAMH funds.

Funding Mechanism. The department has decided to eliminate contracts with individual providers and subvene all funds to counties based on an allocation formula to be determined before July 1, 1982.

Administrative Requirements. Federal regulations and requirements for program monitoring are reduced or eliminated. States may determine the regulations which will apply to programs. An annual report containing fiscal information and describing program activities will be required.

Transition Year. The federal Omnibus Reconciliation Act designated the current federal fiscal year (October 1981–September 1982) as the transition year during which states may assume responsibility for the block grant. The federal government will continue to administer categorical programs during this period until the state decides to assume responsibility for administering the block grant. The department proposes to assume the block grant on October 1, 1982, but proposes to make staffing changes on July 1, 1982, in order to facilitate the implementation process.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Federal Funds Available to California

In FFY 82, the Reconciliation Act *authorizes* $491 million for the ADAMH block grant. California's share of this amount for substance abuse programs would be $31.5 million. If, however, Congress *appropriates* funds for all of FFY 82 at a level consistent with the continuing resolution on the federal budget, $428 million, rather than $491 million, would be available for substance abuse nationwide. California's share of the lower amount would be $27.5 million.

The Reconciliation Act authorizes $511 million for the ADAMH block grant for FFY 83. The state's share of the FFY 83 authorization for substance abuse programs would be $32.7 million. The department's revised budget for the current year assumes that a total of $31.0 million in federal funds will be available for 1981–82. This includes $27.5 million available from FFY 82 (the continuing resolution amount) and $3.5 million in other available federal funds.

Administrative Impact of Block Grant Implementation

The department must make several important decisions regarding the implementation of the block grant. These decisions include: (1) the completion of a proposed state alcohol abuse prevention plan, (2) the determination of an allocation formula for the distribution of funds, and (3) the completion of a plan to transfer administration of the 47 alcohol projects currenty funded and administered directly by the National Institute of Alcohol Abuse and Alcoholism (NIAAA) to state administration. The department advises that these decisions will be made before July 1, 1982.

Transfer of NIAAA Projects. In the budget year, the department will assume administrative control of 47 alcohol projects currently funded directly by NIAAA. These projects are located in 21 counties, and provide alcohol services to special populations. The NIAAA funds an additional 4 NIAAA projects which are considered to be national in scope. Funds for these 4 projects will not be included in California's base allocation and instead will be distributed to all states on a pro rata basis.

Of the 47 projects to come under state administration, 15, or 32 percent, are located in Los Angeles County. Because of the uneven geographical concentration of NIAAA projects, the department is reviewing alternative formulas for distributing the funds and projects among county alcohol programs. The department advises that it will present, during budget hearings, alternative methods for asuming administrative control of these projects.

In the current year, the department estimates that the NIAAA projects are receiving $6.9 million in federal funds. This amount does not make allowance for a proposed 12 percent reduction in the level of federal funding in the current year. This $6.9 million compares to $5.1 million in federal funds for local alcohol programs currently being administered by the department. Since funds currently being allocated to NIAAA projects represent a substantial portion of total federal funds available for local alcohol programs in California in the current year, any reallocation of these funds is likely to have a significant impact on the level of county alcohol services in the budget year.

Impact on Alcohol Program Funding. Table 2 identifies total funds for local assistance and state operations received by the department for alcohol and drug programs in 1981–82 and 1982–83 by funding source.

In the current year, local alcohol programs will receive $5.1 million, or 16.5 percent, of total federal funds administered by the department for local assistance. In 1982–83, implementation of the block grant will increase the total amount of federal funds available for local alcohol programs in California to $11.2 million, or 36.2 percent, of total federal funds administered by the department. This represents an increase in federal alcohol funds of 118 percent over the two-year period.

The increase in federal funds, as well as the increase in state funds from drunk driving program fees authorized by Ch 679/79 and traffic fines authorized by Ch 661/80, means that counties will not have to reduce alcohol services and may be able to expand services in some instances in 1982–83.

Impact on Drug Program Funding. In 1982–83, implementation of the block grant will reduce total federal funds available to local drug programs by $6.2 million, or 23.9 percent, from the current year level. This reduction is due primarily to block grant restrictions on the use of federal funds.

Table 2
Allocation of Funds for Substance Abuse
1981–82 and 1982–83
(in thousands)

	1981–82		*1982–83*		*Difference*	
	Amount	*Proportion of Total*	*Amount*	*Proportion of Total*	*Amount*	*Percent*
Federal Funds [a]						
Local assistance—alcohol	$5,108	16.5%	$11,168	36.2%	$6,060	118.6%
Local assistance—drugs	25,925	83.5	19,716	63.8	−6,209	−23.9
Total	$31,033	100.0%	$30,884	100.0%	−$149	−0.5%
State Operations	7,354		6,891			
General Fund						
Local assistance—alcohol	$32,223	52.5%	$33,834	52.2%	$1,611	5.0%
Local assistance—drugs	29,206	47.5	31,040	47.8	1,834	6.3
Totals	$61,429	100.0%	$64,874	100.0%	$3,445	5.6%
State Operations	2,764		2,754			
All Funds						
Local assistance—alcohol	$37,331	40.4%	$45,002	47.0%	$7,671	20.5%
Local assistance—drugs	55,131	59.6	50,756	53.0	−4,375	−7.9
Total	92,462	100.0%	95,758	100.0%	$3,296	3.6%
Totals, State Operations	10,118		9,645			

[a] Includes federal funds for SSI ($838,000), State Manpower Training Grant ($31,000), and State Prevention Coordination Project ($601,000).

The block grant requires that 35 percent of federal funds be allocated to both drug and alcohol programs. The state may distribute an additional 30 percent on a discretionary basis but must spend at least 20 percent of the total funds available on prevention and early intervention. In the current year, drug programs receive $25.9 million, or 83.5 percent, of the total federal funds administered by the department for substance abuse. In 1982–83, the department proposes to avoid a substantial reduction in drug abuse program services that would otherwise result if drug programs receive only the minimum $11.7 million or 35 percent of FFY 83 funds. Specifically, the department proposes to allocate most of the 30 percent in discretionary funds to drug programs. As a result, drug programs will receive $19.7 million, or 64 percent of the federal funds administered by the department. Nevertheless, drug programs still will be required to absorb a substantial reduction in federal funds. In addition, unlike alcohol programs, drug programs do not have access to additional state resources resulting from special legislation.

Allocation Formula and Program Impacts

We recommend that the department report by March 15, 1982, on its allocation formula for the distribution of block grant funds and on the impact the block grant will have on clients and programs, as required by Ch 1186/81.

The department proposes to reevaluate the current distribution of funds for substance abuse programs. Funding levels for county substance abuse programs have varied widely in terms of the amount of federal funds received by individual counties directly from the federal government and the amount of funds received from local and private sources.

The department has advised that implementation of the block grant will include a reevaluation of the allocation formula for distributing federal and state funds among the counties. The determination of the formula could have a significant impact on the level of service provided by counties and received by individual clients and programs.

Chapter 1186 required the administration to provide an expenditure plan and report on the impact of the block grant on clients and programs affected. The department's proposal did not contain this information. We recommend that the department report by March 15, 1982 on its selection of an allocation formula and the anticipated effects of the block grant on clients and programs as required by Ch 1186/81.

Budget Change Proposal

We recommend deletion of 11 positions proposed for redirection to reflect the reduction in departmental workload resulting from the changeover to block grant funding. This would result in a General Fund savings of $369,000.

In order to implement the ADAMH block grant, the department proposes to eliminate a net of 5.5 positions and to redirect 11 positions as follows: (a) 7 would be transferred from the Drug Division to the Alcohol Division, (b) 3 would be redirected from the Drug Division to the Division of Administration, and (c) one would be redirected within the Division of Administration.

We recommend deletion of all 11 positions for the following reasons:

Increased Program Management Inconsistent with Subvention Policy. Of the 7 positions proposed for redirection to the Alcohol Division, four would be added to the program management section to monitor county administration of alcohol programs. Currently, the program management section reviews county plans and budgets and performs site visits.

The department advised that it will experience an increase in workload as a result of assuming responsibility for the 47 NIAAA projects. The department's proposal, however, indicates that funds and administrative responsibility for the NIAAA projects will be delegated to the counties through the current subvention mechanism. To the extent all 47 NIAAA projects continue to be funded, some *counties* may experience an increase in workload. The *department,* however, should not experience any such increase, because the number of county alcohol program administrations requiring review by the department will remain the same.

In short, we are unable to identify any significant increase in the department's program management workload resulting from the consolidation of the NIAAA projects within the block grant. We therefore recommend these four positions be deleted.

Failure to Identify Expanded or Increased Technical Assistance Workload. The remaining three positions proposed for transfer from the Drug Division to the Alcohol Division would be assigned to the technical assistance section. Currently, the technical assistance section contains 5.5 positions which work on the following: (a) prevention, including coordination of a committee to prepare a state alcohol abuse prevention plan, (b) technical assistance, and (c) special projects to develop model programs for youth, women and members of special populations.

The department advises that the three additional positions would assume responsibility for implementation of the state alcohol abuse prevention plan, and carry out special projects relating to (a) the development of a state policy regarding alcohol programs, and (b) services for youth, families, and members of special populations.

The department has been unable to provide specific workload data justifying the addition of three positions to the technical assistance section or to explain how the proposed activities would be integrated with existing efforts. We therefore recommend that the three positions be eliminated.

Workload Adjustments Offset. The department proposes to transfer 4 positions to the data management section of the Administration Division to upgrade existing data collection systems for alcohol programs. The department currently has a total of 24 positions assigned to review and manage data. This includes 13 positions to collect and analyze data and 11 positions to evaluate data and manage the electronic data processing system.

Specifically, the department proposes to expand its data collection activities to include all counties, thus making alcohol program data comparable to data collected for drug programs. Our analysis indicates that this increase in alcohol program reporting (1) is not required by federal block grant legislation and (2) coincides with a significant reduction or elimination of prior reporting requirements. The department has not justified any increase in workload due to upgrading alcohol data management. We recommend, therefore, that the four positions be deleted.

Summary. Our analysis indicates that the department has failed to identify any increase in its workload in the budget year due to the implementation of the block grant and has failed to justify any increase in its program management, technical assistance, or data management workload. We therefore recommend deletion of a total of 11 positions proposed for redirection, for a total General Fund savings of $369,000.

Health and Welfare Agency

ADVISORY COMMITTEE ON CHILD DEVELOPMENT PROGRAMS

Item 4220 from the General Fund — Budget p. HW 37

Requested 1982–83	$133,000
Estimated 1981–82	126,000
Actual 1980–81	108,000
Requested increase (excluding amount for salary increases) $7,000 (+5.5 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Report on eligibility requirements and the parent-fee schedule. Recommend the Advisory Committee on Child Development Programs submit to the Legislature by December 1, 1982, its recommendations on eligibility requirements and the parent-fee schedule for state-subsidized child care and preschool services. 767

GENERAL PROGRAM STATEMENT

The Advisory Committee on Child Development Programs is responsible for (1) assisting the Department of Education in developing a state plan for child development programs, (2) advising the Governor and the Superintendent of Public Instruction on issues related to child care and development, (3) evaluating the effectiveness of such programs, and (4) reporting annually to the Legislature on these matters.

The committee consists of 25 members and is staffed by an executive secretary and clerical support (2.5 positions) during the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $133,000 from the General Fund for support of the Advisory Committee on Child Development Programs in 1982–83.

This is $7,000, or 5.5 percent, above estimated 1981–82 expenditures of $126,000. The amount requested from the General Fund will increase by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 shows the change in General Fund support between the current and budget years.

Table 1
Advisory Committee on Child Development Programs
General Fund Support
Summary of Changes from 1981–82 Budget

	Cost	*Total*
1981–82 Base Budget		$126,000
A. To Maintain Existing Budget		$7,000
1. Restore 2 percent budget reduction	$3,000	
2. Restore travel reduction	6,000	
3. Population and Price Changes	5,000	
B. 5 percent baseline reduction for budget year	−7,000	
Total Change (Amount/Percent)		$7,000
		(5.5%)
Total 1982–83 Support		$133,000

Five Percent Unallocated Program Reduction

The Governor's Budget provides for a 5 percent unallocated program reduction, amounting to $7,000. The committee intends to reduce in-state travel and other operating expenses in order to achieve this reduction. Our analysis indicates that this reduction should not impair the committee's ability to carry out its duties.

Eligibility Standards Review Needed

We recommend adoption of supplemental report language directing the Advisory Committee on Child Development Programs to review the eligibility requirements and the parent fee schedule for state-subsidized Child Care/Preschool services provided to families whose income is below the comparable median income level in the state. We further recommend that the committee report the results of its review, and any recommendations for revising the fee schedule and/or eligibility requirements to the chairman of each fiscal committee and of the Joint Legislative Budget Committee by December 1, 1982.

Current eligibility standards for state-subsidized child care services stipulate that priority for these services be given to children of low income families whose parents are working, seeking employment, in training, or incapacitated. Low income families are defined as those who receive assistance through the Aid to Families with Dependent Children program, the Supplemental Security Income program, or the State Supplemental program, or those whose income is less than 84 percent of the median income for their family size in the state.

Under current eligibility criteria, children from a family of four could be *enrolled* in a state subsidized program as long as the family's income is under $21,084 (84 percent of the 1981–82 median income of $25,100). Moreover, the family's children could *remain* in the program and still receive a state subsidy as long as its income is not more than 115 percent of the median income in the state for a family of comparable size ($28,860).

By definition, families with incomes above the median are not low income families. Consequently, we believe that the eligibility criteria and the fee schedule now in place need to be revised so that they no longer qualify above-average income families for a state subsidy. Accordingly, we have recommended in our analysis of the Department of Education's budget that state subsidies be eliminated for families with incomes above the median.

ADVISORY COMMITTEE ON CHILD DEVELOPMENT PROGRAMS—Continued

We also believe that the eligibility criteria and the fees assessed families with incomes under the median also warrants review to determine (1) if families with incomes below the median—but close to it—should receive a subsidy for child care, and (2) if a subsidy is appropriate, what the amount of that subsidy should be.

Accordingly, we recommend adoption of the following supplemental report language:

"The Advisory Committee on Child Development Programs shall study and make recommendations for the revision of eligibility standards and parent fee schedules such that only low income families are eligible for and receive a state subsidy for state sponsored child care and preschool services. The Committee shall report their findings to the Legislature no later than November 1, 1982."

Committee Report on the Office of Child Development

The *Supplemental Report of the 1981 Budget Act* directed the Advisory Committee on Child Development Programs to study the structure and organization of the Office of Child Development (OCD). The committee intends to submit the required report by March 1, 1982. The report will include a review of and recommendations concerning the following areas:

- mission and functions of OCD,
- placement of OCD in state government,
- program support and the role of the OCD consultants,
- personnel qualifications and in-service training for OCD personnel,
- timeliness of apportionments and OCD legal documents, and
- duplicative or extraneous paperwork required of child care agencies.

We will be prepared to comment on the committee's recommendations during budget hearings.

Health and Welfare Agency
DEPARTMENT OF HEALTH SERVICES

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

Requested 1982–83	$3,347,078,000
Estimated 1981–82	3,270,238,000
Actual 1980–81	2,914,749,000
Requested increase (excluding amount for salary increases) $76,840,000 (+2.3 percent)	
Total recommended reduction	$6,768,000
Recommendation pending	$2,787,039,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4260-001-001	—Department Support	General	$94,441,000
4260-001-044	—Department Support	State Transportation	300,000
4260-001-190	—Department Support	Energy and Resources	1,136,000
4260-001-455	—Department Support	Hazardous Substances	10,000,000
4260-001-898	—Department Support	County Health Services	81,000
4260-001-890	—Department Support	Federal	(195,576,000)
4260-101-001	—Medi-Cal Local Assistance	General	2,688,439,000
4260-101-890	—Medi-Cal Local Assistance	Federal	(1,963,717,000)
4260-106-001	—Cost-of-Living Adjustment	General	107,919,000
4260-106-890	—Cost-of-Living Adjustment	Federal	(49,690,000)

4260-111-001—Preventive Health Local Assistance	General	445,663,000
4260-111-890—Preventive Health Local Assistance	Federal	(16,246,000)
4260-121-001—Legislative Mandates	General	6,000
4260-490—Reappropriations	General	1,195,000
—Chapter 277, Statutes of 1980	General	65,000
—Amount payable from Genetic Disease Testing Fund	General	−1,591,000
—Amount payable from Hazardous Substance Account	General	−576,000
Total		$3,347,078,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Legislative Reporting Requirements. Recommend that, prior to budget hearings, the Departments of Health Services and Finance explain to the legislative fiscal committees why 11 reports required by statute and the *Supplemental Report to the 1981 Budget Act* were not submitted to the Legislature by the due dates. 783
2. Federal Health Block Grants. Recommend that, prior to budget hearings, the Department of Finance submit to the Legislature revised fiscal estimates for the block grants. The revised estimates should (a) be based on amounts appropriated in the federal continuing resolution and (b) reduce the maternal and child health estimate to account for the 15 percent which was set aside by the reconciliation act. 788
3. Federal Health Block Grants. Recommend that, prior to budget hearings, the Department of Finance submit information to the Legislature required by Ch 1186/81, including (a) descriptions of the programs and clients affected by the block grants and (b) a detailed proposal for administering the block grants. 789
4. County Capital Outlay Program. Recommend that funds in the Local Health Capital Expenditure Account be appropriated through the Budget Bill in Item 4260-111-900 to increase legislative oversight. Withhold recommendation on the amount of the appropriation because the budget understates current- and budget-year expenditures. Recommend that the Legislature direct the department to provide, prior to budget hearings, (a) information on the amount of funds available in this account and (b) a detailed expenditure plan for the current and budget year. 792
5. County Health Services Recoupment. Recommend adoption of Budget Bill language to require the department to initiate recoupment based on preliminary county expenditure reports because current department policy allows the counties to retain funds they are not entitled to for up to two years. 793
6. County Special Needs and Priorities Funds. Recommend that, prior to budget hearings, the department report to the legislative fiscal committees on the amount of special needs and priorities funds available to date and estimated to be available in the current and budget years. 793
7. Hazardous Waste Control Account. Recommend that, prior to budget hearings, the department submit to the 796

DEPARTMENT OF HEALTH SERVICES—Continued

fiscal committees revised revenue estimates for this account that (a) are consistent with proposed regulations, (b) reflect the delay in adopting the regulations, and (c) reflect increased fee collections by the Board of Equalization. Recommend also that the department revise its estimates of current-year expenditures.

8. Hazardous Waste Control Account. Recommend that expenditures from this account be appropriated in the Budget Bill by adding Item 4260-001-014 to increase legislative oversight. 797
9. ***Environmental Toxics Epidemiology Unit. Reduce Item 4260-001-001 by $290,000 and augment Item 4260-001-014 by $290,000.*** Recommend shift from General Fund to Hazardous Waste Control Account to fund epidemiological studies related to hazardous waste property evaluation. 801
10. Superfund. Withhold recommendation on $10 million from the Hazardous Substances Account because the department's proposal is inconsistent with the revenue ceiling established by the Legislature. 802
11. Superfund—Remedial Action and Response Activities. Recommend that, prior to budget hearings, the department develop for the legislative fiscal committees a more realistic assessment of current-year accomplishments. 803
12. Superfund—Emergency Response Activities. Recommend that, prior to budget hearings, the department report to the legislative fiscal committees on the responsibilities and authorities of the various agencies proposed to be involved in emergency response. 807
13. ***Superfund—Office of Emergency Services. Reduce Item 4260-001-455 by $30,000.*** Recommend deletion of one position in the warning center due to lack of workload justification for the new position. 808
14. ***Superfund—Prepositioned Emergency Response Equipment. Reduce Item 4260-001-455 by $800,000.*** Recommend deletion because the department has not prepared an adequate expenditure plan for these funds. 808
15. ***Superfund—Health Effects Studies. Reduce Item 4260-001-001 by $150,000 and Item 4260-001-455 by $115,000.*** Recommend shifting $150,000 in expenditures for superfund-related studies from the General Fund to the Hazardous Substances Account (HSA) and reducing $115,000 from the HSA to limit expenditures for health effects studies to the $500,000 maximum level established by Ch 756/81, for a total reduction of $265,000. Recommend that the department propose $265,000 in specific reductions necessary to stay within the statutory expenditure limit. 809
16. ***Superfund—Victim Compensation. Augment Item 4260-001-455 by $6,000.*** Recommend augmentation to support fully the Board of Control's identified administrative costs. 809
17. Hazardous Waste Management. Withhold recommendation on the proposed program expansion of $2,269,000 from Item 4260-001-014 because sufficient revenues may not be available in the Hazardous Waste Control Account to sup- 810

port these activities.

18. Monitoring and Enforcement. Recommend that the department report to the legislative fiscal committees, prior to budget hearings, (a) the number of hazardous waste facility inspections planned for 1982–83 for each facility category, (b) the amount of field staff allocated to inspections, and (c) the number of inspections per field position. 812
19. Management Information System. Withhold recommendation on $294,000 in Item 4260-001-014 from the Hazardous Waste Control Account until the feasibility study report for the system is approved and more accurate cost and funding information is available. 812
20. ***Office of Public Education and Liaison. Reduce $104,000 from Item 4260-001-014.*** Recommend that contracts from the Hazardous Waste Control Account be reduced because federal funds are available for the same purpose. 813
21. Worksite Health Promotion. Recommend that the department report at budget hearings on progress toward implementing this program. 817
22. Perinatal Program. Withhold recommendation on $1,742,000 from the General Fund which is proposed to establish permanently the Obstetrical Access program, pending receipt from the department of (a) an expenditure plan for the federal maternal and child health block grant funds and (b) a statewide prenatal services plan due on March 1, 1982. Further recommend adoption of supplemental report language requiring submission of the Obstetrical Access program evaluation by January 1, 1983. 821
23. California Children's Services. Recommend that, prior to budget hearings, the department report to the legislative fiscal committees on (a) the impact of Los Angeles County cost control policies on services to children and (b) the amount of savings which would be possible if the methods developed by Los Angeles County for controlling costs were extended on a statewide basis. 825
24. Rural Hospital Program. Recommend adoption of legislation to (a) extend this program beyond its current sunset date of January 1, 1983, and (b) clarify whether the major focus of this program should be regulatory relief or technical assistance. 830
25. License Fees for Health Facilities. Recommend enactment of legislation to revise health facility licensing fees. Further recommend that this legislation (a) provide sufficient revenue to cover program costs, (b) define program costs as General Fund appropriations to the program as specified in the Budget Act, (c) provide a mechanism to automatically adjust the licensing fees to reflect changes in program costs, and (d) require that all health facilities, including government-operated facilities, be assessed a licensing fee. 832
26. ***Overhead Cost. Reduce Item 4260-001-001 by $104,000.*** Recommend reduction to correct overestimate of General Fund share of overhead costs. Also recommend appropriate adjustments be made in the overhead cost shares of 835

DEPARTMENT OF HEALTH SERVICES—Continued

other funds.

27. Special Funds. Recommend that expenditures from the following funds be appropriated through new items in the Budget Bill to increase legislative oversight: the Genetic Disease Testing Fund (Item 4260-001-203), the Local Health Capital Expenditure Account (Item 4260-111-900), and the Hazardous Waste Control Account (Item 4260-001-014). 835
28. May Estimates. Recommend that the fiscal subcommittees defer action on appropriations for Medi-Cal local assistance (Items 4260-101-001 and 4260-106-001), pending receipt and review of the May 1982 expenditure estimates. 873
29. Transferability of Medi-Cal Funds. Recommend readoption of 1981 Budget Act language to limit transferability of funds between the subitems of the Medi-Cal local assistance item (Item 4260-101-001) in order to maintain the Legislature's ability to control funding for the fiscal intermediary contract and county Medi-Cal eligibility determination activities. 874
30. Fiscal Intermediary Contract. Recommend reinstatement of Budget Act language requiring legislative notification of major changes to the Medi-Cal claims processing system. 874
31. ***Beneficiary Cost-of-Living Adjustment. Reduce Item 4260-101-001 by $2,207,000 and Item 4260-101-890 by $813,000.*** Recommend reduction in the amount budgeted for Medi-Cal beneficiary cost-of-living adjustments because the increase in the California Necessities Index, which is used as a basis for determining the increase, will be 8.2 percent rather than 8.8 percent as proposed in the budget. 874
32. Hospital Reimbursements. Recommend that by April 1, 1982, the department submit a report describing alternative payment systems which could limit increases in reimbursements for hospital inpatient services, and would also be in conformity with recent changes in federal law. 875
33. Implementation of AB 251. Withhold recommendation on funding for implementation of AB 251 in county welfare departments, pending receipt of additional information from the department. 876
34. Medi-Cal Estimates. Recommend the May 1982 Medi-Cal county administration estimates contain additional supporting program and fiscal information. 876
35. ***Quarterly Status Reporting. Reduce Item 4260-101-001(a) by $3,200,000 and reduce Item 4260-101-890(a) by $1,600,000.*** Recommend deletion of funding for processing quarterly status reports in Los Angeles County if the county does not intend to process the reports. 876
36. Los Angeles County Hospital Eligibility Determination. Recommend that the department report on the feasibility of and cost savings from (a) transferring Los Angeles County hospital eligibility determinations to the welfare department and (b) establishing hospital eligibility determination workload standards. 877

37. Quality Control Project. Recommend the department develop savings estimates related to the Quality Control program so that appropriate savings may be reflected in the budget. Also recommend enactment of legislation requiring the department to evaluate the cost-effectiveness of the Quality Control program. 880
38. Los Angeles County Hospital Eligibility Determination. Recommend adoption of supplemental report language requiring the department to perform a quality control study of Los Angeles County hospital Medi-Cal eligibility determinations. 881
39. Cost Savings Options. Recommend that the Legislature authorize a major consultant study to review approaches to reducing the cost of the Medi-Cal eligibility determination process. 885
40. Fiscal Intermediary Control Reprocurement. Recommend the Legislature direct the Auditor General to monitor the transition to the next Medi-Cal fiscal intermediary contract and provide ongoing information and advice to the Legislature. 887
41. Crossover Claims. Recommend that, prior to April 1, 1982, the department report to the Legislature on the status of implementation of the Medicare crossover claims rate reductions. 890
42. ***Terminated Project. Reduce Item 4260-001-001 by $64,000 and Item 4260-001-890 by $53,000.*** Recommend deletion of 3.5 positions added in the 1981 Budget Act for a drug volume purchase pilot project because the project will not be implemented. 890
43. Fraud Investigators. Recommend (a) redirection of three proposed new investigations positions to the department's legal office and (b) enactment of legislation authorizing the department to conduct provider suspension hearings in order to improve the cost-effectiveness of the Medi-Cal anti-fraud program. Further recommend enactment of legislation to suspend automatically from Medi-Cal participation providers who have been convicted of a crime involving Medi-Cal fraud and abuse, in order to achieve administrative and program savings. 892

Department of Health Services

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DEPARTMENT OF HEALTH SERVICES—Continued

GENERAL PROGRAM STATEMENT

The Department of Health Services has responsibilities in two major areas. First, it provides access to health care for California's welfare, medically needy, and medically indigent populations through the Medi-Cal program. Second, the department administers a broad range of public health programs, including (a) state-operated programs such as licensure of health facilities and certain types of technical personnel and (b) programs which complement and support the activities of local health agencies in controlling environmental hazards, preventing and controlling disease, and providing health services to populations which have special needs. The department has 4,383.4 authorized positions in the current year.

The department is divided into the following six major units.

1. Preventive Health Services

The Office of County Health Services and Local Public Health Assistance (a) distributes funds appropriated by AB 8 to local health agencies, (b) administers state and federal subvention programs which provide funds for the support of local public health activities, (c) distributes funds for capital outlay projects to local health agencies, and (d) provides technical assistance in funding matters to local health departments.

The Toxics Substances Control Division is responsible for hazardous waste management, hazardous site cleanup, and performing health effects and environmental studies related to toxic substances.

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

The Health Protection Division is responsible for (a) preventing and controlling infections and chronic disease, (b) maintaining statistics on births, deaths, and other events, and (c) operating public health laboratories.

The Community Health Services Division addresses the special needs of women and children through programs in Family Planning, Maternal and Child Health, California Children's Services, and Child Health and Disability Prevention Branches.

The Rural Health Division is responsible for improving the quantity and quality of health services available to underserved rural, farmworker, and

Indian populations through the provision of public health services in small rural counties and the funding of primary health care clinics.

2. Medical Assistance Program

The Medi-Cal Division is responsible for Medi-Cal prior authorization activities and recovery of Medi-Cal funds in cases involving fraud and abuse.

The Health Care Policy and Standards Division is responsible for Medi-Cal eligibility and benefit matters, the Medi-Cal fee system, and monitoring prepaid health plans.

The Organized Health Systems Division manages the Medi-Cal program's prepaid health plans and pilot projects.

The Fiscal Intermediary Management Division is responsible for managing the fiscal intermediary contract with Computer Sciences Corporation.

3. Licensing and Certification Division

This division licenses hospitals, nursing homes, clinics, and other health facilities.

4. Audits and Investigations Division

This division is responsible for (a) Medi-Cal hospital and nursing home audits, (b) anti-fraud investigations, (c) quality control studies and medical reviews to identify poor quality care, (d) billing abuses, and (e) public health contract audits.

5. Administration Division and Director's Office

These units perform functions such as legal services, public information, legislative liaison, and planning and evaluation. The Center for Health Statistics maintains data on the health status and needs of the state.

6. Special Projects

The majority of special projects are studies or other activities which are 100 percent federally funded. The funds and related staff are administered primarily in Preventive Health Services but are shown separately in the budget.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $5,693,044,000 from all funds for support of Department of Health Services programs in 1982–83. This is a decrease of $30,212,000, or 0.5 percent, below estimated current-year expenditures.

The budget proposes the expenditure of $3,335,561,000 from the General Fund in 1982–83, which is an increase of $68,744,000, or 2.1 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Proposed changes in expenditures (all funds) from the estimated current-year expenditure levels in the four major expenditure categories are:

- Support: up $14,651,000 (8.3 percent)
- Special projects: up $24,755,000 (21.1 percent)
- Preventive health local assistance: down $17,849,000 (−3.5 percent)
- Medi-Cal local assistance: down $51,769,000 (−1.1 percent)

DEPARTMENT OF HEALTH SERVICES—Continued

Table 1 shows the proposed budget, by major program category.

Table 1
Department of Health Services
Expenditures and Funding Sources
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
Department Support [a]					
Preventive Health Services	N/A	$66,443	$76,569	$10,126	15.2%
Medical Assistance Program	N/A	43,892	45,117	1,225	2.8
Licensing and Certification	N/A	12,300	12,660	360	2.9
Audits and Investigations	N/A	15,277	17,302	2,025	13.3
Administration and Director's Office	N/A	38,728	39,643	915	2.4
Subtotals	$157,399	$176,641	$191,292	$14,651	8.3%
Special Projects	93,432	117,057	141,812	24,755	21.1
Preventive Health Local Assistance	423,939	503,573	485,724	−17,849	−3.5
Medi-Cal Local Assistance	4,285,612	4,925,985	4,874,216	−51,769	−1.1
Totals	$4,960,382	$5,723,256	$5,693,044	−$30,212	−0.5%
General Fund	*$2,914,455*	*$3,266,817*	*$3,335,561*	*$68,744*	*2.1%*
Federal funds	*2,015,197*	*2,322,081*	*2,225,499*	*−96,582*	*−4.2*
Hazardous Substances Account	—	—	*10,000*	*10,000*	*N/A*
Hazardous Waste Control Acount	*2,063*	*2,909*	*5,267*	*2,358*	*81.1*
Genetic Disease Testing Fund	*2,913*	*9,286*	*9,736*	*450*	*4.8*
Local Health Capital Expenditure Account	—	*24,802*	*197*	*−24,605*	*−99.2*
Reimbursements	*24,274*	*91,242*	*102,470*	*11,228*	*12.3*
Other funds	*1,480*	*6,119*	*4,314*	*−1,805*	*−29.5*

[a] Data on 1980–81 department support expenditures are not available by department unit.

The budget proposes support for 4,783.1 positions, including those assigned to special projects, an increase of 399.7, or 9.1 percent, above the number of authorized positions in the current year. Table 2 shows the number of positions, by major organizational units.

Table 2
Department of Health Services
Positions

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Number*	*Change Percent*
Preventive Health Services	1,314.6	1,390.2	1,459.2	69.0	5.0%
Medical Assistance	773.9	937.5	984.8	47.3	5.0
Licensing and Certification	222.9	202.8	207.5	4.7	2.3
Audits and Investigations	373.6	411.3	454.6	43.3	10.5
Administration and Director's Office	748.4	801.2	818.6	17.4	2.2
Special Projects	317.8	640.4	858.4	218.0	34.0
Totals	3,751.2	4,383.4	4,783.1	399.7	9.1%

The distribution of all funds among the four major program categories is illustrated in Chart 1.

Department support accounts for 3.4 percent of the total department budget (all funds). The distribution of these department support funds among the five major organizational units is illustrated in Chart 2.

Chart 1

Department of Health Services
Proposed Expenditures—All Funds
1982–83 (in millions)

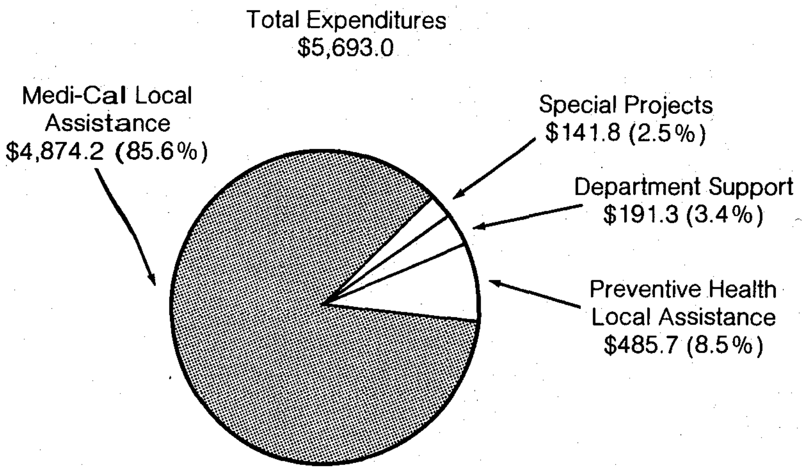
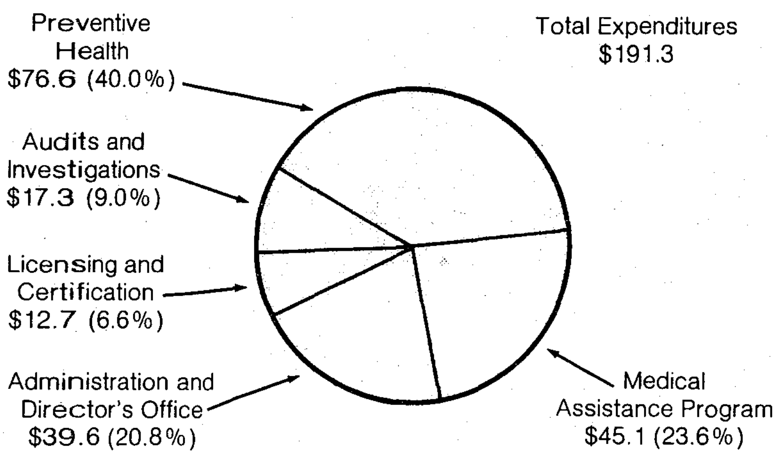


Chart 2

Department of Health Services
Proposed Department Support Expenditures—All Funds
1982–83 (in millions)



DEPARTMENT OF HEALTH SERVICES—Continued

Table 3 illustrates the main components of the increase in the department's support budget, excluding special projects.

Table 3
Department of Health Services Support
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
Final approved budget, 1981–82 [a]	$89,573	$169,657
Baseline adjustments for existing programs		
A. Increases in existing personnel costs		
1. Cost-of-living adjustments	2,519	4,416
2. Merit salary adjustments	949	1,663
3. OASDI	218	749
4. Retirement	813	1,058
5. Health benefits	342	595
B. Increases in operating expenses and equipment		
1. Seven percent increase	2,265	4,277
2. Postage increase	218	397
C. One-time adjustments		
1. Worksite health promotion	−425	−425
2. Overhead funding adjustment	−425	14
3. Travel restoration	932	1,747
4. Contra Costa cancer study	−202	−202
5. Limited-term positions and one-time programs expiring	−1,119	−1,871
6. Office of Administrative Law support	136	256
7. Other	43	3,012
Budget change proposals		
1. Preventive Health Services		
a. Toxic substances control	916	6,434
b. Other preventive health	452	743
2. Medical Assistance Program	850	1,544
3. Licensing and Certification	34	−2,625
4. Audits and Investigations	1,182	1,912
5. Administration and Director's Office	315	827
Other program changes		
1. Fiscal intermediary reprocurement	−58	−232
2. Medi-Cal options	197	361
Increase in loan repayments from other funds	−1,277	—
Five percent reduction	−4,914	−6,908
Miscellaneous adjustments	—	3,893
Total adjustments	$3,961	$21,635
Proposed budget, 1982–83	$93,534	$191,292

[a] Spending plan for the department, including other General Fund appropriations ($498,000) and repayments to General Fund from other funds ($890,000). Excludes $1.65 million (General Fund) for AB 251 staff.

Five Percent Reductions in Department Support

The department proposes to reduce its 1982–83 General Fund support budget by $4,914,000, or 5 percent. This would result in a reduction of $7,883,000 in the department's total support budget from all funds, or 4.0 percent. This reduction was proposed in response to Budget Letter No. 14, which directs most departments to reduce General Fund support of state operations by 5 percent in the budget year. The allocation of the department's reductions among its five major units is summarized in Table 4.

Table 4
Allocation of 5 Percent Support Budget Reduction
(in thousands)

	General Fund	*All Funds*
Preventive Health Services	$2,761	$2,963
Medical Care Services	921	2,018
Licensing and Certification	85	115
Audits and Investigations	347	712
Administration and Director's Office	800	2,075
Totals	$4,914	$7,883

The majority of proposed reductions affect operating expense and equipment items in the support budget. The department proposes to reduce two positions from the Director's Office, and 3.5 positions from Preventive Health Services. No other position reductions are proposed.

I. PREVENTIVE HEALTH PROGRAMS

Preventive health programs are administered by the Chief Deputy Director, Preventive Health Services. Table 5 displays the estimated current-year and proposed 1982–83 positions and operating budget for each preventive health program. The budget proposes $76,569,000 for department support for preventive health programs, excluding special projects and department overhead. This is an increase of $10,126,000, or 15.2 percent, above estimated current-year expenditures. Most of the increase is caused by proposed program expansion in the Toxic Substances Control Division which was recently created.

Table 5
Preventive Health Program Positions and Operating Budget
Excluding Administrative Overhead

	Positions[a]			*Operating Budget—All Funds (in thousands)*		
	Estimated 1981–82	*Proposed 1982–83*	*Percent Change*	*Estimated 1981–82*	*Proposed 1982–83*	*Percent Change*
County Health Services	41.3	39.5	−4.4%	$1,715	$1,471	−14.2%
Public and Environmental Health[b]	1,133.4	(1,202.4)	(6.1)	49,528	(59,886)	(20.9)
Toxic Substances Control[b]	—	346.5	N/A	—	23,243	N/A
Health Protection[b]	—	550.2	N/A	—	24,451	N/A
Environmental Health[b]	—	305.7	N/A	—	12,192	N/A
Community Health Services	291.9	285.1	−2.3	10,984	10,831	−1.4
Rural Health	121.4	120.4	−0.8	4,216	4,381	3.9
Subtotals	1,588.0	1,647.4	3.7%	$66,443	$76,569	15.2%
Special Projects	640.4	858.4	34.0	117,057	141,812	21.1
Totals	2,228.4	2,505.8	12.4%	$183,500	$218,381	19.0%

[a] Position counts do not reflect salary savings.
[b] The Public and Environmental Health Division was reorganized into three new divisions: Toxic Substances Control, Health Protection, and Environmental Health.

DEPARTMENT OF HEALTH SERVICES—Continued

The budget proposes expenditures of $485,724,000 for local assistance in the preventive health area. This is a decrease of $17,849,000, or 3.5 percent, below estimated current-year expenditures. The decrease reflects the proposed reductions in funds distributed to counties under the provisions of AB 8, which is partially offset by the transfer of funds for the Child Health and Disability Prevention (CHDP) program from Medi-Cal to Community Health Services. If the amounts are recalculated to exclude the effect of the CHDP transfer, the budget proposes a decrease in local assistance of $25,511,000, or 5.1 percent, below estimated current-year expenditures. Table 6 summarizes proposed preventive health local assistance expenditures. More detailed information on local assistance expenditures is included in our discussion of the specific programs.

Table 6
Preventive Health Programs Local Assistance
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
County Health Services	$313,352	$389,313	$357,940	−$31,373	−8.1%
Health Protection	6,559	6,046	6,033	−13	−0.2
Community Health Services	96,063	100,153	113,288 [a]	13,135 [a]	13.1 [a]
Rural Health	7,814	8,055	8,457	402	5.0
Legislative Mandates	151	6	6	—	—
Totals	$423,939	$503,573	$485,724 [b]	−$17,849 [b]	−3.5% [b]

[a] 1982–83 expenditure figures reflect the transfer of $7,662,000 for the Child Health Disability Prevention (CHDP) program from Medi-Cal to Community Health Services. Without this transfer, Community Health Services would be budgeted at $105,626,000, an increase of $5,473,000, or 5.4 percent, above estimated current-year expenditures.

[b] 1982–83 expenditures include $7,662,000 for CHDP. If this amount is excluded, total preventive health programs would total $478,062,000, a decrease of $25,511,000, or 5.1 percent, below estimated current-year expenditures.

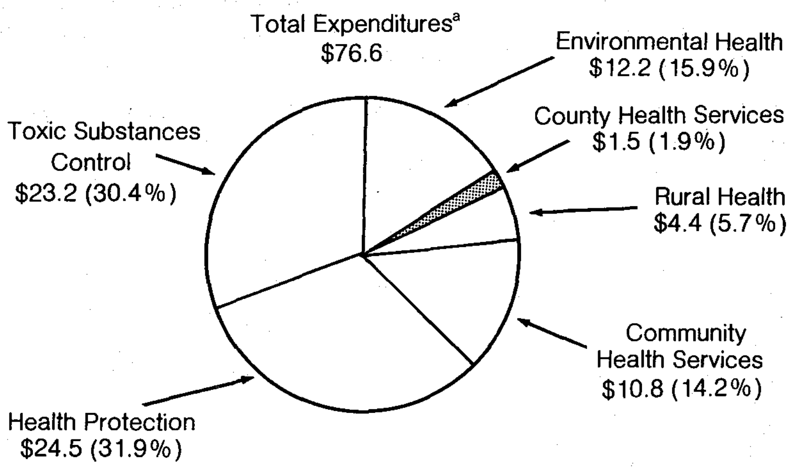
Charts 3 and 4 display the distribution of proposed expenditures for department support and local assistance between the various preventive health programs. The charts show that Toxic Substances Control and Environmental Health represent a major portion of department support expenditures, but have no local assistance expenditures. On the other hand, county health services represents a minor portion of the preventive health department support budget, but accounts for 72 percent of local assistance expenditures.

Budget Changes. The budget proposes $13.7 million in major program expansion related to toxic substances control and cleanup, including (1) $10.0 million for cleanup and emergency response, (2) $2.2 million to expand the hazardous materials program, and (3) $1.5 million to expand public information and research activities.

The budget proposes to reduce expenditures for county health fiscal relief by $7.8 million, or 2.1 percent. This is the net result of (1) reducing the ongoing program base by $25 million and (2) providing a 5 percent cost-of-living adjustment on the reduced base. The budget does not propose to continue funding local health capital outlay projects which received $24.6 million on a one-time basis in 1981–82.

Chart 3

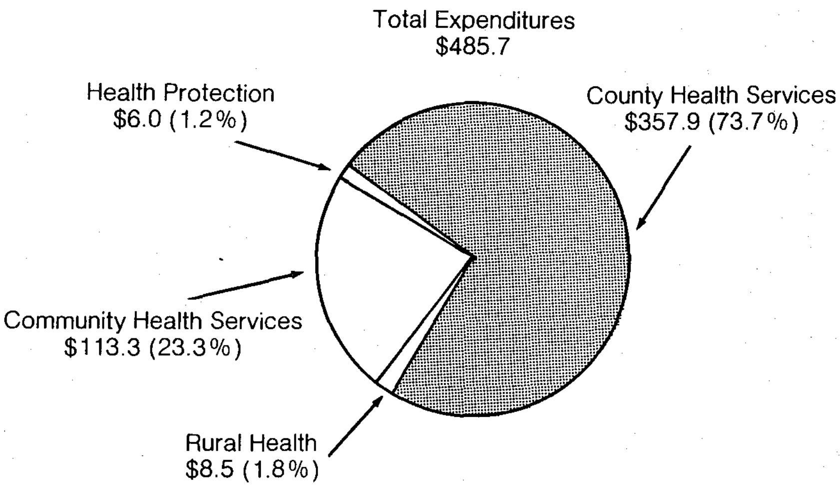
Preventive Health Services
Proposed Department Support Expenditures—All Funds
1982–83 (in millions)



[a] Excludes administrative overhead.

Chart 4

Preventive Health Services
Proposed Local Assistance Expenditures—All Funds
1982–83 (in millions)



DEPARTMENT OF HEALTH SERVICES—Continued

Table 7 displays proposed 1982–83 changes in the preventive health local assistance programs.

Table 7
Preventive Health Programs Local Assistance
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
Adjusted base budget, 1981–82	$483,128	$503,573
A. Baseline adjustments		
1. One-time expenditures		
Local government relief (Ch 169/81)	−25,000	−25,000
Local health capital outlay (Ch 1351/80)	−24,611	−24,611
Adult day health care (Ch 911/80)	−139	−139
Immunization Adverse Reaction Fund	—	25
2. Child Health Disability Prevention (CHDP) program transfer from Medi-Cal [a]	6,996	6,996
Totals, baseline adjustments	−$42,754	−$42,729
B. Caseload and cost adjustments		
AB 8 population increase [b]	—	—
CHDP caseload increase	$298	$298
California Children's Services utilization increase	344	344
CCS family repay increase	—	74
Genetically Handicapped Persons' program caseload increase	487	487
Totals, caseload and cost increases	$1,129	$1,203
C. Cost-of-living adjustments (5 percent)	$22,484	$22,484
D. Changes in federal funding		
Family planning—General Fund buy-out of Title XX	$4,000	—
Increase in public health subventions funded from preventive health block grant in 1982–83	—	$1,027
Totals, changes in federal funding	$4,000	$1,027
E. Program change proposals		
CHDP increase—rural contract county opt-out	$4	$4
County health services increase—rural contract county opt-out	206	206
Renal dialysis elimination	−229	−229
Oakland perinatal project elimination	−825	−825
Perinatal health clinics elimination	−442	−442
"Old" OB Access program reduction	—	−1,321
"New" OB Access program augmentation	1,452	1,452
MCH grants increase—transfer from old OB Access program	—	1,321
Totals, program changes	$166	$166
Totals, budget changes	−$14,975	−$17,849
Proposed budget, 1982–83	$468,153	$485,724

[a] Excludes caseload and cost-of-living adjustments.
[b] The budget omits the statutory population increase for AB 8 local government fiscal relief.

Cost-of-Living Adjustments in Preventive Health Local Assistance Programs

The budget includes $22,484,000 for 5 percent cost-of-living adjustments (COLAs) for the preventive health local assistance programs displayed in Table 6. Of this amount, $17,005,000 is proposed for AB 8 local government fiscal relief funds, and $5,479,000 is for the other programs.

AB 8 provides for automatic increases in the annual appropriation to the County Health Services Fund for local government fiscal relief, based on a population and inflation formula. The inflation increase is based on the December-to-December change in the average of the Los Angeles and San Francisco Consumer Price Indices for all urban consumers. The budget proposes a 5 percent COLA instead of the inflationary factor provided in statute. We estimate that the COLA required to satisfy the provisions of AB 8 would be 12.23 percent in the budget year. In order to provide this COLA, an augmentation amounting to $27.6 million would be needed.

Other preventive health programs do not have statutory provisions governing the COLA amounts.

Poor Response to Legislative Reporting Requirements

We recommend that, prior to budget hearings, the Departments of Health Services and Finance report to the Legislature explaining why 11 reports called for by statute and the Supplemental Report to the 1981 Budget Act were not submitted to the Legislature by the due dates.

The Legislature, through statutes and the *Supplemental Report to the 1981 Budget Act,* directed the Department of Health Services to submit 11 reports related to preventive health services by January 31, 1982. The department has not submitted any of the required reports. Of the seven reports mandated in the *Supplemental Report to the 1980 Budget Act* that related to preventive health services, six were from one month to six months late, and the report on county health services trends which was due on March 1, 1981 still has not been submitted to the Legislature. Table 8 displays the reporting requirement, the due date, and the department division responsible for preparing each report.

Table 8
Preventive Health Services
Legislative Reporting Requirements

	Division	*Due Date*	*Date Received*
A. Statutory Requirements			
1. Beilenson provision report on closure of county health facilities and service reductions	County Health	1/1/82	Past due
2. County Health Services Fund status	County Health	12/1/81	Past due
B. 1980 Supplemental Language Requirements			
1. County health services trends	County Health		
• Part 1		1/1/81	1/29/81
• Part 2		3/1/81	Past due
2. County health services workload report	County Health	3/1/81	7/17/81
3. Abandoned dump site search progress report	Toxic Substances	4/1/81	5/13/81
4. Environmental toxins epidemiology unit progress report	Toxic Substances	4/1/81	7/17/81
5. Infant health programs	Community Health	1/1/81	6/18/81
6. Feasibility report on jointly providing technical assistance	Community Health and Rural Health	1/1/81	6/10/81

DEPARTMENT OF HEALTH SERVICES—Continued

C. 1981 Supplemental Language Requirements			
1. Orange County—UC Irvine review of contractual arrangements	County Health	11/1/81	Past due
2. Distribution of county health services funds	County Health	1/1/82	Past due
3. Hazardous materials quarterly reports (three reports overdue)	Toxic Substances	7/31/81, 10/31/81, and 1/31/82	Past due
4. High-risk infant follow-up program evaluation	Community Health	12/1/81	Past due
5. Community clinics financial status	Community Health	12/15/81	Past due
6. California Children's Services family repayments	Community Health	1/1/82	Past due

Without timely transmittal of these reports, the Legislature cannot make informed decisions about the department's budget proposals. We recommend that, prior to budget hearings, the Departments of Health Services and Finance report on the status of these reports, the reasons why they were not submitted on time, and the corrective action they are taking to assure timely transmittal of legislatively mandated reports to the fiscal committees in the future.

A. FEDERAL BLOCK GRANTS

The federal Omnibus Budget Reconciliation Act of 1981 consolidated a number of federal categorical grant programs into block grants which are to be administered by the states. Three of these block grants affect the department's programs: (1) preventive health services, (2) maternal and child health, and (3) primary care.

Nationwide Funding Levels

The reconciliation act authorized nationwide funding levels for federal fiscal year 1982 (FFY 82) which are less than FFY 81 expenditures for the categorical programs which were combined into the block grants. Funds actually appropriated for the block grants in FFY 82 will probably be less than the authorized levels set by the reconciliation act. At the time this analysis was prepared, the final appropriations for FFY 82 had not been established, although Congress had enacted a continuing resolution which appropriates funds through March 31, 1982. Table 9 displays FFY 81 expenditures, reconciliation act FFY 82 authorizations, and the continuing resolution appropriations (annualized).

Table 9
Nationwide Funding for Health Block Grants
(in millions)

	Preventive Health Services	*Maternal and Child Health*	*Primary Care*
Expenditures for categorical programs, FFY 81	$99.3	$475.1	$325.0
Funds authorized by reconciliation act, FFY 82	$95.0	$373.0	$284.0
Percent decrease from FFY 81	4.3%	21.5%	12.6%
Continuing resolution appropriation, FFY 82	$81.6	$347.5	$248.4
Percent decrease from reconciliation act	14.1%	6.8%	12.5%

Preventive Health Services Block Grant—Reconciliation Act Provisions

- *Programs Affected.* The act consolidates home health, rodent control, fluoridation, health education/risk reduction, health incentive grants, emergency medical services, rape crisis centers, and hypertension programs.
- *Allocation to States.* Of the nationwide funding amount, $3 million would be allocated to states on a population basis for rape crisis centers. The remaining funds would be distributed based on the amounts each state received under the categorical programs in FFY 81. Indian tribes may receive separate allocations upon application to DHHS.
- *Application Process.* States must submit plans for using the funds and hold public hearings. States are required to assure that funds will be distributed based on the need for services. Beginning in FFY 83, states must report on their progress towards meeting objectives in the previous fiscal year.
- *Restrictions on Use of Funds.* States must use funds for continuation of activities previously conducted under the categorical programs, except that 7 percent of a state's allocation may be used for the purposes of the maternal and child health; primary care; and alcohol, drug abuse, and mental health block grants. The funds may not be used for capital outlay, cash grants, and inpatient services. The act further requires states to (a) maintain hypertension program expenditure levels, as specified, (b) fund existing emergency medical services grantees in FFY 82, and (c) fund rape crisis centers with the funds allocated for that purpose.
- *Restrictions on Administrative Expenditures.* Administrative costs cannot exceed 10 percent of the total allocation.
- *Transition.* States may assume administrative responsibility for the programs at the beginning of any quarter in FFY 82. States must assume responsibility no later than October 1, 1982. DHHS will fund existing grantees at reduced levels until states assume administrative control.

Maternal and Child Health Block Grant—Reconciliation Act Provisions

- *Programs Affected.* The act consolidates maternal and child health (including crippled children), SSI disabled children, lead paint poisoning prevention, genetic diseases, sudden infant death syndrome, hemophilia, and adolescent pregnancy programs.
- *Allocation to States.* The funds would be allocated to states based on the amounts each state received under the categorical programs in FFY 81. In FFY 84 and thereafter, any increases in aggregate funding would be allocated to states based on the number of low-income children.
- *Matching Requirements.* States must spend $3 in nonfederal funds for every $4 of federal funds (California currently funds these programs at a level sufficient to satisfy this requirement).
- *Application Process.* States must submit plans for using the funds and hold public hearings. States are required to assure that funds will be distributed based on the need for services. Beginning in FFY 83, states must report on their progress towards meeting objectives in the previous fiscal year.
- *Restrictions on Use of Funds.* States must use funds for the general purposes stated in the act, and for continuation of activities previously conducted under the categorical programs. The funds may not be

DEPARTMENT OF HEALTH SERVICES—Continued

used for capital outlay, cash grants, and inpatient services (except as specified). The act requires states to (a) give special consideration to continuing existing projects and (b) use a substantial proportion of funds for services.

- ***Restrictions on Administrative Expenditures.*** Although the act does not impose restrictions on the amount of block grant funding that may be used for administrative expenditures, the conference report indicates congressional intent that administrative expenditures shall not exceed 7.5 percent of the total allocation.
- ***Transition.*** States may assume administrative responsibility for the programs at the beginning of any quarter in FFY 82. States must assume responsibility no later than October 1, 1982. The Department of Health and Human Services (DHHS) will fund existing grantees at reduced levels until states assume administrative control.
- ***Demonstration Funds.*** A portion of funds (15 percent in FFY 82 and 10–15 percent in subsequent years) may be retained by DHHS for demonstration and research projects, genetic diseases, and the hemophilia program.

Primary Care Block Grant—Reconciliation Act Provisions

- ***Allocation to States.*** The funds would be allocated to states based on the amounts received under the categorical programs in FFY 82. Indian tribes may receive separate allocations upon application to the Department of Health and Human Services (DHHS).
- ***Matching Requirements.*** States must provide a 20 percent match for federal funds in FFY 83, and a 33 percent match in FFY 84.
- ***Application Process.*** States must submit plans for using the funds and hold public hearings. States are required to assure that funds will be distributed based on the need for services. Beginning in FFY 83, states must report on their progress towards meeting objectives in the previous fiscal year.
- ***Restrictions on Use of Funds.*** States must use funds for continuation of activities previously conducted under the categorical programs. The funds may not be used for capital outlay, cash grants, and inpatient services (except as specified). The act requires states to continue existing projects at the same funding level (except as specified).
- ***Restrictions on Administrative Expenditures.*** Federal funds cannot be utilized for administrative expenditures. Expenditure of state funds for administration counts towards the state's matching requirement.
- ***Transition.*** States are not required to assume administrative responsibility for this program. States choosing to do so may assume responsibility at the beginning of FFY 83 or FFY 84. States may apply for planning grants in FFY 82 not to exceed $150,000.

Budget-Year Proposal

The budget proposes that the state assume the preventive health services and maternal and child health block grants on October 1, 1982. It recommends that the state not accept the primary care block grant. Table 10 presents the proposed 1982–83 funding amounts, by program, as displayed in detailed budget schedules, and actual FFY 81 grant awards made in California to both local agencies and the state under the categorical programs which were combined into the block grants.

Table 10
Health Block Grants
FFY 81 Awards Under Categorical Programs
And Proposed 1982–83 Allocation of Block Grant Funds
(in thousands)

	Categorical Program Funding FFY 1981			*Proposed Block Grant Allocations 1982–83*[a]
	State	*Local Agencies*	*Totals*	
Preventive health services block grant:				
Comprehensive public health services	$670	—	$670	$1,668
Health education/risk reduction	1,480	—	1,480	1,500
Hypertension	1,713	—	1,713	1,381
Emergency medical services	—	$1,820	1,820	1,529[b]
Urban rat control	913	—	913	925
Fluoridation	63	72	135	136
Rape prevention	—	—	—	332
Home health services	—	429	429	433
Totals	$4,839	$2,321	$7,160	$7,904[c]
Maternal and child health block grant:				
SSI—disabled children	$3,200	—	$3,200	$1,324
Sudden infant death syndrome	167	—	167	167
Crippled children services	4,705	$1,381	6,086	6,085
Genetic disease	300	—	300	300
Lead-based paint poisoning	—	302	302	—
Hemophilia	—	399	399	399
Adolescent pregnancy	—	206	206	206
Maternal and child health	11,963	892	12,855	12,312
Totals	$20,335	$3,180	$23,515	$20,793
Primary care block grant:				
Community health centers	—	$22,904	$22,904	$22,904

[a] Source: Detailed budget schedules. Primary care figure from A-pages.
[b] Includes $1.1 million shown in the Emergency Medical Services Authority budget and $429,000 in the Department of Health Services special projects item.
[c] Although $7,904,000 is listed in the detailed budget schedules, the department indicates that only $6,804,000 will be available for the purposes of this block grant.

Financial Information Inconsistent and Incorrect

The budget presents financial information related to block grants in three places: (1) the A-pages, (2) the budget narrative in departmental budgets, and (3) the numerical detail in departmental budgets. The 1982–83 proposed amounts for the two block grants which the administration proposes to take over, preventive health services and maternal and child health, are different in each location. Table 11 shows the different estimates.

Table 11
1982–83 Proposed Block Grant Expenditures
(in thousands)

	A-Pages	*Budget Narrative*	*Budget Detail*
Preventive Health—Total	$6,829	$6,804	$7,904
Department of Health Services	—	5,704	6,804
Emergency Medical Services Authority	—	1,100	1,100
Maternal and Child Health	21,336	21,336	20,793

Further, the preventive health services budget detail incorrectly includes $1.1 million more than is actually projected by the department to be available. The department estimates that the state will receive a *total* of $6,804,000 under the Reconciliation Act authorized levels. The detailed budget schedules, however, show $7,904,000, consisting of $6,804,000 budgeted in the Department of Health Services (DHS) and $1.1 million budgeted in the Emergency Medical Services (EMS) Authority. Department of Finance staff indicate that the DHS budget should be reduced by $1.1 million to correct the error. DHS has not determined which programs would be reduced.

Available Block Grant Funds Overestimated

We recommend that prior to budget hearings the Department of Finance submit revised fiscal estimates on the amount of available federal block grant funds. We further recommend that the department base its revised fiscal estimates on the amounts appropriated in the continuing resolution, rather than on the higher funding levels authorized in the reconciliation act. We also recommend that the maternal and child health estimate be reduced by 15 percent which the reconciliation act sets aside to be administered by the U.S. Department of Health and Human Services.

Our analysis indicates that the block grant figures in the detailed budget schedules are based on two unrealistic assumptions. First, the block grant estimates are based on the spending levels *authorized* by the reconciliation act. The continuing resolution passed in December, however, *appropriated* funds in amounts below the levels authorized by the Reconciliation Act. It is unrealistic to anticipate that the state will receive the amount authorized by the reconciliation act when the Congress has appropriated considerably less than the authorized levels in the continuing resolution.

Second, the estimates of maternal and child health block grant funding fail to account for the fact that 15 percent of the authorized funding level was set aside by the reconciliation act for genetic diseases, hemophilia, and special projects of national or regional significance. These funds will be administered by the U.S. Department of Health and Human Services, rather than being distributed by formula among the states. The budget assumes that California will receive $3.2 million from the 15 percent set-aside, and proposes to use this funding to continue ongoing programs.

Our analysis indicates that only $699,000 of the FFY 81 funds awarded to California agencies were for projects that are within the scope of the programs to be funded by the set-aside (genetic diseases and hemophilia). It is unrealistic to assume that California will be able to obtain funds from the set-aside to support current ongoing programs other than genetic diseases and hemophilia.

We recommend that the Legislature direct the Department of Finance to submit revised funding estimates that are based on spending levels in the continuing resolution, instead of on the amounts in the reconciliation act. We also recommend that the maternal and child health amounts be adjusted to account for the 15 percent set-aside established by the reconciliation act.

Budget Does Not Contain Information Required by Chapter 1186, Statutes of 1981

We recommend that the Department of Finance submit to the fiscal committees by March 15: (1) descriptions of the programs and clients affected by the block grants and (2) a detailed proposal for administering the block grants, as required by Ch 1186/81. We recommend that the proposal for administration include (1) specific detail on how funds would be allocated in 1982–83, (2) an analysis of administrative staffing requirements, and (3) a discussion of the options for integrating the federal programs with state programs.

Chapter 1186, Statutes of 1981 (AB 2185), requires the state to assume administrative responsibility for the preventive health services and maternal and child health block grants no sooner than July 1, 1982. In addition, it:

(1) Requires the Governor to submit as part of the 1982–83 budget (a) descriptions of the programs and clients affected by consolidation of the categorical programs, (b) estimates of the 1982–83 funding level, and (c) a proposal for administration and organization of each program.

(2) Establishes a block grant advisory task force to prepare recommendations by February 1, 1982, on numerous issues including (a) proposed use of the funds, (b) method of allocating funds, and (c) integration of block grant programs with existing state and local programs.

The budget does not contain the information required by Chapter 1186. Specifically, we have identified the following deficiencies in the budget:

(1) It does not contain any information describing the programs or the clients affected by the three health block grants.

(2) Policy considerations and options available to the Legislature are not highlighted or even discussed.

(3) The funding estimates are inconsistent, inaccurate, and overstated.

(4) It does not contain a proposal for administering the block grants. More specifically, there is no information on the staffing required to implement the block grants or any discussion of options for integrating federal block grant programs with existing state and local programs.

We recommend that the Department of Finance submit a proposal to the fiscal committees by March 15 which would provide the following information required by Ch 1186/81: (1) descriptions of the programs and clients affected by the block grants and (2) a detailed proposal for administering the block grants. Further, we recommend that the proposal for administering the block grants include (1) specific detail on how funds would be allocated in 1982–83, (2) an analysis of administrative staffing requirements, and (3) a discussion of the options for integrating the federal programs with state programs.

B. COUNTY HEALTH SERVICES

The budget proposes $359,411,000 (all funds) for support of the Office of County Health Services and Local Public Health Assistance, excluding administrative overhead. This is a decrease of $31,617,000, or 8.1 percent, from estimated current-year expenditures. Department support is proposed in the amount of $1,471,000, which is $244,000, or 14.2 percent, less than estimated current-year expenditures. Local assistance, including AB 8 fiscal relief, is proposed in the amount of $357,940,000, which is $31,373,000, or 8.1 percent, below estimated current-year expenditures. Table 12 displays proposed local assistance expenditures.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 12
County Health Services
Local Assistance Programs
(in thousands)

	Fund	Actual 1980–81	Estimated 1981–82	Proposed 1982–83	Change Amount	Change Percent
Local government relief (AB 8)	General	$311,372	$363,356	$355,567	−$7,789	−2.1%
Local health capital expenditures	SAFCO	—	24,611	—	−24,611	−100.0
Public health subvention	General	705	705	705	—	—
	Federal	1,275	641	1,668	1,027	160.2
Totals		$313,352	$389,313	$357,940	−$31,373	−8.1%
General Fund		*$312,077*	*$364,061*	*$356,272*	*−$7,789*	*−2.1%*
Federal funds		*1,275*	*641*	*1,668*	*1,027*	*160.2*
Local Health Capital Expenditure Account		—	*24,611*	—	*−24,611*	*−100.0*

The budget proposes a staffing level of 39.5 positions for this office, including two new positions to implement Ch 1004/81 (AB 1540).

The reduction in department support expenditures is due to the 5 percent reduction in support budgets mandated by the Department of Finance's Budget Letter No. 14. The local assistance reduction is due to the net effect of (1) the deletion of $25 million in local fiscal relief which was added in 1981–82, by Ch 1004/81 (AB 1540), (2) the reduction of $24,611,000 in one-time capital outlay funding, and (3) a 5 percent cost-of-living adjustment, in the amount of $17,005,000.

Scope of Assembly Bill 8 (Chapter 282, Statutes of 1979)

Assembly Bill 8 provides fiscal relief to local agencies to replace property tax revenues lost by these agencies as a result of the passage of Proposition 13 in 1978. A portion of the relief is appropriated to the County Health Services Fund, which was created by the act, for distribution by the department to support local health services. The funds are distributed as follows:

1. Three dollars per capita, adjusted for inflation, is allocated to counties which submit a plan and budget to the department.
2. An amount up to 50 percent of 1977–78 net county costs for health services above $3 per capita, adjusted for inflation, is allocated to counties which sign an agreement with the department Director. The agreement commits the county to (a) match state funds on a dollar-for-dollar basis and (b) spend funds in general accordance with the county's health services plan and budget.
3. If a county's proposed expenditures are less than the amount required to obtain the maximum allocation, additional funds can be allocated if the county demonstrates that it did not detrimentally reduce its health services. Counties cannot receive matching funds which exceed 60 percent of budgeted county costs above the per-capita allocation.
4. Undistributed funds may be reallocated to counties "in accord with special needs and priorities established by the Director." Chapter 1004, Statutes of 1981 (AB 1540), limits the amount of money available for special needs and priorities (SNAP) allocations to $3 million in 1981–82. The act requires excess undistributed funds in 1981–82 to be deposited in the Local Health Capital Expenditure Account of the County Health

Services Fund where it will be available to fund local capital outlay projects.

Determination of 1981–82 Base Expenditures

Chapter 1004, Statutes of 1981, transferred $25 million from the Local Health Capital Expenditure Account to the County Health Services Fund to augment the amount available for distribution to counties under AB 8 in the current year. These funds had been appropriated from the General Fund in the 1981 Budget Act for one-time local health capital expenditures.

The budget treats the $25 million augmentation as a one-time adjustment. Accordingly, it reduces the current-year expenditure base by $25 million for the purpose of calculating the 1982–83 appropriation. This, however, is inconsistent with legislative intent, as expressed in Chapter 1004, which was that the augmentation be included as part of the 1981–82 expenditure base for the purpose of calculating the 1982–83 appropriation.

Assembly Bill 8 Population and Cost-of-Living Adjustments

The Budget Bill includes language which would override the automatic appropriation provisions of AB 8. Instead of the statutory amount, the budget proposes an appropriation of $355,567,000. This is $7,789,000, or 2.1 percent, below estimated current-year expenditures. The proposed appropriation to the County Health Services Fund is calculated based on the following assumptions:

1. ***Base Reduction of $25 Million.*** As discussed above, the budget reduces current-year estimated expenditures by $25 million for the purpose of calculating the 1982–83 appropriation.
2. ***No Population Adjustment.*** The budget includes no funding for a projected 1.8 percent increase in population. An additional $792,000 would be required to fund the increase in population.
3. ***Tuolumne County Adjustment.*** The budget shows an increase of $206,000 in the maximum allocation available to Tuolumne County under AB 8. These funds were transferred from the contract counties program, under which the state provides public health services directly in small rural counties. Section 1157.5 of the Health and Safety Code allows counties participating in the contract counties program to receive funds in lieu of state-funded positions.
4. ***Cost-of-Living Adjustment (COLA).*** The budget proposes a 5 percent COLA. Based on projected inflation, we estimate that a 12.23 percent increase would be provided automatically if AB 8's provisions were to remain effective. The cost of providing a 1 percent increase on the base 1981–82 expenditure level assumed in the budget (that is, 1981–82 expenditures minus the $25 million augmentation) is $3.4 million. The cost of providing a 1 percent increase on the base 1981–82 expenditure level is $3.64 million.

We estimate that the cost of county health fiscal relief under AB 8 would be $408.9 million if (1) the $25 million base reduction were restored, (2) the full 12.23 percent statutory COLA was provided, and (3) provisin was made for the 1.8 percent increase in population. This is $53.4 million more than the amount proposed in the budget.

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Capital Outlay Program

Chapter 1351, Statutes of 1980 (AB 3245), appropriated $25 million in 1980–81 and $25 million in 1981–82 from the Special Account for Capital Outlay (SAFCO) to the Local Health Capital Expenditure Account (LHCEA) in the County Health Services Fund for grants and loans for capital expenditures at county health facilities. Grants are limited to 50 percent of the total project cost, and the loans are limited to 80 percent of project costs. Under the act, the department has the authority to (1) determine the extent to which financial assistance is provided in the form of grants rather than loans, (2) develop criteria for reviewing county applications for financial assistance, and (3) award grants and loans to counties.

The second SAFCO appropriation was reverted to the General Fund in the 1981 Budget Act, leaving $25 million from the initial SAFCO appropriation in the LHCEA for distribution to counties. (The 1981 Budget Act appropriated another $25 million from the General Fund to replace the reverted SAFCO appropriation, but this General Fund amount never became available for capital expenditures because it was transferred to the County Health Services Fund for distribution to counties through the AB 8 process by Ch 1004/81.)

Due to delays in hiring staff, developing criteria, and selecting projects, no grants or loans were awarded in 1980–81. In November 1981, 79 projects were selected. Two were funded as loans, 76 as grants, and 1 as part loan, part grant. At the time this analysis was written, however, no contracts had been signed and no funds had been transmitted to local agencies.

Future State Funding for County Capital Outlay Projects

We recommend that the Legislature appropriate LHCEA funds through the Budget Bill to assure greater legislative control of expenditures. We withhold recommendation on the amount of the appropriation pending receipt of (1) information on the amount of funds estimated to be available and (2) an expenditure plan for the funds.

The budget reflects expenditures from the Local Health Capital Expenditure Account (LHCEA) of $24,611,000 for grants and loans, and $191,000 for department support, in the current year. The budget proposes no expenditures for grants and loans in 1982–83, but proposes continuing support for existing staff to monitor the projects already funded, at a cost of $197,000. Program expenditures over the two-year period total the full $25 million appropriation from the Special Account for Capital Outlay (SAFCO).

The budget does not reflect approximately $2.9 million in interest earnings on the $25 million which the department estimates has accrued to the fund as of December 31, 1981. Interest will continue to accrue to the fund until the funds are expended by counties for capital outlay projects. The budget also does not reflect additional funds which may be received by the LHCEA from (1) the repayment of loans made to counties and (2) specified unused funds in the County Health Services Fund (CHSF).

Under current law, funds in the LHCEA are continuously appropriated to the department. This means that the department can spend interest earnings and other funds received by the LHCEA without legislative review.

We recommend that the funds in the LHCEA be appropriated through the Budget Bill in Item 4260-111-900. This would not increase state spending but would increase legislative control and oversight of this fund. We withhold recommendation on the amount of funds which should be included in the 1982 Budget Bill because the department has not submitted estimates of the amount of funds which would be available and a plan for expenditure of the funds.

We recommend that prior to budget hearings the department report on the amount of funds which will be available in the LHCEA during 1982–83, and its planned expenditures from funds which are not reflected in the budget.

Inappropriate Delays in Recoupment Process

We recommend adoption of Budget Bill language requiring the department to initiate recoupment based on the preliminary expenditure reports.

To receive a portion of its AB 8 allocation, a county must agree to (1) match state funds on a 50 percent county/50 percent state basis (although in specified circumstances, counties can receive a more favorable ratio) and (2) spend funds in general accordance with the county's health services plan and budget. If a county has not spent the full budgeted amount for health services, the county must return the amount of state funds which were allocated to it but were not spent or were not fully matched. The state's process to recover these funds is called recoupment. Preliminary reports on expenditures are submitted at the close of the fiscal year; final reports are submitted one year later. Current department policy is to initiate recoupments from counties after final expenditure reports have been submitted and reviewed, even though the state is not required to wait until the final reports to recoup funds.

Currently, the department is in the process of recouping funds distributed to counties in 1979–80. In reviewing the final reports submitted in the fall of 1981, the department identified approximately $2.6 million from the 1979–80 allocations which the counties should return to the state. The department currently is informing counties of these obligations. Counties have an opportunity to appeal the recoupment decisions to the Deputy Director, Office of County Health Services.

The current department policy of recouping funds only after final reports are submitted has the effect of allowing counties to retain for an additional year state funds to which they are not entitled. This means, in effect, that the state is providing interest-free loans to county governments for the year between the submission of preliminary and final expenditure reports. To avoid this, we recommend that the Legislature adopt Budget Bill language to require the department to recoup funds based on the preliminary expenditure reports.

Amount of Money Available for Special Needs and Priorities Uncertain

We recommend that, prior to budget hearings, the Department of Health Services report to the fiscal committees on the amount of special needs and priorities (SNAP) funds which have been available to date and which it estimates will be available in the current and budget years.

Current law allows the department to reallocate unused funds in the County Health Services Fund to counties, on a 50 percent matching basis, for "special needs and priorities established by the director" (SNAP). The department allocated $2.1 million in the most recent SNAP funding cycle in June 1981.

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The amount of funds available for SNAP represents the amount that is not needed to meet the ongoing needs of counties, as defined by the allocation formula under AB 8. Thus, the Legislature could use information on the amounts available for SNAP to evaluate the amount of county health fiscal relief that it needs to provide. For example, if some counties consistently underspend their allocations, the Legislature could consider changing the allocation formulas in AB 8 to free up these funds for other counties, or to reduce the appropriation provided to the County Health Services Fund.

We recommend that prior to budget hearings the department report on the amount of SNAP funds which have been available to date and which are projected to be available in the current and budget years.

Current-Year Unallotment by the Department of Finance

The Department of Finance has unallotted $1,579,000 from the County Health Services Fund in 1981–82 as part of its effort to identify unutilized funds which could be transferred to the General Fund. The money is proposed to come from the $2.6 million in anticipated recoupment of excess 1979–80 allocations to counties. The unallotment has the effect of reducing the amount of funds available for SNAP.

C. TOXIC SUBSTANCES CONTROL

The budget proposes significant expansion of the Toxic Substances Control program. Total expenditures of $23,243,000 from all funds are proposed in 1982–83, excluding administrative overhead. This is an increase of approximately $11.3 million, or 95 percent, above estimated current-year expenditures of $11.9 million.

The department was unable to provide precise current-year estimated expenditures, due to a recent reorganization which created this division and two other divisions from the former Public and Environmental Health Division. The amounts contained in the budget are rough estimates, and include $1,189,000 in proposed current-year expenditures which had not been reviewed by the Legislature at the time this analysis was prepared. If these proposed new activities are excluded from estimated current-year expenditures, the 1982–83 proposed budget is approximately $12.5 million, or 116 percent, above authorized current-year expenditures.

Recent Reorganization

The department reorganization consolidated various units into a new Toxic Substances Control Division. The division contains 269.5 positions in the current year, including 20.5 positions proposed to be administratively established. The division includes the following three major units:

1. Hazardous Waste Management Branch
   - Alternative Technology and Policy Development
   - Permits, Surveillance, and Enforcement
   - Site Cleanup and Emergency Response
   - Procedures and Regulation Development
2. Laboratory and Epidemiology Studies Branch
   - Hazardous Materials Laboratory
   - Air and Industrial Hygiene Laboratory
   - Epidemiology Studies, including Environmental Toxics Epidemiology

- Hazard Evaluation System and Information Service (HESIS)

3. Office of Public Education and Liaison (OPEL)

Superfund—Chapter 756, Statutes of 1981

Chapter 756, Statutes of 1981 (SB 618), establishes a funding mechanism to (1) meet the state's obligations for a 10 percent match under the federal hazardous waste "Superfund" program, (2) clean up hazardous waste sites that pose a threat to public health but do not qualify for federal superfund support, (3) support emergency response to releases of hazardous substances, and (4) compensate persons injured by exposure to releases of hazardous substances. The statute was enacted as an urgency measure and became effective on September 25, 1981.

Specifically, the act:

1. Appropriates $2 million from the General Fund as a loan to the Hazardous Substances Account (HSA), which the act creates. The act requires that the loan shall be repaid by January 1, 1986. Repayment is set at the rate of $400,000 per year, plus interest.
2. Appropriates $1 million annually from the HSA to the Department of Health Services for emergencies involving toxic substances. Other funds in the HSA would not be available for expenditure unless appropriated by the Legislature.
3. Authorizes appropriations of up to $2 million annually from the HSA to a new Hazardous Substance Compensation Account (HSCA) to be administered by the Board of Control. These funds would be used to compensate individuals injured by exposure to releases of hazardous substances.
4. Authorizes up to $500,000 annually for health effect studies related to the cleanup of hazardous waste sites or emergency response to releases of hazardous substances.
5. Requires the Department of Health Services to recover HSA expenditures and the Board of Control to recover HSCA expenditures from responsible parties through litigation.
6. Requires the department to publish by regulation a ranking of sites requiring remedial action. Funds appropriated for remedial action can only be expended according to the priority listing of sites.
7. Authorizes the expenditure of HSA and HSCA funds for administrative costs of the Board of Control and the Department of Health Services.
8. Authorizes the Board of Equalization to collect taxes on disposal of hazardous wastes for deposit in the HSA. The tax rates would be adjusted annually so that the amount available for appropriation (tax collections plus the unexpended balance from the prior year) is equal to $10 million.
9. Transfers responsibility for collecting existing hazardous waste disposal fees from the Department of Health Services to the Board of Equalization. These fees are deposited in the Hazardous Waste Control Account (HWCA) which supports a major portion of the department's hazardous waste regulatory program.

Management Deficiencies Cited in Auditor General Report

The Auditor General, in a report released in November 1981, cited numerous deficiencies in the operation of the Hazardous Waste Control program, and found that the department has ineffectively implemented and enforced hazardous waste control laws. Specifically, the report found that:

(1) The department has issued final operating permits to fewer than 2

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percent of the hazardous waste facilities operating in the state.

(2) It has not developed a comprehensive inspection and monitoring program to identify and correct violations of hazardous waste control laws.

(3) It inadequately controls the transporting of hazardous waste materials.

The department responded to the report by developing a plan of correction which included a schedule for issuing 50 permits a year, and a plan for (a) establishing a regular inspection schedule for major hazardous waste facilities, (b) developing a computer tracking system for waste shipments, and (c) improving personnel time accounting. The budget proposes to establish eight new positions to increase the number of inspections and seven positions to develop a management information system. The department addressed the Auditor General's finding related to transportation by issuing regulations on the inspection of hazardous waste haulers. The California Highway Patrol has initiated enforcement of those regulations.

It is too soon to tell if the actions taken by the department will be sufficient to correct the deficiencies.

Potential Deficit in the Hazardous Waste Control Account

We recommend that prior to budget hearings the department submit to the fiscal committees revised revenue estimates consistent with its proposed fee regulations that reflect (1) the impact of increased collections by the Board of Equalization and (2) the effect of the delay in the adoption of the regulations. We further recommend that the department revise its current-year expenditure estimates.

The Hazardous Waste Control Account (HWCA) was established to support the department's Hazardous Waste Control program. It receives fees paid by operators of hazardous waste disposal facilities. The budget estimates 1981–82 revenues of $2,881,000 and 1982–83 revenues of $6,976,000. Since 1977, the fee has been set at $1 per ton or load of waste disposed either on-site or off-site, with a $2,500 cap on the monthly obligation of any waste disposer.

Until October 1981, the department was responsible for collecting the fee. Chapter 756, Statutes of 1981, transferred that responsibility to the Board of Equalization. Monthly revenues to the account have increased by 64 percent in the first two months of the board's administration of fee collections.

Fee Increase Delays. The department has initiated regulatory changes to increase the amount of the fee three times since January 1980. Each time that the department developed a regulatory package to justify an increased fee level, the regulation was withdrawn so that the department could increase the proposed fee amount. The department has been able to delay increasing the fee without incurring a deficit in the account because (1) federal funding increased faster than expected and (2) delays in hiring resulted in large amounts of salary savings. At hearings held by the Assembly Committee on Consumer Protection and Toxic Materials in November 1981, however, the department testified that a fee increase from $1 to $4 per ton would have to go into effect by April 1982 to avoid a deficit in the current year.

Problems with Revenue Estimates. The department's current proposed fee increase regulations, which would raise the fees from $1 per ton to $4 per ton, are scheduled for public hearing on March 16, 1982. We have identified a number of problems with the regulations and their impact on the revenue estimates contained in the budget.

First, our analysis indicates that a deficit in the current year is likely because the regulations are unlikely to take effect by April 1, 1982. The department's own schedule for implementing the regulations indicates that at least 90 days are needed from the time a public hearing is held to the time the regulations take effect. This includes (1) 30 days for the department to review and revise the regulations based on testimony presented at the hearing, (2) 30 days for review by the Office of Administrative Law, and (3) a 30-day waiting period after the regulations are filed with the Secretary of State. In addition, the Board of Equalization will need time to inform disposers of the change in the amount of the fee. It is, therefore, unlikely that the fee increase will be effective by the April 1 date assumed in current revenue forecasts. Accordingly, it is likely that a deficit will occur in the current year. Our analysis indicates that this deficit would occur even if revenue collections by the Board of Equalization continue to be 64 percent above previous levels.

Second, the department's revenue estimates are inconsistent with the proposed regulations. Our analysis of the proposed regulations indicates that, although the per-ton charges are increased from $1 to $4, the department neglected to increase the monthly financial maximum from its current level of $2,500. This means that high-volume disposers who currently pay the maximum amount of $2,500 per month will experience no fee increase, and that more of the financial burden for supporting the program will be shifted to low-volume disposers.

The department's budget-year revenue estimates assume that revenues will increase by a factor of four. The revenue projections do not take into account the fact that the regulations as written will not generate a fourfold increase because major disposers will still be subject to a $2,500 cap on their monthly obligation. We attempted to estimate what the actual revenue increase would be under the proposed regulations, but the department was unable to provide the information that would be necessary to revise the projections.

Revised Revenue Estimates Needed. The department should immediately revise its revenue estimates for the current and the budget years to (1) reflect the delays that have occurred in adopting the fee increase regulations and (2) recognize the effect that the $2,500 monthly cap will have on total revenues.

We recommend that prior to budget hearings, the department prepare for the legislative fiscal committees revenue estimates that are consistent with its proposed regulations. The estimates should reflect (1) revised current-year expenditures, (2) the impact of increased collections by the Board of Equalization, and (3) the effect of the delay in the adoption of the regulations.

Appropriate Program Expenditures in the Budget Bill

We recommend that expenditures from the Hazardous Waste Control Account be appropriated in the Budget Bill in Item 4260-001-014 in order to provide for increased legislative oversight.

Expenditures from the Hazardous Waste Control Account (HWCA) are continuously appropriated and are not contained in the Budget Bill. The budget proposes $5,267,000 in expenditures from the HWCA in 1982–83, which is an increase of $2,358,000, or 81.1 percent, above estimated cur-

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rent-year expenditures. This fund represents approximately 20 percent of the expenditures of the Toxic Substances Control Division.

We do not believe that these proposed expenditures should be excluded from the annual budgetary review. We therefore recommend that the Hazardous Waste Control Account expenditures be appropriated in the Budget Bill so as to increase legislative oversight of this program. We are unable to determine the amount required for appropriation at this time because potential revisions in the revenue estimates which are discussed above may require program reductions.

Budget-Year Proposals

The budget proposes (1) $10 million to implement Ch 756/81 (SB 618), which established a program for cleanup of hazardous waste sites and emergency response to releases of toxic substances; (2) $2.3 million to expand current hazardous waste control activities, develop alternatives to land disposal, and provide public education; and (3) $1.5 million for a new toxic research and information program. Table 13 summarizes the new positions and funding level for each component of the request.

Table 13
Toxic Substance Control Program Budget Proposals
(dollars in thousands)

	Amount	*Positions*
Superfund—Hazardous Substances Account [a]		
1. Remedial Action and Response		
a. Cleanup contracts	$4,720	—
b. Department cleanup activities	1,858 [b]	40.0
Subtotals	$6,578	40.0
2. Emergency Response		
a. Emergency response fund	$1,000	—
b. Equipment for state and local governments	800	—
c. Training—California Highway Patrol	292	2.5
d. Health studies of emergency response personnel—Department of Industrial Relations	157	4.0
e. State planning—Office of Emergency Services	83	2.5
Subtotals	$2,332	9.0
3. Health Effects Studies	$458	6.0
4. Victim Compensation		
a. Board of Control administration	$89	3.0
b. Victim compensation claims	300	—
Subtotals	$389	3.0
5. Tax collection—Board of Equalization	$243	9.7
6. General Fund loan repayment	576 [c]	—
7. Department of Health Services—administration	41 [c]	1.5
Totals, Hazardous Substances Account	$10,617	69.2 [d]
Proposed Budget Appropriation [a]	($10,000)	
Hazardous Waste Management—Hazardous Waste Control Account		
1. Reduce amount of waste disposed in landfills	$73	2.0
2. Encourage alternative technologies	764	5.5
3. Workload increases in monitoring and enforcement	948	24.0
4. Public education and liaison	428	7.0
5. Personnel management	56	2.0
Totals, Hazardous Waste Control Account	$2,269	40.5

Toxics Research and Implementation Policy—General Fund		
1. Community Toxics Evaluation Unit	$485	8.0
2. Hazard Evaluation System and Information Service—outreach—Reimbursements from Department of Industrial Relations	241	6.0
3. Indoor air pollution	367	9.0
4. Body burdens of chemicals	167	3.0
5. Male infertility surveillance—Reimbursements from Department of Industrial Relations	253	7.0
Subtotals	$1,513	33.0
6. Redirection from occupational health and research development	−104	−3.0
Totals, General Fund	$1,409	30.0
Department of Health Services	*916*	*17.0*
Reimbursements from Department of Industrial Relations	*493*	*13.0*
Totals, All Funds	$14,295	139.7 [e]
Proposed Budget Appropriation [a]	($13,678)	

[a] The schedule of proposed expenditures presented in the A-pages of the budget and in information provided by the department exceeds the amount in the budget by $617,000.

[b] The department states that the total for department activities should be $1,684,000 instead of the $1,858,000 presented in the A-pages. This revision would reduce the amount by which the proposal exceeds the amount of available funds to $443,000.

[c] Included in detailed budget schedule but not in the A-pages summary.

[d] Of the 69.2 positions, 47.5 positions are in the Department of Health Services (DHS) and 21.7 positions are in five other departments.

[e] Of the total 132.7 positions, 118 positions are in DHS and 21.7 positions are in other departments.

The budget also includes three reductions: (1) elimination of 10 limited-term positions in the abandoned site program, (2) reduction of $276,000 for a contract with the Office of Appropriate Technology which is funded from the Energy and Resources Fund, and (3) elimination of three positions from the Occupational Health Research and Development program.

Multiple Funding Sources

The Toxic Substances Control program is supported by seven different funding sources. The funds and the programs proposed to be supported by each fund are:

1. ***The Hazardous Substances Account*** (HSA), established pursuant to Ch 756/81, is supported by fees charged to generators of hazardous substances. The budget proposes to use the account to fund (a) clean-up of hazardous waste sites, (b) emergency response to releases of hazardous substances, (c) health effect studies, and (d) associated administrative costs. The fee will be collected for the first time in 1982.
2. ***The Hazardous Waste Control Account*** (HWCA) is supported by fees paid by operators of hazardous waste disposal facilities. These fees were first collected in 1974. The account funds the ongoing regulatory activities of the division including: permitting, inspections, transportation manifesting, resource recovery, alternative technology assessment, designation of hazardous waste property, laboratory support services, public participation, and program administration.
3. ***Federal Resource Conservation and Recovery Act*** (RCRA) funds are awarded to California by the federal Environmental Protection Agency (EPA) to support the state Hazardous Waste Control program. The federal program supports many activities which are also funded by the HWCA.
4. ***The Federal Superfund*** (Comprehensive Environmental Response, Compensation, and Liability Act) will finance the costs of cleaning

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up major uncontrolled hazardous waste sites on a 90 percent federal, 10 percent state basis. The federal government has not yet allocated any of the available funds to California.

5. ***The General Fund*** supports studies of the health effects of toxic materials, and provides partial support for laboratory services. The budget proposes General Fund support for a Community Toxics Evaluation Unit and two research and surveillance projects.
6. ***The Energy and Resources Fund*** (ERF) supports (a) the Southern California facility siting project, (b) the abandoned hazardous waste site search project, and (c) alternative technology assessment. The abandoned site project is due to terminate in June 1983.
7. ***Reimbursements*** include funds received from (a) the Department of Industrial Relations to support laboratory services and the Hazard Evaluation System and Information Service (HESIS) and (b) the Air Resources Board for laboratory services.

Table 14 displays Toxic Substances Control program expenditures by funding source.

Table 14

Toxic Substances Control Program Expenditures and Funding Sources (in thousands)

	Estimated 1981–82	*Proposed 1982–83*	*Change Amount*	*Change Percent*
Hazardous Substances Account [a]	—	$9,424	$9,424	N/A
Repayment of General Fund loan	—	576	576	N/A
Hazardous Waste Control Account	$2,909	5,267	2,358	81.1%
General Fund	1,628	3,036	1,408	86.5
Repayment from Hazardous Substances Account	—	−576	−576	N/A
Loan to Hazardous Substances Account	2,000	—	−2,000	−100.0
Federal Resource Conservation and Recovery Act (RCRA)	2,568	2,819	251	9.8
Energy and Resources Fund	1,499	1,136	−363	−24.2
Reimbursements	3,473	3,869	396	11.4
Federal Superfund	—	unknown	unknown	N/A
Budget totals	$14,077	$25,551	$11,474	81.5%
Less administrative overhead	−2,150	−2,308	−158	−7.3
Net totals	$11,927	$23,243	$11,316	94.9%

[a] Detailed budget schedules show repayment of the General Fund loan as part of the $10 million Hazardous Substances Account expenditures. Departmental budget proposals do not include the repayment.

Our analysis shows that there is a lack of a clear policy on the appropriate uses of each funding source. For example, the department proposes to establish an Office of Public Education and Liaison (OPEL) to perform community outreach for and provide information on activities supported by all of the special funds including superfund cleanups, the abandoned site search effort, hazardous waste property designation, hazardous waste control, and facility siting. The office is proposed, however, to be supported entirely by the HWCA in the amount of $427,000. While we are unable to determine how much of the office's activities will be directly attributable to specific activities, we are confident that it will not be solely related to programs supported by the HWCA. In addition, the requested management information system would serve a variety of programs but is proposed to be funded by the HWCA.

This lack of a clear policy on the appropriate use of each funding source creates problems for the program in managing its operations and for the Legislature in reviewing the department's spending plan. It also makes it difficult to assure that funds and positions authorized for a particular purpose and funded by a particular source are actually expended for those purposes in future years.

In the following sections we discuss two problems which have resulted from the lack of clear funding policies. In the first section, we recommend that special funds be utilized to support, in part, a unit which is now wholly funded from the General Fund. In the second section, we discuss problems with legislative control of federal funds.

Recommend Funding Shift From General Fund to Special Fund

We recommend that $290,000 of the General Fund support requested for the Environmental Toxics Epidemiology Unit be deleted and that these costs be funded from the Hazardous Waste Control Account.

The Environmental Toxics Epidemiology Unit (ETEU), which is supported by approximately $580,000 from the General Fund, was originally established to investigate the health effects of environmental contaminants on a quick response basis. In the current year, at least one-half of the unit's activities have been related to determination of hazardous waste property and border zone property mandated by Ch 1161/80 (AB 2370). Although these activities are authorized to be supported by the Hazardous Waste Control Account (HWCA), no funds have been requested from the HWCA for epidemiological health effect studies. We recommend that the portion of the ETEU expenditures related to Chapter 1161 be funded by the HWCA, instead of by the General Fund, for a General Fund savings of $290,000.

Lack of Legislative Control Over Federal Funds

The department estimates that it will receive $2,568,000 in the current year and $2,819,000 in the budget year from the federal Environmental Protection Agency's (EPA) Resource Conservation and Recovery Act (RCRA) program. Although the Legislature appropriates RCRA funds through the Budget Bill, it is unable to exercise control over the final use of these funds because the EPA may shift funding priorities and require the state to reallocate staff and funds. The department has not provided a detailed expenditure plan for 1982–83 RCRA funds.

It is possible for the department to utilize federal funds to finance activities for which state funds have been denied by the Legislature. Furthermore, the department can utilize state funding for activities that were initiated with federal funds, then reallocate the federal funds for purposes which have not been approved by the Legislature. For example, the public participation function will receive $104,000 from RCRA in FFY 82. This activity is proposed to be totally state-supported by the Hazardous Waste Control Account (HWCA) in 1982–83. The department did not inform us as to how the RCRA funds which are currently funding public participation would be used in the budget year. (In our discussion of the hazardous waste management proposals, we recommend deletion of $104,000 from the HWCA to reflect the availability of federal funds for public participation.)

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Superfund

We withhold recommendation on the entire Superfund program until the department develops an expenditure proposal that is consistent with the $10 million ceiling established by the Legislature. The revised proposal should include funding for department overhead costs and a reserve for salary increases.

The budget proposes a $10 million program to implement Ch 756/81 (SB 618), which establishes a state superfund for cleanup of hazardous waste sites and emergency response. The uncontrolled release of hazardous materials both from abandoned dump sites and spills constitutes a potentially major hazard to public health and to the environment. The department has identified over 70 abandoned hazardous waste dump sites and expects to identify more in the budget year. Through the passage of Ch 756/81, the Legislature has demonstrated its commitment to cleaning up hazardous waste sites.

Our analysis indicates that uncontrolled hazardous waste sites present a major threat to public health which justifies state involvement, and we support the objectives of this program. Major problems in the department's proposal, however, preclude us from recommending that the Legislature approve it in its current form.

Three problems, which affect the total proposal, are: (1) the proposal prepared by the department exceeds the $10 million available for expenditure in 1982–83 by $617,000, (2) the proposal does not include funds to reimburse the department for overhead charges which our analysis indicates could cost $371,000, and (3) it does not provide a reserve for salary increases.

Other problems, which affect specific parts of the proposal, include the following: (1) the department's implementation plan for the cleanup program is unrealistic, (2) the emergency response activities proposed to be operated by various state agencies are ill-defined and overlap, (3) the Office of Emergency Services' proposed allocation is excessive, (4) the amount proposed for emergency response equipment is unjustified, and (5) the amount proposed for health effects studies exceeds the $500,000 limit established by Ch 756/81.

Proposal Does Not Add Up to $10 Million. The budget proposes to spend $10 million in 1982–83 for activities related to Ch 756/81. The department, however, was not able to provide us with a detailed budget proposal which totaled $10 million. The budget change proposals provided by the department did not include $576,000 for repayment of the General Fund loan or $41,000 proposed for departmental administration related to Ch 756/81. Detailed schedules in the published budget, however, show the required repayment. The department was not able to provide us with a revised expenditure plan which specified which of the department's proposed activities would be reduced.

Because the department has not presented a detailed expenditure plan that agrees with the amount contained in the budget, it is impossible for us to make a recommendation on this proposal. We recommend that the Legislature direct the department to prepare a revised proposal that is consistent with the $10 million limit imposed by Ch 756/81.

Companion Bill Provisions. The department proposes to correct the funding shortfall by amending Chapter 756 in the budget companion bills

(AB 2361 and SB 1326) to authorize additional tax collections in an amount necessary to make the required General Fund loan repayment. This change would have to take effect by May 1, 1982, in order to increase budget-year revenues because Chapter 756 requires the Board of Equalization to calculate taxes based on the ceiling amount, and to send a tax assessment notice to each hazardous waste generator by June 1, 1982.

The board plans to calculate the individual tax assessments in March 1982 in order to send out the assessments by June 1, 1982. If the total amount of revenues to be collected during 1982 is increased as proposed by the companion bills, the board would have to recalculate individual tax assessments. Current law does not allow the board to issue revised tax assessments after June 1, 1982. If the board is to issue assessments by June 1, 1982, the individual assessments must be calculated by May 1, 1982. It is unlikely that the companion bills (AB 2361 and SB 1326) will become effective before May 1, 1982. Consequently, the department should submit a revised expenditure plan, based on the $10 million in revenue available under current law.

Overhead Costs Not Budgeted. The costs of the department's administrative support services are charged to the department's programs on the basis of the amount of personal services in each program. These support services include data systems development, personnel management, legal services, and budgeting and accounting. These overhead charges typically are approximately 30 percent of personal services costs. We estimate that the amount of overhead charges which will be assessed to the Hazardous Substances Account will be approximately $371,000 in the budget year, based on proposed personal services costs of $1,236,000 for 45 positions added to the Toxic Substances Control Division.

The expenditure plan for the Superfund program does not account for department overhead costs within the $10 million cap on the program. If funds are not set aside explicitly for these overhead charges within the $10 million available from the Hazardous Substances Account (HSA), the department, rather than the Legislature, will decide how to fund these charges. It could either (1) reduce expenditure levels for other legislatively-approved activities proposed to be funded by the HSA, including clean-up of sites, or (2) shift the overhead charges to other fund sources including the General Fund.

We recommend that the department identify overhead costs attributable to the Superfund program and include these costs in its revised budget proposal.

Salary Increase Not Budgeted. The cost of salary increases will be established by the Legislature and through the collective bargaining process. Program expenditures will increase automatically by the amount of any salary increase. The superfund budget proposal does not recognize this liability within the $10 million cap on the program. We recommend that the department provide a reserve for salary increases in its revised budget proposal.

Remedial Action and Response Activities

We recommend that prior to budget hearings the department develop for the legislative fiscal committees a more realistic assessment of current-year accomplishments.

The budget proposes 40 positions and $6,578,000 for remedial actions to clean up hazardous substances and mitigate the environmental and health effects of those substances. This amount includes (1) $4,720,000 for con-

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tracts with private firms to design and implement site cleanups and (2) $1,858,000 to support department operations. These amounts are subject to change because the proposal as presented to us by the department exceeds the $10 million ceiling established by Ch 756/81.

The remedial action process described by the department has three phases:

1. ***Predesign*** is the investigative and data-gathering phase. It includes (a) identification of waste composition, (b) surface water assessment, (c) soil and air sampling, and (d) geological assessment of the area. Department staff will conduct most of these tasks directly, and plan to complete predesigns for 10 sites in the budget year. The budget proposes 7.65 positions for this function.
2. ***Engineering design*** of the cleanup plan includes (a) examination of alternative cleanup methods, (b) preparation of a detailed engineering plan for the selected alternative including an environmental impact report and safety and transportation plans, and (c) development of an implementation schedule. Most of these activities will be carried out by private consultants under the supervision of the department. Department staff will select the cleanup method. Staff health professionals will (a) assess possible health hazards associated with the cleanup and (b) develop procedures to maintain public safety. The department estimates that engineering designs for eight sites will be prepared in the budget year, and it proposes to add 8.15 positions for this function.
3. ***Site cleanup*** will be done by contractors who will either remove the hazardous materials or will abate the hazard on-site through treatment or encapsulation. The department estimates that cleanup activities will be initiated at six sites during the budget year with two sites funded by each of the three available sources: Hazardous Substances Account, federal superfund, and private parties. In all cases the department must issue a permit and monitor the work. The department requests 12.2 positions for this function.

The department will not be able to state how the $4.7 million for remedial action contracts will be used until it develops a priority list of sites and estimates the costs for cleaning up the high-priority sites on the list. Chapter 756, Statutes of 1981, requires the department to establish by regulation a priority list of sites requiring remedial actions by April 1, 1982. Funds allocated for remedial actions from the Hazardous Substances Account (HSA) must be expended according to that priority listing.

The budget also proposes seven new staff for project administration, one legal counsel to initiate recovery actions against private parties, and three laboratory and statistical positions.

Assumptions About Current-Year Accomplishments. The budget assumes that 10 positions will be established administratively in the current year to prepare to implement the Superfund program. The department indicates that in the current year it intends to establish:

1. Basic program concepts, goals, objectives, and program budgets.
2. Detailed program implementation plans, including specific goals and time schedules; management systems; and program tracking, monitoring, and reporting systems.
3. Personnel strategies, including (a) a streamlined process for classification and testing, and (b) intensive recruiting, hiring, and training.
4. Guidelines and procedures for use of emergency response funds.
5. Guidelines and procedures for reimbursement to local governments

for emergency response and remedial actions.

6. Priority list for remedial actions by April 1, 1982. This involves: (a) developing criteria for priority ranking, (b) identifying initial candidate sites, (c) publishing a preliminary priority list, (d) preparing regulations, (e) holding public hearings on the regulations, and (f) submitting the regulations for review by the Office of Administrative Law.

7. Guidelines and procedures for remedial action contracts.

8. Interagency agreements with State Water Resources Control Board (SWRCB) and Air Resources Board (ARB) regarding program coordination.

9. Formal delegation agreements with the Environmental Protection Agency (EPA) regarding integration of federal superfund and state superfund programs.

10. Program guidelines, procedures, and detailed budget for purchase and prepositioning of emergency response equipment.

11. Fiscal management, control, and reporting systems including program cost accounting.

12. Guidelines for the Board of Equalization to determine whether generators are liable for taxes.

In addition to these planning activities the department also intends in the current year to (a) initiate predesign work for the McColl site in Orange County, (b) conduct preliminary evaluations of other top-priority candidate sites including Stringfellow, Purity Oil, Llano, and Iron Mountain Mine, and (c) respond to emergencies as necessary.

Feasibility of Completing Planned Current-Year Tasks. If these preliminary tasks associated with implementing the program are not completed in the current year, many of the proposed budget-year activities will be delayed or jeopardized. For example, Chapter 756 requires that funds appropriated from the Hazardous Substances Account for remedial actions only be expended according to the priority listing of sites. If final adoption of regulations establishing the priority list of sites is delayed, no remedial actions may be undertaken.

Such delays could occur as a result of difficulties in obtaining staff or disagreements in establishing criteria for ranking sites and in applying those criteria to specific sites. The process involved in adopting regulations may cause further difficulties. The department estimates that most regulations require over nine months for (1) initial development by the program, (2) review by other departmental units, (3) public notice and hearing, and (4) review by outside control agencies including the Office of Administrative Law. If detailed implementation plans with goals, time schedules, and management systems are not developed during the current year, the department will not be able to utilize effectively the 47.5 staff positions which would be authorized on July 1, 1982.

On the basis of accomplishments to date, it is not likely that the required development tasks will be accomplished in the current year. At the time this analysis was written, the department had only two borrowed positions assigned to the development of the Superfund program. One of the positions has significant other responsibilities for supervising the abandoned site and hazardous waste property evaluation programs. Further, the department has not yet been able to establish the 10 proposed current-year positions or obtain funds for reimbursing the Board of Equalization for costs incurred in developing the tax collection program. Although Ch 756/81 appropriated adequate funds from the General Fund *to* the Hazardous Substances Account (HSA) to cover current-year costs, the act

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contained no specific appropriation *from* the HSA for this purpose. It appears that urgency legislation will be needed to make these funds available in the current year. This will further delay the implementation of the program.

We cannot recommend approval of the department's proposed funding level for remedial actions until it develops a more realistic assessment of current-year accomplishments. We have no basis to recommend that the Legislature authorize 47.5 positions on July 1 if preliminary development work is not going to be accomplished in the current year.

We recommend that prior to budget hearings the department prepare for the fiscal committees a revised proposal for the Superfund program which addresses the concerns we have identified above. Specifically, the report should include (1) an expenditure plan which is consistent with the $10 million ceiling imposed by Ch 756/81, (2) department overhead costs and a reserve for salary increase, and (3) a report on the completion of planned current-year development tasks. Only after that information is available will the Legislature be able to determine the appropriateness of the amount requested for the budget year.

Through passage of Ch 756/81, the Legislature has demonstrated its commitment to cleaning up hazardous sites. That alone, however, is not sufficient reason for the Legislature to approve expenditures before the department has demonstrated that it is prepared to actually operate the program effectively and efficiently, in accordance with legislative intent.

Emergency Response Activities

The budget requests $2,332,000 for emergency response programs to be administered by the Department of Health Services and three other state agencies: the Office of Emergency Services, the California Highway Patrol, and the Department of Industrial Relations. The information provided by the department does not clearly identify the responsibilities of the different agencies involved in the proposal. In fact, the budget change proposal states that "the department's overall role in toxic emergency response is unclear at the present time. It is anticipated that this will be spelled out in the State Contingency Plan which is being drafted. Budget decisions, therefore, will have to be determined after the plan is adopted by the state."

The budget, however, proposes the following specific activities:

- Department of Health Services: The budget proposes one staff position to (1) administer the $1 million emergency response fund, including the supervision of contractors hired for specific cleanups, (2) administer the $800,000 prepositioned emergency response equipment purchase program, (3) work with local emergency response units that would respond to hazardous waste releases, and (4) contract with other state agencies to carry out the programs described in the budget proposal.
- Office of Emergency Services (OES): The budget proposes 2.5 positions and $83,000 to (1) coordinate a statewide hazardous materials training program, (2) coordinate county emergency response plans, (3) develop exercises to test the state plans, and (4) supplement warning center staff to handle workload related to toxic spill reports. These activities complement current OES responsibilities under Ch 805/80, to develop the Toxic Materials Emergency Response Plan and

establish a spill notification and reporting system.

- California Highway Patrol (CHP): The budget proposes $292,000 and 2.5 positions to conduct a three-module training program on hazardous materials spills for state and local emergency response personnel, consisting of (1) basic awareness training, (2) scene management, and (3) interagency agreements and planning.
- Department of Industrial Relations: The budget proposes $157,000 and four positions for a two-year study of health hazards encountered by state and local emergency personnel responding to toxic substance spills and releases. Based on the study, the Department of Industrial Relations intends to set exposure and safety standards for emergency personnel.

Potential Overlap

We recommend that, prior to budget hearings, the department clarify the lines of responsibility and authority in the area of emergency response and that it report on how these programs would work in a coordinated manner.

The emergency response proposal requires all four departments to interact with local governments and emergency response agencies. The proposal, however, does not describe how these contacts would be coordinated or which state agency would have primary responsibility for various functions. In the course of our analysis, we identified four examples of potential confusion due to overlap between functions of the state agencies.

1. OES would coordinate training and county response plans, while the CHP would provide training and assist local agencies in developing interagency agreements. The Hazardous Waste Management Branch of the Department of Health Services currently provides training to its field employees in personal safety procedures to be followed when handling hazardous materials. It is unclear to us why training and training coordination should be performed by separate agencies, or why county response plan coordination and the provision of assistance in support of interagency agreements are not consolidated.

2. The Department of Health Services would distribute funds for emergency response equipment to state and local agencies, but the CHP and/or the OES will be training the response personnel who will use the equipment.

3. The Department of Industrial Relations would assess the health impacts on the response personnel and develop safety standards. The proposals do not describe any link between the findings of the DIR study, the purchase of equipment, or the training program. All of these elements appear to be related functions, but the budget request treats them as separate activities.

4. The Department of Health Services requests $458,000 for health effects studies related to specific sites or specific chemicals. The Department of Industrial Relations proposes to study the health effects of spills on emergency response personnel. The proposals do not describe how these studies would be coordinated or how they would share information. If the proposals are implemented independently, the two departments could both set up monitoring programs at the same site with the DIR focusing on the small group of emergency response personnel and the DHS designing a system to detect health effects on all exposed persons and establishing a register of exposed persons for long-term follow-up.

We are unable to recommend approval of the emergency response proposals at this time because the department is not able to demonstrate that these activities will be undertaken in an integrated and coordinated manner. We recommend that the department prepare a description of operational procedures and responsibilities related to emergency response prior to budget hearings.

Office of Emergency Services

We recommend the deletion of one position and $30,000 because the workload in the warning center does not justify the addition of a new position.

The superfund proposal includes $83,000 for 2.5 positions in the Office of Emergency Services (OES). One technical position and related clerical support is proposed to coordinate and develop a statewide hazardous materials training program, coordinate county response plans, and develop exercises to test the state response plan. An additional warning center controller position is requested to coordinate and provide information to other state agencies, enter toxic hazard reports into a computer, and ensure state agency response to spills.

In our analysis of the OES budget, Item 0690, we describe these proposed activities in more detail. Our review indicates that the workload level in the warning center attributable to the hazardous spill reporting system is not sufficient to justify the addition of one full-time position, as proposed in the budget. On this basis, we recommend deletion of the position to augment the warning center staff. Accordingly, we recommend that the funds be deleted from the Department of Health Services' budget, for a savings of $30,000 from the Hazardous Substances Account.

Prepositioned Emergency Response Equipment

We recommend deletion of $800,000 proposed for prepositioned emergency response equipment from the Hazardous Substances Account because the department does not have an adequate plan for the expenditure of these funds.

Chapter 756, Statutes of 1981 (SB 618), authorized the department to purchase hazardous substances response equipment with funds appropriated from the Hazardous Substances Account (HSA). The act also states "all equipment shall be purchased in a cost-effective manner after consideration of the adequacy of existing equipment owned by the state or the local agency," and consideration of the availability of equipment owned by private contractors.

The budget requests $800,000 for the purchase of emergency response equipment. The department was not able to provide (1) a list of equipment to be purchased, (2) an assessment of the need for equipment, (3) criteria for awarding the funds to state and local agencies, or (4) justification for the proposed amount. At the time this analysis was prepared, the department had not collected data nor analyzed the amount of equipment available to state and local agencies or private contractors, as required by statute. The department has created an interagency task force including representatives of local governments, to develop guidelines for the emergency response equipment program.

While the act established equipment purchases as an appropriate use of the HSA, this request is premature. We do not believe funds should be appropriated for this purpose until the department has developed procedures to insure the cost-effective use of the funds. We therefore recommend deletion of $800,000 proposed for emergency response equipment.

Health Effects Studies

We recommend shifting $150,000 in expenditures for the Environmental Toxics Epidemiology Unit from the General Fund to the Hazardous Substances Account because health effects studies related to cleanup activities should be funded from the Hazardous Substances Account. We further recommend that the department submit a revised proposal which includes all cleanup-related health effects studies within the $500,000 ceiling established by the act. This would require reduction of $265,000 from activities proposed to be funded from the Hazardous Substances Account.

The budget proposes six new data processing and clerical positions and funds for consultant contracts. Existing professional epidemiological staff in the Environmental Toxics Epidemiology Unit (ETEU) would supervise these staff and design studies to be carried out under contract. The department estimates that approximately half of the staff time of the ETEU would be assigned to this activity in the budget year. The cost of that staff time is approximately $150,000 from the General Fund.

All costs associated with superfund health effects studies should be funded from the Hazardous Substances Account (HSA). Therefore, we recommend that funding for these activities be shifted from the General Fund to the HSA.

The act states, however, that funds appropriated for health effects studies shall not exceed $500,000 in any one fiscal year. The budget proposal violates this restriction by requesting $458,000 for DHS-conducted health effects studies and $157,000 for studies conducted by the Department of Industrial Relations. Further, our analysis indicates that staff time costing $150,000 in the ETEU should be supported from the HSA. The costs of these functions total $765,000. We recommend that the department submit a revised budget proposal which includes all cleanup-related health effects studies within the $500,000 ceiling established by the act. This would require a reduction of $265,000 in the activities proposed to be funded from the HSA.

Victim Compensation

We recommend an augmentation of $6,000 from the Hazardous Substances Account to support fully the Board of Control's identified administrative costs.

The budget proposes $89,000 from the Hazardous Substances Account for the Board of Control's administration of the victim compensation portion of the Superfund program.

Our analysis of the board's budget, Item 8710, indicates that the total cost of administering the program will be $95,000. The $6,000 not covered by the budget request represents the cost of administrative overhead. The budget proposes to fund these costs from the General Fund. The administrative costs related to this program should be funded by the Hazardous Substances Account, and accordingly we recommend an augmentation of $6,000. In our analysis of the board's budget, we have recommended the deletion of $6,000 from the General Fund.

Tax Collection by the Board of Equalization

We recommend approval.

The budget proposes $243,000 for the Board of Equalization to finance the collection of the hazardous substances tax. The budget also states that $244,000 will be expended in the current year to establish the new program.

Chapter 756, Statutes of 1981 (SB 618), requires the board to collect the hazardous substances tax which supports the Superfund program and the hazardous waste control fees which support the department's waste management activities. The board's responsibilities under the act include (1) the preparation of tax return forms, (2) registration and auditing of accounts, (3) tax return processing, (4) collection of delinquent taxes, and (5) computation of the tax rates.

The total cost of administering the two taxes is $352,000, with $243,000 attributable to the Superfund program. Our analysis of the Board of Equalization, Item 0860, discusses this activity in more detail. Our analysis indicates that the request is reasonable.

Hazardous Waste Management

We withhold recommendation on the proposed Hazardous Waste Management program expansion until the department prepares revised revenue estimates, because we are unable to determine whether the Hazardous Waste Control Account will have sufficient funds to support these activities.

On October 13, 1981, the Governor signed an executive order declaring that it is state policy to (1) reduce dependence on chemical landfills for toxic waste disposal and (2) encourage the construction of new advanced waste management facilities for the recycling, treatment, and permanent destruction of toxic wastes. The Governor directed the Department of Health Services to:

1. Use its existing regulatory authority to prohibit land disposal of "highly toxic wastes."
2. Impose increased fees on the land disposal of other wastes classified as "extremely hazardous."
3. Increase monitoring of hazardous waste disposal facilities and enforcement of hazardous waste control laws.
4. Actively involve citizens in the state's Hazardous Waste Management program.

The budget proposes 40.5 positions and $2,269,000 from the Hazardous Waste Control Account (HWCA) in five separate proposals to implement this policy and expand the operations of the Hazardous Waste Management program.

As we discussed earlier, the HWCA is likely to incur a deficit in the current year because the department has encountered delays in increasing fees. Budget-year revenue estimates assume the adoption of regulations to increase the fees charged on disposers of hazardous wastes from $1 to $4 per ton. Our analysis indicates that the department's proposed regulations, however, do not result in the four-fold increase in fee income assumed in the budgeted revenue estimates. This is because the department neglected to increase the current monthly maximum financial obligation collectible from individual disposers. The $2,500 monthly maximum charge to individual disposers specified in current regulations was not increased to $10,000 to reflect the fee increase. We conclude that the proposed regulations will not generate sufficient income to support the proposed budget-year expansion.

We therefore withhold our recommendation on the entire proposal, pending receipt from the department of revised revenue estimates. The following sections discuss the individual proposals submitted as part of the expansion of hazardous waste management activities.

Reduction of Land Disposal of Extremely Hazardous Wastes

The budget proposes two positions and $73,000 to develop regulations banning the land disposal of six extremely hazardous wastes: (1) PCBs, (2) pesticides, (3) cyanides, (4) toxic metals, (5) halogenated organics, and (6) nonhalogenated volatile organics. These positions would also revise existing interim and final permits to revoke authorization for disposal of these wastes. The department indicates that this regulatory activity will be coordinated with the department's efforts to encourage alternative waste management facilities.

Alternative Waste Management Technologies

The budget requests 15.5 new positions and $764,000 to encourage the construction of alternative recycling, treatment, and detoxification facilities. The budget increase will result in a total alternative technology and resource recovery program of 22.5 positions, with 12.5 positions located in the department and 10 positions located in the Office of Planning and Research (OPR) and the Office of Approporiate Technology (OAT) which is a subunit of OPR.

Department of Health Services Personnel. The department currently has 7 positions assigned to alternative technology and waste recovery. The budget proposes 5.5 new positions to assume functions which were performed under contract by the OAT in the current year. The department specifically proposes to (1) streamline the process of obtaining permits for new hazardous waste facilities from the department, the Air Resources Board, and the State Water Resources Control Board; (2) expand the existing recycling program; (3) provide technical assistance on alternative technologies to small businesses that generate hazardous wastes; and (4) establish siting criteria for alternative waste management facilities. The 5.5 positions requested in the budget would enable the department to assume these functions in-house.

Office of Appropriate Technology (OAT) Contract. The budget proposes $325,000 to contract with OAT for assistance in (1) developing recommendations for environmental monitoring at new waste treatment and incineration facilities, (2) evaluating new waste managment technologies for potential application in California and conducting demonstration projects in cooperation with the Environmental Protection Agency, (3) eliminating regulatory obstacles to recycling, (4) providing technical advice and assistance relating to the long-term management of hazardous wastes, and (5) working with local governments to accelerate the siting of alternative waste facilities. The contract would fund seven positions in OAT. The budget proposes to fund the contract from the Hazardous Waste Control Account. The current-year contract is funded by the Energy and Resources Fund.

Office of Planning and Research (OPR) Contract. An additional contract is budgeted with the Office of Planning and Research (OPR) in the amount of $200,000 for three positions. OPR would (1) provide assistance

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to facility operators in obtaining state permits, (2) recommend changes to the state permitting process, (3) develop guidelines for local hazardous waste management plans, and (4) develop guidelines for citizen and local government participation in siting decisions.

Monitoring and Enforcement

We recommend that the department submit additional information, prior to budget hearings, on the number of inspections that will be accomplished in 1982–83 for each facility category, the amount of field staff time allocated to inspections, and the number of inspections per field position.

The budget proposes 24 positions and $948,000 to expand and strengthen the department's monitoring and enforcement program. Specifically, the budget requests (1) one attorney and two special investigators to develop enforcement cases and train inspectors in the collection of evidence, (2) an appropriation of $80,000 to contract with the Office of Planning and Research to coordinate inspection and enforcement actions conducted by various state and local agencies, (3) seven positions (two limited-term) to complete development of a computerized information system, (4) eight inspectors and two clerical positions to expand the inspection program, and (5) four chemists to handle the increased workload generated by the new field inspectors.

Inspection Program. The Auditor General, in a report issued November 1981, criticized the department for failing to have an effective program for monitoring and inspecting treatment, storage, and disposal facilities.

Our analysis indicates that new staff positions are needed to establish an effective inspection program. The information provided by the department to justify the eight proposed new inspectors, however, contains numerous errors and inconsistencies. For example, the department estimates that 3,000 generators of hazardous waste will be inspected annually. It then states that the four inspectors assigned to inspect generators will be able to accomplish only 150 inspections each, for a total of 600. In another instance, the department estimates that 650 minor treatment, storage, and disposal facilities require annual inspection. But based on its workload standards, only 300 inspections will actually be performed. The department was not able to explain adequately the discrepancies in its workload projections.

We are unable to recommend approval of the eight new inspectors until the department develops consistent workload standards and annual output goals for the permits, surveillance, and enforcement section.

We recommend that the department submit additional information prior to hearings on the number of inspections that will be accomplished in 1982–83 for each facility category, the amount of field staff time allocated to inspections, and the number of inspections per field position.

Management Information System

We withhold recommendation on $294,000 from the Hazardous Waste Control Account until the feasibility study report for the system is approved and accurate cost and funding information is available.

The budget requests seven new positions (two limited-term) and $294,000 to complete the development of a computerized information system. The department currently has four positions assigned to the information system partially funded by $184,000 from the federal Resource Conservation and Recovery Act (RCRA) grant.

Our analysis indicates that the proposed management information system is needed. We are unable to recommend approval of the amount contained in the budget, however, because the department has not completed its feasibility study report and does not have final estimates of the cost of the system. Further, the information available at this time does not adequately address the amount of development costs which will be funded from the federal RCRA grant. The department indicates that this information will be available before budget hearings, and we will comment on it at that time.

Office of Public Education and Liaison

We recommend deletion of $104,000 for contracts from the Hazardous Waste Control Account because federal RCRA funds are available for the same purposes.

The budget requests $428,000 and seven positions to establish a new Office of Public Education and Liaison (OPEL). The department indicates that it intends to establish administratively three of the positions in the current year. The goals of the office are to increase the level of public knowledge about toxic materials, increase public involvement in decision making, and reduce public apprehensions concerning the siting of hazardous waste facilities. The program would conduct public hearings required by current law and provide community liaison staff in the three regional offices to assist the technical staff.

The division receives approximately 1,000 requests for information per month from the public and the regulated community. These calls currently divert technical staff from their primary responsibilities. The staff of OPEL would handle the calls and insure that nonroutine or technical questions are directed to appropriate staff persons. OPEL would also plan and coordinate approximately 50 public hearings on hazardous waste facility permits which the division estimates will be held in the budget year.

Our analysis indicates that the lack of a central information and outreach office with expertise in dealing with the public has impeded program effectiveness. We therefore recommend approval of the positions.

Our analysis indicates that $104,000 in federal RCRA funding is allocated to public participation in the current year and will be available next year. In the current year, the department has used these funds for activities similar to the contract projects proposed to be funded by the HWCA in the budget year. The department was not able to explain why RCRA funds cannot offset part of the cost of the proposed new budget-year activities. Because federal RCRA funds are available to support these activities, we recommend reduction of $104,000 from the HWCA for contracts.

Personnel Management

The budget includes $56,000 to fund two personnel positions to overcome current problems experienced by the department in developing new classifications, recruiting and hiring staff, and responding to increased workload. The budget proposes to add 107 positions to the Toxic Substances Control program in the budget year. Our analysis indicates that the additional two positions are needed to handle the increased personnel workload associated with the new positions.

DEPARTMENT OF HEALTH SERVICES—Continued

Toxics Research and Information Program

The budget requests $1,513,000 from the General Fund to (1) respond to requests for assistance and information related to toxic substances and (2) monitor and research the effect of toxic substances on human health. The Toxics Research and Information program includes five proposals. Two proposals would expand the functions of existing units which provide information related to toxic substances and three proposals would monitor and research potential health hazards caused by toxic substances.

The budget also proposes the redirection of $104,000 and three positions from the Occupational Health Research and Development Unit. With the redirection, the net cost of this proposal is $1,409,000.

1. ***Community Toxics Evaluation Unit.*** The budget requests eight positions and $485,000 to respond to requests from local and state agencies and the general public for information on the health effects of hazardous materials not specifically related to the work place. Currently, the department operates the Hazard Evaluation System and Information Service (HESIS) to provide similar services for occupationally related substances. HESIS currently receives 100 to 200 requests per month for information.

The new unit would respond to questions from local health departments and other government agencies. Routine inquiries from the general public would be handled by three existing poison control centers which would receive $28,000 each through contract to fund one additional staff person. The state program would provide training and basic technical information to the centers. The centers would refer nonroutine or complex requests to the Community Toxics Evaluation Unit.

2. ***HESIS Education Outreach.*** The budget proposes six positions and $241,000 to educate unions and occupational health personnel about hazardous chemicals. This proposal would be funded by the General Fund through reimbursements from the Department of Industrial Relations.

The Hazard Evaluation System and Information Service (HESIS) currently provides information on toxic substances to employers and employees in response to specific requests. As HESIS identifies particularly harmful substances, it issues "hazard alerts" which describe the symptoms of the chemical and ways to avoid exposure, including the use of personal protective equipment.

The budget proposes to develop an educational outreach program to train occupational health professionals and unions about the health effects of chemicals. This indicates a shift in emphasis from the current operation which only responds to inquiries.

3. ***Indoor Air Pollution.*** The budget proposes nine positions and $367,000 to investigate the extent and nature of indoor air pollution and develop strategies for controlling it. Specifically, the department proposes to (1) develop standard methods for measuring indoor air quality, (2) develop baseline data on current indoor air quality and the sources of contaminants, and (3) make recommendations for laws or regulations when appropriate. The department anticipates studying formaldehyde exposures, especially in mobilehomes, during the first year.

4. ***Body Burdens of Chemicals.*** The budget proposes three positions and $167,000 to develop methods for detecting human exposure to toxic materials. The department cites current blood tests which detect lead exposure as an example that tests can be developed to measure the amount of exposure to toxic substances. After the department develops

and validates testing procedures, the tests will be made available to public and private laboratories throughout the state.

5. ***Male Infertility Surveillance.*** The budget proposes seven positions and $253,000 to identify environmental causes of infertility by establishing a reporting system on the incidence of male infertility in the Bay Area. The staff proposes to abstract health history and occupational information from medical records and interview subjects to identify and investigate potential causes of the infertility.

The surveillance project will be an ongoing project and will be funded by the General Fund through reimbursements from the Department of Industrial Relations.

6. ***Occupational Health and Research Development Unit.*** The budget proposes the reduction of $104,000 and three positions from this activity to offset some of the increase caused by the new projects. This would leave two positions assigned to the Occupational Health and Research Development Unit.

D. ENVIRONMENTAL HEALTH

A recent reorganization created the Environmental Health Division, the Toxic Substances Control Division and the Health Protection Division from the former Public and Environmental Health Division. The Environmental Health Division contains six branches: sanitary engineering, vector biology and control, radiologic health, food and drug, noise control, and local environmental health.

The budget proposes $12,192,000 (all funds) for support of the division, excluding administrative overhead. Comparable expenditure information is not available for the current year, so we are not able to calculate changes from the current year. The budget proposes 305.7 positions for this program.

In response to Budget Letter No. 14, which directed departments to reduce General Fund support budgets by 5 percent, the budget proposes to (1) delete two positions—one from food and drug and one from sanitary engineering, (2) delete $200,000 from radiologic health inspection contracts, and (3) reduce operating expenses. The budget proposes to add three positions and $120,000 for radiologic health to expand emergency preparedness, initiate planning for a low-level radioactive waste disposal facility, and respond to increased workload.

Chapter 1012, Statutes of 1980, provides for automatic annual adjustments of certain fees assessed by the department, including x-ray machine registrations. The amount of the annual increase is set based on language in the Budget Act. The 1982 Budget Bill proposes a 6.64 percent increase, effective January 1, 1983, which is based on increases in personal services and operating expenses costs.

E. HEALTH PROTECTION

The recent reorganization created the Health Protection Division from the former Public and Environmental Health Division. The new division includes vital statistics, laboratory services, and preventive medical services.

The budget proposes $30,484,000 (all funds) for support of the division, excluding administrative overhead. This consists of $24,451,000 for department support and $6,033,000 for local assistance. The local assistance amount is $13,000, or 0.2 percent, below estimated current-year expenditures. Comparable current-year expenditure information is not available

DEPARTMENT OF HEALTH SERVICES—Continued

for department support, so we are unable to calculate changes between the budget-year request and current-year estimated expenditures. The budget proposes 550.2 positions for this program.

Changes in the support budget include (1) the addition of two positions in vital statistics to implement recent legislation and (2) the reduction of nine positions in laboratory field services due to reductions in Medicare funds for health facility certification. In response to Budget Letter No. 14, which directed departments to reduce General Fund support budgets by 5 percent, the budget proposes to delete $194,000 in consultant contracts, $162,000 in laboratory supplies, $142,000 for state-supplied pediatric vaccines, and reduce operating expenses.

The net decrease in local assistance expenditures is due to (1) the elimination of the Renal Dialysis program, for a savings of $229,000 and (2) a proposed 5 percent cost-of-living adjustment of $216,000. The Legislature approved phasing out the Renal Dialysis program during its review of the 1981 Budget Bill. The program was originally established to provide dialysis and related services to end-stage renal disease patients. Medicare and Medi-Cal now cover this condition, and state support for a separate program of dialysis services is unnecessary. In the current year, the state funds nontreatment activities which are not reimbursed by Medi-Cal at three pediatric centers including (1) outreach, (2) research, (3) outpatient services not related to dialysis, and (4) services of social workers, psychologists, recreation therapists, teachers, and nutritionists.

Table 15 displays health promotion local assistance programs.

Table 15
Health Protection Program
Local Assistance Expenditures
General Fund
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change*	
				Amount	*Percent*
Renal dialysis	$782	$229	—	−$229	−100.0%
Preventive health services to the aged	1,227	1,268	$1,331	63	5.0
Risk reduction	393	536	563	27	5.0
Lupus erythematosis research [a]	(679)	720	756	36	5.0
Dental health	675	1,500	1,500	—	—
Immunization assistance	1,124	1,371	1,440	69	5.0
Tuberculosis control	389	422	443	21	5.0
Pest abatement	1,662	—	—	—	—
Emergency medical services	307	—	—	—	—
Totals	$6,559	$6,046	$6,033	−$13	−0.2%

[a] This program was included in the department support budget in 1980–81.

Chapter 1012, Statutes of 1980, provides for automatic annual adjustments of certain department fees, including vital statistics. The amount of the annual increase is set based on language in the Budget Act. The 1982 Budget Bill proposes a 6.64 percent increase, effective January 1, 1983, which is based on anticipated increases in program costs.

Worksite Health Promotion

We recommend that the department report at budget hearings on its progress in implementing the worksite health promotion program.

The 1981 Budget Act appropriated $400,000 from the General Fund to establish and evaluate worksite health promotion programs at one private company and one public agency. The budget indicates that $254,000 will be spent in the current year and proposes that $146,000 be reappropriated for expenditure in 1982–83. The budget also proposes the continuation of 1.5 positions which will be administratively established to carry out the program in the current year.

The department indicates that it has not yet implemented this program. Although budget materials submitted to the Legislature last year indicated that programs would be funded at one public agency and one private company, both the Governor's Council on Wellness and Physical Fitness and the department have developed revised proposals for the use of the funds. The department proposed to establish three projects in the Sacramento area, located at primarily white-collar worksites—*two* public and one private. The department's own employee health promotion project was included as one of the two public agency sites. The council proposed to (1) award five grants of $40,000 each to five public agencies throughout the state and (2) provide extensive technical assistance to the projects through consultants. The Health and Welfare Agency has directed the department to implement the program following the department's model, as modified by suggestions received from the council.

Our analysis indicates that because of delays in deciding on the program design, the department will not spend all of the $254,000 estimated to be spent in the current year. At the time this analysis was written, the department had encumbered only $25,000 for a contract with the Governor's council for consultants to advise the council on worksite health promotion.

We recommend that the department report at budget hearings on its progress in implementing the worksite health promotion program.

F. COMMUNITY HEALTH SERVICES

The budget proposes $124,119,000 (all funds) for support of the Community Health Services Division, excluding administrative overhead. This is an increase of $12,982,000, or 11.7 percent, above estimated current-year expenditures. Department support is proposed to be in the amount of $10,831,000, a decrease of $153,000, or 1.4 percent, from estimated current-year expenditures. Local assistance is proposed in the amount of $113,288,000, an increase of $13,135,000, or 13.1 percent, above estimated current-year expenditures.

The increase in local assistance is due primarily to the transfer of $7,662,000 in local assistance funds for the Child Health and Disability Prevention (CHDP) program from Medi-Cal to the Community Health Services program. Without CHDP, the increase in local assistance would be $5,493,000, or 5.4 percent, above estimated current-year expenditures. The increase in all program costs would be $5,320,000, or 4.8 percent, above estimated current-year expenditures.

The decrease in department support is due to the reduction of (1) 0.5 physician position in California Children's Services (CCS), (2) 4.8 positions reflecting the termination of the Oakland Perinatal Project, and (3) 1.5 positions in the OB Access program. The increase in local assistance is due to (1) the transfer of CHDP program local assistance funds from Medi-Cal ($7,662,000), (2) a proposed 5 percent COLA ($4,496,000), (3)

DEPARTMENT OF HEALTH SERVICES—Continued

Table 16

Community Health Services Local Assistance Expenditures and Funding Sources (in thousands)

	Fund	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
A. Family Planning	All	$37,673	$37,637	$39,520	$1,883	5.0%
	General	33,673	33,637	39,520	5,883	17.5
	Reimb.	4,000	4,000	—	–4,000	–100.0
B. Maternal and Child Health	All		$12,582	$14,471	$14,894	$4232.9%
Genetic disease prevention						
Sickle cell anemia	General	474	503	528	25	5.0
Amniocentesis	General	578	612	642	30	4.9
Tay-Sachs disease	General	429	455	478	23	5.1
Huntington's disease	General	180	—	—	—	—
Maternal and infant health						
Infant dispatch	General	148	217	228	11	5.1
Perinatal access	General	488	787	826	39	5.0
Oakland perinatal project	All	1,271	825	—	–825	–100.0
	General	1,050	825	—	–825	–100.0
	Federal	221	—	—	—	—
Perinatal clinics	General	—	442	—	–442	–100.0
OB access	All	1,109	1,321	1,524	203	15.4
	General	—	—	1,524	1,524	N/A
	Federal	1,109	1,321	—	–1,321	–100.0
High-risk infant follow-up	All	780	956	994	38	4.0
	General	780	756	794	38	5.0
	Federal	—	200	200	—	—
Maternal and child health	Federal	7,125	8,353	9,674	1,321	15.8
C. California Children's Services	All	$44,633	$46,952	$50,210	$3,258	6.9%
Genetically Handicapped Persons	All	4,234	4,686	5,427	741	15.8
	General	4,173	4,586	5,327	741	16.2
	Repay	61	100	100	—	—
California Children's Services	All	40,399	42,266	44,758	2,492	5.9
	General	34,413	36,436	38,854	2,418	6.6
	Federal	4,861	4,704	4,704	—	—
	Repay	1,125	1,126	1,200	74	6.6
Immunization reaction	Special	—	—	25	25	N/A
D. Long-Term Care and Aging	General	$361	$139	—	–$139	–100.0%
E. Child Health and Disability Prevention (CHDP)	General	—	($6,996)[a]	$7,662	($666)	(9.5%)
G. Primary care clinics	General	$814	$954	$1,002	$48	5.0%
Totals	All	$96,063	$100,153	$113,288	$13,135[b]	13.1%[b]
General		*$77,561*	*$80,349*	*$97,385*	*$17,036*	*21.2%*
Federal		*13,316*	*14,578*	*14,578*	—	—
Special		—	—	*25*	*25*	*N/A*
Family Repayments		*1,186*	*1,226*	*1,300*	*74*	*6.0*
Reimbursements		*4,000*	*4,000*	—	*–4,000*	*–100.0*

[a] CHDP local assistance was budgeted in Medi-Cal in 1981–82.
[b] Excluding the effect of the CHDP transfer, the increase would be $5,473,000 or 5.3 percent.

a projected 3.5 percent increase in utilization of services by CCS clients ($344,000), (4) a caseload increase of 15.6 percent in the Genetically Handicapped Persons' Program ($487,000), and (5) a proposed increase in perinatal services ($185,000). Table 16 displays Community Health Services local assistance programs.

Clinics Program

Chapter 1186, Statutes of 1979, established a grant and loan program intended to assist clinics located in underserved areas or serving underserved populations. The budget requests $1,447,000 for primary care clinic grants and loans, an increase of $69,000, or 5.0 percent, above estimated current-year expenditures. Of this amount, $1,002,000 is included in the Community Health Services Division budget and $445,000 is included in the Rural Health Division budget.

Report to Legislature Overdue

The Supplemental Report to the 1981 Budget Act required the department to submit to the Legislature a report by December 15, 1981, on the financial status of free and community clinics. At the time this analysis was prepared, the report had not been submitted. The report was to have contained a description and analysis of (1) clinic services and costs per unit of service, (2) clinic staffing patterns, (3) clinic funding sources including in-kind contributions, (4) population groups served by clinics, and (5) clinic financial management. The report was also required to evaluate the appropriateness of the differentials between Medi-Cal physician rates and clinic reimbursement rates provided by the Medi-Cal and Family Planning programs.

Family Planning

The Office of Family Planning contracts with local agencies to provide contraceptive, sterilization, information, and education services. The budget proposes an expenditure of $40,680,000 from the General Fund. This is an increase of $5,882,000, or 5.9 percent, above current-year estimated General Fund expenditures. Department support is proposed to be in the amount of $1,160,000, a decrease of $1,000 from estimated current-year expenditures. Local assistance is requested in the amount of $39,520,000 from the General Fund, which is an increase of $5,883,000, or 17.5 percent, above estimated current-year expenditures. The increase in all funds for local assistance is $1,883,000, or 5 percent, from current-year estimated expenditures.

The General Fund local assistance increase includes (1) a 5 percent COLA of $1,883,000 for local providers and (2) a proposed transfer of $4 million in federal Title XX funds to the Department of Social Services in return for the transfer of $4 million from the General Fund. This funding transfer will (1) consolidate all Title XX funding within the Department of Social Services and (2) make the Family Planning program fully funded by the General Fund. The transfer has no net effect on General Fund costs.

Chapter 69, Statutes of 1981 (SB 633), directed the department to institute a copayment requirement for family planning services. The department adopted a sliding fee schedule based on income and family size. The

DEPARTMENT OF HEALTH SERVICES—Continued

department is preparing a report on the impact of the copayment requirement on costs and services. This report will be available by the end of March.

Maternal and Child Health

The Maternal and Child Health (MCH) Branch has the general mission of improving the health status of women and children. The budget proposes expenditures of $4,829,000 for department support, excluding administrative overhead. This is a decrease of $83,000, or 1.7 percent, below the current year, and reflects the elimination of 6.3 limited-term positions. The budget proposes 85.6 positions for the branch. The budget proposes expenditures of $14,894,000 for local assistance, an increase of $423,000, or 2.9 percent, above current-year expenditures. Expenditures of $5,020,000 are proposed from the General Fund, an increase of $423,000, or 9.2 percent, above current-year expenditures. The General Fund increase accounts for the entire increase in all funds.

The general activities of the branch are currently supported by the state's maternal and child health allocation under Title V of the federal Social Security Act. The federal Omnibus Budget Reconciliation Act of 1981 consolidated this categorical program with other programs to become the MCH block grant. The budget estimates that California will have $12,312,000 in the budget year to continue operating maternal and child health programs previously funded under Title V. This is a decrease of $543,000, or 4.2 percent, below the $12,855,000 estimated to be received in the current year.

In the past, the Title V allocation has been utilized for:

1. Department support.
2. Allotment for county programs.
3. Demonstration projects in maternal and infant care, intensive infant care, family planning, dental care, and children and youth.
4. Innovative local projects on a three-year funding cycle.

The department intends to utilize the federal block grant allocation for the same general purposes as it has used the Title V allocation, but was unable to provide us with any detailed expenditure plan.

Programs receiving General Fund support include:

1. ***Genetic Disease Prevention.*** The department contracts with comprehensive genetics centers to provide prenatal diagnosis and counseling. The department also operates a newborn screening program for three conditions which cause mental retardation if untreated.

2. ***Maternal and Infant Health.*** The department contracts with two infant dispatch centers which monitor bed availability in neonatal intensive care units, and link up high risk mothers and infants with available beds as required. The branch also funds (1) regional perinatal centers to coordinate specialty services for high risk mothers and infants, (2) perinatal care services, and (3) pilot projects monitoring high risk infants.

The MCH branch also supervises the Supplemental Food Program for Women, Infants, and Children which is budgeted in the Special Projects item.

Perinatal Program

We withhold recommendation on $1,742,000 from the General Fund proposed to establish permanently the Obstetrical Access program, pending receipt from the department of (1) an expenditure plan for funds available from the federal maternal and child health block grant and (2) a statewide plan for prenatal services due to be released on March 1, 1982. We further recommend adoption of supplemental report language requiring the department to submit its evaluation of the OB Access pilot program to the Legislature by January 1, 1983.

The budget proposes $1,742,000 from the General Fund to continue the Obstetrical (OB) Access program which is currently operating on a pilot basis. This amount includes $218,000 in department support for 5.5 positions and $1,524,000 in local assistance. The department proposes to fund the program by redirecting funds from existing General Fund-supported perinatal projects and from the renal dialysis program, which the department proposes to eliminate for a savings of $229,000. Federal funds which supported OB Access in the past are no longer available because the program's three-year pilot project period is scheduled to end. Since 1979, the department has funded a multi-site perinatal program in Oakland to reduce the infant mortality rates in that area. The Oakland project is also a limited-term pilot project which is scheduled to terminate on June 30, 1982.

Table 17

Perinatal Programs Expenditures, Funding Sources, and Personnel-Years (dollars in thousands)

	Fund	*Estimated 1981–82*	*Proposed 1982–83*	*Change*
Local assistance:				
Oakland perinatal project	General	$825	—	−$825
Perinatal clinics	General	442	—	−442
OB Access [a]	General	—	$1,524	1,524
	Federal	1,321	—	−1,321
Maternal and child health grants [b]	Federal	8,353	9,674	1,321
Totals		$10,941	$11,198	$257
	General	*$1,267*	*$1,524*	*$257*
	Federal	*9,674*	*9,674*	—
Department support:				
Oakland perinatal project	General	$185	—	−$185
OB Access	General	—	$218	218
	Federal	244	—	−244
Totals		$429	$218	−$211
	General	*$185*	*$218*	*$33*
	Federal	*244*	—	*−244*
Personnel-years:				
Oakland perinatal project	General	4.8	—	−4.8
OB Access—consultation	General	—	5.5	5.5
	Federal	7.0	—	−7.0
OB Access—evaluation	Federal	4.0	4.0	—
Totals		15.8	9.5	−6.3

[a] The OB Access program was also supported by $2,136,000 from the Medi-Cal program which is no longer available because the program's three-year pilot period is scheduled to end in 1981–82.

[b] These funds are available for a large range of services for mothers and children including perinatal services. The department was unable to identify the amount of the grants directed to perinatal services. In the budget year, the state will receive these funds through the federal maternal and child health block grant, rather than as a categorical grant.

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The perinatal clinics first received funding in the 1981 Budget Act. The estimated current-year and proposed budget-year expenditures for perinatal programs affected by the funding shifts are displayed in Table 17.

We have three concerns regarding this proposal:

First, planning for the use of federal MCH funding is not adequately integrated with the planning of state-funded perinatal programs. The department is to be commended for proposing to consolidate three separate programs, Oakland Perinatal, OB Access, and Perinatal Health Clinics. The department's proposal, however, does not give adequate recognition to the amount of federal funds available in this program area. The federal funds are currently used to fund many different types of programs, including perinatal programs. As we indicated in our discussion of the maternal and child health block grants, our analysis indicates that the amount of funds assumed in the budget is unrealistically high. We withhold our recommendation on the perinatal proposals until the department develops a realistic estimate of the amount of federal funds which will be available and a detailed expenditure plan which considers options for integrating the federal funds with state programs.

Second, the department is preparing a report on a statewide policy for prenatal health care pursuant to the *Supplemental Report to the 1981 Budget Act*. This report is due on March 1, 1982, and the decision to continue the OB Access program should be made within the context established by that report.

Third, the OB Access program was established as a pilot demonstration project, and the department has not yet completed its final evaluation. The evaluation may show that OB Access is not the appropriate service delivery model for a permanent statewide program. It is premature to establish the program permanently before the Legislature has an opportunity to review the findings of the program evaluation which is scheduled to be completed by January 1, 1983. Accordingly, we recommend adoption of supplemental report language requiring the department to submit its evaluation of the program to the Legislature by January 1, 1983.

High-Risk Infant Follow-Up Project

The budget proposes $1,055,000 to continue the High-Risk Infant Follow-Up project, including $994,000 ($794,000 General Fund, $200,000 federal funds) for local assistance and $61,000 (federal funds) for 2.0 positions in department headquarters. The 1978 Budget Act established the project in the Department of Developmental Services (DDS) on a pilot basis. The 1980 Budget Act transferred the project to the Department of Health Services, effective October 1, 1980.

In this project, the department contracts with five regional centers for the developmentally disabled to provide multidisciplinary follow-up services for infants who are identified during their stay in a neonatal intensive care unit as being at a high risk of becoming developmentally disabled or of being abused. Risk factors used in determining eligibility for the program include medical factors such as very low birth weight (less than 1,500 grams) and environmental factors such as a developmentally disabled mother. Follow-up services include periodic developmental assessments by a medical team, parental counseling on growth, development, nutrition and medical care of the infant, and pre- and post-discharge home visits.

An interim evaluation submitted to the Legislature in February 1981 indicated that, when compared to comparable groups of infants, infants receiving follow-up services through the projects (1) experience fewer major medical problems in the first nine months of life, (2) attend follow-up sessions more regularly, and (3) were abused less often. The report concluded that the project is effective in improving the status and outcome for high-risk infants. The long-term effect of project services on the incidence of developmental disabilities was not determined in the evaluation, however, because only one year of data were available for analysis. The Legislature adopted supplemental report language requesting the department to submit, by December 1, 1981, a final evaluation of the costs and effectiveness of the project.

The department informs us that the December 1, 1981, evaluation will be submitted to the Legislature no earlier than June of 1982. Nevertheless, the budget proposes to establish the project as an ongoing program. As a result, the Legislature will not have the information it needs to make an informed decision about continuing this project prior to the time it must act on the department's request.

California Children's Services

The California Children's Services (CCS) program provides medical care and related services to children with physical handicaps to correct, ameliorate, or eliminate such handicaps. Diagnosis, treatment, and therapy services are funded on a three-part state and federal to one-part county basis. The program is independently managed in 25 counties, under procedures established by the department. Administrative services are partially funded by the state. The department administers the program directly in the 33 remaining counties.

Under this program, families must repay the state for part or all of the costs of services provided to their children. The program implemented a revised system of financial eligibility and charges to families in July 1980. Under this system, families with incomes of $100,000 or under are eligible for services. A family's maximum payment for services provided by CCS equals 200 percent of the family's tax liability in the prior year. Repayment requirements are not applied for diagnostic services or to families of children participating in the medical therapy programs in special schools and classrooms which are provided in conjunction with the Department of Education. These are considered educational programs and do not require family income eligibility determinations or collect any fees.

The budget proposes $38,854,000 from the General Fund for assistance to local CCS programs, an increase of $2,418,000, or 6.6 percent, above estimated current-year expenditures. This increase is primarily due to a proposed 5 percent cost-of-living adjustment. The remaining net increase of $344,000 is a result of a 0.5 percent decrease in the number of users and a 3.5 percent increase in the costs of services provided to each user. These cost increases are due to increases in the number of services provided to each user and shifts in the types of services provided from relatively lower-cost to higher-cost medical procedures.

Expenditures for department support are proposed to be $2,010,000 (all funds), excluding administrative overhead, which is $19,000, or 0.9 percent, below estimated current-year expenditures. This reduction is due to the elimination of 0.5 position as part of the proposed 5 percent reduction

DEPARTMENT OF HEALTH SERVICES—Continued

in department support. Table 18 shows the estimated and proposed expenditures for the CCS program.

Table 18
California Children's Services
Local Assistance Expenditures
By Funding Source
(in thousands)

	Fund	*Estimated 1980–81*[a]	*Estimated 1981–82*	*Proposed 1982–83*[b]	*Change* Amount	*Change* Percent
Diagnosis, treatment, and therapy		$50,960	$53,405	$56,533	$3,128	5.9%
	General	32,234	34,224	36,496	2,272	6.6
	Federal	4,861	4,704	4,704	—	—
	Repay	1,125	1,126	1,200	74	6.6
	County	12,740	13,351	14,133	782	5.9
County administration	General	2,098	2,145	2,291	146	6.8
Merit system contract	General	66	57	57	—	—
Franchise Tax Board contract	General	15	10	10	—	—
Totals		$53,139	$55,617	$58,891	$3,274	5.9%
General		*$34,413*	*$36,436*	*$38,854*	*$2,418*	*6.6%*
Federal		*4,861*	*4,704*	*4,704*	—	—
Family repayments		*1,125*	*1,126*	*1,200*	*74*	*6.6*
County[c]		*12,740*	*13,351*	*14,133*	*782*	*5.9*

[a] Based on June 1981 program estimates.
[b] Includes a proposed 5 percent cost-of-living adjustment.
[c] In addition to county expenditures for direct services shown here, counties fund a portion of county administrative costs. These expenditures are not identified in this table.

Los Angeles County Expenditure Reductions

Counties are required by state law to appropriate an amount for CCS which is greater than or equal to one-tenth of one mill for each dollar of the county's assessed valuation. The state is required to match county appropriations on a three-part state and federal to one-part county basis.

Prior to 1981, Los Angeles County appropriated more than the statutorily required level. In January 1981, however, Los Angeles County adopted a policy limiting its CCS expenditures to the statutory level. As a result of this policy, estimated current-year expenditures by the Los Angeles County CCS program from all funds are $600,000 less than 1980–81 estimated expenditures. Based on the matching formula specified in current law, the state realizes 75 percent of these savings.

The budget-year estimates assume that Los Angeles County will continue to limit its expenditures to the statutory minimum appropriation. This has a significant effect on the amount required from the state to support the CCS program, because Los Angeles County utilizes approximately 38 percent of the total CCS direct services budget. The department estimates that the General Fund CCS appropriation could be underbudgeted by as much as $3 million if the county returns to its past expenditure patterns during the budget year.

Methods for Achieving Savings

We recommend that, prior to budget hearings, the department report to the legislative fiscal committees on (1) the impact of Los Angeles County cost control policies on services to children and (2) the amount of savings which would be possible if the methods developed in Los Angeles for controlling costs were extended on a statewide basis.

Los Angeles County informs us that it has reduced expenditures under the CCS program by increasing utilization controls and instituting other cost control measures. According to its guidelines, the county's approach consists of:

"1. ***Closer monitoring of children requiring hospitalization*** with a decrease in the number of days authorized, in accordance with community standards, particularly for elective surgeries. We will encourage one-day admissions and single preoperative days where medically appropriate.
2. ***Examination of alternative approaches to hospitalization,*** such as home care for children with diseases that require less than intensive care in a hospital setting and the utilization of community resources for active physical therapy instead of inpatient therapy.
3. Review individual cases when indicated, ***conduct on-site visits for infants and children requiring extended length-of-stay*** (beyond 30 hospital days).
4. Active ***CCS social service consultation*** with hospitals in order to facilitate early discharge planning and find alternative community resources (i.e., financial, placement, support groups).
5. Requesting that providers explore ***alternative resources for the rental of equipment*** when elective surgeries necessitate a short-term need for the equipment.
6. Examining ***various methods of recycling equipment*** based on specific criteria for purchase or rental, short-term versus long-term use, and possible provider involvement in supply and/or storage."

The department has not reviewed the new policies implemented in Los Angeles County to determine if services are being reduced inappropriately. Nor was it prepared to comment on the potential savings that could be generated by the statewide implementation of these policies. We estimate that approximately $4 million in General Fund support for CCS could be saved if other counties, without jeopardizing the achievement of program objectives, are able to achieve similar cost reductions and program efficiencies.

We recommend that the department report to the legislative fiscal committees on both of these issues prior to budget hearings.

Family Repayment Report Overdue

The *Supplemental Report of the 1981 Budget Act* required the department to report by January 1, 1982, on the new repayment system, including (1) number of clients, (2) dollars spent, (3) dollars collected from third-party payors and families, (4) comparable statistics under the old repayment system, (5) differences by county, and (6) problems implementing the repay system. At the time this analysis was written, the report had not been submitted. We are therefore unable to comment on the appropriateness of the amount scheduled in the budget for family repayments.

DEPARTMENT OF HEALTH SERVICES—Continued

Slow Schedule for Developing Regulations

The supplemental report also required the program to develop regulations governing program operations. The CCS program has, in the past, operated through "program letters" which have the same effect as regulations but are not subject to public review. The department informs us that it will take three years to develop regulations, and that these regulations will not be complete until June 1984.

Genetically Handicapped Persons' Program

The Genetically Handicapped Persons' Program (GHPP) provides medical care and related services to adults with certain genetic diseases. As in the California Children's Services program, families must repay the state for services provided to clients. The program utilizes the same financial eligibility and family repayment requirements that apply to CCS.

The budget proposes expenditures of $5,427,000 for this program, which is $741,000, or 15.8 percent, above estimated current-year expenditures. The increase is due to (1) a proposed 5 percent cost-of-living adjustment ($254,000) and (2) an estimated caseload increase of 15.6 percent ($487,000). The budget estimates an average caseload of 1,560. Table 19 displays the types of conditions that qualify an individual for treatment under this program, and, for each condition, the projected caseload, cost per case, and gross program costs excluding the cost-of-living adjustment.

Table 19

Genetically Handicapped Persons' Program
Projected 1982–83 Caseload and Costs [a]

Condition	*Caseload*	*Cost per Case*	*Total Costs*
Hemophilia	600	$5,767	$3,460,000
Cystic fibrosis	240	4,575	1,098,000
Sickle cell	400	737	295,000
Huntington's disease and related conditions	320	1,000	320,000
Totals	1,560	$3,316	$5,173,000
General Fund			*$5,073,000*
Family repayments			*100,000*

[a] Excludes a 5 percent cost-of-living adjustment.

Child Health and Disability Prevention

The Child Health and Disability Prevention (CHDP) program provides health assessments to Medi-Cal eligible children under age 21 and non-Medi-Cal eligible children 6 years and under whose family income falls below 200 percent of the Aid to Families with Dependent Children income standard. Screening services for Medi-Cal eligible children are mandated under the federal Early, Periodic Screening, Diagnosis and Treatment (EPSDT) program. Non-Medi-Cal eligible children 6 years and under are served under a state program established by Ch 1069/73.

The CHDP program is administered by county health and welfare departments, which provide outreach, preventive health education, screening, follow-up, provider recruitment, and recordkeeping. Providers of the health assessments include local health departments, school districts, and private physicians. The state department provides overall program direction and funding.

Budget Proposal

The budget reflects a recent reorganization which transferred the CHDP program to the Community Health Services Division. The budget requests a total of $48 million for CHDP. Of this amount, $38,318,000 is contained in the Medi-Cal local assistance budget, $7,662,000 is contained in the preventive health services local assistance budget, and $2,020,000 is included in the preventive health services department support budget. Table 20 displays proposed 1982–83 CHDP expenditures by function.

Table 20
Child Health Disability Prevention Program
Proposed 1982–83 Expenditures and Funding Sources
(in thousands)

	Fund	Department Support	Local Assistance[a] Health Assessments	Local Assistance[a] County Administration	Totals
Preventive health	All	$2,020	$6,653	$1,009	$9,682
	General	727	6,653	1,009	8,389
	Federal	1,293	—	—	1,293
Medi-Cal	All	—	26,310	12,008	38,318
	General	—	13,155	2,850	16,005
	Federal	—	13,155	9,158	22,313
Total expenditures	All	$2,020	$32,963	$13,017	$48,000
	General	*$727*	*$19,808*	*$3,859*	*$24,394*
	Federal	*1,293*	*13,155*	*9,158*	*23,606*

[a] With the exception of Medi-Cal-funded health assessments, local assistance amounts include the proposed 5 percent cost-of-living adjustment (COLA). The department has not yet indicated how it plans to distribute the Medi-Cal COLA between provider categories.

CHDP Services Funded Through the Preventive Health Services Budget

The budget proposes expenditures of $2,020,000 for department support related to the CHDP program. This is a decrease of $7,000, or 0.4 percent, from estimated current-year expenditures. The budget also proposes expenditures of $6,653,000 for 117,382 health assessments funded through the preventive health services local assistance budget. This is an increase of $615,000, or 10.2 percent, over estimated current-year expenditures. This increase reflects (1) a 5 percent cost-of-living adjustment (COLA) and (2) an estimated increase of 11.3 percent in state-funded health assessments over the current year. The budget proposes $1,009,000 for county administration funded through the preventive health services local assistance budget.

On January 1, 1981, program eligibility was expanded to include low birth weight (5.5 pounds or less) infants whose families meet CHDP income criteria. The budget includes $232,000 for 6,277 health assessments provided to low birth weight infants. This is an increase of $53,000, or 29.3 percent, above estimated current-year levels.

DEPARTMENT OF HEALTH SERVICES—Continued

Medi-Cal Funded CHDP Services

The budget proposes $26,310,000 (50 percent General Fund, 50 percent federal funds) in the Medi-Cal health care services item for providing 563,737 health assessments to Medi-Cal eligible children. This is an increase of $3,921,000, or 17.5 percent, over estimated current-year expenditures. The increases are due to projected caseload growth. The figures do not include a COLA because the department has not determined how it will allocate the Medi-Cal COLA to various provider types.

The budget proposes $12,008,000 ($2,850,000 General Fund and $9,158,000 federal funds) in the Medi-Cal county administration item for local administrative costs attributable to the CHDP program. This amount includes a 5 percent COLA increase.

G. RURAL HEALTH

The budget proposes $12,838,000 (all funds) for support of the Rural Health Division, excluding administrative overhead. This is an increase of $566,000, or 4.6 percent, above estimated current-year expenditures. Department support is proposed in the amount of $4,381,000, which is $164,000, or 3.9 percent, above estimated current-year expenditures. Local assistance is proposed in the amount of $8,457,000, an increase of $402,000, or 5 percent. The local assistance increase is entirely due to a proposed cost-of-living adjustment. Table 21 displays proposed local assistance expenditures.

The budget proposes to permanently establish seven positions to increase the level of public health services in seven rural counties which participate in the contract county program. These positions were administratively established in the current year. The funds for these positions were redirected from technical assistance contracts to direct services in the 1981 Budget Act.

In addition, 6.5 positions are proposed for deletion because Tuolumne County has exercised its option to assume responsibility for its own public health and CHDP programs. The budget reflects a transfer of $206,000 to the County Health Services Fund and $23,000 ($10,000 General Fund) to the CHDP program.

Table 21
Rural Health Programs
Local Assistance Expenditures
General Fund
(in thousands)

	Actual 1980-81	*Estimated 1981-82*	*Proposed 1982-83*	*Change Amount*	*Change Percent*
Rural clinics	$3,373	$3,616	$3,797	$181	5.0%
Primary care clinics	427	424	445	21	5.0
Technical assistance	435	249	261	12	4.8
Indian health	2,665	2,797	2,937	140	5.0
Farmworker health	914	969	1,017	48	5.0
Totals	$7,814	$8,055	$8,457	$402	5.0%

Management Plan Overdue

The Legislature, in the *Supplemental Report to the 1981 Budget Act,* directed the department to submit a management plan by December 31, 1981, for the rural clinic program authorized under Ch 1196/76. This plan was to describe specific actions the department has taken or intends to take to correct the administrative deficiencies cited in a report issued by our office in April 1981. That report, *An Evaluation of the California Rural Health Services Development Program* (Report 81-10) identified numerous deficiencies including (1) lack of uniform policies with respect to project charges, sliding fee schedules, and revenue collections; (2) lack of (a) standardized protocols for site reviews, (b) prescribed frequency for site reviews by consulting staff, and (c) systems for follow-up of on-site review findings; (3) inadequate monitoring and enforcement of project performance of contract objectives; (4) inadequate monitoring and enforcement of project performance reporting requirements; (5) inadequate enforcement of restrictions on the use of patient revenues attributable to state-funded personnel; and (6) lack of a centralized policy-development effort.

The department has not yet submitted the required report, and we are, therefore, unable to advise the Legislature on whether or not the department has corrected the deficiencies we identified last year.

Rural Hospital Program

Chapter 1332, Statutes of 1978 (SB 1814), established a four-year demonstration project in which selected regulations could be waived for small rural hospitals designated as primary service hospitals. To be eligible for designation, applicants would be required to develop plans for diversifying services and meeting local needs more effectively.

The department has been hampered in implementing this project because of a lack of staff. A position approved by the Legislature in the 1979 Budget Bill was deleted by the Governor. Although two positions for the program were approved in the 1980 Budget Act, one position remained vacant until June 1981.

Using borrowed staff, an application for waiver of certain federal regulations was developed and submitted to the federal government in 1979. The most important waiver request involved the "swing bed" concept. This waiver would have allowed hospitals to use beds licensed for acute patients for skilled nursing patients without losing their acute hospital license. The federal government rejected the department's waiver request.

The program shifted emphasis at that time to providing technical assistance to increase the ability of small rural hospitals to survive. Current activities include: (1) the preparation of a technical resource manual on survival strategies and diversification options, (2) a financial assessment of selected hospitals to identify inadequate business practices and regulations that negatively impact on their operations, (3) a diversification study conducted in cooperation with the California Hospital Association, and (4) technical assistance and consultation as requested.

In 1981, Congress passed PL 96-499 authorizing designated rural hospitals with 49 or fewer beds to utilize a portion of their beds as swing beds. At the time this analysis was prepared, the federal government had not issued regulations implementing this law. When these regulations are adopted, the Rural Hospital program will assist eligible hospitals to apply for this designation.

Although the Ch 1332/78 program has been authorized for three years,

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no hospital has yet been designated as a primary health service hospital. In fact, the department has not completed developing a process to allow hospitals to apply for that designation.

Statutory Authority Expires on January 1, 1983

We recommend enactment of legislation which extends the Rural Hospital program beyond its current sunset date (January 1, 1983). We further recommend that the legislation clarify whether the major focus of the program is to be regulatory relief or technical assistance.

Our review indicates that the Ch 1332/78 program, as currently implemented, is substantially different from what was originally anticipated by the Legislature. The primary emphasis of the act was to establish a mechanism for regulatory relief for rural hospitals meeting specific eligibility requirements and designated as "primary health service hospitals." No hospitals have been designated as primary health service hospitals. The regulatory relief authority in the act has been used once to exempt hospitals which are eligible to apply for primary health service hospital designation from recently adopted Medi-Cal regulations which reduced reimbursement rates for hospitals with less than 55 percent occupancy. No other regulatory relief has been granted to rural hospitals under the act. The program currently emphasizes technical assistance to increase the ability of small rural hospitals to survive.

Our analysis indicates that rural hospitals are facing considerable financial difficulties and that the state has an interest in maintaining the availability of hospital services in remote areas. We believe the state has an appropriate role to play in assisting small rural hospitals to improve their management practices.

We therefore recommend enactment of legislation extending the Rural Hospital program beyond its current sunset date of January 1, 1983. This legislation, however, should clarify whether the major focus of the program should be regulatory relief or technical assistance.

H. SPECIAL PROJECTS

The special projects budget item contains 212 public health services, demonstration, research, and training projects. The projects are typically of short duration and are administered in various sections of the department. Most of the projects are federally funded.

The budget proposes expenditures of $141,812,000 in 1982–83, which consist of $134,475,000 in federal funds and $7,337,000 in reimbursements from other state agencies. This an increase of $24,755,000, or 21.1 percent, over estimated current-year expenditures.

Budget-year expenditures for special projects could be considerably less than the amount anticipated in the budget, due to the strong possibility that federal funding for the projects will be reduced. In fact, our analysis indicates that the budgeted amount is overstated by at least $11,434,000 because of reduced federal support available to the Special Supplemental Food Program for Women, Infants, and Children (WIC). Even if the budget request is reduced by this amount, the proposed expenditure level for the budget year is still $36,946,000, or 39.5 percent, higher than actual 1980–81 expenditures.

The budget proposes 858.4 positions for support of the projects (714.3 federal and 144.1 state). This is an increase of 218 positions, or 34 percent, over estimated current-year levels of 640.4 positions (571.2 federal and 69.2 state).

1. ***Special Supplemental Food Program for Women, Infants, and Children (WIC).*** The WIC program provides food vouchers to nutritionally at-risk infants, children, and pregnant and breast-feeding women. It is 100 percent funded by the federal Department of Agriculture. WIC is the largest proposed special project, and is budgeted to utilize $86,346,000, or 64.2 percent, of the special projects funds in 1982–83. Since the department prepared the special projects budget, Congress has reduced authorized funding for the WIC program. Table 22 shows revised department estimates for WIC, based on the *authorized* spending levels contained in the Omnibus Budget Reconciliation Act of 1981. The amounts contained in the budget are overstated by $5,230,000 in the current year and $11,434,000 in the budget year. Furthermore, federal *appropriations* may be below authorized levels.

Table 22
Women, Infants, and Children Program
Revised Expenditure Estimates Based on Federal Reconciliation Act
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Percent Change*
Food vouchers	$55,878	$57,085	$60,510	6.0%
Personal services	755	964	1,027	6.5
Local assistance	8,585	10,500	11,130	6.0
Other	1,222	2,122	2,245	5.8
Totals	$66,440 [a]	$70,671	$74,912	6.0%

[a] Differs from the amount shown in the budget. The budget incorrectly includes one quarter of 1981–82 funding.

2. *New Projects.* Of the 212 projects included in the proposed budget, 56 are new. The new projects include primarily research projects in the Toxic Substances Control Division and the Health Protection Division. Although applications have been submitted to the federal government for the projects, funding is not certain.

2. LICENSING AND CERTIFICATION

The Licensing and Certification program develops, implements, and enforces state standards to promote quality health care in approximately 2,500 hospitals, clinics, long-term care facilities, home health agencies, and adult day health care centers. In addition, the program performs certification reviews for the federal government at facilities that seek to qualify for Title XVIII (Medicare) or Title XIX (Medi-Cal) funding. Program activities related to federal Medicare certifications are 100 percent federally funded. Activities related to Medi-Cal certifications are approximately 75 percent federally funded.

Federal Funding Reductions of $2.4 Million

Table 23 displays actual, estimated, and proposed expenditures for the program by funding source. The department estimates that federal funds will be reduced by $1,326,000 between 1980–81 and 1982–83. For the budget year, this represents an approximate $2,432,000 reduction from federal funding levels previously projected by the department. The de-

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partment has eliminated 22 positions in the current year in response to the loss of federal funds.

Table 23
Licensing and Certification Expenditures
(dollars in thousands)

	Actual 1980–81	Estimated 1981–82	Proposed 1982–83	Change from 1980–81 Amount	Change from 1980–81 Percent
All funds	$14,390	$13,992	$14,349	–$41	–0.3%
General Fund	*$8,178*	*$8,889*	*$9,463*	*$1,285*	*15.7%*
Federal funds	*6,212*	*5,103*	*4,886*	*–1,326*	*–21.3*
Positions	280.5	257	261.9	–18.6	–6.6%

In addition to reducing its funding of the Licensing and Certification program, the federal government is reducing funds available to the Laboratory Field Services Section within the Health Protection Division by $255,000 in the budget year. The budget proposes to eliminate 9 of 43 positions in this program in response to the federal fund reduction.

Potential Loss to General Fund of $22.3 Million

In 1975, CAREX International, Inc., filed suit on behalf of acute-care hospitals and long-term care facilities requesting that the court invalidate the licensing and certification fees assessed by the department since 1974. On October 24, 1981, the judge issued a notice of intended ruling. In his intended ruling, the judge stated that fees collected for 1974, 1975, 1980, and 1981 must be refunded because fee regulations for these years were promulgated on an irregular basis, rather than annually, as required by the law. The judge further stated that a portion of the fees collected for 1976 through 1979 must be refunded, because the fees were not based on *actual* program costs as required by the law, but rather on estimated or budgeted program costs. Under the intended ruling, for each of the years 1976 through 1979, the state would be required to refund amounts of fees collected that exceeded 110 percent of the amount of fees collected in 1973. Based on revenue data from 1973 and 1976 through 1979, we estimate that the state would be required to refund over 95 percent of its collections for the years 1976 through 1979.

If, in his final judgment, the judge follows his intended ruling, the state General Fund could lose $22.3 million. This amount consists of $17.4 million in fees which have been collected and might have to be refunded, and $4.9 million in fees which have been assessed but were not paid by facilities, pending a ruling on the CAREX case. Furthermore, the authority of the program to collect approximately $4 million annually in General Fund revenues from fees is in jeopardy.

The department should be prepared in budget hearings to provide the Legislature with a status report on the CAREX case, and on its plans regarding a possible appeal if the judge follows his intended ruling.

Fee Revenues Should Be Used to Finance General Fund Share of Program Costs

We recommend enactment of legislation to revise health facility licensing fees. We further recommend that this legislation: (1) provide that licensing fee revenues shall be sufficient to cover costs; (2) define program

costs as General Fund appropriations to the program as specified in the Budget Act; (3) provide a mechanism to automatically annually adjust the licensing fees to reflect changes in the program and costs; and (4) require that all licensed health facilities, including government-operated facilities, be assessed a licensing fee.

Budget Proposal. The budget proposes an appropriation of $2,432,000 from the General Fund to the Licensing and Certification program to replace the lost federal funds noted above. This request is contingent upon approval of licensing fee legislation which will allow an annual fee collection of at least $6,432,000. This amount represents $4,000,000 budgeted as revenues from license fees in 1982–83, and $2,432,000 in lost federal funding. The budget also proposes an appropriation of $255,000 from the General Fund to the Laboratory Field Services program, contingent upon approval of legislation which will allow an annual fee collection of at least $255,000.

Assembly Bill 2361 and SB 1326, the companion bills to the Budget Bill, specify license fees for specific facility types at a level which will produce sufficient revenues to offset proposed 1982–83 General Fund appropriations to the Licensing and Certification and Laboratory Field Services programs. They also provide that these fees shall be adjusted annually by a rate equal to the percentage change printed in the Budget Act for those items appropriating funds to the department.

Provisions of Existing Law. Current law requires the department to establish by regulation health facility fees that are sufficient to cover the costs of licensing these facilities. This statute further requires that the department annually adjust its fees to reflect changes in program costs. Fee adjustments are subject to a maximum annual increase of 10 percent. As a result of the cap, the total amount of fees assessed has not increased as rapidly as program costs. Currently, the total amount of fees assessed is less than one-half of total General Fund program costs.

Fees for laboratory facilities are set in statute and have also lagged behind the increases in costs of laboratory field services.

Analysis. Our analysis indicates that the fee assessment provisions in AB 2361 and SB 1326 are reasonable because they would:

1. Enable the department to continue existing licensing and certification programs at levels deemed necessary to protect the public without imposing an unnecessary burden on the General Fund.
2. Clarify the basis in existing law for establishing fee levels.
3. Simplify the annual fee assessment process by basing fee adjustments on changes in Budget Act appropriations to the department, rather than requiring the department to promulgate regulations.

As discussed below, however, we recommend that certain modifications be made to the bill's provisions in order to provide for more equity in the assessment of fees.

Budget Proposal Would Maintain Licensing Programs Without Imposing an Unnecessary Burden on the General Fund. The budget proposes to replace the $2,432,000 in federal funds "lost" by the Licensing and Certification program with an equivalent amount from the General Fund in 1982–83. The replacement of licensing and certification funds is contingent upon passage of legislation allowing the department to collect annually $6.4 million in fee revenue. This is the amount needed to finance current expenditures from license fee revenues ($4 million) plus the expenditures previously financed with federal funds ($2,432,000). Similarly, the budget proposes to replace the $255,000 in federal funds lost in the

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Laboratory Field Services Section. This replacement is contingent upon passage of legislation which will allow the annual collection of $255,000 in laboratory license fees.

The department states that it will not be able to regulate health facilities adequately without the federal funds or replacement funding.

We have no basis for assessing how the quality of care in hospitals and long-term care facilities would be affected over time if reductions are made in licensing activities. We believe, however, that the restoration of the 22 positions in licensing and certification and 9 positions in laboratory and field services is necessary in order to restore state licensing activities to previously budgeted levels. Furthermore, we believe that it is appropriate to offset the costs of the positions with licensing fee revenues, as provided for in AB 2361 and SB 1326.

Under proposed provisions of AB 2361 and SB 1326, licensing fee revenues would offset General Fund appropriations to the department in the budget and subsequent years. We believe this is sound policy.

Proposed Legislation Clarifies the Basis for Establishing Fee Levels. Existing statute governing the Licensing and Certification program requires that fees be established based on program *costs.* The judge in the CAREX case, in his notice of intended ruling, stated that fees assessed by the department since 1974 are invalid because they were improperly based upon budgeted or estimated program costs, rather than actual costs. Actual program cost data, however, are not available within the year in which costs are incurred. By basing the fees on the General Fund *appropriation* specified within the Budget Act, the bill eliminates any possible confusion over the appropriate definition of "program cost."

The bills similarly set laboratory fees for the budget year at a level sufficient to generate revenues to cover General Fund appropriations to the program.

Proposed Legislation Simplifies Annual Fee Assessment Process by Basing Fee Adjustments on Changes in Budget Act Appropriations. The department states that the existing provisions governing fee assessments are not satisfactory. These provisions require the department to develop regulation packages for its fees on an annual basis, thus consuming valuable program resources and resulting in unpredictable delays. Assembly Bill 2361 and SB 1326 provide that fees shall be adjusted annually, based on the change in the department's Budget Act appropriation.

Our analysis indicates that under the provisions of this bill, public review of fee levels would be maintained, while the uncertainty and cost associated with annually promulgating the fee regulations would be avoided. We recommend, therefore, that the Legislature authorize *automatic* adjustments in the fees to compensate for changes in program costs.

Modifications in the Fee Proposal Are Warranted. We believe that the annual fee adjustments should be based on the change in the General Fund appropriation *to the Licensing and Certification program,* rather than on changes in the department-wide General Fund appropriation. This would link more closely the change in fees to the change in costs. Put another way, we see no reason why fees should be increased by more than the amount needed to compensate for the effects of inflation on program costs, merely because of expansion in other departmental programs. Accordingly, we recommend that the companion bills be so amended.

Fee schedules specified in AB 2361 and SB 1326 would result in private facilities subsidizing government hospitals and government long-term care facilities. These bills would exempt government-operated hospitals, nursing homes, and intermediate care facilities from the requirement to pay licensing fees. Because the fee assessments proposed in the bill would cover the full General Fund share of program costs, but would be levied *only* on nongovernment facilities, these facilities would, in effect, be required to pay approximately $739,000 in 1983 to subsidize the licensing costs of government-run facilities.

The existing licensing fee statute provides that fee-paying facilities shall not subsidize the costs of licensing fee-exempt facilities. We believe this policy is appropriate, and should be continued. We recommend that licensing program costs be assessed among *all* health facilities.

We further recommend that AB 2361 and SB 1326 be amended to require the Department of Finance to *recommend* within the Budget Bill, rather than *determine*, the percentage change in fees required to recover General Fund program costs. This amendment would clarify the Legislature's authority for determining the fee increases through the appropriation of funds in the Budget Act.

3. TECHNICAL BUDGETING ISSUES

Department Overhead Costs

We recommend that the Legislature delete $104,000 from the department's General Fund appropriation to correct for the department's overestimate of General Fund overhead costs. We also recommend that appropriate adjustments be made in the overhead cost charges imposed on other funds.

The department allocates overhead costs to programs based on personal service costs. Charges for each program's overhead costs are approximately equal to 30 percent of program personal services costs.

Based on funding ratios within the base budget, the department estimates that 53 percent of overhead costs in 1982–83 should be supported by the General Fund. This implicitly assumes that the General Fund's share of personal services in the base budget also applies to new programs added by budget change proposals.

Our analysis indicates that the department has overestimated the General Fund share of overhead costs associated with budget change proposals. Based on data provided by the department, we estimate that the General Fund share of personal services within the budget change proposals is 47 percent, rather than the 53 percent utilized by the department.

The total of personal service costs within the department's budget change proposals, excluding proposals for administrative staff not directly chargeable to programs, is $6,075,281. The amount of overhead costs which will be allocated to these new programs is 30 percent, or $1,823,000. By using 47 percent as the General Fund share of these overhead costs, we estimate that the General Fund should be charged $862,000 for overhead, rather than $966,000 as reflected in the budget. We therefore recommend reduction of $104,000 from the General Fund.

Change in Funding Shares. We also determined that the department incorrectly allocated overhead costs to other funding sources. The department's estimates and our recommended allocations are shown in Table 24.

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Table 24
Recommended Changes of Funding Shares for Overhead Costs in Budget Change Proposals (in thousands)

	Department Estimate		*Analyst's Estimate*		*Recommended Change*	
Fund	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*
General	$966	53%	$862	47%	−$104	−6%
Federal	857	47	165	9	−692	−38
Hazardous Waste Control Account	—	—	360	20	360	20
Hazardous Substances Account	—	—	371	20	371	20
County Health Services	—	—	18	1	18	1
Energy and Resources	—	—	−43	−2	−43	−2
Reimbursements	—	—	90	5	90	5
Totals	$1,823	100%	$1,823	100%	—	—

Special Fund Expenditures Should Be Included in Budget Bill

We recommend that expenditures from the Genetic Disease Testing Fund, Hazardous Waste Control Account, and the Local Health Capital Expenditure Account (LHCEA), be appropriated in the Budget Bill to increase legislative oversight of these funds.

Three major special funds administered by the department are continuously appropriated. These funds support activities which are part of the ongoing operation of the department and as such should be subject to annual legislative review and control. We recommend that these funds be appropriated through the Budget Bill. The funds and the amount required for appropriation are:

Genetic Disease Testing Fund (Item 4260-001-203). The amount required for appropriation from this fund is $9,736,000.

Hazardous Waste Control Account (Item 4260-001-014). The budget shows projected expenditures of $5,267,000 for this fund. In our analysis of the Toxic Substances Control program, we are unable to determine the amount required because potential revisions in revenue estimates may require program reductions.

Local Health Capital Expenditure Account (LHCEA) (Item 4260-111-900). The budget shows projected expenditures of $197,000 from the LHCEA. The expenditure plan in the budget does not account for revenues of approximately $2.9 million from interest income earned during 1980–81 and the current year. The department informs us that it intends to expend some of this revenue in the budget year but was not able to provide an expenditure plan. We are therefore unable to determine the amount required for appropriation. In our analysis of county health services, we recommend that before budget hearings the department submit an expenditure plan for the use of funds in the LHCEA.

4. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

A. MEDI-CAL POLICY OPTIONS

I. Program Overview

The California Medical Assistance Program (Medi-Cal) will spend approximately $4.97 billion in the current year, including $2.82 billion in state funds and $2.15 billion in federal matching funds provided under Title XIX of the Social Security Act (Medicaid). State spending on the Medi-Cal program accounts for one dollar out of every eight spent by the General Fund for all state programs, including local government fiscal relief. Of the total Medi-Cal program expenditures, $340 million, or 6.8 percent, will be spent for state and county administration and the fiscal intermediary contract. The remaining 93.2 percent, $4,631 million, will be spent on health care services, primarily physician, hospital, and nursing home services.

Not only is the program large; it is growing rapidly. Table 25 shows that state and county Medi-Cal expenditures have grown from $1,144 million in 1974–75 to an estimated $2,816.8 million in 1981–82, an increase of 146.2 percent. This is equivalent to an average annual growth rate of 13.7 percent. While the budget proposes an increase of only 2.2 percent in 1982–83, it assumes that major program reductions will be approved by the Legislature and implemented successfully.

Table 25 also shows that state and county Medi-Cal expenditures have increased from 13.2 percent of total General Fund spending excluding local government fiscal relief in 1974–75 to 17.1 percent in 1981–82.

Table 25

State Medi-Cal Expenditures Have Increased as a Proportion of Total State General Fund Spending (in millions)

	State and County Medi-Cal Expenditures	*Percent Change from Previous Year*	*Total General Fund Expenditures*[a]	*State and County Expenditures As a Percent of Total Expenditures*
1974–75	$1,144.0	—	$8,348.6	13.2%
1975–76	1,264.2	10.5%	9,518.4	13.3
1976–77	1,516.9	20.0	10,467.1	14.5
1977–78	1,817.0	19.8	11,685.6	15.5
1978–79	1,980.7	9.0	11,850.8	16.7
1979–80	2,050.9	3.5	13,667.1	15.0
1980–81	2,506.2	22.2	15,582.9	16.1
1981–82 (estimated)	2,756.6	10.1	16,098.8	17.1
1982–83 (proposed)	2,816.8	2.2	16,953.9	16.6

[a] Excluding local fiscal relief since 1978–79.

Source: Governor's Budget, page A-12.

The Basic Problem

The basic problem facing the Legislature with respect to the Medi-Cal program is the high rate of increase in program costs relative to the rates at which other programs *and revenues* are growing. The program has experienced a long-term underlying growth rate of 13 to 14 percent since 1974–75, while the Governor projects General Fund revenue increases of 9.8 percent in 1982–83. Without major policy changes, the cost of the program will continue to grow automatically, because Medi-Cal is in overall design an open-ended entitlement program—that is, any person meeting eligibility criteria established by law is entitled to specifically defined health care benefits.

DEPARTMENT OF HEALTH SERVICES—Continued

A. Current Program Structure

Eligibility

Approximately 3.1 million persons, or about 13.0 percent of California's population (one out of every eight persons), are eligible for Medi-Cal benefits in any given month. These eligibles fall into three major categories. The *categorically needy* (cash grant recipients) consist of families with dependent children who receive AFDC cash assistance, and aged, blind, and disabled persons who receive SSI/SSP assistance. The categorically needy automatically receive a Medi-Cal card. They pay no part of their medical expenses. The eligibility standards for the categorically needy are summarized in Table 26.

Table 26

Need Standards for Public Assistance Programs

	AFDC		*SSI/SSP*	
Real property limits	• $5,000 net assets including home		• Home exempt • Income property worth $6,000	
Personal property limits	• $600 per family, plus $1,000 for nonliquid assets		• $1,500 for one person • $2,250 for couple	
Motor vehicle limits	Exempt if: (a) Needed for work *and* (b) Value less than $1,500		Exempt if: (a) Value less than $4,500 *or* (b) Needed for work or medical care	
Maximum monthly income	*Family Size*	*Maximum Income*		
	1	$248	Aged and Disabled	$439 for one person $815 for couple
	2	408		
	3	506	Blind	$492 for one person $958 for couple
	4	601		
	5	686		
	6	771		
	7	846		
	8	922		
	9	996		
	10	1,071		

The *medically needy* (MN) include families with dependent children whose income is not more than 15 percent above the AFDC standard, and aged, blind, and disabled persons whose income is not more than the SSI/SSP standard, and who do not receive cash assistance.

The *medically indigent* (MI) are those who are *not* categorically linked (that is, they do not belong to families with dependent children and are not aged, blind, or disabled), whose income is not more than 15 percent above the AFDC standard.

In addition, persons with incomes above the medically needy/medically indigent standard can qualify for Medi-Cal if they have medical expenses which require them to "spend down" their incomes to Medi-Cal income levels. A small number of refugees and renal dialysis patients are also eligible for benefits under the program.

Chart 5 shows that the largest category of eligibles are the categorically needy (cash grant recipients).

Chart 5

Number of 1981–82 Monthly Medi-Cal Eligibles

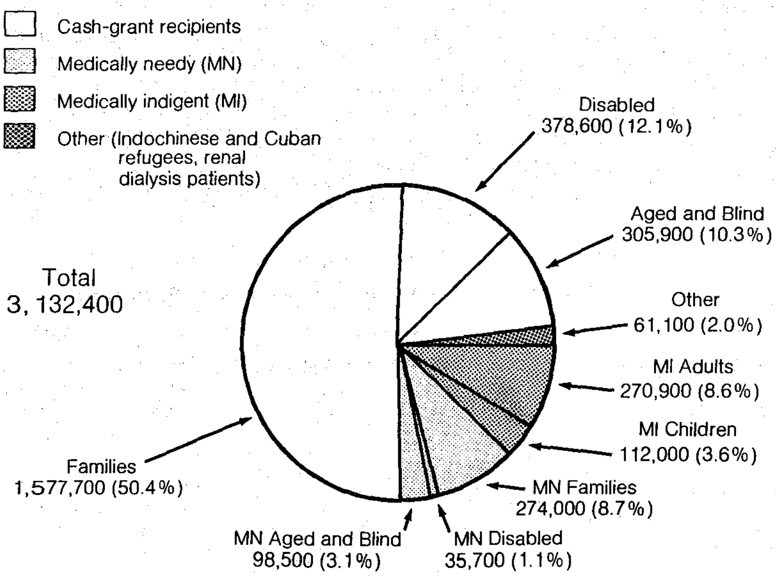
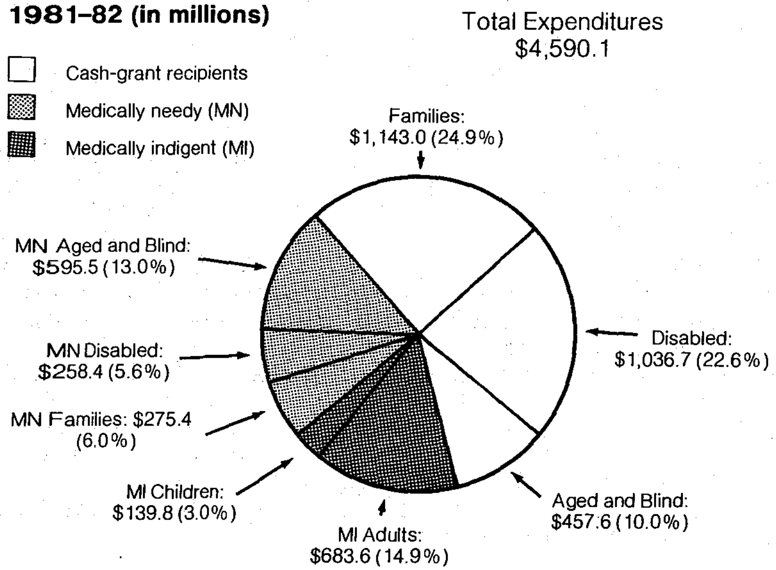


Chart 6

Medi-Cal Expenditures—Total Funds by Eligibility Category

1981–82 (in millions)



DEPARTMENT OF HEALTH SERVICES—Continued

The federal government provides matching funds for benefits provided to the categorically needy, the medically needy, and medically indigent children, but will not provide funds for benefits provided to MI adults.

Scope of Benefits

Medi-Cal recipients are entitled to a full range of health services, including physicians' services, inpatient and outpatient hospital services, laboratory services, nursing home care, and various other health-related services. Many of these services are not federally required. There are a number of services the program will *not* pay for, such as specific drugs or certain surgical procedures. There are also utilization limits for some services. Admission to nursing homes and hospitals require prior state authorization.

Medi-Cal beneficiaries can choose among all qualified health service providers that have chosen to accept Medi-Cal patients, including prepaid health plans which are available in many areas of the state.

Medi-Cal expenditures for all eligibles consist primarily of (1) professional services (physician, dental, other medical), (2) hospital services (community and county inpatient and outpatient), and (3) nursing homes (skilled nursing and intermediate care facilities including state hospitals). Chart 6 shows that expenditures for these three service categories alone equal $3,998.7 million in 1981–82, which is 87.1 percent of total Medi-Cal spending for all types of health care services.

The cost of Medi-Cal benefits provided to the three categories of Medi-Cal eligibles is not proportional to their numbers. Chart 7 shows that disabled SSI/SSP recipients, medically needy individuals who are aged, blind, or disabled, and medically indigent adults account for a proportion of Medi-Cal expenditures that is greater than their numbers would indicate. These differences exist because different categories of eligibles consume different types of health care services. Chart 8 shows that Medi-Cal expenditures for categorically needy recipients (AFDC and SSI/SSP) consist primarily of hospital services and other health care services such as dental, outpatient, home health services, and drugs. Expenditures for the medically needy consist primarily of nursing home services. Expenditures for the medically indigent consist primarily of hospital services. This chart also shows that while total expenditures for services provided to medically indigent recipients is less than the cost of benefits provided to the medically needy, the state cost of MI benefits is higher than the state cost of MN benefits. This is because the state defrays the entire cost of services provided to MI adults.

Reimbursement

Hospital inpatient services are reimbursed on the basis of "reasonable cost" or charges, whichever is less. Costs are determined retrospectively by audit of hospital expenditures. This process is relatively open-ended because many types of costs have been considered "reasonable" under

Chart 7

Medi-Cal Expenditures
By Eligibility Category and Type of Service
1981–82: $4,590.1 million

Total Funds (in millions)

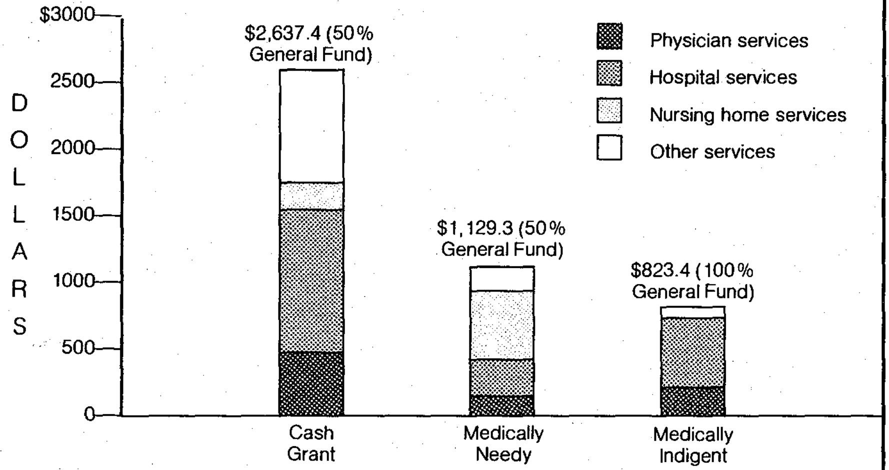
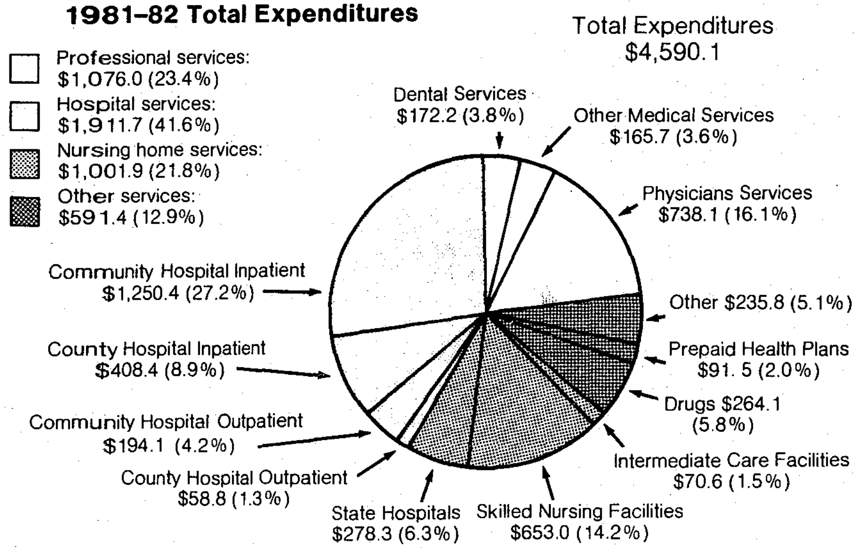


Chart 8

Medi-Cal Health Care Expenditures (Total Funds)
By Service Type

1981–82 Total Expenditures



DEPARTMENT OF HEALTH SERVICES—Continued

federal and state law.

Nursing homes are reimbursed using a fixed daily rate that is based on cost studies. Physician services and hospital outpatient services are reimbursed using schedules of maximum allowances (SMAs) for individual procedures. Table 27 briefly describes the reimbursement rate methodology for selected Medi-Cal benefits.

Table 27
Summary of Reimbursement Rate Methodologies

Benefit Category	*Reimbursement Rate Methodologies*
Physician services, hospital outpatient, medical transportation, optometry, podiatry, psychiatry, chiropractic, physical and occupational therapy, certain other services, and medical equipment.	Fixed schedule of maximum allowances (SMAs). Providers reimbursed fee-for-service based on type and quantity of service.
Hospital inpatient.	Charges or "reasonable costs," whichever is less. Reasonable costs determined using department cost audits.
Nursing homes, intermediate care facilities, and state hospitals providing nursing home services.	Based on industry-wide cost averages. Rates vary based on facility size and location. Some special rate consideration given if facility serves certain special-care patients.
Pharmacies.	Flat reimbursement per prescription filled, plus reimbursement for wholesale drug costs.
Prepaid health plans (PHPs) and Redwood Health Plan.	Cost estimates based on actuarial cost data for specific population to be served.
Dental.	Negotiated contract with California Dental Services. Prospective reimbursement.

B. Historical Trends

During the past three years, all major service categories have contributed to the increased cost of the Medi-Cal program. Table 28 shows that, since 1978–79, expenditures for physician, hospital inpatient, and skilled nursing services have increased 46.9 percent, 53.5 percent, and 16.8 percent, respectively. This table also shows that the numbers of eligible persons and users have been relatively stable over this period, and that the number of units of service provided to each recipient has grown moderately. ***The major source of increased costs has been the increased cost per unit of service.*** Increases in the cost per unit of service are attributable to rate adjustments granted providers by the Legislature and the increased complexity of services provided.

We compared data on the physician and hospital components of the medical care price index for urban consumers to the growth in Medi-Cal physician and hospital costs per eligible. (Data on skilled nursing services were not available.) These data indicate that increases in Medi-Cal costs are higher than, but comparable to, the increases in the price indices over the three-year period. Specifically:

Table 28

Factors Contributing to Increased Health Care Services Expenditures

	Expenditures (millions)	*Number of Eligibles (thousands)*	*Factors* Number of Users (thousands)	Units of Service Per User[a]	Cost Per Unit
Physician Services					
1981–82	$728.0	2,858	877	1.59	$43.50
1978–79	495.6	2,684	808	1.50	33.98
Percent change	46.9%	6.5%	8.5%	6.0%	28.0%
Hospital Inpatient					
1981–82	$1,330.0	2,858	56	7.58	$259.31
1978–79	866.8	2,684	53	6.98	193.99
Percent change	53.5%	6.5%	5.7%	8.6%	33.7%
Skilled Nursing Facility					
1981–82	$663.8	2,858	65	30.33	$27.82
1978–79	568.4	2,684	66	30.45	23.42
Percent change	16.8%	6.5%	–1.3%	–0.4%	18.8%

[a] Physician services: Average number of monthly visits. Hospital inpatient and SNF: Number of inpatient days.

- Medi-Cal physician costs per eligible increased 38 percent over the three-year period. The physician price index increased by 33.3 percent.
- Medi-Cal hospital costs per eligible increased 44.1 percent over the three-year period. The hospital price index increased by 41.5 percent.

II. The National Picture

A. Growth in Medicaid Expenditures

The rapid growth in expenditures is not a phenomenon specific to the California Medi-Cal program, but is merely one example of escalating national costs in the Medicaid program. Total Medicaid expenditures, including federal and state shares, were more than $27 billion in federal fiscal year 1981 (FFY 81), an increase of 32 percent from FFY 79. Medicaid expenditures by states have increased at an average annual rate of approximately 14 percent for several years, a rate significantly higher than the growth in total revenues for most states. The National Governors Association reported that early in 1981, "more than half the states projected moderate to serious shortfalls in their Medicaid budgets. By May of 1981, 11 states still reported sizeable deficits, while 13 states were forced to make supplemental appropriations to offset anticipated deficits." In addition, a substantial number, including California, enacted restrictions on eligibility, benefits, and provider reimbursement.

B. Growth in All Health Care Expenditures

The national experience with increased Medicaid expenditures is only one manifestation of the escalating costs of health care generally during the past 20 years. Table 29 shows that national expenditures on health care services have grown from $26.9 billion in 1960 to $212.2 billion in 1979, an increase of 689 percent. Spending for health care as a proportion of Gross National Product has increased from 5.3 percent in 1960 to 9.0 percent in 1979.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 29
National Health Care Expenditures
(in billions)

	Health Care Expenditures	*Gross National Product*	*Health Care Spending As Proportion of GNP*
1960	$26.9	$503.7	5.3%
1965	43.0	688.1	6.2
1970	74.7	982.4	7.6
1975	131.5	1,528.8	8.6
1979	212.2	2,368.8	9.0

Source: Health Care Financing Review, 1979, Vol. 2, No. 1.

The increased cost of national health care services since 1960 has three primary causes: (1) increased government spending, especially federal spending, (2) a gradual increase in per capita consumption of health care services, and (3) increases in the price of medical care, which were exceeded only by recent increases in energy prices. These causes are interrelated: increased government spending has caused the price of medical care to increase, and increased utilization and medical care prices have contributed to the increased cost of government health care services.

Not only has total spending on health care services increased; the *structure of health care financing* has changed dramatically since 1960. Table 30 shows that, in 1960, private spending by consumers, charitable organizations, and insurance companies accounted for 75.5 percent of total spending on health care. Although private spending on health care has increased by 495 percent since 1960, by 1979 it had declined to 56.9 percent of total spending. Federal spending, primarily through Title XVIII (Medicare) and Title XIX (Medicaid) of the Social Security Act, has increased 20-fold since 1960. In 1979, the federal government paid for 28.7 percent of total health care costs, compared to 11.4 percent in 1960. Spending by state and local governments has also increased, but as a proportion of total spending it has remained constant. These figures show that spending by all private parties and levels of government has increased sharply, and that the federal government has emerged as the largest single purchaser of health care services.

Table 30
National Health Care Services
Expenditures by Funding Sources, 1960–1979

	Private Spending: Percent	*Federal Government Spending: Percent*	*State and Local Government Spending: Percent*
1960	75.5%	11.4%	13.1%
1965	77.8	10.7	11.4
1970	66.3	22.2	11.5
1975	58.6	27.3	14.1
1979	56.9	28.7	14.1

Source: Health Care Financing Review, 1979, Vol. 2, No. 1.

C. Increasing Utilization of Services

Increased expenditures for health care services are partially due to increased per capita utilization of services. Table 31 shows that the per capita number of hospital admissions nationally and number of hospital days increased steadily between 1960 and 1975, although the rate of increase had moderated by 1979.

Table 31

Utilization of Hospitals Has Increased: Per Capita Hospital Admissions and Hospital Days Nationally and in California

	Hospital Admissions per Thousand		*Hospital Days per Thousand*	
	Nationally	*California*	*Nationally*	*California*
1960	128.9	113.0	978.2	813.5
1965	138.1	128.8	1,073.3	902.8
1970	145.0	140.7	1,197.0	981.9
1975	158.9	143.6	1,218.7	949.1
1979	159.8	135.8	1,207.5	890.8

Source: Hospital statistics, American Hospital Association.

This table also shows that hospital utilization per capita in California reached a peak between 1970 and 1975, and has declined since. Aggregate demand for hospital services in California, however, continued to increase through 1979, because of increased population.

There is no clear national trend in use of physician services. The National Center for Health Statistics indicates that the average number of physician visits per year declined during the 1960s from 4.7 to 4.3, increased to 5.1 by 1975, and declined to 4.7 in 1979.

D. Increased Price of Medical Services

The cost of health care services has increased not only because more services are being consumed but also because the price of those services has increased more rapidly than the general rate of inflation. Table 32 compares changes in the Consumer Price Index (CPI) and the Medical Care Price Index (MCPI) from 1960 to 1979.

Table 32

Health Care Service Prices Have Increased More Rapidly Than the Cost of Living (1967 =100.0)

	Consumer Price Index	*Annual Percent Change*	*Medical Care Price Index*	*Annual Percent Change*
1960	88.7	—	79.1	—
1965	94.5	1.3%	89.5	2.5%
1970	116.3	4.2	120.6	6.1
1975	161.2	6.7	168.6	6.9
1979	217.4	7.8	239.4	9.2

Source: Bureau of Labor Statistics

This table shows that price inflation in medical care has exceeded general inflation in every five-year period since 1960. The price of medical care increased 203 percent from 1960 to 1979, while the CPI increased 145 percent.

III. Cost Containment Options

Data presented earlier show that Medi-Cal program costs have grown rapidly, primarily due to increased costs per unit of service. The number of beneficiaries using services and the units of service per user have grown moderately. Other data presented earlier show that the cost of medical services has increased generally, not just in California's Medi-Cal program. These data suggest that the problem faced by the Legislature in controlling Medi-Cal cost increases is not amenable to an easy solution. Our analysis indicates that making major reductions in Medi-Cal spending will require reductions in either the number of recipients, the scope of health care benefits, the level of services utilized by recipients, or the amount of reimbursement paid to providers.

It is not clear that additional efforts to eliminate fraud and abuse—though highly desirable—will result in *major* cost savings to the Medi-Cal program. Fraud and abuse of the program by both recipients and providers does exist, and probably costs taxpayers millions of dollars annually. Although the state and counties operate programs designed to detect and prosecute recipients and providers who misuse the system, detecting these abuses and correcting them is difficult and costly. Additional actions to minimize Medi-Cal fraud and abuse may be warranted, but cost containment strategies should not rely on reducing or eliminating these practices as the principal means to reduce significantly the rate of growth in Medi-Cal expenditures.

This section briefly explores some of the primary options available to the Legislature for cost containment in 1982–83. Each of the options can be classified into one of four categories: (1) limiting Medi-Cal eligibility, (2) reducing health care benefits, (3) limiting provider reimbursement, and (4) program structure changes.

A. Limiting Medi-Cal Eligibility

States participating in Medicaid are required by federal law to provide health care benefits to AFDC and SSI recipients. The federal government determines which individuals are eligible for SSI, but states have some flexibility in determining AFDC eligibility. Many states, including California, provide benefits to certain other categorically needy individuals (such as AFDC-U and SSP-only recipients) whom the federal government does not require states to assist. Of the 54 states and territories participating in Medicaid, 20 provide benefits only to the categorically needy. Thirty-four, including California, provide benefits to the medically needy as well.

Policies restricting eligibility can apply to the categorically needy, the medically needy, or the medically indigent.

Medically Indigent. California has the most flexibility in restricting eligibility in the case of medically indigent adults. This program is entirely state-funded and is not regulated by the federal government.

Medically Needy. California also has significant flexibility in determining eligibility requirements for medically needy persons, although this program *is* federally regulated. The Omnibus Budget Reconciliation Act of 1981 repeals nearly all federal coverage and service requirements for the medically needy. Under prior law, states *electing* to provide services to the medically needy were *required* to (1) cover all medically needy categories and (2) provide the same scope of benefits to MN eligibles as to the categorically needy. After enactment of the Reconciliation Act, four states eliminated coverage for medically needy 18–20 year-olds and six states restricted MN standards.

Categorically Needy. Federal law requires California to provide health care benefits to categorically needy persons, although the state can control the number of eligible persons in two ways. First, the state controls AFDC and SSP grant levels. By controlling grant levels, the state determines how many persons qualify for welfare assistance. Second, California could opt not to offer AFDC assistance to families in which both parents are present but where one parent is unemployed. Nor is California automatically required to provide Medi-Cal to certain SSI/SSP recipients.

We can predict the amount of savings to the Medi-Cal program from denying coverage to any particular group of current eligibles, but we cannot predict as readily whether or not these policy changes would result in cost savings to the state as a whole. Net savings would result if individuals drop from Medi-Cal rolls obtain health insurance, reduce their consumption of health care services, bear a greater proportion of the cost of care themselves, or obtain charity health care. Some individuals, however, will remain uninsured and will need expensive medical care that they cannot afford to pay for themselves. These individuals, if denied Medi-Cal coverage, will seek services from county hospitals, community clinics, or teaching hospitals. Restricting eligibility therefore might *shift* some costs from the Medi-Cal program to other state-funded health programs, including some programs that, unlike Medi-Cal, do not receive federal matching funds. Costs will be shifted if these programs' budgets allow them to accommodate an increased demand for services. Otherwise, these programs will adapt to the increased demand for services by making patients wait longer, by restricting access to certain services, and by otherwise setting priorities for services. Current state law requires counties to provide health care services to the poor, aged, and indigent. Existing law restricts counties' ability to reduce services, but does not require counties to increase services in response to increased demand.

B. Reducing the Scope of Benefits

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

Limiting Optional Services. California provides 30 of these 32 optional services—more than any other state except Minnesota. Table 33 lists the optional services currently available under Medi-Cal and estimated current-year expenditures for each benefit. The table also shows the number of states and territories offering the optional benefits.

Eliminating optional services as Medi-Cal benefits, however, would not necessarily result in cost savings, for many of these services are low-cost alternatives to expensive institutional care. For example, deleting drugs as a benefit might result in more serious illnesses requiring later hospitalization—at significantly higher cost. Deleting benefits may also cause providers to substitute more expensive forms of treatment. For example, elimination of kidney dialysis center services could result in increased hospitalization of kidney dialysis patients. This is because kidney dialysis

DEPARTMENT OF HEALTH SERVICES—Continued

services provided in acute-care hospitals are considered mandatory benefits.

Table 33
Optional Medi-Cal Services
1981–82
(in millions)

	Number of States and Territories Providing Service	*General Fund*	*All Funds*
Drugs	52	$130.7	$239.0
Intermediate care facilities for the developmentally disabled (including state hospitals)	48	118.7	231.4
Dental (adult)	38	63.3	111.8
Optometry/eye appliances	41	29.2	49.6
Medical transportation	N/A [a]	18.1	32.8
ICF—other	50	14.5	28.7
Organized outpatient clinics	44	13.9	23.9
PHPs/Redwood (optional services)	N/A	12.1	23.7
Podiatrists	39	9.0	16.4
Prosthetics/Orthotics/durable medical equipment	46	8.6	15.9
Pilot projects	N/A	6.5	13.0
Psychologists	N/A	7.3	12.5
Hearing aids	30	5.6	10.8
Hemodialysis center/blood banks	N/A	4.7	8.7
Adult day health care	N/A	2.8	5.4
Acupuncture	N/A	2.3	4.0
Speech therapists/audiologist	30	1.4	2.7
Chiropractors	27	1.3	2.2
Physical therapists	36	1.0	1.6
Independent rehabilitation center	31	0.5	0.9
Occupational therapists	26	0.5	0.8
Nurse anesthetists	N/A	0.2	0.4
Totals	—	$452.4	$836.0

[a] Data not available.

Utilization Controls. Another method of limiting benefits and reducing costs is to retain optional services as benefits but to limit utilization or require prior authorization from the state. Predicting net savings to the state from such limitations is difficult because limiting utilization may cause recipients to substitute similar but more expensive forms of care having less restrictive utilization controls. For example, limiting access to outpatient clinics may increase utilization of emergency rooms.

Cost Sharing. Cost-sharing arrangements, such as deductibles and copayments, can be used to offset state costs or, as currently, to augment provider rates. A recent study by the RAND Corporation has shown that cost-sharing policies reduce utilization of services. These policies must be carefully designed, however, because other research has shown that copayments and deductibles may cause recipients to substitute costly inpatient care for less costly preventive or primary health care.

C. Limiting Provider Reimbursement

Current Medi-Cal reimbursement policies have provided recipients with access to mainstream medical care and attracted provider participation in the Medi-Cal program. At the same time, these reimbursement methods lead to overutilization of services for several reasons. First, fee-for-service reimbursement gives providers no incentive to limit the provision of marginally beneficial services or to utilize less expensive modes of treatment. Incentives to limit the provision of services have been weakened further by the recent growth in malpractice litigation. Second, cost-based reimbursement for hospital services by Medi-Cal, Medicare, and insurance companies weakens hospital incentives to deliver services efficiently.

Until recently, federal Medicaid policy has given states more flexibility to restrict reimbursement for noninstitutional services than for institutional services, especially hospital inpatient services. States have been allowed to establish schedules of maximum allowances (SMAs) for physicians' services and to reimburse nursing homes at rates commensurate with the costs of "efficiently and economically operated facilities." At the same time, however, states have been required to reimburse hospital inpatient services on the basis of "reasonable cost." Besides increasing the cost of hospital inpatient care, these policies have provided incentives for hospitalization of recipients in circumstances where certain services, for example minor surgical procedures, could be provided just as well in physicians' offices or outpatient clinics.

More Restrictive Reimbursement Policies. The Omnibus Budget Reconciliation Act of 1981 gives states additional flexibility to implement more restrictive reimbursement policies for hospital inpatient services. The new federal policy allows states to reimburse hospital inpatient services at rates commensurate with the costs of "efficiently and economically operated" facilities, rather than on the basis of "reasonable cost." This new policy allows the state to develop more restrictive reimbursement mechanisms for hospital inpatient services, such as prospective rate-setting based on peer grouping of hospitals, or diagnostic-related groups rate-setting. The latter is a method whereby facilities are reimbursed not on the basis of the costs they incur, but on the diagnostic characteristics of the patients they serve.

Reducing Reimbursement Rates. A more immediate method of limiting hospital reimbursement is simply to reduce rates or to limit rate increases. Across-the-board reductions in rates, however, may be inconsistent with federal law requiring rates to be sufficient to meet the costs of efficiently and economically operated hospitals and to maintain access to services. More importantly, it is uncertain whether reducing rates would limit access to services by Medi-Cal recipients, because very little is known about providers' willingness to participate in the Medi-Cal program at various levels of reimbursement.

D. Organizational Changes

Changes in the overall organization of Medi-Cal will result in major cost savings only if the new structure reduces the scope of benefits, limits utilization of costly or unnecessary services (or encourages providers and consumers to do so), or limits provider reimbursement. ***New organizational structures for the Medi-Cal program that do not provide consumers and providers with incentives to make less costly decisions about medical care services will not reduce Medi-Cal expenditures.*** This final section briefly

DEPARTMENT OF HEALTH SERVICES—Continued

discusses four alternative reorganizations of the Medi-Cal program: (1) assigning the MI adult population to county health departments, (2) encouraging development of alternatives to long-term institutional care, (3) limiting provider participation and recipient freedom of choice, and (4) insuring the Medi-Cal population.

Assign MI Adults to Counties

During the past year, there has been a great deal of discussion regarding proposals that would assign responsibility for providing health services to medically indigent adults to county health departments. This group has been singled out because the state defrays the entire cost of their health care and because of their high utilization of costly hospital services. The fiscal consequences of this policy are uncertain. Our analysis indicates that there is a considerable variation in the costs of hospital services provided by individual counties. Some county hospitals are less costly than private Medi-Cal providers; others are much more costly. The fiscal consequences of this reorganization would therefore depend upon which counties were required to serve MI adults, what services they were required to provide, and the specific eligibility and reimbursement structure established.

The Legislature should be aware that assigning MI adults to counties could result in major *one-time* increases in health care costs, if at the same time the state converted from a retrospective billing process to prospective billing. Currently, because of the nature of the Medi-Cal billing process, the state pays for services, on average, three months after the services are provided. Under prospective reimbursement, the state would pay for service *before* it is provided. This could have major cash-flow implications, and would increase General Fund expenditures on a one-time basis by approximately $200 million. Nevertheless, counties might be able to provide health care services to the medically indigent adult population for substantially less than the approximately $700 million currently spent by the Medi-Cal program for those recipients, if counties are able to provide inpatient services at a low cost by using existing capacity in county hospitals, restrict nonessential use of inpatient services, design efficient systems to deliver outpatient services and limit scope of benefits provided.

Develop Alternatives to Long-Term Institutional Care

A longer-term strategy for reducing Medi-Cal expenditures involves the development of community-based *non*institutional services as low-cost alternatives to nursing homes. Such services include Adult Day Health Care (ADHC), In-Home Supportive Services (IHSS), and various day treatment, habilitation, and independent living programs for the aged and the mentally and developmentally disabled.

One objective of these programs is to reduce the dependence of recipients on nursing homes and thereby reduce state costs. It is uncertain that these programs can actually accomplish that objective. Savings in nursing home costs from expanding the ADHC and IHSS programs may be minimal, because the current occupancy rates and waiting lists for nursing home services make any net reductions in nursing home populations difficult to achieve. Also, a large portion of the services provided by these programs are not alternatives to nursing home care. This is because many of the programs, including IHSS, regional centers, and county mental health programs, do not restrict benefits to individuals who are at high risk of entering institutions. Instead, these programs provide services to a large number of individuals who are not at imminent risk of entering institutions. Finally, these services may not be low-cost alternatives to nursing homes. A substantial amount of evidence recently has emerged indicating that the cost of providing community-based noninstitutional services to individuals residing or at risk of entering nursing homes is as high, or in some cases higher, than the cost of nursing home care.

The development of these programs will result in net cost savings only if services are targeted to recipients at high risk of entering institutions and if the cost of noninstitutional services is limited to the cost of nursing homes.

Limiting Provider Participation and Recipient Freedom of Choice

In order to encourage provider participation and to provide access to mainstream medical care, Medi-Cal has allowed eligibles to choose freely from among providers participating in the program, and has allowed any qualified provider to participate. One consequence of this freedom of access to the program is that the state bears the cost of unnecessary services billed by providers and services provided to beneficiaries who overutilize services.

The reconciliation act gives the state additional flexibility to limit the access of beneficiaries who overutilize services and to divert beneficiaries away from inefficient providers. Specifically, the act permits states (1) to purchase laboratory services and medical devices through a competitive bidding process, (2) to "lock-in" beneficiaries who overutilize services to particular providers, and (3) to "lock-out" providers who abuse the program. Further, the Secretary of DHHS is authorized to waive certain federal requirements that currently forbid states from limiting the providers from whom beneficiaries may obtain services. This policy may allow California to deny Medi-Cal eligibles access to high-cost providers.

Because considerable variation in the cost of services exists among providers, a federal waiver authorizing the state to redirect Medi-Cal eligibles to low-cost providers might result in major cost savings. These policies might include contracting for services with specific providers, requiring recipients to enroll in prepaid health plans, amending current law to allow physicians to be employed under salary, or other policies enabling the state to use an aggressive "prudent buyer" approach to purchasing health care services.

Insuring Medi-Cal Eligibles

A number of proposals have been discussed in recent years to insure Medi-Cal eligibles with third parties in lieu of having the state provide benefits directly. The state might contract with medical practice associations, insurance companies, or prepaid health plans to provide health benefits at predetermined rates per beneficiary. These proposals retain the existing access of providers to the program as well as the freedom of beneficiaries to choose among providers.

Whether or not such methods of organizing the program would result in state Medi-Cal savings would depend upon the terms of specific contracts. Presumably, insurers' bids would be based on the actuarial value of benefits to be provided to recipients. If the insurers provide the same scope of benefits, freedom of choice, and provider reimbursement as the current program, then the premiums paid would be identical to the cost of health benefits currently paid—or more if the contractors build a profit margin into their rates.

DEPARTMENT OF HEALTH SERVICES—Continued

Whether insuring Medi-Cal beneficiaries would result in a major cost savings would depend on policies established by the insurers respecting recipients and providers. ***Costs would be reduced only if the insurers restricted utilization of costly or unnecessary services, established reimbursement systems encouraging less costly care and efficient delivery of services, directed Medi-Cal recipients into efficiently operated facilities, or otherwise made use of "prudent buyer" policies.***

B. MEDI-CAL POLICY CHANGES

Assembly Bill 251

Chapter 102, Statutes of 1981 (AB 251), enacted concurrently with the 1981 Budget Act, contains many changes intended to reduce Medi-Cal program expenditures. The major provisions of AB 251 are summarized below. The summary of AB 251 is divided into four major sections: (1) eligibility changes, (2) reimbursement changes, (3) system changes, and (4) program administration changes. Program administration changes are related primarily to improvements in the recovery of funds owed the Medi-Cal program.

Estimates of savings resulting from AB 251 changes have been revised downward since the bill was enacted. This is one of the major causes of the projected budget deficiency in the current year (discussed in our section on health care services expenditures).

1. Eligibility Changes

- *Tightened Income Standards.* AB 251 lowered the maximum allowable income limit for persons applying for Medi-Cal as medically indigent or medically needy. (Aged, blind, and disabled medically needy applicants were not affected.) Under previous law, income limits under Medi-Cal were 33 percent above the AFDC welfare grant level. AB 251 lowered the limit to 15 percent above the AFDC level. The department estimates that approximately 103,000 cases will pay more for their health care as a result of this provision.
- ***Reduction of Continuous Eligibility Period.*** AB 251 reduced the period of continuous Medi-Cal eligibility from four to three months for individuals who become ineligible for AFDC due to excess earned income.
- ***Quarterly Determination of Share-of-Cost.*** AB 251 increased the income base from one to three months for purposes of calculating Medi-Cal share-of-cost obligations.
- ***Reduce Income Exemption By $20.*** AB 251 reduced the maximum amount which a Medi-Cal recipient in a nursing home can retain for personal expenses from $45 to $25 per month. This provision affects an estimated 68,300 skilled nursing and intermediate care facility residents.

2. Reimbursement

- ***Copayments.*** AB 251 requires Medi-Cal recipients to pay $1 for drugs and outpatient visits and $5 for nonemergency visits to emergency rooms. Many categories of Medi-Cal recipients, however, are exempt from these copayment requirements. Under AB 251, copayments would not result in reduced payments to service providers or increases in Medi-Cal revenues. The measure allows providers to retain the copayments as additional fees. Consequently, they may choose not to collect copayments. Medi-Cal savings were expected to result from the incentive effect of copayments on the utilization of services. At the time this analysis was prepared, the copayment provision had not been implemented because federal officials had not acted upon the state's request for a waiver that would allow the provision to be implemented.

- ***Hospital Reimbursement.*** AB 251 limits current-year hospital inpatient reimbursement rates to not more than 6 percent above the average rate paid to the hospital for 1980–81. Federal approvals necessary to implement the rate limitations have been received. The limitations are scheduled to become effective in January 1982, but implementation may be delayed by legal challenges.
- ***Medicare Crossover Claims Rate Reduction.*** AB 251 requires the department to reduce the rates of payment for services received by patients who are covered by both the federal Medicare program and the state Medi-Cal program. Specifically, the act requires that total reimbursement for such crossover claims shall not exceed the rates paid for patients covered only by the Medi-Cal program. Under previous law, Medi-Cal paid the full deductible and copayments for patients covered under the Medicare program.
- ***Reduced Laboratory Rates.*** AB 251 requires that three or more tests that can be performed in an automated manner be reimbursed at the panel test rate, rather than as individual tests.

3. System Changes

- ***Pilot Projects.*** AB 251 requires the department to (a) enter into one or more at-risk case management contracts which make the primary care physician responsible for approving and managing all nonemergency and nondental services and (b) establish not more than three pilot projects to test whether counties can provide health care services to medically indigent adults (MI-As) at a lower cost than paid under the current system.
- ***Consolidated Mental Health Programs.*** AB 251 directs the Department of Mental Health to contract with at least three counties to test whether integrating mental health services funded through Medi-Cal and through the Short-Doyle Act will result in more efficient, cost-effective, and appropriate delivery of service.
- ***Negotiated Hospital Rates.*** AB 251 requires the department (a) to establish three voluntary pilot projects to test different systems of reimbursing hospital inpatient services on a prospective basis and (b) to submit a status report to the Legislature by January 15, 1982.

4. Program Administration Changes

- ***Recoveries from Estates.*** AB 251 authorizes the department to recover the cost of Medi-Cal services from estates of deceased recipients.
- ***Health Insurance Identification.*** AB 251 requires county welfare departments to increase efforts to identify recipient health insurance which may be billed to recover Medi-Cal costs.
- ***Recovery from Ineligible Recipients.*** AB 251 authorizes county welfare departments to recover the cost of Medi-Cal services from persons who are later determined to be ineligible for the level of fiscal assistance they received.

DEPARTMENT OF HEALTH SERVICES—Continued

- *Recovery from Workers' Compensation.* AB 251 requires the Workers' Compensation Appeals Board to provide information that may enable the department to recover the cost of Medi-Cal services which are reimbursable under workers' compensation.
- *Recoveries by Private Collection Agency.* AB 251 requires the department to enter into two contracts with private collection agencies to increase recoveries.
- *Increased Interest on Overpayments.* AB 251 requires the department to increase interest rates assessed on overpayments to hospitals from 7 percent to the rate earned by the Pooled Money Investment Fund (currently 11.9 percent).
- *Quality Control Reviews.* AB 251 mandates the department to review the quality of casework provided by county welfare departments on a sample basis. Ultimately, these reviews will result in cost savings by reducing casework errors.
- *Earnings Clearance.* AB 251 requires the department to cross-check the income reported by certain Medi-Cal recipients against income reported by employers who pay unemployment and disability insurance taxes. The cost-effectiveness of implementing the earnings clearance system will be tested in two pilot counties.
- *Photo I.D. Cards.* AB 251 requires the department to issue photo I.D. cards to Medi-Cal recipients who do not have driver's licenses, excluding children under 12, long-term care patients, and cash grant aged, blind, and disabled recipients.
- *Label Relief.* AB 251 requires the department to pay Medi-Cal claims submitted without the recipient's proof-of-eligibility labels if computers can otherwise verify that the patient was Medi-Cal eligible at the time the service was rendered. The act also requires the department, by May 1982, to assess the feasibility of implementing an automated inquiry system to allow providers to determine if patients are Medi-Cal eligible when the patient requests services. The AB 251 label relief provision prevented the department from reintroducing the label requirement which had been discontinued when Computer Sciences Corporation became the fiscal intermediary. The department estimates budget-year *costs* of approximately \$9,600,000 (\$5,300,000 General Fund) resulting from this provision.

Federal Policy Changes—The Omnibus Budget Reconciliation Act of 1981

On August 13, 1981, the president signed H.R. 3982, the Omnibus Budget Reconciliation Act of 1981. This legislation affects the Medi-Cal program by (1) reducing the amount of available federal matching funds and (2) providing the state with the flexibility to make significant changes in the areas of eligibility, scope of benefits, and reimbursements.

Reduced Federal Fiscal Participation

The act reduces federal reimbursement to states in federal fiscal years (FFY) 1982, 1983, and 1984 by 3 percent, 4 percent, and 4.5 percent, respectively. The act provides that the size of the reductions imposed on an individual state may be lowered by 1 percentage point for each one of the following three conditions satisfied by the state: (1) the state operates a qualified hospital cost review program, (2) the state's unemployment rate exceeds 150 percent of the national average, and (3) the state's fraud and abuse recoveries equal 1 percent or more of the federal payments.

California's unemployment rate and hospital cost control program do not meet federal minimum standards, therefore the state does not appear to qualify for a lesser reduction in federal reimbursement under the first two criteria. California *may* have a recovery program, however, which meets federal standards, depending on how the federal Department of Heath and Human Services (DHHS) defines allowable recoveries. If California's recovery effort qualifies, the net federal reduction would be 2 percent in FFY 82, instead of 3 percent.

The act also provides that if a state's Medicaid expenditures in FFY 82 increase by less than 9 percent over prior year expenditures, the unexpended balance below the 9 percent can be used to offset federal reductions in FFY 83. In California it is likely that expenditures in the current federal fiscal year (FFY 82) will increase by more than 9 percent due to rate increases, caseload and utilization increases, and other changes within the program. Thus, it appears California will not benefit from this provision.

Coverage and Services for the Medically Needy

The act repeals almost all minimum coverage and scope-of-benefit requirements applying to the medically needy eligibility category. The medically needy are aged, blind, or disabled persons, or members of families with dependent children, who have too much income to qualify for cash assistance under the AFDC or SSI/SSP programs. Under previous federal law, if a state *chose* to cover medically needy persons, it was *required* to cover all medically needy groups; provide services that are comparable in amount, duration, and scope to all medically needy groups; and offer certain minimum services, including a mix of institutional and noninstitutional services.

Currently, California offers the full scope of benefits to an estimated 306,000 medically needy eligibles, at an estimated current-year cost of $434 million (all funds). Of this amount $183.5 million is in optional services.

Reimbursement of Hospitals

Previous federal law required the Medi-Cal program to reimburse hospitals, for their "reasonable costs" or charges, whichever was less. The reconciliation act requires states, instead, to pay hospitals rates which (1) are "reasonable and adequate to meet the costs which must be incurred by efficiently and economically operated facilities," (2) are sufficient to provide care in accordance with applicable laws and quality and safety standards, and (3) take into account the unusual costs incurred by hospitals, especially public and teaching hospitals, serving large numbers of low-income patients, and assure reasonable access to services of adequate quality.

Laboratory Services

The act permits states to purchase laboratory services and medical devices through a competitive bidding process or other arrangement if adequate services or devices will be available to beneficiaries. Laboratories selected to provide services must meet quality standards and can do no more than 75 percent of their total business with Medi-Cal and Medicare.

DEPARTMENT OF HEALTH SERVICES—Continued

Provider Lock-Out

The act authorizes states to "lock out" from participation for a reasonable period providers who abuse the program. A state may impose these restrictions following notice and opportunity for a hearing.

Freedom-of-Choice Waivers

Under the provisions of the Reconciliation Act, a state may obtain a federal waiver to (1) implement a primary care case management system or a physician specialty arrangement (2) allow a locality to act as a central broker in assisting Medicaid beneficiaries in selecting among competing health plans, and (3) restrict the list of providers from whom beneficiaries can obtain services in other than emergency circumstances. Under previous law, states were required to allow Medicaid recipients to choose from among any of the providers, practitioners, and suppliers of health services who participate in the program.

Payment for Home- and Community-Based Services

The act authorizes DHHS to grant waivers which would allow states to receive federal matching funds for home- or community-based services, except for room and board, provided to individuals who would require care in a nursing home or intermediate care facility without these services. Specific services authorized for payment include case management, adult day health, habilitation services, and respite care. Such services must be provided pursuant to a written plan of care. Under previous law, federal matching was available only for services which are primarily medical in nature.

Flexibility in Prepaid Health Plan Contracts

The act allows states to enter into prepaid "at-risk" contracts with organizations other than federally qualified health maintenance organizations (HMOs) which (1) make covered services accessible to enrollees to the same extent that these services are available to other plan enrollees and (2) are not at risk of insolvency. The maximum enrollment limit for Medicare and Medi-Cal beneficiaries was increased from 50 to 75 percent.

Major New Savings Proposals

The administration proposes Medi-Cal spending reductions in 1982–83, in the amount of $185.6 million ($89.3 million General Fund). These reductions would be in addition to the substantial reductions in expenditure resulting from implementation in prior years of other cost-saving measures. The proposal to reduce expenditures has the following elements:

1. Eligibility Changes

Tightened Income Standards. The budget proposes to lower the maximum allowable income limit for persons applying to Medi-Cal as medically indigent or medically needy. Aged, blind and disabled persons would not be affected. Under current law, income limits are 15 percent above the AFDC welfare cash grant level. Under this proposal, the income limits would be equal to the AFDC grant level. The budget assumes savings from this change amounting to $25.5 million ($17.6 million General Fund).

Parental Financial Responsibilities. The department proposes to make parents financially responsible for health care services provided to children under age 21 living away from home, unless parental financial responsibility has been removed through legal action. The budget assumes savings of $4 million ($2 million General Fund) from this change.

Delayed Eligibility. The department proposes to delay Medi-Cal eligibility determination while applicants obtain supporting documentation concerning the value of real and personal property and private health insurance coverage. Currently, applicants have 60 days to obtain needed support documentation while they receive benefits under the program. The budget assumes savings of $3 million ($2.1 million General Fund) resulting from more accurate reporting of assets.

Elimination of Retroactive Coverage. The budget proposes to eliminate retroactive coverage for medically indigent adults. Currently, the Medi-Cal program will pay for medical services received up to three months before the date of application. The budget assumes that savings from this proposal will total $5.3 million—all of it to the General Fund.

2. Benefit Changes

Reduced Dental Coverage. The budget proposes to eliminate dental coverage for adults, an optional service under federal law, except for emergency care and dentures. This would save an estimated $80 million ($34.3 million General Fund) in the budget year, and would reduce expenditures on dental services from $181 million to $101 million.

Suspend Benefits for Medically Indigent Adults. The budget proposes to suspend for one year, certain benefits for recipients in the medically indigent adult category. Benefits proposed to be suspended include: chiropractic, podiatry, optometry/eye appliances, psychology, medical transportation, acupuncture, physical therapy, speech therapy, occupational therapy, and audiology. General Fund savings from the suspension are estimated to be $17.6 million.

3. Reimbursement Changes

Phantom Rate Increase. One part of the budget provides a rate increase which another part of the budget removes. The rate increase item contains $127.8 million ($79.9 million General Fund) for Medi-Cal providers, which is sufficient for a 5 percent rate *increase.* The item which provides funding for Medi-Cal health care services, however, was reduced by $159.5 million ($80 million General Fund) to reflect rate *decreases.* The net effect of proposed rate changes is to *reduce* Medi-Cal expenditures by $31.9 million ($200,000 General Fund). The Department of Finance states that the numbers are in error and that the intent was to have no net increases or decreases.

The budget does not indicate which providers should receive rate increases and which should have their rates reduced. The budget states that the administration intends in its rate proposal to treat provider groups as equitably as possible while (a) maintaining recipient access to high priority services and (b) protecting efficient providers who serve large numbers of Medi-Cal patients. High priority services are identified as prenatal and maternity care, family planning, primary care, and child health and disability prevention (CHDP) services. The budget does not provide criteria for determining which providers would be protected under the rate proposal. The Department of Finance indicates that the administration will submit a detailed rate proposal to the Legislature by April 1, 1982.

DEPARTMENT OF HEALTH SERVICES—Continued

4. System Changes

Transfer of Medically Indigent-Adults to Counties. The department proposes to reevaluate the Medically Indigent-Adult (MIA) program. The budget further indicates that the administration will work with the Legislature on a plan to substitute county-organized health care programs for the current fee-for-service program for MIAs.

5. Program Administration

Faster Recovery of Overpayments. The department proposes to collect overpayments to hospitals immediately upon completion of an audit. Currently, overpayments are recovered at the end of a two- to three-year audit appeal process. The budget assumes that this proposal would result in savings of $10 million ($5.9 million General Fund).

Postpone Elective Services. The department proposes to postpone elective surgeries and other services by tightening definitions of medical necessity. Examples of specific elective services to be postponed are tonsillectomies, hysterectomies, hernia repairs and gall bladder removals. The budget assumes that this proposal would result in savings of $4.3 million ($2.4 million General Fund).

Dental Utilization Control. The budget proposes additional utilization controls for those who remain eligible for dental services. The budget assumes that tighter utilization controls on dental services would save $4.2 million ($2.0 million General Fund).

C. BUDGET REQUEST

The budget proposes expenditures of $4,874,216,000 ($2,773,874,000 General Fund) for Medi-Cal local assistance, which is $51,769,000, or 1.1 percent, *below* current-year estimated expenditures. Medi-Cal local assistance funding is contained in two items of the Budget Bill, Items 4260-101-001 and 4260-106-001. These items contain funding requests for (1) pur-

Table 34
Proposed Medi-Cal Funding
1982–83
(in thousands)

	General Fund	*Federal Funds*	*Other Funds*[a]	*All Funds*
A. Health care services[a]				
1. Purchase of services	$2,551,361	$1,864,225	$86,665	$4,502,251
2. Provider rate decreases	(−80,000)	(−79,500)	—	(−159,500)
3. Provider rate increases	79,855	47,962	—	127,817
B. County administration				
1. Eligibility determinations	119,200	67,032	—	186,232
2. Cost-of-living adjustment	5,580	1,998	—	7,578
C. Claims processing				
1. Fiscal intermediary contracts	17,878	32,460	—	50,338
Subtotals, local assistance	$2,773,874	$2,013,677	$86,665	$4,874,216
D. Department support	39,383	53,314	-	92,697
Totals	$2,813,257	$2,066,991	$86,665	$4,966,913

[a] Includes county funds and reimbursements from the Department of Social Services for refugee costs.

chase of Medi-Cal health care services, (2) county Medi-Cal eligibility determination services, and (3) processing and payment of Medi-Cal claims for services rendered.

The budget proposes expenditures of $92,697,000 ($39,383,000 General Fund) for support of Medi-Cal program activities in the department. This is an increase of $4,320,000 ($2,306,000 General Fund), or 4.9 percent over current-year estimated expenditures.

Table 34 shows the proposed funding level for the Medi-Cal program.

Department Support

The budget proposes 161 new Medi-Cal program positions, at a cost of $4,472,000 ($2,482,000 General Fund). Of these positions, 100 are requested to implement AB 251, and 61 are for other purposes. Most of the AB 251 positions were administratively added in the current year.

Table 35 lists the proposed new positions.

Table 35

1982–83 Proposed New Medi-Cal Program Positions [a]
(dollars in thousands)

	Positions	General Fund	All Funds
A. AB 251 implementation			
1. Quality control reviews	30	$591	$876
2. Recoveries from estates	6	74	135
3. Improved recovery from health insurance	42	438	804
4. Recovery of overpayments to recipients—Recovery section	2	21	38
5. Implementation of recovery contract with private collection agency	2	40	74
6. Recovery from worker's compensation	8	117	214
7. Implementation of pilot projects	7	143	232
8. Recovery of overpayments to recipients—Eligibility section	1	43	79
9. Data processing	1	40	80
10. Legal services	1	23	42
Subtotals	100	$1,529	$2,575
B. Staff for major new savings proposals			
1. Dental utilization controls	7	$134	$246
2. Changes in eligibility standards	1	27	32
3. Changes in Medi-Cal provider rates	2	25	29
4. Changes in hospital reimbursements	2	25	29
Subtotals	12	$210	$337
C. Other Medi-Cal staff increases			
1. Expansion of anti-fraud investigations	35	$590	$1,036
2. Continuation of "MEDS" computer project limited-term positions	13	133	488
3. Development of Short-Doyle/Medi-Cal rates	1	19	35
Subtotals	49	$743	$1,560
Totals	161	$2,482	$4,472

[a] Dollars may not add to totals due to rounding.

DEPARTMENT OF HEALTH SERVICES—Continued

Medi-Cal Provider Rate Increases Unfunded

The proposed level of funding for the Medi-Cal program is not sufficient to furnish any provider cost-of-living adjustments (COLAs). Table 36 shows that it would cost approximately $116.6 million General Fund to fund statutory COLAs, nursing home COLAs (at the state plan level), and provide a 5 percent COLA for all other providers.

Table 36

1982–83 Medi-Cal Cost-of-Living Adjustments (in millions)

	General Fund	*All Funds*
A. Statutorily required COLAs		
1. Hospital inpatient services at 11.65 percent	$55.7	$88.3
2. Drug ingredients at 4.6 percent	1.9	3.4
Subtotals	$57.6	$91.7
B. Skilled nursing and intermediate care facilities (including state hospitals)		
1. Employees at 5 percent	$13.7	$27.2
2. Food, laundry, etc., at 8 percent	6.8	13.5
3. Property taxes at 2 percent	—	0.1
4. Fixed costs	—	—
Subtotals	$20.5	$40.8
C. Discretionary COLAs at 5 percent		
1. Physicians	$16.2	$28.3
2. Hospital outpatient	5.1	8.8
3. Pharmacy dispensing fees	2.4	4.5
4. Dentists	4.4	8.9
5. Others	10.4	16.0
Subtotals	$38.5	$66.5
Totals	$116.6	$199.0

1982–83 Abortions Funding

The budget assumes that the circumstances under which the Medi-Cal program will pay for abortions will not be restricted in 1982–83. Consequently, the Budget Bill proposes no control language related to abortion funding, and includes $38,387,000 ($38,264,000 General Fund) for that purpose. This amount is sufficient to fund the current level of an estimated 95,900 elective and medically necessary abortions.

Medi-Cal Health Care Services Funding

This section contains a discussion of the current- and budget-year funding requirements for Medi-Cal health services. The section is divided into two parts. The first discusses the causes of the current-year deficiency. The second discusses the budget-year funding proposals. The major causes for funding changes in both fiscal years are shown on Table 37.

The highlights of this section are as follows:

- *Current-Year Deficiency.* The department projects a $168 million General Fund deficit in the current year. This deficiency is primarily due to (1) federal funding cuts, (2) reductions in estimates of savings resulting from AB 251 program changes, and (3) various accounting adjustments.

Table 37
Medi-Cal Health Care Services
Proposed Budget Changes
(in millions)

	General Fund	*All Funds*
A. 1981 Budget Act		
1. Appropriation	$2,408.8	$4,436.0
2. Refugee reimbursements	—	72.3
B. Funds made available by Ch 1004/81, (AB 1540)		
1. Accounting adjustment savings	—	39.3
2. Federal payment on prior-year disability pending claims	—	26.0
C. Total funds available, 1981–82	$2,408.8	$4,573.6
D. Factors responsible for the current-year deficiency		
1. Federal funding reductions due to reconciliation act	$42.8	—
2. Reductions in AB 251 savings estimates excluding hospital 6 percent COLA limit	63.1	$105.6
3. Carry-over of 1980–81 deficiency into 1981–82	7.3	12.7
4. State hospital population increase and more rapid billing process	18.4	36.9
5. Costs from accounting adjustments	22.0	—
6. Payment of federal share of recovered hospital overpayments	18.8	—
7. Federal audit exceptions: PHP and sterilization claims	9.7	—
8. Revised estimate of federal funding for disability pending cases	7.1	—
9. Net of all other changes	–21.2	–47.3
Subtotals	$168.0	$107.9
E. Estimated 1981–82 expenditures, revised	$2,576.8	$4,681.5
F. Factors responsible for budget-year change		
1. Major new policy proposals (net effect)	–$89.3	–$185.6
2. Increased savings from AB 251 hospital COLA limit applied to 1982–83	–56.1	–79.8
3. Increased savings from AB 251 excluding hospital COLA limit	–48.0	–84.9
4. Increased savings from department cost control projects	–54.9	–90.6
5. Additional federal funding reductions	34.1	—
6. Increased Medicare deductibles due to reconciliation act	5.3	10.6
7. Increased refugee costs	11.2	35.2
8. Reduced audit, lawsuit, settlements, accounting adjustments	–13.1	–12.7
9. Implementation of ICF-DD(H) rate changes	2.7	5.4
10. Net of all other policy changes	–18.8	53.9
11. Changes in caseload, units of service per user, cost per unit of service	281.3	297.1
Subtotals	$54.4	–$51.4
G. Proposed expenditures for 1982–83	$2,631.2	$4,630.1 [a]

[a] Includes appropriations of $4,543.4 million, plus $85.2 million of refugee reimbursements and $1.5 million of county funds.

- The deficiency would be larger had it not been for one-time accounting adjustments and federal payments related to prior-year services.
- ***Budget-Year Request.*** The budget proposes expenditures of $2,631.2 million from the General Fund. This is $54.4 million more than the amount estimated to be expended in the current fiscal year.
- In the aggregate, proposed provider rate reductions offset proposed cost-of-living adjustments (COLAs). The budget does not specify which types of providers would receive net rate increases and which would receive net rate decreases.

DEPARTMENT OF HEALTH SERVICES—Continued

- The budget assumes that current-year hospital payment limitations established by AB 251 will be applied throughout the budget year. If the limitations are not upheld by the courts, an additional $162.8 million ($110.4 million General Fund) will be required to fund statutory hospital COLAs.
- The budget assumes that implementation of major new cost reduction proposals will result in General Fund savings of $89.3 million. Several of these proposals will be controversial, including the proposal to eliminate most dental coverage for adults. When these proposals are fully implemented, the department projects annual General Fund savings of $95.1 million.
- Recent changes in federal law will cost the General Fund $82.2 million in the budget year. This is a net increase of $39.4 million over current-year estimated costs.

A. Current-Year Deficiency in Health Care Services

The department projects a $168 million General Fund deficiency for Medi-Cal health care services. This is 6.8 percent of General Fund appropriations. Major factors responsible for the current-year deficiency are shown on Table 37 and described below.

Federal Funding Reductions. The reconciliation act made several important changes which affect the Medi-Cal program. The most significant of these changes is a 3 percent reduction in federal fiscal participation in FFY 82 and a 4 percent reduction in FFY 83. The estimated impact of

Table 38

Revisions in Current-Year AB 251 Savings Estimates [a]
(in millions)

	Current-Year Savings Assumed in Budget Act	*Current-Year Savings Assumed in Proposed Budget*	*Difference*
A. Eligibility			
1. Reduction of continuous eligibility period	$0.7	$0.1	$0.6
2. Quarterly determination of share of cost	5.2	0.1	5.1
B. Reimbursement			
1. Introduction of copayments	24.8	—	24.8
2. Medicare crossover claims rate reduction	10.5	9.7	0.8
3. Reduced laboratory rates	1.4	0.1	1.3
C. Program administration			
1. Recoveries from estates	1.3	0.3	1.0
2. Recovery from workers' compensation	2.0	0.2	1.8
3. Recoveries by private collection agency	5.5	0.2	5.3
4. Increased interest on overpayments	0.9	—	0.9
5. Quality control reviews of eligibility determination process	20.0	—	20.0
6. Label relief	—	−1.3	1.3
D. Other	13.2	13.0	0.2
Total, General Fund	$85.5	$22.4	$63.1
Federal funds	59.0	16.5	42.5
Total, all funds	$144.5	$38.9	$105.6

[a] Excludes hospital 6 percent COLA limit.

these reductions on the General Fund is to increase costs by $42.8 million in the current year.

Reductions in Assembly Bill 251 Savings Estimates. The Medi-Cal appropriation in the 1981 Budget Act was based on the assumption that AB 251 would result in $85.5 million in General Fund savings during the current year. The most recent estimates prepared by the department indicate that current-year General Fund AB 251 savings will be $63.1 million *less* than assumed in the Budget Act. Table 38 displays the revisions in the AB 251 savings estimates. Seventy percent of the reductions in estimated savings relate to two items: copayments and quality control.

Other Changes. In addition to the federal funding and AB 251 changes, the Medi-Cal estimates reflect a large number of other changes which have contributed to the current-year deficiency. Factors responsible for some of the larger elements of the deficiency are discussed below:

- The Medi-Cal program did not have sufficient funds to honor all outstanding claims for services performed at the end of 1980–81. These claims were paid in the current year.
- State hospital claims are expected to be higher than originally anticipated because the billing system has been improved, resulting in approximately 13.5 months of claims being paid in a 12-month period. Additionally, population estimates and ancillary charges have increased since the May 1981 estimate.
- Accounting adjustments will result in a net savings to the General Fund of approximately $17.3 million reflecting $39.3 million in savings and $22 million of costs. These adjustments are being made because the department over a period of years made errors in the way it posted both state and federal funds to the Health Care Deposit Fund (HCDF).
- The department must return to the federal government the federal share of certain hospital overpayment recoveries which was retained by the department in error. The department informs us the federal share of such recoveries is now being correctly returned to the federal government.
- Federal government audit exceptions add $9.7 million to the current-year deficiency. These audit exceptions occurred in part because (a) certain persons who were enrolled in prepaid health plans (PHPs) also received services on a fee-for-service basis and (b) the former fiscal intermediary had not adequately enforced federal requirements for submission of sterilization consent forms. The department informs us that it has installed procedures to prevent additional audit exceptions in these areas.
- The department has reduced its estimate of federal payments to satisfy prior-year state claims for services received by Medi-Cal eligibles who were retroactively certified as disabled.

Reliability of Health Care Services Expenditure Estimates. Historically, the December Medi-Cal expenditure estimates have not been able to project precisely the year-end expenditures. For example, the December 1980 estimate projected a 1980–81 deficiency of $94.1 million from the General Fund. The actual deficiency would have been $42.3 million, had no deficiency bill been passed. Table 39 shows that in the last four years the December estimates have tended to overestimate expenditures by 2.3 to 6.2 percent.

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Table 39
Reliability of Medi-Cal December Estimates
General Fund Expenditures for Health Care Services
(in millions)

	December Estimate	*Actual Expenditures*	*Difference Amount*	*Difference Percent*
1980–81	$2,353.1	$2,300.8[a]	$52.3	2.3%
1979–80	1,958.5	1,888.0	70.5	3.7
1978–79	1,907.4	1,796.0	111.4	6.2
1977–78	1,718.4	1,676.5[b]	41.9	2.5

[a] Includes $7.3 million of bills which could not be paid due to insufficient appropriations. These bills were paid in 1981–82.

[b] Includes an estimated $50 million of bills which could not be paid due to insufficient appropriations. These bills were paid in 1978–79.

Reliably estimating Medi-Cal program expenditures is made difficult by the large number of changes which the program is currently undergoing. For example, the estimates include many assumptions on the amount of savings which will occur due to departmental cost control measures and implementation of AB 251.

Our analysis indicates that the Medi-Cal deficiency could be less than the $168 million projected for health care services in the budget. Two simple ways of projecting current-year expenditures indicate that the deficiency could be in the $48 to $70 million range. One way of projecting expenditures is to assume that current-year expenditures will be 20 percent greater then past-year expenditures, consistent with experience through December 1981. If this expenditure trend continues for the remainder of the current year, then the deficiency for health care services will be approximately $70 million. Another way of projecting expenditures is to assume that cumulative expenditures through December will again represent 48 percent of the year's total. If this pattern remains unchanged, the deficiency will be approximately $48 million.

These estimates, and the department's estimate, assume that the state will be able to implement the hospital reimbursement limitation required by AB 251. If the state is not able to limit hospital reimbursement increases to 6 percent as required by AB 251, then the Medi-Cal deficiency will increase by approximately $56 million. The deficiency would then be in the $104 to $127 million range. The department's estimate of the deficiency increase from $168 to $224 million.

B. Budget Request for Health Care Services

The budget proposes expenditures of $4,630.1 million ($2,631.2 million General Fund) for health care services provided to Medi-Cal recipients. This is a decrease of $51.4 million, or 1 percent, from current-year estimated expenditures. It is an increase of $54.4 million General Fund above current-year estimated expenditures. Table 37 on page 861 summarizes the major proposed funding changes in the budget. The major elements of the budget proposal are discussed below.

Major New Policy Proposals. The budget proposes major new policy changes which would have the net effect of reducing Medi-Cal health care expenditures by $185.6 million ($89.3 million General Fund) in 1982–83. The department projects annual savings of $161 million ($95.1 million

General Fund) after the proposals are fully implemented. These proposed policy changes are displayed in Table 40.

Table 40
Projected Savings from Major New 1982-83 Policy Proposals
(in millions)

	General Fund	*All Funds*
A. Eligibility changes		
1. Tighten income standards	−$17.6	−$25.5
2. Increase parental financial responsibility	−2.0	−4.0
3. Delay eligibility pending verifications of certain facts	−2.1	−3.0
4. Eliminate retroactive eligibility for medically indigent adults	−5.3	−5.3
B. Benefits changes		
1. Eliminate most dental coverage for adult recipients	−34.3	−80.0
2. Suspend some benefits for medically indigent adults	−17.6	−17.6
C. Reimbursement changes		
1. 5 percent provider rate increase	79.9	127.8
2. Provider rate decrease	−80.0	−159.5
D. Program administration		
1. Collect overpayments prior to audit appeal	−5.9	−10.0
2. Postpone elective services	−2.4	−4.3
3. Implement dental utilization controls	−2.0	−4.2
	−$89.3	−$185.6

Hospital Reimbursement. The budget also proposes to extend the 6 percent limit on cost-of-living adjustments (COLAs) imposed on hospital reimbursements during the current year by AB 251, through 1982-83. This would result in a total reduction of $162.8 million ($110.4 million General Fund) in hospital reimbursements from the reimbursement level that would be required by existing law if there were no cap. The net amount above the current-year savings to be realized in 1982-83 is $79.8 million ($56.1 million General Fund).

In addition, the budget proposes no funds for the statutorily required 11.65 percent hospital inpatient COLA, for a savings of $88.3 million, of which $55.7 million is General Fund.

The two proposed hospital reimbursement reductions thus would save $251.1 million ($166.1 million General Fund) in 1982-83. These reductions would be in addition to (1) an estimated $97.6 million ($63.2 million General Fund) in hospital revenue reductions which will result from various cost control and fraud and abuse projects the department has already implemented and (2) an estimated $10 million ($5.9 million General Fund) in savings from faster recovery of hospital overpayments. Table 41 shows the aggregate effect of policy changes for 1981-82 and 1982-83 on hospital revenues in the budget year.

The hospital rate proposals set forth in the budget have important policy, legal, and fiscal implications.

First, the legality of the 6 percent COLA limitation is being challenged in court. If the courts find that the state's hospital reimbursement limitations are not in conformity with federal law, the General Fund portion of the Medi-Cal budget for 1982-83 *will be underfunded by at least $110.4 million.* If the budget-year hospital COLA proposal is also found to be out of conformity with federal law, *the budget could be underfunded by as much as $166.1 million General Fund.* Second, the Legislature has not had the opportunity to evaluate the impact that the rate and revenue reductions would have on those hospitals which are heavily dependent on the Medi-Cal program and on Medi-Cal patients' access to hospital services

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Table 41

Effect of Medi-Cal Policy Changes Which Reduce 1982–83 Hospital Inpatient Revenues (in millions)

	General Fund	*All Funds*
A. Existing policy changes		
1. Increased interest charges on overpayments (AB 251)	$1.8	$3.2
2. "Administrative day" rate reductions	1.4	2.8
3. Project to control hospital infections	4.1	6.8
4. Limitations on allowable cost increases	26.4	38.7
5. 55 percent occupancy standard (rate reduction)	13.7	21.6
6. Reviews of extended hospital stays	3.5	5.3
7. Reviews of ancillary charges	10.7	16.8
8. Review of emergency admissions	1.6	2.4
Subtotals	$63.2	$97.6
B. Proposed policy changes		
1. Apply 1981–82 6 percent COLA limit to 1982–83 base	$110.4	$162.8
2. Provide no 1982–83 COLA	55.7	88.3
3. Begin recovery of hospital overpayments prior to audit appeal	5.9	10.0
Subtotals	$172.0	$261.1
Totals	$235.2	$358.7

Table 42

AB 251 General Fund Savings Estimates [a] (in millions)

	Estimated 1981–82	*Proposed 1982–83*
A. Eligibility		
1. Tightened income standard	$7.1	$20.3
2. Reduction of continuous eligibility period	0.1	0.6
3. Quarterly determination of share of cost	0.1	1.4
4. Reduce income exemption for nursing home residents by $20	4.7	8.2
B. Reimbursement		
1. Medicare crossover claims rate reduction	9.7	30.6
2. Reduced laboratory rates	0.1	0.1
C. Program administration		
1. Recoveries from estates	0.3	1.1
2. Health insurance identification	—	2.8
3. Recovery from ineligible recipients	—	2.4
4. Recovery from workers' compensation	0.2	0.7
5. Recoveries by private collection agency	0.2	0.6
6. Increased interest on overpayments	—	1.8
7. Label relief	−1.3	−5.3
D. Other	1.1	5.1
Totals, General Fund	$22.4	$70.4
Federal funds	17.6	54.5
Totals, all funds	$40.0	$124.9

[a] Excludes 6 percent hospital COLA limit.
[b] Details may not add to total, due to rounding.

including the five University of California hospitals.

The budget is silent on these subjects.

Increased AB 251 Savings. The budget projects that savings resulting from the implementation of AB 251 (excluding the 6 percent cap on hospital inpatient reimbursement rates) will increase to $124.9 million ($70.4 million General Fund) in 1982–83, which is an $84.9 million ($48 million General Fund) increase in savings over estimated current-year savings. Table 42 compares the current-year savings estimates with the estimates for the budget year.

Savings from Departmental Cost Control Projects. The budget projects that savings resulting from the implementation of 11 department-initiated cost control projects will increase to $124.1 million ($76.0 million General Fund) in the budget year. This is an increase of $90.6 million ($54.9 million General Fund) over estimated current-year savings. Of the total savings, $94.4 million ($61.4 million General Fund) relates to seven of the existing hospital cost control projects shown on Table 41. The remaining four projects account for $29.8 million ($14.7 million General Fund) savings in 1982–83. Three of the four are existing projects, and one is a proposed new project. These four projects are intended to:

- ***Existing Projects:*** Control recipients' overutilization of certain drugs and visits to doctors' offices, for a savings of $3.1 million ($1.8 million General Fund).
- Prevent issuance of Medi-Cal cards to persons who are enrolled in prepaid health plans, and duplicate capitation payments through the MEDS computer project, for a savings of $3.9 million ($2 million General Fund).
- Improve Medicare "buy-in" process, for a savings of $19.8 million ($9.9 million General Fund).
- ***New Project:*** Expanded investigation of fraud and abuse by providers and recipients, for a savings of $2 million ($1 million General Fund). (Requires approval of 35 proposed positions.)

Federal Law Changes. The federal Omnibus Budget Reconciliation Act made two changes in law which will add directly to state Medi-Cal costs in 1982–83. First, federal fiscal participation in the Medi-Cal program will be reduced by an estimated 4 percent. This change adds an estimated $76.9 million to General Fund cost, an increase of $34.1 million over the added cost of the reduction in federal funding reflected in the 1981–82 expenditure estimates. Second, Congress increased the deductibles paid by persons who are eligible for the federal Medicare program. The Medi-Cal program is affected by this change because the state buys Medicare coverage for eligible Medi-Cal persons in order to reduce state costs. The increased deductibles are estimated to cost $14.3 million ($7.1 million General Fund), which is a $10.6 million ($5.3 million General Fund) increase from the estimated cost of the change in the current year.

Refugee Costs. The estimates assume the number of Indochinese refugees will increase from 158,500 in the current year to 209,800 in 1982–83. This will increase refugee medical costs from $104.9 million in 1981–82 to $140.1 million (all funds) in the budget year. The federal government pays for 100 percent of the costs incurred in providing care to a refugee during his or her first three years of residence in this country. After that, the state must pay for half of the refugee's medical expenses if the refugee is eligible for Medi-Cal as categorically needy or medically needy. The state must pay 100 percent of the refugee's medical expenses if the refugee is a medically indigent adult. The department estimates that the General

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Fund cost of providing care to refugees will increase from $8.0 million in the current year to $19.2 million in 1982–83.

Caseload, Utilization, and Cost per Patient. The December estimates project $297.1 million ($281.3 million General Fund) in increases due to caseload, utilization, and cost per patient increases in 1982–83. This is a General Fund increase of 8.8 percent above current-year estimated expenditures. Approximately $120.1 million ($97.9 million General Fund) of the increase is due to projected increases in the number of patients served in various service categories. Most of the increase is in the number of hospital inpatients served, although substantial increases are also projected for physicians' services and drugs.

The average Medi-Cal patient is also expected to use more services (visits to the doctor, more drugs, more days of hospital care) than he/she used in 1980–81. Increased utilization will account for an estimated $22.2 million ($14.3 million General Fund) of the total increase. The balance of the increase in this category is due to changes in the cost per unit of service. Some of this increase is caused by the carry-over effect of prior-year rate adjustments. In addition, changes in case mix and level of service provided affect unit costs.

Medi-Cal County Administration Funding

The following section contains a discussion of the current- and budget-year funding requirements for county Medi-Cal eligibility determination activities. The first part discusses the causes of the current-year deficiency and the second part discusses the factors responsible for the budget year increase. The major causes for the funding changes in both fiscal years are shown in Table 43.

A. Current-Year Deficiency in County Administration

The budget projects a $9.9 million General Fund deficiency in Medi-Cal county administration for the current year. This is 9.3 percent of the current-year appropriation. The major factors which explain the deficiency are:

- Federal fiscal participation was reduced by 3 percent, effective October 1981, as a result of the reconciliation act.
- The costs of implementing AB 251 at the county level were not included in the 1981 Budget Act. The major cost elements relate to:
  - A one-time project to recalculate recipient share-of-cost obligations based on revised income standards.
  - Implementation of a system which allows counties to verify wages reported by recipients.
  - A one-time project to recalculate monthly Medi-Cal payment amounts due to elimination of the $20 income exemption for nursing home patients.
- Recent state and federal law and regulation changes have made approximately 38,000 persons ineligible for AFDC cash assistance. When the affected individuals were AFDC-eligible, they received a Medi-Cal card *automatically.* The department's estimates assume that such individuals will apply for and receive Medi-Cal cards under the medically needy category, resulting in increases in Medi-Cal county administrative expenses. This accounts for a substantial portion of the deficiency.

Table 43
Medi-Cal County Administration
Proposed Budget Changes [a]
(in thousands)

	General Fund	*All Funds*
A. 1981 Budget Act appropriation	$106,962	$163,702
B. Factors responsible for the current-year deficiency		
1. Major new items of cost not in Budget Act appropriation		
a. Federal funding reductions	1,359	—
b. County cost of implementing AB 251	2,636	4,081
c. County cost of adding former AFDC recipients to Medi-Cal caseload (effect of AFDC law changes)	4,389	8,743
d. Carry-over of 1980–81 deficiency into 1981–82	1,961	2,927
e. Accounting adjustments	981	981
Subtotals	$11,327	$16,733
2. Major reestimates which have increased 1981–82 costs		
a. Prior period claims	$926	–$176
b. Reduced savings: MEDS Project	622	648
c. Reduced savings: changes in cost allocation methodology	977	1,524
Subtotals	$2,525	$1,996
3. Reestimates which have reduced 1981–82 costs		
a. Decision to sanction L.A. County on status reporting	–$1,622	–$2,420
b. Reduced refugee caseload estimates	–946	–2,138
c. Postponement of Social Security number cleanup project	–539	–948
d. Delays in implementing county PHP marketing	–510	–1,021
e. Delays in implementing a system to verify property holdings of long-term care patients	–318	–636
f. Other minor changes	–10	180
Subtotals	–$3,945	–$6,983
Totals	$9,907	$11,746
C. 1981–82 revised estimates	$116,869	$175,448
D. Factors responsible for budget year increase		
1. 7.6 percent increase in applications workload	$3,976	$5,934
2. 5 percent cost-of-living adjustment	5,580	7,578
3. Increased efficiency (cost control plan)	–2,007	–2,996
4. Additional federal reductions	1,252	6
5. Additional funding for L.A. County hospitals	1,310	1,956
6. Expanded county PHP marketing	563	1,126
7. Additional administrative costs for refugees	667	382
8. Increased MEDS project savings	–1,779	–2,700
9. Transfer of EPSDT county administration costs to the Medi-Cal item	2,714	11,436
10. Other one-time adjustments	–4,677	–4,678
11. Net of all other changes	312	318
Subtotals	$7,911	$18,362
Proposed budget, 1982–83	$124,780	$193,810

[a] Individual items may not add to totals due to rounding.

- The 1980–81 appropriation was not sufficient to honor all valid county administrative claims. These claims were carried forward and paid from the 1981 Budget Act appropriation.
- Additional General Fund money is required to pay certain prior period claims because the federal government will not participate in claims for services performed before October 1, 1979. These claims have been submitted principally by Los Angeles County.
- Estimates of county savings resulting from the MEDS computer

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project have been reduced.
- Savings due to changes in the county welfare department overhead cost allocation system had been overestimated.

Factors decreasing projected county administration costs in the current year are:
- The department proposes to sanction Los Angeles County for not processing quarterly recipient status reports.
- Refugee caseload estimates have declined.
- The social security number cleanup project was postponed.
- Implementation of the county PHP marketing project was delayed.
- Implementation of a system to verify the property holdings of nursing home residents was delayed.

B. Budget Request for County Administration

The budget proposes an appropriation for Medi-Cal county administration of $193.8 million ($124.8 million General Fund), which is an $18.4 million ($7.9 million General Fund), or 6.8 percent, increase over current-year estimated expenditures. Most of the increase is caused by two items: (1) a proposed 5 percent cost-of-living increase for county welfare departments and (2) a projected 7.6 percent increase in the number of persons who apply for Medi-Cal.

Federal funding reductions are projected to increase from 3 percent in the current year to 4 percent in the budget year. The department estimates that total federal funding reductions in the budget year will be $2.6 million.

Medi-Cal Claims Processing Funding

The department does not directly pay doctors, pharmacists, hospitals, nursing homes and other providers for the services they render. Instead, the department has contracts with Computer Sciences Corporation (CSC) and three other organizations for the processing of Medi-Cal claims. This section contains a discussion of the current and budget year funding requirements for Medi-Cal claims processing services.

Background. In September 1978, the state signed a competitively bid, five and one-half year contract with Computer Sciences Corporation (CSC) and initiated the transition to a new claims processing system. Between the inception of the Medi-Cal program in 1966 and the award of the CSC contract, the state had contracted on a "no profit no loss" basis with the Blue Shield and Blue Cross organizations and Medi-Cal Intermediary Operations (MIO) as a fiscal intermediary for Medi-Cal claims processing services.

The CSC contract provides for a different method of payment for claims processing services. Instead of providing reimbursement for actual operating costs, the CSC contract calls for the state to pay a fixed price per claim, for most claims. The contract also provides for state, rather than private, ownership and control of the computer programs used to process claims. The contract has general performance standards, and liquidated damages provisions in the event of substandard performance. Under this contract, the state has assumed substantially expanded responsibilities in the areas of (1) development of medical payment policy, (2) fraud detection and control, (3) recovery of money from insurance companies, and (4) control over the master provider file.

A. Current-Year Deficiency in Fiscal Intermediary Services

The budget projects current-year expenditures for fiscal intermediary services exceeding the amount appropriated in the 1981 Budget Act by $5.4 million ($2.3 million General Fund). The causes of the deficiency are summarized in Table 44.

Table 44

Medi-Cal Fiscal Intermediary Services [a]
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
A. 1981 Budget Act appropriation	$16,703	$51,845
B. Factors responsible for the current-year deficiency		
1. Carry-over of 1980–81 deficiency into 1981–82	675	1,749
2. MIO contract: cost settlements	406	1,106
3. Estimated increases in fully reimbursable contract costs		
(a) MIO record retention contract	401	1,207
(b) Crossover claims contracts	65	260
(c) Controller's office	34	102
Subtotals	$500	$1,569
4. Computer Sciences Corporation contract		
(a) Elimination of label review change order per AB 251	–202	–363
(b) Postponement of ancillary review change order	–166	–500
(c) Reduced processing costs on Uniform Claim Form claims and diagnostic coding	–374	–383
(d) Implementation of crossover claims rate reductions	425	1,638
(e) Workload, sales taxes, and other changes	–330	61
Subtotals	–$647	$453
5. Federal funding reductions due to reconciliation act	879	—
6. Accounting adjustment	520	520
Subtotals	$2,333	$5,397
C. 1981–82 revised estimates	$19,036	$57,242
D. Factors responsible for the budget-year decrease		
1. Estimated increases in fully reimbursable contract costs		
(a) MIO records retention contract	$57	$172
(b) Crossover claims contracts	40	159
(c) Controller's office	100	301
Subtotals	$197	$632
2. Computer Sciences Corporation contract		
(a) Original contract		
(1) Reduction in design development costs	–96	–958
(2) Absence of 10 percent withhold payments	–135	–1,347
(3) Increased workload/decrease unit prices	260	783
(4) Decreased reimbursable costs	–60	–180
(5) Decreased sales taxes	–23	–222
Subtotals	–$54	–$1,924
(b) Changes ordered to original contract		
(1) Increased cost of diagnostic coding	173	520
(2) Termination of UCF claims form	–460	–1,382
(3) Reduced cost of processing new HCFA 1500 claim form	–166	–500
(4) Increased cost of processing crossover claims rate reduction	187	204
(5) Implement system to review hospital ancillary changes	166	500

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(6) Absence of one-time systems enhancements change order	−190	−1,900
(7) Absence of liquidated damages	214	386
(8) Other minor changes	−10	−25
Subtotals	−$66	−$2,147
3. Additional federal funding reductions	$385	—
4. One-time adjustments	−1,621	−$3,465
Subtotals	−$1,159	−$6,904
E. Proposed budget, 1982–83	$17,878	$50,338

[a] Dollars may not add to totals due to rounding.

There are five major reasons for the deficiency:

- The federal reconciliation act reduced the amount of federal matching funds available to the Medi-Cal program by 3 percent, effective October 1, 1981.
- The 1980–81 appropriation was insufficient to honor all outstanding claims for fiscal intermediary services. These claims were paid in the current year.
- In the current year, three cost settlements which relate to the former MIO contract were paid, following completion of state audits. The settlements were not budgeted and thus add to the deficiency.
- The contracts for records retention and crossover claims processing provide for full reimbursement of cost, as does the checkwrite agreement with the Controller's Office. The department indicates that the original estimates of costs underestimated the growth in claims volume.
- AB 251 required that physicians' fees for Medicare crossover claims be reduced in order to generate an estimated savings of $61.1 million ($30.5 million General Fund) in 1982–83. The costs of changing the CSC system were not budgeted.

Three additional changes which have occurred since passage of the 1981 Budget Act will reduce the size of the deficiency:

- A system change designed to permit greater review of hospital ancillary changes will be postponed until 1982–83.
- The cost of processing claims on the former contractor's form will be reduced because use of the form is being phased out.
- AB 251 requires the department to pay claims submitted without a proof-of-eligibility label if computers can verify that the patient was Medi-Cal eligible at the time of service. This prevented the department from reintroducing the label requirement, which had been discontinued when CSC became the fiscal intermediary. This provision results in administrative savings because the label review change order will not be implemented.

B. Budget Request for Fiscal Intermediary Services

The budget proposes the appropriation of $50.3 million ($17.9 million General Fund) for four different organizations involved in Medi-Cal claims processing and claims payment. This is a decrease of $6,904,000 ($1,159,000 General Fund), or 12.1 percent, below estimated current-year expenditures. Table 45 shows the organizations and the funding levels proposed for each, and compares estimated current-year expenditures to proposed 1982–83 funding levels.

Table 45
Fiscal Intermediary Expenditures From All Funds [a]
(in thousands)

	Estimated 1981–82	*Proposed 1982–83*	*Change* Amount	Percent
1. Computer Sciences Corporation				
A. Original contract				
Design, development, and 10 percent withholds	$2,305	—	–$2,305	–100.0%
Operations	29,430	$30,213	783	2.7
Reimbursable items	5,425	5,245	–180	–3.3
Sales tax	2,875	2,653	–222	–7.7
Subtotals	$40,034	$38,111	–$1,923	4.8%
B. Change orders				
ICD-9 coding	$2,478	$2,998	$520	21.0%
UCF change order	1,382	—	–1,382	–100.0
HCFA 1500 change order	500	—	–500	–100.0
Other potential change orders	500	525	25	5.0
Crossover change order	1,638	1,842	204	12.4
Systems enhancements change order	1,900	—	–1,900	–100.0
Ancillary review change order	—	500	500	N/A
Subtotals	$8,398	$5,865	–$2,533	–30.2%
C. Liquidated damages	–386	—	386	N/A
Subtotals	$48,046	$43,976	–$4,070	–8.5%
2. MIO record retention contract	$4,664	$2,635	–$2,029	–43.5
3. Medicare crossover claims contract	1,929	1,509	–419	–21.7
4. State Controller checkwrite agreement	2,082	2,218	135	6.5
5. Accounting adjustment	520	—	–520	–100.0
Totals	$57,242	$50,338	–$6,904	–12.1%

[a] Individual items may not add to totals due to rounding.

Table 44 presents a detailed listing of the factors which explain why fiscal intermediary costs are projected to decline in the budget year. The expenditure reduction is based primarily on the following assumptions:

- None of the current-year deficit will carry over into the budget year.
- There will be no MIO settlement audits to pay in 1982–83.
- There will be no final design and development, or 10 percent withhold payments to CSC in 1982–83.
- The UCF claims form will be terminated and the costs associated with processing it will be eliminated.
- The costs of the systems enhancement change order will be paid in full during the current year.

D. MEDI-CAL BUDGET ISSUES

The May Estimates

We recommend that the fiscal subcommittees defer action on the request for $2,773,874,000 (Item 4260-101-001 and 4260-106-001) until revised Medi-Cal expenditure estimates are submitted in May.

The $2,773,874,000 proposed for Medi-Cal program local assistance in 1982–83 is based on expenditure estimates prepared by the department in December 1981. The Department of Finance will transmit revised ex-

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penditure estimates to the Legislature in May 1982 and submit a Budget Change Letter requesting adjustments in the appropriation for the Medi-Cal program. We recommend that the fiscal subcommittees not take final action on this item until the May 1982 expenditure estimates are available and have been analyzed.

Transferability of Medi-Cal Funds

We recommend readoption of Budget Bill language, which was added by the Legislature to the 1981 Budget Act, limiting the transferability of funds between the subitems of the Medi-Cal local assistance item.

The Budget Bill does not include language which was adopted by the Legislature in the 1981 Budget Act to limit transferability of Medi-Cal funds. Their language limited the increase in expenditures under any subitem to not more than 3 percent, and required the Department of Finance to notify the Legislature prior to transferring funds.

The Budget Bill, as introduced, would give the administration unlimited flexibility to shift appropriated funds between the categories of Medi-Cal health care services, county eligibility determinations, and fiscal intermediary contracts. For example, funds from the $2,551,361,000 appropriated for health care services could instead be used to augment the amounts budgeted for county administration or fiscal intermediary contracts, without any prior review by the Legislature.

Such flexibility would remove the fiscal limits that now apply to eligibility determination activities and fiscal intermediary contracts. Because unlimited intra-item transferability would reduce the Legislature's ability to control funding for the fiscal intermediary contract and county Medi-Cal eligibility determination activities, we recommend that the language adopted in the 1981 Budget Act be included in the 1982 Budget Bill.

Legislative Notification of CSC Change Orders

We recommend that Budget Bill language added by the Legislature to the 1981 Budget Act be included in the Medi-Cal item for 1982–83.

The Budget Bill does not include language which was added by the Legislature to the 1981 Budget Act. The 1980 Budget Act language required that:

1. At least 30 days' prior notice be given to the Legislature before CSC change orders costing $250,000 or more are implemented.
2. The Legislature be notified if there are actual or potential changes in the availability of federal funding for CSC operations.

We recommend that the 1981 Budget Act language be included in the 1982 Budget Bill because (1) it is appropriate for the Legislature to have the opportunity to review major changes to the CSC system, (2) the Legislature should be made aware of changes in available federal funding.

Beneficiary Cost-of-Living Adjustment

We recommend that funding for beneficiary cost-of-living adjustments be reduced by $3,020,000 ($2,207,000 General Fund) to correct for overbudgeting.

Existing statutes require cost-of-living adjustments to the amount Medi-Cal beneficiaries can retain for living expenses. Such cost-of-living adjustments are based on the percentage change in the California Necessities Index (CNI). The effect of these adjustments is to allow MI and MN recipients to retain more of their income for living expenses, thereby reducing the amount they must spend on medical expenses.

The budget assumes that the CNI increased by 8.8 percent during the December 1980–December 1981 period, which is the base period for determining the size of the cost-of-living adjustment for 1982–83. The Commission on State Finance, which is responsible for determining the CNI, indicates that the increase was 8.2 percent, rather than 8.8 percent. The cost of an 8.2 percent increase is $19.6 million ($13.0 million General Fund), compared with the $22.6 million ($15.2 million General Fund) proposed for an 8.8 percent increase in the budget. Because the CNI increase was only 8.2 percent, rather than 8.8 percent, we recommend deletion of $3,020,000 ($2,207,000 General Fund).

Hospital Reimbursement Methods

We recommend that by April 1, 1982, the department prepare a report describing alternative payment methods which would (1) limit the rate of increase in reimbursements for hospital inpatient services and (2) be in conformity with recently enacted federal law.

During the current year, AB 251, as amended by Ch 1163/81 (AB 1260), limits the average Medi-Cal payment per discharge upon final audit settlement to an amount not to exceed 6 percent more than the average payment per discharge in 1980–81. This limitation on hospital reimbursements was enacted before Congress passed the 1981 Omnibus Budget Reconciliation Act of 1981, which modified federal law governing the hospital inpatient reimbursement methodology used by the Medi-Cal program. Consequently, the courts may rule that California law is not in conformity with federal law.

Under prior federal law, the Medi-Cal program had to reimburse hospitals on the basis of "reasonable costs." Under the reconciliation act, inpatient rates must be "reasonable and adequate" to meet the costs that must be incurred by "efficiently and economically operated" hospitals which provide services in accord with applicable laws, quality, and safety standards. Under the reconciliation act, the state may develop a rate methodology to define what reasonable and adequate rates are for efficient and economically operated hospitals. However, such rates must (1) take into account the situation of hospitals which serve a disproportionate number of low-income patients with special needs and (2) be adequate to assure that recipients have reasonable access to care, taking into account geographic location and reasonable travel time. The state must also provide an appeals procedure which allows individual hospitals an opportunity to submit evidence and request prompt administrative review of its payment rates.

We recommend that by April 1, 1982, the department submit to the fiscal committees a report describing alternative payment systems which could limit increases in reimbursements for hospital inpatient services that would be in conformity with federal law. In addition to listing and describing optional payment systems, the department should indicate what resources would be required to implement each option and how long implementation would take.

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County Administration

County Implementation of Assembly Bill 251

We withhold recommendation on funding for the implementation of AB 251 in county welfare departments, pending receipt of a report from the department explaining in detail how the various provisions of the bill will be implemented. We further recommend that the department submit such a report to the Legislature by April 15, 1982.

Written budget materials submitted to the Legislature do not adequately describe how the department plans to implement Sections 105 (health insurance identification), 106 (recovery from ineligible recipients), 107 (earnings clearance), and 108 (photo ID cards) of AB 251. We recommend that the department submit to the Legislature the following information for these four sections of AB 251:

- what the counties will be required to do,
- how the department plans to reimburse the counties for their costs of implementing these sections,
- what it estimates the costs of implementation will be,
- what program savings are anticipated, and
- how the cost and savings figures were derived.

Pending receipt of this information, we withhold recommendation on this request.

Additional Information Needed in May Estimates

We recommend that the department's May 1982 Medi-Cal county administration estimates contain additional program and fiscal detail required by the Legislature.

Because the Legislature will have only a limited time to review the May 1982 Medi-Cal county administration expenditure estimates before it must act to appropriate funds, it is essential that the estimates contain complete, clearly written descriptions of programs for which the department seeks funding and from which the department estimates savings in 1982–83. Such written material should contain enough fiscal detail so that the members of the Legislature can understand how the department intends to implement the program and how it derived its funding requests or cost savings estimates. In particular, we recommend that funding requests for workload increases, cost-of-living adjustments, revisions in workload standards and changes to county allocations be clearly defined, explained, and justified with supportive data.

In the Supplemental Report to the 1981 Budget Act, the Legislature directed the department not to request funding in 1982–83 for county cost-of-living increases granted in 1981–82 which were in excess of the 6 percent increase authorized by the Legislature. The department should demonstrate in written materials submitted with the May expenditure estimates that it has not requested funds for county-authorized cost-of-living increases which were in excess of 6 percent.

Los Angeles County Sanctions

We recommend that $4,800,000 ($3,200,000 General Fund) budgeted for quarterly status report processing by Los Angeles County be deleted if the county is not going to process the reports in 1982–83. We further recommend that the department be prepared to discuss what measures can and should be taken to recover Medi-Cal funds which are expended due to

failure of the county to process quarterly status reports.

The budget indicates that Los Angeles County will be sanctioned $2.4 million ($1.6 million General Fund) for failing to process quarterly Medi-Cal status reports in the first six months of the current year. Quarterly status reports are used to determine if recipients have become ineligible for Medi-Cal or if changes in their circumstances warrant changes in the share of health care costs for which they are responsible.

Since July 1, 1981, the Los Angeles County welfare department has not required recipients to complete the reporting form because the county asserts it cannot carry out all of its Medi-Cal responsibilities within its allocation of $52.4 million for administration. In lieu of having recipients fill out the quarterly status report the county proposed to send postcards to Medi-Cal recipients annually. Under the county's proposal, recipients who failed to request continued Medi-Cal eligibility by returning the card to the county would be dropped from the program. The county argues that processing quarterly status reports is much more costly than a postcard system, and that a postcard system would remove a very large portion of the ineligibles from the Medi-Cal rolls. The department, however, rejected the county's proposal.

The department estimates that medical care services costs will increase by $11.3 million ($8.0 million General Fund) annually if Los Angeles County does not process quarterly status reports. Los Angeles County estimates that the costs of processing the reports are approximately $4.8 million ($3.2 million General Fund).

The department's budget request is based on the assumption that each county, including Los Angeles, will process quarterly status reports. *If* Los Angeles County is not going to process the reports, we recommend that the funds budgeted for that purpose, $4.8 million ($3.2 million General Fund), be deleted. We further recommend that the department be prepared at the budget hearings to discuss what measures can and should be taken to recoup losses of state and federal funds for medical care services and administration which result because the quarterly status reporting system is not in operation.

Los Angeles County Hospital Eligibility Determination Costs

We recommend that the department prepare a written report by April 1, 1982, on the feasibility of and potential cost savings which may result from (1) transferring the Los Angeles County Hospital Medi-Cal eligibility determination function to the county welfare department and (2) establishing workload standards for the hospital eligibility determination process.

The budget proposes to increase funding for the eligibility determination function at Los Angeles County hospitals from $5,116,000 ($3,428,000 General Fund) in 1981–82 to $7,072,000 ($4,732,000 General Fund) in 1982–83, a 38 percent increase.

Background. Los Angeles County operates two Medi-Cal eligibility determination systems. One system is operated by the county welfare department; the other is operated by the county hospital system. The two systems independently submit claims for Medi-Cal eligibility determination costs to the state. No other county operates an independent Medi-Cal eligibility system in the county hospitals. Five other counties have Medi-Cal eligibility workers located in county hospitals, but these workers are under the administrative control of the county welfare department and are subject to overall productivity standards and expenditure constraints

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contained in the Medi-Cal cost control plan.

The Los Angeles County hospital Medi-Cal eligibility system is not subject to departmental productivity standards although the Legislature has imposed other cost controls on the county's hospital system.

Due to the county's excessively high administrative costs for hospital-based eligibility determination, the Legislature has placed limits on the amount Los Angeles County hospitals may claim for processing Medi-Cal applications in each of the last two budget acts. Before the Legislature imposed a maximum reimbursement limit, Los Angeles County hospitals were reimbursed approximately $399 per Medi-Cal application. The other five counties with eligibility workers located in county hospitals were reimbursed an average of $98 per application. In the 1980 Budget Act, the state limited the amount it would pay to $253 per application. This had the effect of limiting state reimbursements to $7.6 million, rather than the $12.9 million which was billed by the county. In the 1981 Budget Act, the Legislature (1) set the maximum reimbursement at $162 per application and (2) further limited the number of applications the state will pay for to 31,582.

Los Angeles County estimates that its processing cost per application is $219 in the current year, and that it will process 44,718 applications. These estimates indicate that the county (1) has significantly improved its productivity and (2) has used county funds to pay for costs which exceed the amount available from the state. It is not surprising that it has taken on some of the cost of processing Medi-Cal applications because the county hospitals receive additional revenue if patients are determined to be eligible for Medi-Cal. An approved application results in an average of $3,964 in Medi-Cal revenue to the county when the patient has been discharged and the services billed. The county estimates that its improved Medi-Cal application procedures will increase total hospital Medi-Cal revenues by approximately $31 million ($27.2 million General Fund) in the current year, thus reducing county fiscal obligations by a like amount.

Budget Proposal. The administration's proposal for funding Los Angeles County hospital eligibility determination costs in 1982–83 has three components. First, the department proposes Budget Bill language which would expand the provisions of the cost control plan to include eligibility determination costs at *all* county hospitals, including Los Angeles County hospitals. Second, the budget proposes to eliminate the upper limit on the number of reimbursable applications. The budget includes sufficient funds to pay for an estimated 52,000 applications. This is a 64.7 percent increase over the number of applications which will be reimbursed by the state in the current year. Third, the budget proposes to reduce the amount payable per application from $162 to $136.

The department's rationale for the rate reduction is that the Los Angeles County hospitals should be gradually moved toward the average of the other five counties which take Medi-Cal applications in county hospitals. The budget proposes to set the budget-year rate 25 percent above the five-county average, as calculated by the department. The calculation of $136 per application was derived by multiplying the 1978–79 average for the five counties, $98 per application, and adding a 10.73 percent cost-of-living adjustment. This amount ($108.51) was then increased by 25 percent, bringing the proposed cost per application to $136.

The Central Issue. The central issue in considering the department's request for a 38 percent increase in Los Angeles County hospital funding is whether increases in the number of Medi-Cal applications processed by the county hospitals justify an increase in state funding. The county, through the first quarter of the year, has processed 4,300 applications per month (51,600 applications per year, on an annualized basis) with existing staff. Increased applications are being processed as a result of productivity increases, and the county's processing costs appear to be relatively stable (except for cost-of-living adjustments, which are addressed in the state's budget process as a separate fiscal issue). The county has a strong fiscal incentive to maintain its current Medi-Cal hospital eligibility system, even if it does not receive additional state support, because of the revenues this function generates. Our analysis indicates that the 38 percent funding increase would be used to shift costs which are currently supported by county funds to the state and the federal government; the increase would not provide additional service, because the county intends to increase the number of applications taken without significantly increasing existing staffing levels or existing eligibility determination costs.

The Productivity Issue. In 1980–81, Los Angeles County hospitals employed a work force of 485 Patient Services Financial Workers (PSFWs), clerical personnel, and supervisors who, according to hospital fiscal claims, devoted approximately 72 percent of their time to the Medi-Cal eligibility functions. Of the 485 employees, 239 were PSFWs who took Medi-Cal applications from hospitalized patients. In 1980–81, the PSFWs took 33,009 applications, which is approximately 11.5 applications per month, or one application per two working days. If, in 1982–83, 52,000 applications are processed by 239 PSFWs, average daily production will approximately double to one application per day.

Because there are many productivity questions which ultimately affect the overall processing costs and therefore involve state funding, we recommend that the Department of Health Services submit a written report to the Legislature by April 1, 1982, on the feasibility and potential cost savings of (1) transferring the Medi-Cal application process to the county welfare department which in 1980–81 processed Medi-Cal applications at a cost of approximately $68.00 per application and (2) applying productivity standards for Medi-Cal applications taken in county hospital systems.

Quality Control Proposals

The budget proposes the addition of 30 new quality control positions, at a cost of $591,000 ($285,000 General Fund). The purpose of the quality control program is to review the quality of Medi-Cal casework performed by county welfare departments. When patterns of casework errors appear, the state and the county can then work together to correct the cause of problems.

The department's quality control proposal is divided into two parts. The first part is a request for 19 positions to comply with mandates in AB 251. The second part is a proposal for the state to assume responsibility for a quality control pilot project which is currently operated by Los Angeles County.

Assembly Bill 251 Proposal

Assembly Bill 251 requires the department to expand its quality control program, and to report to the Legislature by May 1982 on eligibility determination error rates in individual counties and in aggregate.

To comply with AB 251, the department proposes 19 additional positions. The department plans to review on a random-sample basis casework

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in the largest 16 counties, which together account for 80 percent of Medi-Cal-eligible cases. The department intends to review an initial sample of 160 cases in each county to determine if a county has a case error rate of 7 percent or more. The case reviews seek to determine (1) if the individual was indeed eligible for Medi-Cal and (2) if the share-of-cost obligation was calculated correctly. Each initial review of a county will require four analysts and an average of five weeks to complete, including a management review.

The department intends to review an additional 200 cases in those counties with case error rates of 7 percent or more. The additional sample would produce more detailed data on the types of errors being made, and would give the findings a higher degree of statistical validity. The additional sample of 200 cases will require four analysts, and will add four weeks to the review.

In addition to its sampling activities, the department proposes to conduct management reviews in all counties. Specifically, the department will review training of eligibility workers, county interpretation of state eligibility regulations, county systems for checking the work of eligibility workers, county supervision of eligibility workers, and county data processing system problems which affect eligibility. Management reviews are expected to require an average of four weeks to complete. They will result in a written report with recommendations for improvement. For the large counties, case error rate findings as well as the results of the management review will be included in the report.

Proposal to Terminate the Los Angeles County Project

The budget proposes 11 new state quality control positions to administer the quality control project now being operated by Los Angeles County. These 11 new state positions would replace 18 county positions, in order to reduce costs to the state. The Department of Finance estimates that state administration of the quality control program will save approximately $603,000 ($407,000 General Fund) in administrative costs.

The Medi-Cal program savings which result from Los Angeles County's quality control project cannot be reliably estimated because case error rate data have not been converted into dollar error rates. Los Angeles County indicates that error rates may increase under the department's proposal (1) if less data is collected because fewer staff would be devoted to the quality control effort and (2) if the corrective action phase fails because the welfare department no longer has control of the overall effort.

Savings From Expanded Quality Control Program

We recommend that (1) the department develop a savings estimate related to the Medi-Cal Quality Control program so that appropriate savings may be reflected in the 1982–83 budget and (2) the Legislature amend the Welfare and Institutions Code to require the department to evaluate and report on the cost-effectiveness of the new quality control effort.

The Medi-Cal expenditure estimates included in the budget assume there will no be savings in 1982–83 resulting from the department's AB 251 quality control efforts, even though the quality control provisions of AB 251 were enacted to encourage savings. Although it is difficult to project savings accurately, it is possible to make assumptions about when each county review will be completed, what the error rate for each county is, how long it will take for the counties to take corrective action, and how much the county's dollar error rate will be reduced in 1982–83 as a result of corrective action efforts.

We recommend that the department submit to the Legislature by April 1, 1982, county-specific estimates of savings which will result from the expanded quality control program. We further recommend that the companion bills to the 1982 Budget Bill be amended to require the department to maintain fiscal and workload data which will permit ongoing evaluation of the cost-effectiveness of the quality control program. Specifically, we recommend the following language be added to Section 14016 of the Welfare and Institutions Code.

"(c) The department shall continually maintain such fiscal and workload data as are necessary to evaluate the cost-effectiveness of its Medi-Cal Quality Control program on a statewide and on a county-specific basis. In conjunction with its 1983–84 and 1984–85 budget submissions, the department shall submit a cost-benefit analysis to the Department of Finance of the Medi-Cal Quality Control program with such recommendations as may be indicated. After review of the analysis for completeness and accuracy, the Department of Finance shall release the department's analysis to the legislative fiscal committees."

Quality Control in Los Angeles County Hospital Eligibility Determinations

We recommend adoption of supplemental report language requiring the department to undertake a quality control review of the Medi-Cal eligibility determinations conducted by Los Angeles County hospitals and to report its findings to the Legislature by December 1, 1982.

Los Angeles County hospitals are attempting to maximize their revenues from the Medi-Cal program in order to reduce county expenditures. The county has estimated that it will be able to increase its Medi-Cal revenues by $31 million in the current fiscal year as a result of its eligibility determination process. Thus, the county hospitals which take the Medi-Cal applications are not totally disinterested in the outcome of the application process.

We recommend that the Legislature direct the department to review the quality of the casework being performed in the county hospitals to determine to what extent, if any, the cost of care for ineligible persons is being charged to the Medi-Cal program. Specifically, we recommend adoption of the following supplemental report language:

"The department shall conduct a quality control evaluation of Medi-Cal applications taken within the Los Angeles County hospital system, and report its findings to the fiscal subcommittees not later than December 1, 1982. The study shall include a random sample of cases which is adequate to determine the dollar value of agency error and client error."

County Costs and Productivity

Determining Medi-Cal Eligibility

County welfare departments process approximately 100,000 medically indigent (MI) and medically needy (MN) Medi-Cal applications per month. They also monitor approximately 525,000 approved MI and MN cases, watching for changes in eligibility or share-of-cost obligations. The state and federal government will reimburse counties for these activities, at a cost of approximately $194 million in 1982–83. County welfare depart-

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ments spend these funds for:

- salaries and benefits for eligibility workers: 50 percent;
- salaries and benefits for administrative and clerical workers: 29 percent;
- other support (office space, supplies, furniture, equipment, postage, travel, etc.): 17 percent; and
- data processing: 4 percent.

County Cost Variations

County welfare department Medi-Cal unit costs vary considerably. Table 46 illustrates the wide variation in cost per workload unit in 10 counties which account for approximately 60 percent of total Medi-Cal county welfare department expenditures. Workload units are a combination of the number of applications processed and the number of continuing cases monitored. Table 46 indicates that:

- Total costs per workload unit vary from a low of $7.14 per workload unit (Riverside) to a high of $12.30 (Los Angeles), a 72 percent variation.
- Salary and benefit costs for eligibility workers vary from a low of $3.59 per workload unit (Riverside) to a high of $5.74 (Los Angeles), a 60 percent variation.
- Salary and benefit costs for administrative and clerical workers vary from a low of $1.73 per workload unit (Sacramento) to a high of $4.23 (Los Angeles), a 145 percent variation.
- Data processing costs vary from a low of 12 cents per workload unit (Orange) to a high of 61 cents (San Francisco) a 375 percent variation.
- "Other support costs" vary from a low of $1.21 per workload unit (Santa Clara) to a high of $2.82 (Orange), a 408 percent variation. Other support costs include office space, postage, furniture, equipment, postage, travel, etc.

Table 46

Medi-Cal Eligibility Determination Cost Per Workload Unit Varied Widely in Ten Largest Counties 1980–81

	Cost Per Workload Unit				
Counties	*Eligibility Workers*	*Administrative and Clerical Workers*	*Data Processing*	*Other Support*	*Total*
Los Angeles	$5.74	$4.23	$.50	$1.83	$12.30
San Francisco	5.11	3.83	.61	2.12	11.67
Alameda	5.48	2.84	.57	2.02	10.91
Orange	5.66	1.79	.12	2.82	10.39
Santa Clara	4.76	2.64	.38	1.21	8.99
San Diego	4.79	2.10	.24	1.73	8.86
Sacramento	5.11	1.73	.22	1.56	8.62
Contra Costa	4.22	2.45	.29	1.59	8.55
San Bernardino	4.08	1.78	.53	1.31	7.70
Riverside	3.59	1.80	.44	1.31	7.14

County Productivity Variations

One of the reasons that unit costs vary so much between counties is that worker productivity varies significantly. This is illustrated by the data presented on Table 47. Table 47 indicates that:

- Overall productivity, as measured by the number of workload units per employee charged to the Medi-Cal program, varies considerably between welfare departments. Workload units are a combination of appropriations processed and approved cases which must be monitored. The lowest number of workload units per employee is 163 (Los Angeles); the highest 251 (Sacramento), a 54 percent variation in productivity.
- Eligibility worker productivity also varies significantly between county welfare departments. The number of Medi-Cal applications processed by an eligibility worker per month varies from a low of 45.1 (Orange) to a high of 96.3 (Contra Costa), a 114 percent variation in productivity.
- The number of approved cases assigned to eligibility workers also varies between counties. (Such cases must be monitored to identify changes in circumstances which affect eligibility or share-of-cost.) The number of approved cases assigned per eligibility worker varies from a low of 342 (Los Angeles) to a high of 466 cases (Alameda), a variation of 36 percent.
- Administrative and clerical employee productivity, as measured by the number of workload units per administrative/clerical employee, varies between welfare departments. The lowest number of workload units per administrative/clerical employee is 351 (Los Angeles) and the highest is 884 (Sacramento), a variation of 152 percent.

Table 47

1980–81 Medi-Cal Eligibility Determination Worker Productivity Varied Widely in 10 Largest Counties

Counties	*Workload Units Processed Per Employee*	*Applications Processed Per Eligibility Worker*	*Continuing Cases Processed Per Eligibility Worker*	*Workload Units Per Administrative Clerical Employee*
Los Angeles	163	65.4	342	351
San Francisco	180	60.1	410	401
Alameda	197	50.8	466	534
Orange	178	45.1	364	518
Santa Clara	233	91.0	383	611
San Diego	213	54.8	437	657
Sacramento	251	65.8	426	884
Contra Costa	243	96.3	362	650
San Bernardino	221	62.3	360	722
Riverside	244	78.2	436	632

Opportunity for Reducing Costs

The large variations in county welfare department unit costs and productivity suggest that some counties could achieve greater efficiencies in Medi-Cal eligibility determination. For example, if no county had exceeded the *average* unit cost incurred in the largest 10 counties ($9.50 per workload unit), the Medi-Cal program would have spent $14.9 million *less* in 1980–81, an 11.4 percent savings. If the average unit cost in 1980–81 had

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been $8.00 (55 percent of the counties had 1980–81 unit costs of $8.00 or less), the Medi-Cal program would have expended $25 million, or 19 percent, *less* on county administrative costs.

Although it appears possible to reduce costs and improve productivity, the goal is not easily achieved or quickly implemented. The options which appear most feasible are discussed below.

Option 1: Continued County Administration

Under the first option, the counties would continue to administer the Medi-Cal eligibility determination process, but the state would play a more active role in encouraging improvements to reduce costs. To achieve this end, the state would increase its technical assistance to counties but would also increase fiscal sanctions on counties which failed to improve. The goal of the technical assistance would be to assist counties in determining what specific management improvements should be made to reduce administrative costs. The goal of the tighter sanctions would be to give affected counties a strong fiscal motivation to improve efficiency.

One problem with the this option is that county welfare department management generally operates within very real constraints which will limit the amount of improvement that the state can expect in the short run. Some of these constraints are:

- historically different wage and benefit levels which act as a base for future negotiations,
- collective bargaining requirements,
- county productivity norms which are not easily altered,
- limited ability of county management to control office locations, staffing sizes, and other items which affect cost,
- limited ability of management to deal rapidly or effectively with unproductive workers, and
- the absence of fiscal incentives which would encourage county managers to make the system more efficient.

While these constraints are very real, they are not immutable. For example, if wages and benefits (or productivity norms) are out of line with the "market rate" for comparable positions in the private sector, they can be brought into line if the appropriate incentives are brought to bear on the collective bargaining process. (This is indeed what appears to be happening in industries such as automobiles, rubber, and air transportation.)

Option 2: State Administration

Under the second cost control option, the Department of Health Services would operate the Medi-Cal eligibility determination process in counties where unit costs were found to be unacceptably high. Under this option, the department would have the opportunity to design a new system in which efficiency was the primary goal. The department's principal advantage over the counties in administering the process is that it would not necessarily have to accept as a starting point all of the inefficiencies and constraints that have developed over time in county bureaucracies.

One problem with this option is that the department has no direct experience in administering the Medi-Cal eligibility process. The administrative difficulties of designing a new system, acquiring and training new staff, obtaining office space, computer services, and other necessary resources would be an enormous task. Organizations other than the department may be better suited to design, develop, and implement a new Medi-Cal eligibility determination system.

Option 3: Contract for Service

Under the third option, the state would contract with a private organization for provision of Medi-Cal eligibility determination functions in one or more counties found to have unacceptably high unit costs. This option assumes that several large companies which have experience managing work forces which process large amounts of paperwork, and have experience with automated processing of large volumes of data, would bid on a contract offered by the state. Under the third option, the state would realize immediate cost savings in the counties covered by the contract. On the other hand, a private contractor motivated principally by profit considerations might make decisions based on cost and efficiency rather than service to the public.

Controlling Costs in the Long Run

We recommend that a major consultant study be authorized to determine how the state can effectively reduce the cost of the Medi-Cal eligibility determination process.

We recommend that the state contract with a consultant to study the county eligibility determination process. The major purposes of the study would be:

(a) to explain what the factors are which cause particular counties to have low unit costs and what additional factors cause other selected counties to have high unit costs,
(b) to identify and discuss the detailed work tasks that must be managed by any organization which administers the Medi-Cal eligibility determination process,
(c) to identify what organizational arrangements, workload management techniques, data processing services, and other improvements ought to be included in a prototype system intended to maximize efficiency,
(d) to list and discuss in detail the advantages, disadvantages, and estimated savings (or costs) of (1) continued county administration, (2) state administration in selected high-cost counties, or (3) contracted service in selected high-cost counties, and
(e) to recommend what course of action the state should follow to reduce the cost of the Medi-Cal eligibility determination process.

Controlling Costs in 1982–83

A consultant study, such as the one recommended above, would produce little or no savings in the short run. Therefore, the issue facing the Legislature in putting together a budget for 1982–83 is: should more be required of the counties in administering the Medi-Cal program? In addressing this issue, the Legislature needs to keep in mind what the counties are currently required to do and how they have been able to respond to the demands being placed upon them.

In 1980–81 the department tightened its Medi-Cal county administrative cost control plan in response to language which the Legislature placed in the Budget Act. The main features of the cost control plan are:

1. *Minimum Productivity Standards.* The minimums are

DEPARTMENT OF HEALTH SERVICES—Continued

based on average performance, and vary according to county size. These minimums are shown on Table 48. Over a four-year period ending in 1983–84, all counties which started with lower-than-average productivity are expected to raise their productivity rates to the minimum standards.

Table 48

Medi-Cal Program Minimum Productivity Standards

	7 Largest Counties	*14 Largest Counties*	*11 Medium Counties*	*11 Small Counties*
Applications per worker per month	57.6	62.2	81.9	70.6
Approved cases per worker per month	383.0	329.0	393.0	338.0
Eligibility workers per supervisor	7.2	7.3	6.5	5.9

2. ***Budget Request and Allocations Based on Estimates of Workload.*** Each county is allowed a given number of workers, based on anticipated workload, applications approved, cases, etc. The number of workers is multiplied by each county's average cost per worker to derive a basic allocation. Special county problems, such as the additional cost of new office space, can, upon county request, be taken into account when budget estimates are prepared.

3. ***Assistance for Counties That Cannot Meet Productivity Standards.*** When the 1980–81 cost control plan was developed, the Legislature recognized that many counties would be unable to improve productivity to the minimum standards in one year. Therefore, an unallocated reserve was created to assist counties which could not meet minimum standards. The unallocated reserve is reduced each year. In 1983–84, there would be no reserve, and counties would be budgeted strictly at the minimum productivity standards, or below.

Preliminary results of the first year's experience under the tightened Medi-Cal cost control plan, shown in Table 49, indicate that 10 counties were unable to operate within their Medi-Cal allocations. The department currently is attempting to determine (1) if some portion of the overruns were expeditures for which the state is liable under the terms of the cost control plan and (2) if the counties may claim the federal fund portion of the overruns, thus minimizing county fiscal liability.

Table 49

Medi-Cal Cost Overruns

1980–81

(in thousands)

	Overrun (All Funds)	*Percent of Allocation*
1. Alameda	$314	5.3%
2. Kings	20	4.9
3. Los Angeles [a]	7,404	15.5
4. Orange	604	8.9
5. San Francisco	58	0.9
6. San Joaquin	126	5.9
7. Santa Clara	125	2.6
8. Santa Cruz	61	4.4
9. Ventura	305	12.0
10. Yuba	29	6.4
Total	$9,046	

[a] Excludes any sanction which could be applied for failure to process quarterly status reports in 1980–81.

Cost overruns in the current year also appear likely because several counties provided cost-of-living increases in salaries and benefits which were in excess of the 6 percent increase authorized by the Legislature. Counties which provided more than a 6 percent increase are responsible for 100 percent of the excess cost to the extent that these excess costs are not offset by permanent productivity increases. It appears that several counties may not achieve the productivity increases they are required to achieve if they are to operate within their allocations.

Legislature's Options for the Budget Year

We recommend approval of the department's proposal to continue implementing the current cost control plan.

The major options available to the Legislature for controlling Medi-Cal county administration costs in the budget year appear to be as follows:

(1) Allow the current cost control plan to remain in operation in the budget year. It appears that the current plan is subjecting several counties to substantial fiscal pressure which may, over a period of time, cause productivity to increase.

(2) Tighten the existing plan to put low-productivity counties under more fiscal pressure to make improvements. Tightening the plan could be done in a variety of ways, such as:

(a) Capping the state's maximum reimbursement per application, per continuing case, etc., while continuing to apply minimum workload standards. This would, in effect, deny counties with productivity problems cost-of-living adjustments until their productivity improved.

(b) Budgeting counties at the level they would need if they operated at the minimum workload standards or above. This would save $3 million ($2 million General Fund).

(3) Abandon the cost control plan for certain counties with productivity problems and cap state funding, making allowance for caseload increases and decreases.

We recommend approval of the department's proposal to continue implementing the current cost control plan. Our analysis indicates that the plan will place substantial fiscal pressure on low-productivity counties to make improvements in the budget year.

Fiscal Intermediary

Fiscal Intermediary Reprocurement

We recommend that the Legislature request the Auditor General to monitor the transition to the next fiscal intermediary contract and provide ongoing information and advice to the Legislature.

On February 29, 1984, the current state fiscal intermediary contract with Computer Sciences Corporation will expire. Significant disruption in claims processing could occur if the schedule for phasing in the new contract does not include a reasonable transition period. If any company, other than CSC, wins the competitive bid, that company will have to hire staff; acquire buildings, computers, and specialized equipment; design, develop and install system enhancements; and test computer programs

DEPARTMENT OF HEALTH SERVICES—Continued

before claims processing can begin.

Health and Welfare Agency staff indicate that an 18-month period between the award of the contract and actual claims processing would be desirable to provide an adequate transition period. Thus, to assure that the new contractor is fully able to process claims when the CSC contract expires, the new contract should be negotiated and signed by September 1982. Our discussions with Health and Welfare Agency staff assigned to the reprocurement effort lead us to conclude that a new contract is not likely to be awarded by that date.

In awarding the current contract, the state made errors in drafting some provisions, in managing the transition period, and in establishing an ongoing monitoring capability. Some specific problems which need to be addressed in the next contract are:

- Decisions on what system improvements will be incorporated in the new contract.
- Determination of how much time will be allowed for design, development, and installation of the systems improvements.
- Provisions for acceptance testing of systems improvements.
- Changes in contractual provisions regarding pricing and implementation timing for change orders.
- Changes in minimum performance (speed and accuracy) criteria.
- Changes in liquidated damages provisions in the event of nonperformance.

In order to avoid a repetition of these problems, we recommend that the Legislature monitor closely all aspects of the development of a new request for proposal (RFP), the awarding of a new contract, and the management of the transition period. To assist it in doing so, we recommend that the Legislature request the Auditor General to assign staff to monitor the transition to the next fiscal intermediary and make recommendations with regard to the following matters:

- Problems with the current fiscal intermediary contract which should be corrected in the new contract.
- System improvements which should be incorporated in the new contract.
- Adequacy of the transition period.
- Adherence to transition schedules including testing of the new system.

We recommend that the Auditor General's office be charged with the responsibility of oversight in the transition to the next contract because it has had extensive experience in monitoring various aspects of implementation of the current system.

Delay in Implementing Physician Claim Forms Causes Current-Year Deficit

Background. Since the start of the Computer Sciences Corporation contract, there has been continuing controversy about what claim forms physicians should use in filing for reimbursements, what information should be on the forms, and who should fill in the procedure codes. In 1980, major concessions were made to physicians which:

(a) Allowed physicians on a temporary basis to continue submitting their claims to CSC on the former contractor's form, known as the Uniform Claim Form (UCF), instead of using CSC's new form.

(b) Required CSC, rather than the physicians, to fill in the code numbers of the medical procedure performed.

(c) Delayed by 90 days the date on which CSC would begin processing physician claims.

(d) Delayed implementation of the federal requirement that all doctors, including those in group practice, put their individual provider number on their claims.

The concessions had fiscal implications because they required CSC to perform tasks not covered by the original contract. They also increased Medi-Cal Intermediary Organization (MIO) operating costs and caused the state to lose federal matching funds because the number of the provider rendering service was not included on the claim forms. The estimated cost of these changes, $19.0 million ($13.8 million General Fund), is shown in Table 50.

Table 50

Estimated Cost of Decisions Related to Physicians' Claims

	General Fund	*All Funds*
1. UCF form and procedure coding costs		
1980–81	$1,627,358	$2,932,176
1981–82	1,283,386	3,859,807
1982–83 (procedure coding only)	996,849	2,998,041
2. Systems enhancement change order	190,000	1,900,000
3. MIO cost—90-day extension	2,670,000	7,300,000
4. Lost federal funding (rendering provider number)	7,000,000	—
Totals	$13,767,593	$18,990,024

Recent decisions. The department recently decided to discontinue the use of the UCF, effective April 1, 1982, for two reasons. First, the UCF is costly to process. Second, the UCF does not meet federal data collection standards. The federal government would not certify California for maximum federal financial participation in the cost of certain medical claim processing unless all doctors, including those in group practice, put their individual provider numbers on their claims.

As a result of the department's decision, the state will begin to receive 75 percent, rather than 50 percent, federal matching on (1) medical claims processed by CSC and (2) departmental data processing and Medi-Cal card issuance costs. Both the current-year budget and the December estimates of current-year expenditures, however, are based on the assumption that 75 percent federal fiscal participation would be available for *all* of 1981–82. Thus, there will be a larger deficiency in the fiscal intermediary item than the December estimates indicate. There will also be a shortfall in the department's support budget.

The department estimates that it will need an additional $3.3 million during the current year from the General Fund for the fiscal intermediary contract. This amount is in *addition* to the estimated total General Fund Medi-Cal deficiency of $180.2 million for 1981–82. These unanticipated costs will be offset to a limited degree by reductions in certain expenditures due to the expanded use of CSC's claim forms. These savings are due to two factors. First, it will not be necessary to implement a third claim form which would have been required if CSC's form had not been adopted. This will save approximately $500,000 ($166,000 General Fund). Second, there will be some savings in the current year because it will no longer be necessary to process UCF forms in the last part of the current year.

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The department also estimates that it will need an additional $2.3 million for the department's support budget because anticipated full federal funding will not be realized. We suggest that the department be prepared to describe at the budget hearings what measures will be taken in the current year in response to the $2.3 million shortfall.

Implementation of Crossover Claims Payment Changes

We recommend that by April 1, 1982, the department submit a written report to the Legislature on implementation of the Medicare crossover claims rate reductions.

CSC is currently revising its claims processing system to implement Medicare crossover claims rate reductions required by AB 251. Since release of the budget in early January, however, the department has modified its approach to implementing the reductions. Specifically, the department now intends to exempt hospital outpatient crossover claims from reduction. This change appears to affect both the administrative cost of implementing the proposal and the anticipated savings. Preliminary estimates indicate CSC's crossover claims processing costs may be reduced from $1.6 million to $600,000 (all funds) in the current year. We have no basis for estimating what the effect of the charge will be on 1982–83 projected savings.

Accordingly, we recommend that the department submit a report to the legislature by April 1, 1982, which responds to the following questions:

1. How many Medicare crossover claims are there in each provider category? What is the cost of paying the full Medicare rate?
2. Which Medicare crossover claims will be subject to rate reductions and which will be excluded? What are the current estimates of savings resulting from the payment reductions?
3. What are the revised estimates of CSC implementation costs? Under the revised proposal, what will total profits and profit margins be? How many CSC employees are required to process payment reductions?
4. Who will bear the cost of the rate reductions—the providers or the Medicare/Medi-Cal patients? May providers pass these rate reductions on to the Medicare/Medi-Cal patients?

Deletion of Positions

We recommend deletion of 3.5 positions and $117,000 ($64,000 General Fund) approved in the 1981 Budget Act for a drug volume purchasing pilot project because the project has been dropped.

The department has decided not to implement the drug volume purchasing pilot project for which 3.5 positions were approved in the 1981 Budget Act. Because the department has not submitted justification for continuing the 3.5 positions, we recommend that they be deleted.

Medi-Cal Cost Recovery Proposals

We recommend approval of the 60 positions requested for the Recovery Section of the Medi-Cal Division.

The department requests 60 permanent positions, at an annual cost of $1,265,000 ($690,000 General Fund) to implement six new cost recovery programs. The department estimates that recoveries resulting from the new programs will be approximately $11,988,000 ($6,770,000 General Fund) in the budget year, and that this amount will increase in subsequent years. The six new programs are summarized below.

Health Insurance Recoveries—Direct County Input. The department requests 39.5 positions, at a cost of $756,000 ($412,000 General Fund) to recover from insurance companies Medi-Cal payments made by the state on behalf of eligibles who were privately insured.

Assembly Bill 251 requires county welfare offices to collect detailed health insurance data from Medi-Cal applicants. By collecting detailed data during the eligibility determination interview, rather than using mailed questionnaires, the department estimates that recoveries will increase by approximately $5,000,000 ($2,725,000 General Fund) annually. The department's workload and recovery estimates are based in major part on a pilot program conducted in three counties during a four-month period in 1978.

Estate Recoveries. Assembly Bill 251 permits the Department of Health Services to file claims against estates of certain deceased Medi-Cal beneficiaries. The department requests six positions, at a General Fund cost of $135,000 ($74,000 General Fund) to process these claims. Based on data from a similar probate recovery program in Maryland, the department estimates that recoveries will increase by approximately $2,100,000 ($1,144,000 General Fund) in 1982–83. This amount is expected to grow to $7,400,000 ($4,033,000 General Fund) annually by 1985, when the full effects of the probate provisions of AB 251 are anticipated to be realized.

Workers' Compensation Recoveries. Assembly Bill 251 requires the Workers' Compensation Appeals Board to provide data to the department. The department requests eight positions, at a cost of $214,000 ($117,000 General Fund) to process the data and recover payments made by Medi-Cal on behalf of persons otherwise covered by Worker's Compensation. The department estimates that it will recover approximately $1,300,000 ($708,000 General Fund) on an annual basis as a result of this change.

Health Insurance Recoveries—Child Support Referrals. The department request 2.5 positions at a cost of $48,000 ($26,000 General Fund) to recover Medi-Cal payments made on behalf of beneficiaries that are identified through the Title IV-D Child Support Enforcement program as having health insurance coverage. The department estimates annual recoveries to be approximately $338,000 ($184,000 General Fund) from this effort.

Beneficiary Overpayment Recoveries—County Contracts. The department requests two positions, at a cost of $38,000 ($21,000 General Fund), to contract with counties to recover any Medi-Cal benefits improperly received by beneficiaries. The counties are better able to effect recoveries than the state, because they have person-to-person contact with beneficiaries. A recovery program implemented by Orange County in 1977–78, although of short duration, indicated that the county was able to recover approximately twice as much as the state for every dollar spent on the recovery effort. The department estimates that a similar statewide program could result in an annual net recoveries of $2,250,000 ($1,514,000 General Fund) after the counties are reimbursed for administrative costs and are paid a 10 percent incentive fee.

Privately Contracted Recoveries. The department requests two positions at a cost of $74,000 ($40,000 General Fund) to contract with collection agencies in northern and southern California for recovery of amounts owed by third parties for health care services provided by Medi-Cal. The Legislature stated in AB 251 its intent that the department recover $5 million annually for the General Fund via private contracts. A prospective

DEPARTMENT OF HEALTH SERVICES—Continued

contractor, however, estimates that it could recover approximately $1 million ($545,000 General Fund, less commission) in the 12 months following establishment of a contract with the department.

Fraud Investigators

We recommend that three proposed new investigative positions be redirected to the department's legal office in order to improve the cost-effectiveness of the Medi-Cal anti-fraud program. We also recommend enactment of legislation to (a) authorize the department to conduct administrative hearings related to suspensions of providers from the Medi-Cal program and (b) automatically suspend providers who have been convicted of a crime involving Medi-Cal fraud and abuse.

The budget proposes the addition of 35 new investigative positions, at a cost of $1,036,000 ($590,000 General Fund). In anticipation of savings that the new positions will generate, the Medi-Cal health care services budget has been reduced by $2,041,000 ($1,039,000 General Fund). The estimated savings result primarily from suspension of doctors and other providers who will no longer be able to bill for services which were not rendered or were medically unnecessary.

Complaints. Five of the 35 proposed new positions would be assigned to the Central Complaints Section, which receives complaints by telephone or letter, and performs preliminary investigations to determine whether a full field investigation is merited. In 1980–81, the section received approximately 10,000 complaints, of which approximately 40 percent related to the activities of providers and 60 percent related to the activities of recipients. Approximately 40 percent of the complaints about providers and 20 percent of the complaints about recipients will receive preliminary investigations. The preliminary investigation involves talking to the complainant and witnesses by telephone, obtaining information on the services billed, determining what law might have been violated, summarizing the facts of the case, and writing a preliminary report. This takes five to six hours per case. Approximately 900 criminal cases which receive preliminary investigations are sent to the field for a full investigation. These are the cases which management judges to have the best potential for legal or administrative action.

Field Investigations. Twenty-three of the thirty-five proposed new positions would be assigned to the Field Investigations Section. Currently there are 25 field investigators who, on the average, complete 15 investigations per year. The budget assumes that the new investigators will be about 50 percent productive in the first year, due to hiring and training delays.

The department indicates that approximately 167 provider cases and 435 recipient cases will be assigned to the field for a full investigation in 1982–83. Once the field investigation is completed, one of the following actions usually is taken:

- provider is referred for a suspension hearing conducted by Office of Administrative Hearings (OAH),
- beneficiary is placed on full prior authorization,
- demand letters requesting recovery of wrongly billed items are sent to providers,
- investigation results on recipients are forwarded to local district attorneys for criminal prosecution,

- investigation results on providers are referred to the Attorney General for criminal prosecution or to licensing boards or other agencies for possible action,
- letter of reprimand is written,
- case is closed with no punitive action taken.

Our analysis has identified two problems which limit the effectiveness of the field investigations process.

1. *There are significant delays between completion of investigations and final action by the department.*

Delays in the suspension hearings process are expensive because providers who are waiting for a hearing can continue to bill the Medi-Cal program for unnecessary services or services not rendered. The department estimates that each month of delay in the process leading to a suspension costs the state and federal government $5,500. To suspend a provider, the Attorney General must prepare an accusation. Then the case must be calendared for a hearing conducted by the OAH. After the hearing, a transcript must be obtained. The hearing officer must write a proposed decision and the Director of Health Services must review the proposed decision and take action. On the average, it takes 18 months from the time the investigation is concluded to completion of a hearing. Additional time is required for transcript preparation, and for writing and reviewing proposed decisions.

The department indicates that the suspension process could be shortened by approximately seven months, saving an additional $1.1 million in the budget year, if the department's legal section conducted approximately 40 of the 80 suspension hearings which under current law, would be performed in the OAH. The department indicates that, to achieve this savings, it would need (1) to convert three of the proposed investigative positions to two hearing officers and one clerical position, and (2) legal authority to expand the scope of its administrative hearing activities to include provider suspension cases. By holding its own hearings, the department indicates that it could (1) avoid scheduling delays, (2) obtain hearing transcripts more quickly by use of a contract transcription services, and (3) provide faster responses to the Attorney General's questions so that formal accusations can be issued more quickly.

In order to realize the potential Medi-Cal savings, we recommend (1) redirection of three of the proposed new investigations positions to the department's legal office, and (2) legislation authorizing the department to conduct suspension hearings. Specifically, we recommend the following amendment to Section 14123(c) of the Welfare and Institutions Code:

> "(c) The proceedings for suspension shall be conducted in accordance with Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code, *except that hearings may be conducted by departmental hearing officers appointed by the Director. The Director may periodically subcontract with the Office of Administrative Hearings to conduct such hearings.*"

2. ***The department must hold administrative hearings to suspend providers, even if they have already been convicted of crimes involving Medi-Cal fraud and abuse.***

We also recommend that Section 14123 of the Welfare and Institutions Code be amended to provide for automatic suspension of providers who have been convicted of a crime involving fraud and abuse of the Medi-Cal program. Currently, such providers are ultimately suspended from the

DEPARTMENT OF HEALTH SERVICES—Continued

Medi-Cal program, but only after an administrative hearing following conviction in a court of law. The administrative hearing is expensive and time-consuming, even though the result is known beforehand.

This recommendation would result in administrative savings and more rapid realization of program savings.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY

Item 4260-301 from the General Fund, Special Account for Capital Outlay and Energy and Resources Fund, Energy Account — Budget p. HW 105

Requested 1982–83	$778,000
Recommended approval	775,000
Recommended reduction	3,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Autoclave Replacement—Phase III. Reduce Item 4260-301-036(b) by $3,000.* Recommend reduction in rebudgeted funds to reflect expenditure of project funds in the current year. Further, recommend that prior to budget hearings, the Department of Finance identify any additional funds needed to allow the project, which was frozen in the current year, to proceed. Further, recommend that project funds frozen in the current year be added to Item 4260-495 to ensure that they revert and are available in 1981–82. 895
2. Energy Conservation Projects. Recommend that any funds approved in Item 4260-301-189 be budgeted as a minor capital outlay item. 896

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $698,000 from the General Fund, Special Account for Capital Outlay (SAFCO) and $80,000 from the Energy and Resources Fund (ERF), Energy Account, for capital outlay projects for the Department of Health Services. One project ($146,000) was funded last year and is rebudgeted in 1982–83. The remaining projects are presented to the Legislature for the first time. Table 1 summarizes the department's proposal and our recommendations.

Autoclave Replacement—Phase IV

We recommend approval of Item 4260-301-036(a) for preliminary plans, working drawings and construction, for replacement of autoclaves.

The budget proposes an appropriation of $331,000 under Item 4260-301-036(a) for phase IV of a six-phase project to replace autoclaves (steam sterilizers) which are (1) necessary for the preparation of equipment and reagents used in diagnostic tests to determine the presence of infectious disease agents and (2) to render infectious test material nonhazardous prior to disposal.

Table 1
Department of Health Services
1982–83 Capital Outlay Projects
(in thousands)

Project	*Budget Bill Amount*	*Analyst's Proposal*
Autoclave replacement—phase III—Berkeley lab facility [a]	$146	$143
Autoclave replacement—phase IV—Berkeley lab facility	331	331
Renovate air conditioning system—Berkeley lab facility	9	9
Modify high-pressure steam boiler—Berkeley lab facility	13	13
Wind generator plant—Fairfield animal facility	58	58
Minor capital outlay	221	221
Totals	$778	$775

[a] Rebudgeted from 1981–82.

A total of $705,150 has been appropriated by the Legislature in the past three fiscal years to replace 11 autoclaves. Anticipated future costs for phases V and VI of the project are $330,000 and $370,000 in 1983–84 and 1984–85, respectively.

The department proposes to replace two autoclaves under phase IV. The present equipment is 16 years old and is becoming unserviceable because replacement parts are difficult to obtain. The proposed projects are necessary to ensure continued operation of the laboratories, and we recommend approval.

Autoclave Replacement—Phase III

We recommend that Item 4260-301-036(b), preliminary plans, working drawings, and construction, for replacement of an autoclave be reduced by $3,000 to reflect previously transferred funds.

We further recommend that prior to legislative hearings on the budget, the Department of Finance indicate the amount of additional funds needed to allow this project, which was frozen in the current year, to proceed.

We further recommend that project funds frozen in the current year be added to Item 4260-495 to ensure that they revert and are available in 1981–82.

The budget requests $146,000 under Item 4260-301-036(b) to fund phase III of the autoclave replacement program. These funds would be used to replace one autoclave which is 16 years old at the Berkeley lab facility.

Funds for this project were appropriated in the 1981 Budget Act. The funds were frozen, however, as a result of Executive Order B-87-81 which instructed the State Public Works Board to defer allocation of certain capital outlay funds. This was done to make funds available to meet a deficit in the state's General Fund. If these funds are not encumbered by June 30, 1982, they should revert automatically to the Special Account for Capital Outlay. This request would rebudget the funds in the same amount, and allow the department to proceed with the project in 1982–83. Our analysis of the original funding request is included on page 812 of the *Analysis of the 1981 Budget Bill.*

Given the Legislature's previous action, we recommend approval of the project. The budget, however, shows an unexpended balance of $146,000 for this project at the end of the current year. In July 1981, $3,000 of this

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

amount was transferred to the Office of State Architect for preliminary plans and working drawings for this project. Consequently, only $143,000 of the appropriated funds remains unexpended. We recommend that the rebudgeted amount be reduced by $3,000 to reflect the previous transfer.

Moreover, the budget does not include additional funds to account for any inflationary cost increase associated with the delay imposed by the freeze. Consequently, we recommend that prior to legislative hearings on the budget, the Department of Finance verify that the requested amount is adequate for the project to proceed, given the one-year delay in implementation.

The funds for this project were frozen in the current year so that they would revert and be available to meet the General Fund deficit. In order to ensure that the reversion does occur and the funds are available in 1981–82, we recommend that the unexpended balance of Item 426-301-036(1.a) of the 1981 Budget Act be included under Item 4260-495.

Minor Capital Outlay Projects

We recommend approval of Item 4260-301-036(c), minor capital outlay.

The budget proposes $221,000 under Item 4260-301-036(c) for eight minor capital outlay projects for the Department of Health Services. The projects are summarized in Table 2. The proposed funds would be used to make modifications to meet fire, health, safety, and handicapped code requirements, and to alter existing space to meet program needs.

Table 2
Department of Health Services
1982–83 Minor Capital Outlay Projects
(in thousands)

Project	*Budget Bill Amount*
Airlock entrance—microbial disease lab	$7
Fire/life safety modifications—Berkeley	25
Carcinogen handling area—alterations	16
Sprinkler system—Fresno Lab Facility	72
Renovate microscopy lab—Berkeley	21
Microbial disease lab—alterations	23
Handicapped accessibility—Acton Street	23
Safety modifications—Berkeley loading dock	34
Total	$221

We have reviewed the proposed program and agree with the need for and the cost of the projects. Accordingly, we recommend approval.

Energy Conservation Projects

We recommend approval of Item 4260-301-189(a), (b), and (c) energy conservation projects. We further recommend approved funds be budgeted as a minor capital outlay item.

The budget includes $80,000 from the Energy and Resources Fund for three energy conservation projects ranging from $9,000 to $58,000. As presented in the Budget Bill, these projects are in the category of major capital outlay (over $150,000 per project). We recommend approval of these projects. Given the size and scope of these projects, however, we recommend the addition of budget language specifying that these projects are in the minor capital outlay category. This change should expedite completion of the projects.

Renovate Air Conditioning System—Berkeley Lab Facility. The budget requests $9,000 to install conductivity systems in two cooling towers at the Berkeley lab facility. Each system will be equipped with a dual biocide feed to control biological growth which causes corrosion and scale damage to the equipment. Scale build-up in the cooling towers can reduce the system cooling efficiency by up to 50 percent. This project will provide savings in both water and energy use. An analysis of energy savings indicates that the project has a discounted payback period of less than three years.

Modify High-Pressure Steam Boiler—Berkeley Lab Facility. Item 4260-301-189(b) proposes $13,000 to decrease the size of the burner blower motor and impeller of two high-pressure steam boilers. The high-pressure steam boilers at the Berkeley laboratory currently operate at a small fraction of their rated capacity. Derating the boilers should increase efficiency by 3 percent to 4 percent, thereby saving $121,000 over the 20-year expected life of the system. This project should pay for itself in present value terms in 2.1 years.

Wind Generator Plant—Fairfield Animal Facility. The budget requests $58,000 in Item 4260-301-189(c) to install a 40 kilowatt wind energy conversion system at the Fairfield Animal Facility. It is expected that this wind energy conversion system will supply 41 percent of the total electrical demands at the facility. Under this assumption, the system has a discounted pay-back period of 5.4 years.

Projects by Descriptive Category

In the A-page of our *Analysis,* we discuss the capital outlay funding problems resulting from the distribution of tidelands oil revenue in 1982–83. To aid the Legislature in resolving these problems, we have divided those projects which our analysis indicates are justified into the following categories:

1. Critical fire/life safety and security projects—includes projects to correct life threatening conditions.
2. Projects needed to meet code requirements—includes projects that do *not* involve life threatening conditions.
3. Essential utility, site development and equipment—includes projects needed to make new buildings usable or continue usability of existing buildings.
4. Meet existing instructional capacity needs in higher education—includes projects that are critical, and for which no alternatives are available other than reducing enrollments.
5. Improve program efficiency or cost effectiveness—includes new office buildings, alterations, etc.
6. Energy conservation projects—includes projects with a payback period of less than five years.
7. Energy conservation projects—includes projects with a payback period greater than five years.

Table 3 shows how we categorize the projects funded by this item that our analysis indicates are warranted.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

Table 3
Major Projects by Descriptive Category
Department of Health Services
Item 4260-301-036

Category/Item No./Project Title	*Analyst's Proposal*
1. None	
2. None	
3. (a) Autoclave replacement, phase IV	$331,000
(b) Autoclave replacement, phase III	143,000
4. None	
5. None	
6. None	
7. None	
Total—Department of Health Services	$474,000

DEPARTMENT OF HEALTH SERVICES—REAPPROPRIATION

Item 4260-490 from the General Fund Budget p. HW 71

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4260-490 (1)	—Reappropriation, Item 4260-001-001, Budget Act of 1981, Worksite Health Promotion program	General	not to exceed $146,000
4260-490 (2)	—Reappropriation, Item 4260-001-001, Budget Act of 1981, regulation review	General	not to exceed $118,000
4260-490 (3)	—Reappropriation, Item 4260-001-001, Budget Act of 1981, AB 251 programs	General	not specified

ANALYSIS AND RECOMMENDATIONS

The budget proposes the reappropriation of (a) $146,000 in unspent 1981–82 General Fund appropriations for the Worksite Health Promotion program, (b) $118,000 for the regulations review program, and (c) an unspecified amount for programs mandated by AB 251.

Worksite Health Promotion—1981 Budget Act

We recommend approval.

The 1981 Budget Act included $400,000 from the General Fund to establish and evaluate worksite health promotion programs at one private company and one public agency. The budget indicates that $254,000 will be spent in the current year, and proposes that $146,000 be reappropriated for expenditure in 1982–83. The department indicates that the reappropriation is required due to delays in implementing the program. We discuss this program in more detail on page 817.

Regulations Review—Chapter 567, Statutes of 1979 (AB 1111)

We recommend approval.

Chapter 567 mandated all departments to review regulations which were promulgated prior to July 1, 1980. The Budget Act of 1981 appropriated $609,000 from the General Fund to the department for this purpose. Implementation of the review process was delayed. Consequently, the budget proposes to reappropriate $118,000 of unspent funds until October 31, 1982, to complete the department's regulations review effort.

AB 251 Programs—Chapter 169, Statutes of 1981 (SB 840)

We recommend that language be added to Item 4260-490(3) specifying that no more than $931,000 of unspent funds shall be reappropriated to support implementation of AB 251.

Chapter 169 appropriated $1,650,000 from the General Fund to implement provisions of AB 251. The budget proposes reappropriation of an unspecified amount of these funds that remain unspent in the current year to continue the AB 251 programs. Detailed budget schedules, however, indicate that only $931,000 will be needed to support these programs in 1982–83. We recommend, therefore, that language be added to the Budget Bill specifying that the reappropriation shall be no greater than $931,000.

DEPARTMENT OF HEALTH SERVICES—REVERSION

Item 4260-495 to the General Fund — Budget p. HW 38

We recommend approval.

The budget proposes reversion of the unencumbered balances of three appropriations to the Department of Health Services. The funds would revert to the unappropriated surplus of the General Fund. The appropriations, and our reasons for recommending approval of the reversions, are set forth below.

(1) Chapter 1163, Statutes of 1979. These funds were used to fund a two-year pilot project testing the effectiveness of providing capitated reimbursement for pharmacy services in skilled nursing facilities. The project was not fully implemented because a sufficient number of pharmacists did not volunteer to participate. The department contracted with a consultant to survey pharmacists to determine why they did not wish to participate, and will report to the Legislature in June on the survey results. The department will also provide additional information on drug capitation at that time.

The department does not intend to implement the pilot project in 1982–83. Therefore, we recommend approval of the proposed reversion of funds.

(2) Chapter 1129, Statutes of 1980. These funds are to support positions which monitor the fiscal intermediary contract. The budget includes funds to continue the program.

(3) Chapter 1211, Statutes of 1980. These funds were intended to support a study reviewing the quality, effectiveness, costs, and types of treatment provided to patients in skilled nursing facilities. The department will be submitting a report on the study to the Legislature in April 1982. The project is limited-term and will be phased out in the budget year.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General Fund and Developmental Disabilities Program Development Fund — Budget p. HW 106

Requested 1982–83	$561,223,000
Estimated 1981–82	540,372,000
Actual 1980–81	529,214,000
Requested increase (excluding amount for salary increases) $20,851,000 (+3.9 percent)	
Total recommended reduction	$954,000
Recommendation pending	$1,912,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4300-001-001	Support	General	$17,292,000
4300-001-172	Support	Developmental Disabilities Program Development	176,000
4300-011-001	State Hospitals	General	—
4300-101-001	Local Assistance	General	540,898,000
4300-101-172	Local Assistance	Developmental Disabilities Program Development	2,857,000
4300-101-890	Local Assistance	Federal Trust	(873,000)
Total			$561,223,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Transportation Reimbursement Rates. Withhold recommendation on proposal to augment transportation reimbursement rates by $1.9 million, pending receipt from the department of cost estimates based on actual rate increases proposed to be granted in current year. 908
2. *Program Development Fund (PDF).* 915
   a. ***Contingent upon enactment of parental fee legislation, augment Item 4300-101-001 by $139,000 and reduce Item 4300-101-172 by $139,000.*** Recommend enactment of legislation requiring all parental fees to be deposited in the General Fund, for increased General Fund revenues of $1,002,000, and that community program development activities be funded by available federal funds, the PDF surplus, and a General Fund appropriation.
   b. ***Contingent upon enactment of parental fee legislation, augment Item 4300-001-001 by $176,000 and reduce Item 4300-001-172 by $176,000.*** Recommend funding for new positions, and for two existing positions, be shifted from the PDF to the General Fund.
   c. ***Contingent upon enactment of parental fee legislation, augment Item 4300-101-001(h) by $187,000 and reduce Item 4300-101-172 by $187,000.*** Recommend interim

funding for 10 residential care facilities converting to health facility licensure be shifted from the PDF to the General Fund.

d. ***Contingent upon enactment of parental fee legislation, augment Item 4300-101-001 (f) by $500,000, and reduce Item 4300-101-172 by $500,000.*** Recommend that funding for regional center respite care and camp services be supported by the General Fund instead of the PDF.

3. Parental Fees. Recommend adoption of Budget Bill language requiring the department to develop and implement fees for nonresidential services. 918
4. Non-Level-of-Care Staffing. Recommend that the Departments of Mental Health and Developmental Services submit a report to the Legislature by April 15, 1982, detailing the standards developed for non-level-of-care positions and the plan for implementing them. 922
5. ***Hospital Automation. Reduce $62,000 from Item 4300-101-001 and $60,000 from Item 4300-001-001.*** Recommend deletion of 2.9 positions and associated funds because the positions are no longer needed. Recommend reductions in funds to correct overbudgeting. 925
6. ***Overbudgeted Operating Expenses. Reduce $666,000 from Item 4300-101-001 and $166,000 from Item 4440-101-001.*** Recommend reduction because operating expenses are overbudgeted. 926
7. Patton Phase-Out. Recommend Budget Bill language establishing guidelines for funding additional contracts to develop new community services for state hospitals residents. 927

GENERAL PROGRAM STATEMENT

The Department of Developmental Services (DDS) administers community- and hospital-based services for persons with developmental disabilities. The Lanterman Developmental Disabilities Services Act defines a developmental disability as a disability originating before the age of 18, which is expected to continue indefinitely, and which constitutes a substantial handicap. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism, or to neurologically handicapping conditions closely related to mental retardation or requiring services similar to those provided for mentally retarded persons.

The department has 16,593.5 authorized positions to carry out the following four programs during the current year:

1. *The Community Services Program* develops, maintains, and coordinates services for developmentally disabled persons residing in the community. The program's activities are carried out primarily through 21 regional centers, which are operated statewide by private nonprofit corporations under contract with the department. The regional centers provide a variety of services, including (a) diagnosis, (b) development of individual program plans, (c) referral to and purchase of needed residential and nonresidential services, (d) monitoring of client progress, and (e) developmental disabilities prevention services. The department also administers the Program Development Fund, which provides start-up funds for new community-based services, and provides case management services for clients in out-of-home placement at the request of regional centers through the Continuing Care Services Section.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

2. *The Hospital Services Program* provides services in 9 of the state's 11 hospitals. Agnews, Fairview, Frank L. Lanterman, Porterville, and Sonoma hospitals operate programs exclusively for the developmentally disabled, while Camarillo, Napa, Patton, and Stockton hospitals operate programs for both the developmentally disabled and the mentally disabled through an interagency agreement with the Department of Mental Health. DDS is closing its developmental disabilities program at Patton State Hospital in the current year. Chapter 409, Statutes of 1981, transfers administration of Patton to the Department of Mental Health on July 1, 1982.

3. *The Planning and Evaluation Program* provides a variety of services for the department, including program planning, policy analysis, and data base management.

4. *The Administrative Services Program* provides the services required to support the daily operation of the department.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $558,190,000 from the General Fund to support the programs of the Department of Developmental Services in 1982–83. This is an increase of $21,419,000, or 4.0 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefits approved for the budget year.

Expenditures from all funds are proposed at $564,605,000, which is $20,882,000, or 3.8 percent, above estimated current-year expenditures. Table 1 displays program expenditures and funding sources for the prior, current, and budget years.

Table 1

Department of Developmental Services
Program Expenditures and Funding Sources
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
Department Support	$15,608	$15,652	$17,468	$1,816	11.6%
Local Assistance	(516,777)	(528,071)	(547,137)	(19,066)	(3.6)
State Hospitals	323,675	319,696	323,419	3,723	1.2
Regional Centers	160,378	194,496	218,639	24,143	12.4
Continuing Care Services	6,000	2,620	1,535	−1,085	−41.4
Work Activity Program	25,636	1,863	–	−1,863	−100.0
Other Community Programs	1,023	9,245	3,400	−5,845	−63.2
Legislative Mandates	65	151	144	−7	−4.6
Totals	$532,385	$543,723	$564,605	$20,882	3.8%
General Fund	*$528,763*	*$536,771*	*$558,190*	*$21,419*	*4.0%*
Developmental Disabilities Program Development Fund	*371*	*3,601*	*3,033*	*−568*	*−15.8*
Energy and Resources Fund	*80*	–	–	–	–
Federal Trust Fund	*818*	*842*	*873*	*31*	*3.7*
Reimbursements	*2,353*	*2,509*	*2,509*	–	–

Significant Budget Changes

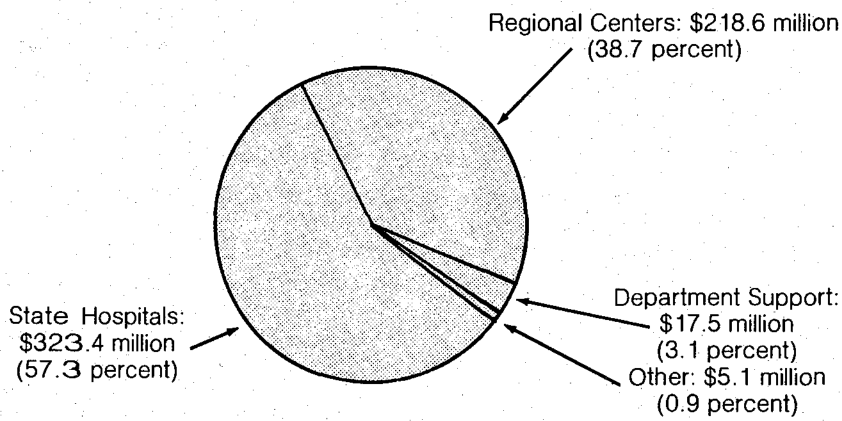
The budget proposes the following significant changes in the budget year:

- An augmentation for regional center caseload growth and service expansion in the amount of $10,044,000.
- A 5 percent cost-of-living adjustment for regional centers, at a cost of $14,504,000.
- Staff reductions in the state hospitals associated with declining population, for a savings of $4,874,000.
- Staffing augmentations for the continuing medical care and acute medical/surgical programs in the state hospitals, at a cost of $1,202,000.
- Data processing augmentations for the regional centers and state hospitals, at a cost of $1,342,000.
- Continuation of special pilot projects, costing $375,000.
- Continuation of a program for developmentally disabled offenders, at a cost of $720,000.
- The transfer of the administration and funding of Patton State Hospital to the Department of Mental Health, in the amount of $37,093,000.
- A 5 percent reduction in department support, for a savings of $833,000.

Chart 1

Department of Developmental Services Proposed Expenditures: $564.6 million

1982–83 (All Funds)



I. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $17,292,000 and an appropriation of $176,000 from the Program Development Fund for support of the department in 1982–83. This is an increase of $1,755,000 or 11.3 percent, above estimated current-year expenditures. Total expenditures, including those for the Continuing Care Services Section, which is

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

supported by reimbursements from local assistance, are proposed at $19,980,000, which is $1,028,000, or 4.9 percent, below estimated current-year expenditures. Table 2 shows the adjustments to the current-year budget proposed for 1982–83.

Table 2
Department of Developmental Services
Proposed Budget Changes
Department Support
(in thousands)

	General Fund	*All Funds*
Adjusted base budget, 1981–82	$15,537	$21,008
A. Changes to maintain current program	1,206	−1,635
1. Merit salary adjustment	(186)	(253)
2. Benefit adjustment	(27)	(36)
3. Salary increase adjustment	(—)	(−9)
4. Salary savings adjustment	(81)	(81)
5. Reduce WIN-COD reimbursements	(—)	(−1,922)
6. Restore 2 percent budget cut	(314)	(314)
7. Restore travel reduction	(290)	(290)
8. Continuing Care Services Section (CCSS) opt-out	(—)	(−1,030)
9. Price increase on operating expenses	(335)	(367)
10. Savings in regulatory procedures costs, due to Ch 1091/81	(−27)	(−27)
11. California Fiscal Information System	(6)	(6)
12. Office of Administrative Law	(6)	(6)
13. Shift CCSS funding from local assistance to department support	(129)	(—)
14. Shift patient benefit and accounts branch funding from DDS to Medi-Cal	(−141)	(—)
B. Budget change proposals	549	607
1. State hospital education	(40)	(40)
2. Data processing	(1,342)	(1,342)
3. Program Development Fund staff	(—)	(58)
4. 5 percent budget reduction	(−833)	(−833)
Proposed budget, 1982–83	$17,292	$19,980

The budget proposes a total of 460.7 positions in department headquarters and continuing care services in 1982–83, which is 98.1 less than the number of positions authorized to continue. The reduction reflects (1) a decrease of 99.5 positions in continuing care services due to regional center opt-out, (2) a decrease of 10.1 positions to achieve the 5 percent reduction in the department's state operations budget required by the administration, and (3) 11.5 new positions proposed for 1982–83. "Opt-out" is a procedure whereby regional centers discontinue using protective living services provided by the Continuing Care Services Section (CCSS) for clients placed in out-of-home care. Table 3 shows the proposed changes in positions, the associated costs and cost savings, and the funding source affected by the changes.

Table 3
Department of Developmental Services
Proposed Changes in Authorized Positions

Description	*Number of Positions*	*Cost*	*Funding Source*
Proposed to be eliminated			
Continuing Care Services (opt-out)	−99.5	−$2,987,000	General Fund
5 percent reduction	−10.1	−299,000	General Fund
Subtotals	−109.6	−$3,286,000	
Proposed to be added			
State hospital and regional center automation	8.5	$357,000	General Fund
Administration of state hospital education	1.0	40,000	General Fund
Program Development Fund administration	2.0	58,000	Program Development Fund
Subtotals	11.5	$455,000	
Totals	−98.1	−$2,831,000	

Five Percent Budget Reduction

The budget proposes a General Fund reduction of $833,000, or 5 percent, in department support. The department proposes to achieve this reduction in part by eliminating six positions, for a savings of $184,000. These positions include a graphic artist, a staff services manager from the Planning and Evaluation Division, a staff services analyst and a state hospital health and safety coordinator from the Hospital Operations Division, a stenographer, and a community program specialist from the Community Services Division. The balance of the 5 percent reduction will be achieved by reducing (1) 4.1 temporary help positions and overtime allocations, for a total reduction of $115,000, and (2) operating expenses by $534,000.

Regional Center Opt-Out

When a regional center opts out of CCSS protective living services, CCSS clients are added to the regional center's caseload, and CCSS staff and funding are transferred to the center. Five centers opted out in the current year. In total, 19 of the 21 regional centers have opted out to date. The remaining two regional centers—East Bay and San Andreas—have not submitted proposals to discontinue using CCSS services. To complete the transfer of funding to the five centers that have opted out in the current year, the budget proposes to reduce CCSS expenditures by $1,030,000 and to augment the regional center budget by $830,000. The $1,355,000 budgeted for CCSS in 1982–83 will support the Oakland field office serving East Bay Regional Center and the San Jose and Salinas field offices serving San Andreas Regional Center.

Uniform Fiscal Systems

We recommend approval.

Chapter 1140, Statutes of 1979, and Item 271 of the 1979 Budget Act require the department to develop and implement uniform accounting, encumbrance control, budgeting, and management reporting systems for regional centers. The department has implemented uniform general ledger accounts in the regional centers, and predicts it will complete implementation of uniform cost accounting and budgeting systems by July 1, 1982.

The budget proposes to automate these systems in 1982–83. The department proposes to lease mini-computers for each regional center, to ac-

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

quire software, and to establish reporting of all regional center financial transactions to the Health and Welfare Data Center. The department's proposal is based on a feasibility study report approved by the State Office of Information Technology.

The 1982–83 cost of this proposal is $777,000, which includes $111,000 for three new data processing staff and expenses in department headquarters. The department proposes to support system development and 1982–83 operation with a one-time General Fund appropriation of $420,000 and a redirection of $357,000 from regional center operations. The department indicates that ongoing costs for operating the system after 1982–83 will be approximately $1,313,000, and will be supported by redirections from department support and regional center operations.

Our analysis indicates that the department's proposal is consistent with legislative intent, and that additional expenditures proposed for data processing are justified.

II. REGIONAL CENTERS

The budget proposes an appropriation of $218,639,000 for regional centers in 1982–83, including $217,952,000 from the General Fund and $687,000 from the Program Development Fund. This is an increase of $24,143,000, or 12.4 percent, above estimated current-year expenditures. Total expenditures, including SSI/SSP payments to residential care providers, are proposed at $303,347,000, which is an increase of $32,428,000, or 11.9 percent, above estimated current-year expenditures.

Table 4 displays the components of regional center expenditures for the prior, current, and budget years.

Table 4

Regional Center Program Expenditures and Funding Sources (in thousands)

Program	Actual 1980–81	Estimated 1981–82	Proposed 1982–83	Change Amount	Change Percent
Operations					
Personal services	—	$62,678	$66,285	$3,607	5.8%
Operating expenses	—	14,646	15,585	939	6.4
Subtotals	$65,904	$77,324	$81,870	$4,546	5.9%
Purchase of service					
Out-of-home care	$48,788	$57,063	$50,806	−$6,257	−11.0%
Day programs	16,398	22,279	24,253	1,974	8.9
Medical services	2,593	3,183	2,628	−555	−17.4
Respite/camps	—	5,802	7,667	1,865	32.1
Other	26,695	28,845	36,911	8,066	28.0
Subtotals	$94,474	$117,172	$122,265	$5,093	4.3%
Cost-of-living adjustment	—	—	14,504	14,504	N/A
Subtotals	$160,378	$194,496	$218,639	$24,143	12.4%
SSI/SSP reimbursements	74,750	76,426	84,708	8,282	10.8
Totals	$235,128	$270,922	$303,347	$32,425	12.0%
General Fund	*$196,411*	*$230,110*	*$257,436*	*$27,316*	*11.9%*
Regional centers	*(160,378)*	*(194,496)*	*(217,952)*	*(23,456)*	*(12.1)*
SSP	*(36,033)*	*(35,614)*	*(39,474)*	*(3,860)*	*(10.8)*
Program Development Fund	—	—	*687*	*687*	*N/A*
Federal funds (SSI)	*38,717*	*40,812*	*45,234*	*4,422*	*10.8*

Table 5 shows proposed changes to the current-year budget.

Table 5
Regional Center Program
Proposed Budget Changes
(In thousands)

	Operations	*Purchase of Services*
Adjusted base budget, 1981–82	$77,324	$117,172
A. Changes to maintain current program	792	−5,063
1. Salary adjustment	(−745)	—
2. Operating expense adjustment	(205)	—
3. Restore travel reduction	(502)	—
4. Opt-out	(830)	—
5. Continuation of Program Development Fund grants	—	(1,258)
6. Shift funding to SSI/SSP	—	(−7,089)
7. Continue transportation rate increase	—	(1,912)
8. ICF-DD (H) conversions	—	(−1,144)
B. Caseload growth	4,111	3,772
C. Budget change proposals	−357	6,384
1. Uniform fiscal systems	(−357)	—
2. Service expansion	—	(6,384)
Subtotals	$81,870	$122,265
D. Cost-of-living adjustment	4,093	10,411
Proposed budget, 1982–83	$85,963	$132,676

A. REGIONAL CENTER OPERATIONS

The department prepares regional center operations budgets using a staffing and salary formula. This formula uses caseload data and a set of client-staff ratios to calculate staffing allocations for each regional center. Regional centers receive funds to establish staff equivalent to those in the core staffing model, but the centers may use the funds to establish any staff configuration and pay any salaries they deem appropriate.

Regional Center Caseload

The department estimates that regional center caseload, excluding continuing care services clients, will be 71,638 in 1982–83, which is an increase of 4,519, or 6.7 percent, above estimated current-year caseload.

Table 6 shows that the growth in regional center caseload has slowed significantly in recent years. Some of the high growth rates in 1978–79 through 1980–81, however, are attributable not to real caseload growth, but instead to overestimates of caseload resulting from regional centers' failure to remove inactive clients from client registries. In 1979–80 and 1980–81, reviews of client registries and case records resulted in the re-

Table 6
Regional Centers
Midyear Caseload

	Number of Clients	*Change*	*Percent Change*
1977–78	39,639	—	—
1978–79	49,850	10,211	25.8%
1979–80	57,193	7,343	14.7
1980–81	62,323	5,130	9.0
1981–82 (estimated)	67,119	4,796	7.7
1982–83 (proposed)	71,638	4,519	6.7

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

moval of nearly 15,000 inactive clients from client registries. The data on caseload growth used to prepare the 1982–83 budget request are substantially more reliable than those used in prior years.

Regional Center Staffing

The budget proposes allocations for regional centers operations that would allow the regional centers to establish the equivalent of 2,731.5 positions statewide. This is an increase of 195.6 positions, or 7.7 percent, above the equivalent number of positions authorized for the current year. This increase is primarily due to caseload increases.

B. REGIONAL CENTER PURCHASE OF SERVICES

The department prepares regional center purchase-of-service budgets by projecting historical trends in the number of billings and the average cost per client for each of the five categories of services. Table 7 shows the average number of clients using services and the average annual cost per client using services, for each service category.

Table 7

Regional Center Purchase of Service

Average Number of Clients and Annual Cost per Client Using Services

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Percent Change*
Average number of clients using services				
Out-of-home care	14,270	15,923	15,454	–2.9%
Day programs	5,593	6,557	6,540	–0.6
Medical services	1,559	1,871	1,691	–9.6
Respite/camps	N/A	5,940	6,394	7.6
Other (primarily transportation)	N/A	13,998	16,797	20.0
Average annual cost per client using services [a]				
Out-of-home care	$8,657	$8,383	$8,769	4.6%
Day programs	2,931	3,387	3,708	9.5
Medical services	1,663	1,701	1,554	–8.6
Respite/camps	N/A	977	1,199	22.7
Other	N/A	2,061	2,197	6.6

[a] Excludes proposed 5 percent cost-of-living adjustment.

Costs attributable to projected increases in the number of clients using services are $3,772,000. The costs attributable to projected increases in the average cost per client using services are $6,384,000. Table 7 shows that the primary sources of these increases are increases in the cost of respite care and camps, day programs, and "other services," most notably transportation services.

Transportation Reimbursement Rates

We withhold recommendation on the request for $1.9 million to augment transportation reimbursement rates pending receipt from the department of the estimated cost of granting current-year rate increases.

Currently, reimbursement rates for new providers of transportation services are based on a prospective budget approved for each provider. Reimbursement rates for existing providers are based on cost statements submitted by the providers. The annual rate adjustments, however, are limited by department policy to the cost-of-living adjustment granted to local assistance providers by the Legislature. The amount of reimbursement paid to both new and existing providers is based on the number of times clients are transported by each provider.

Because the providers are reimbursed on a per-client-trip basis, they are not paid for client absences, although they incur costs for absent clients because they drive fixed routes between clients' residences and day programs. During 1981 budget hearings, subcommittee members expressed concern that this policy unfairly penalized providers for client absences, and that the aggregate level of reimbursement for transportation providers was inadequate.

The Legislature took two actions in the 1981 Budget Act to address these concerns. First, it requested the department to report by October 1, 1981, on the feasibility of reimbursing vendors on a vehicle-mileage basis, rather than on a per-client-trip basis. The department's report, submitted January 4, 1982, recommends that such a reimbursement system be implemented because it would give transportation vendors more stable and predictable income. Second, the Legislature appropriated $1,912,245 to the department for transportation vendor rate increases, which is equivalent to a 13 percent adjustment. This increase was in addition to the 6 percent cost-of-living increase granted to providers generally.

The department has not yet implemented the mileage-rate reimbursement system recommended in its January report. Nor has it put into effect the rate increase authorized by the Legislature for transportation providers. Department staff indicate that they intend to do both sometime during the current year, but they have not provided any details on their new rate-setting procedure or a timetable for implementing the new system. The budget indicates that the department is holding $1,000,000 in reserve for transportation provider rate increases in 1981–82, not the $1,912,245 authorized by the Legislature.

This is the third consecutive year that the department has disregarded the Legislature's directive to grant transportation providers specific rate increases. Chapter 59, Statutes of 1980 (SB 1407), appropriated $500,000 for this purpose in 1979–80. Subsequently, the 1980 Budget Act appropriated $1,000,000 to provide full-year funding for the Chapter 59 increases. The Ch 59/80 appropriation was used instead to cover deficits in the state hospital programs for the mentally disabled. The 1980 Budget Act appropriation was used instead to support general deficits in the regional center program.

The budget for 1982–83 proposes to spend $1,912,245 to continue the rate increases granted in the current year. Because DDS has neither granted these increases nor provided information on its new mileage-rate reimbursement procedures, we cannot determine the amount that is required to continue the rate increases in the budget year. We therefore withhold recommendation on the request pending the receipt from the department of cost estimates based on actual rate increases granted in the current year. We recommend that the department submit these cost estimates by April 1. We further recommend that the fiscal committees direct DDS to explain why the rate increases have once again been delayed, and to describe the procedures it has established for adjusting current-year transportation rates.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

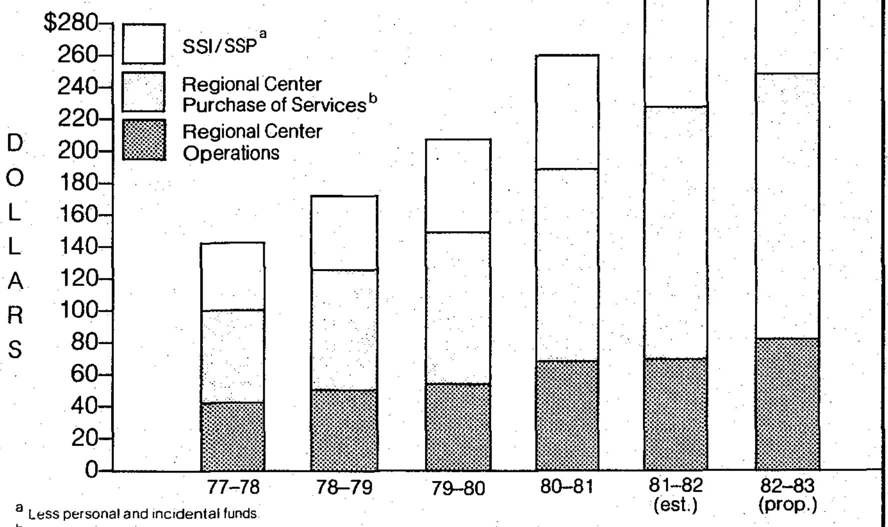
C. REGIONAL CENTERS AND FISCAL POLICY

Growth in Regional Center Expenditures

Over the past five years, the cost of the regional center program has grown rapidly. Chart 2 shows that expenditures by regional centers and related programs have increased from $140.3 million in 1977–78 to an estimated $302.2 million in the current year, an increase of 115.4 percent. Of the total increase since 1977–78, $63.6 million is attributable to cost-of-living adjustments. The remaining $98.3 million increase represents real program growth. This increase is equivalent to an average real growth rate of 14.2 percent annually.

Chart 2

Regional Center Program Expenditures and SSI/SSP Payments to Regional Center Clients 1977–78 to 1982–83 (in millions)



[a] Less personal and incidental funds.

[b] Including work activity programs.

Several factors have contributed to the program's rapid growth:

1. *The number of clients registered with regional centers has increased.* Table 6 on page 907 shows that the number of clients has increased from 39,639 in 1977–78 to an estimated 67,119 in 1981–82, an increase of 69.3 percent in four years. Caseload growth increases regional center operating expenditures for diagnostic and case management services and increases demand for purchased residential and nonresidential services.

The growth rate in clients receiving out-of-home care is comparable to the growth rate in the number of clients. The number of clients residing in community residential facilities has grown from 10,360 in 1977–78 to

15,923 in the current year, an increase of 53.7 percent in four years. The primary sources of new community residential placements are state hospital residents and adolescents and young adults formerly residing with their parents.

2. ***Since March 1979, department policies on funding client services have resulted in significant increases in utilization of day treatment, habilitation, and transportation services.*** The department's purchase-of-service guidelines were established in March 1979 in a document called the Basic Habilitation Plan (BHP). The BHP defines "essential" services as room and board, a day program (day training, habilitation, or special education), basic health care, and "any other services which are required to achieve a more independent, productive, and normal life or to prevent deterioration of the client's condition." "Discretionary" services are defined as those not deemed essential. At the time the BHP was established as department policy, many clients living at home or residing in out-of-home care lacked a day program. The implementation of this policy has significantly increased the demand for day programs and transportation services.

The Legislature has provided large budget augmentations to accommodate increased demand for regional center services. Although in some years, regional centers have had to form waiting lists for services or otherwise control utilization, budget augmentations generally have allowed most centers to continue increasing utilization at a rate reflecting the increase in demand. In 1980–81, for example, the Legislature granted regional centers an augmentation of $24.4 million, or 26.5 percent, for purchase of services. The number of clients receiving day activity programs funded by regional centers increased from 5,300 in June 1980 to 5,660 in September 1980—an increase of 6.8 percent in three months. Similarly, the number of clients receiving "other" services (primarily transportation) increased from 10,880 in June 1980 to 11,950 in July 1980—an increase of 9.8 percent in one month.

3. ***Provider reimbursement has increased.*** Reimbursement of community residential care providers is determined by facility size and the assessed level of client disability. Additional reimbursement is available on an hourly basis for facilities providing special services, such as behavior modification, independent living skills, education training, or sensory motor development. The reimbursement rates are adjusted annually to offset increases in the cost of living. Reimbursement rates for all other services are based on providers' initial cost statements, adjusted annually for cost-of-living increases. The reimbursement rates for new providers are based on prospective budgets.

Although rate increases have been limited to the cost-of-living adjustments granted by the Legislature, costs per client using services have increased faster than the cost-of-living adjustment. Table 7 on page 908 shows that, based on the department projections for 1982–83, residential care costs per client will increase by 4.6 percent, day program costs will rise by 9.5 percent, respite care costs will increase 22.7 percent, and "other services" costs will rise by 6.6 percent. These increases, moreover, make no allowance for the 5 percent cost-of-living adjustment proposed by the Governor.

Residential care costs are projected to increase because (a) state hospital residents being placed in community care facilities in 1982–83 have an assessed level of disability that is higher than average, thus entitling the provider to higher-than-average reimbursement, and (b) the number of

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

facilities receiving special services rates for providing behavior modification services is expected to increase (DDS has placed a moratorium on further expansion of other special services). The average cost of nonresidential services is projected to increase because new providers' rates, being based on prospective budgets, are significantly higher than the average reimbursement rate for existing providers.

Regional Center Cost Containment

Policies which the Legislature may wish to consider for controlling the cost of regional center services fall into three categories: (1) controlling utilization of services, (2) limiting provider reimbursement, and (3) limiting the costs of case management.

1. ***Controlling Service Utilization.*** Regional centers have significant discretion in determining the level of services provided to each client, within the overall funding limits set by their contracts with DDS. Welfare and Institutions Code Section 4648(b) *permits,* but does not require, regional centers to purchase services to accomplish objectives listed on individual program plans.

Regional centers currently use a variety of methods to monitor and control spending. Some centers monitor spending closely and utilize complex procedures to set priorities for services based on client needs and available resources. Some centers, however, have no such policies and will purchase virtually any service requested by a client or caseworker.

The department has not implemented any systematic or uniform policies covering utilization of regional center services. The Basic Habilitation Plan, although developed as a set of guidelines for purchase of services, tends to be viewed as a minimum set of services that each client should receive, not as an operational policy for setting priorities and controlling expenditures.

The department recently proposed regulations which would have established program standards for service providers and utilization standards for regional centers. On November 18, 1981, the Office of Administrative Law (OAL) notified DDS that the department lacked statutory authority to adopt such regulations. The OAL concluded that the Lanterman Act "does not require or empower the department to limit the implementation of the individual program plans" for regional center clients, and that "neither the code sections . . . nor these times of fiscal constraint authorize the department to place quantitative limits on the amount of services that any individual may receive. That determination was left by the Legislature to those persons responsible for developing each individual program plan."

To control costs in this program, the Legislature could consider amending the Lanterman Act to authorize the department to control utilization of services. While this would assure that regional centers implemented utilization controls uniformly, it would be a significant departure from the Legislature's long-standing policy of granting regional centers considerable autonomy over their operations.

A more direct way of controlling utilization of services is to limit appropriations for the program. The proposed increase in the purchase-of-service budget will allow the regional centers to increase service utilization, on average, by 3.3 percent in 1982–83. The total proposed augmentation of $23,786,000 also includes funds for a 5.8 percent caseload increase and a 5.0 percent provider cost-of-living adjustment. Although controlling service utilization by limiting appropriations could be readily accomplished and would give regional centers flexibility in setting service priorities, its principal drawback as a method of cost control is that the Legislature would not be assured that regional centers adopt effective or consistent policies for limiting utilization of services.

2. ***Limiting Provider Reimbursement.*** The experience of both the regional centers and the habilitation services program in the Department of Rehabilitation has shown that limiting reimbursements by limiting rate increases does not fully control the average cost of services per client, because case managers have the option to move clients to similar but more expensive services. No system of reimbursing services on a fee-for-service basis is immune to this problem.

Limiting increases in the average cost of services per client to the annual cost-of-living adjustment would require that services be reimbursed based directly on individual client's needs and not on a fee-for-service basis. There are two basic methods of doing this. The first is to make purchase-of-service allocations to regional centers on a per-client (capitation) basis and to allow the centers to negotiate all rates of payment with providers. The second method is to give clients or their parents vouchers in an amount reflecting the level of disability, which certified providers could redeem for cash. With both methods, the average cost per client is fixed. The average costs of services to the state does not increase if clients choose to move to higher cost facilities.

The primary disadvantage of reimbursing services on a per-client basis is that it requires the state (for both methods) and regional centers (for the capitation/rate negotiation method) to make decisions about what represents a fair allocation of resources for each client. These decisions would be highly controversial, administratively complex and costly, and would give clients and parents incentives to advocate for a client classification entitling them to more services or a larger voucher.

3. ***Limiting Case Management Costs.*** Regional center diagnostic and case management services are statutory entitlements. Further, statutes specify a minimum quantity of services regional centers must provide each client. Welfare and Institutions Code Section 4646 requires regional centers to prepare an "individual program plan" for every eligible client within 60 days of assessment, and requires that the individual program plans of every client be reviewed and modified at least annually.

Individual program planning in its current form is a costly policy to administer. A report entitled *Regional Center and Continuing Care Services Branch Differential Caseload Staffing,* which was prepared by the Department of Finance and published in April 1980, concludes that the annual review of individual program plans consumes up to 48 percent of case managers' time. The cost of annual reviews in 1982–83 could therefore be as high as $23.2 million, which is 48 percent of case management costs and 28.3 percent of proposed expenditures for regional center operations. We are not aware of any evidence that all 70,000 regional center clients receive identical benefits from annual reviews of individual program plans. The resources regional centers are required to spend conducting annual reviews for all clients cannot be made available for those clients who would benefit from more frequent contact and monitoring or from more frequent reviews of their individual program plans.

The statutory requirement that regional centers conduct annual reviews for every client reduces the centers' flexibility in providing case

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

management services, thereby increasing the cost of the current level of services or reducing the level of service regional centers can provide with current resources. The Legislature might be able to reduce significantly the cost of regional centers operations by amending the Lanterman Act to provide regional centers additional flexibility in conducting reviews of individual program plans.

D. PROGRAM DEVELOPMENT FUND

The Developmental Disabilities Program Development Fund (PDF) was established by Ch 1369/76 to provide start-up grants for new community programs. The PDF is supported by federal funds from the State Council on Developmental Disabilities and by fees collected from parents of minor children in out-of-home community care. Since the first cycle of PDF grants in 1977–78, the fund has financed 120 projects, which created 3,765 new program spaces, at a cost to the PDF of $7,158,000. After receiving start-up grants for up to 24 months, the ongoing program costs are incorporated into the regional center purchase-of-service budget. The regional center budget for the current year includes a General Fund augmentation of $2,244,000 to support programs initiated with PDF funds in 1980–81. The 1982–83 budget proposes an augmentation of $1,258,000 to support programs started with PDF funds in 1981–82.

Budget Proposal

The budget proposes expenditures of $3,033,000 from the PDF in 1982–83. This is an increase of $853,000, or 39.1 percent, above estimated current-year expenditures. The budget proposes expenditures for four separate purposes:

1. ***Start-Up Grants.*** The department proposes to use $2,170,000 from the PDF ($1,189,000 from parental fees, $981,000 from federal funds) for new program start-up grants, which is an increase of $105,000, or 5.1 percent, above the amount available for start-up grants in the current year.
2. ***Regional Center Services.*** The budget proposes to use $500,000 from the PDF (from parental fees) and $1,365,000 from the General Fund for regional centers to purchase respite care and camp services.
3. ***Conversion of Community Residential Facilities.*** The budget proposes to use $187,000 from the PDF (from parental fees) and $197,000 from the General Fund to fund on an interim basis 10 existing community residential facilities providing behavior modification services, pending licensure of these facilities as "intermediate care facilities for the developmentally disabled-habilitative" (ICF-DD(H)). Converting these facilities to health facility licensure will shift funding from regional center budgets (87 percent General Fund, 13 percent federal SSI) to Medi-Cal (50 percent General Fund, 50 percent federal funds), resulting in ongoing annual General Fund cost savings of $392,400.
4. ***PDF Administration.*** The department proposes to spend $176,000 from the PDF (from parental fees) to support two existing ($118,000) and two new ($58,000) staff to administer the PDF and the start-up grant process. Their activities would include issuing requests for proposals, reviewing grant applications, processing contracts, and monitoring and evaluating programs started by PDF grants.

Proposed Statutory Change

Current law (Welfare and Institutions Code Section 4677) authorizes DDS to use the Program Development Fund to support grants for new community programs. In order to provide statutory authority for its budget proposals, the administration proposes in the omnibus budget companion bills (AB 2361 and SB 1326) to authorize the department to use funds from the PDF to purchase services for developmentally disabled persons. The bill proposed to continue the current requirement that parental fees be deposited in the PDF.

Funding of Program Development

We recommend enactment of legislation requiring all parental fee collections to be deposited in the General Fund, instead of in the Program Development Fund (PDF). This would result in General Fund revenue increases of approximately $1,002,000 annually. We recommend approval of the $2,170,000 budgeted for community program development grants, but recommend that they be supported by available federal funds ($981,000), a General Fund appropriation of $139,000, and the accumulated surplus in the PDF ($1,050,000). This recommendation results in an augmentation of $139,000 in Item 4300-101-001 and a reduction of $139,000 in Item 4300-101-172.

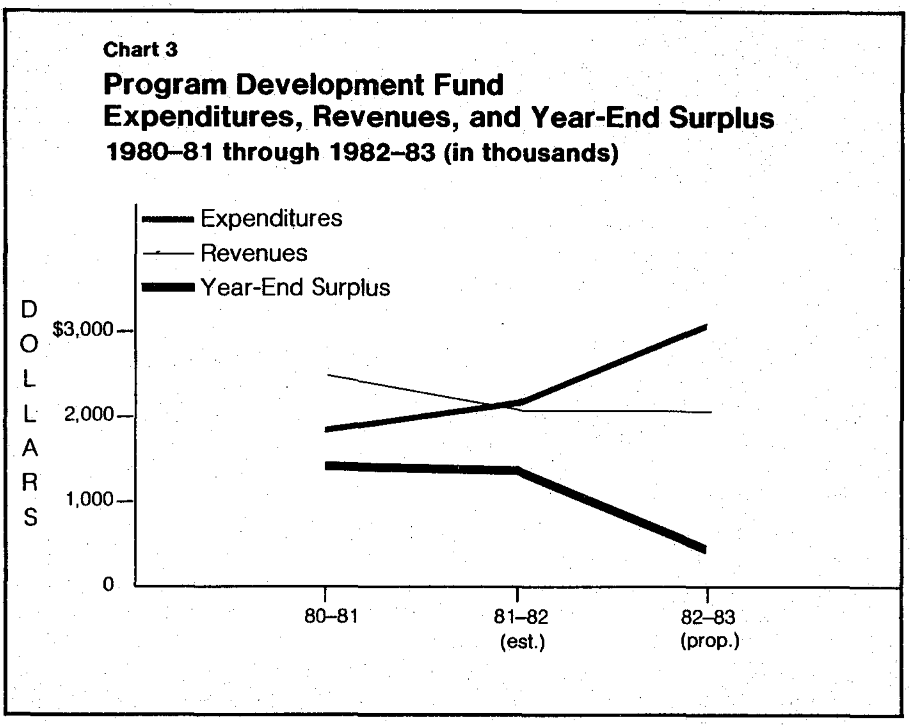
Our analysis has identified the following deficiencies with the administration's proposals regarding the PDF:

1. ***The proposal is fundamentally inconsistent with legislative intent in establishing the PDF.*** Welfare and Institutions Code Section 4677 reads, in part, "the purpose of the Program Development Fund shall be to provide resources needed to initiate *new* programs" (emphasis added). The budget and companion bills propose to use the PDF to refinance *existing* services.

2. ***The proposal limits the Legislature's ability to continue current levels of spending on community program development after 1982–83.*** Chart 3 shows the PDF's revenues, expenditures, and year-end surplus. Large unexpended balances have accumulated in the fund over the past two years. The department estimates that the unexpended surplus on June 30, 1982, will be $1,468,000. The department proposes to spend $980,000 more than it receives in revenues in 1982–83, thereby drawing down the PDF's surplus to $488,000 on June 30, 1983. In order to continue this spending level in 1983–84, the department would have to increase parental fee collections by nearly $1 million. Our analysis indicates that existing fee schedules cannot increase fee collections by $1 million in 1983–84. Under the administration's proposal, the Legislature would have to decrease PDF expenditures in 1983–84, potentially by $1 million. If the Legislature wished to continue to support ongoing programs in 1983–84, the entire reduction would have to be made in funds for start-up grants.

3. ***The proposal continues the existing policy of funding program development with fees.*** The Lanterman Act restricts the use of parental fees by requiring that they be deposited in the PDF. As a result, the Legislature is required to appropriate for community program development the amount the department estimates will be *available* from federal funds and fees, not the amount the Legislature thinks is *needed* relative to the requirements of other high-priority state programs. This policy, which the administration proposes to continue, restricts the Legislature's ability to make policy decisions in the budget process about the appropriate level of spending for community program development. Moreover, statutory

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued



restrictions on fee collections do not exist in other similar programs. Fees collected for state hospital and for mental health services, for example, are deposited in the General Fund.

We find no analytic basis for maintaining the existing restrictions on the use of parental fees. We therefore recommend that the Legislature, in the omnibus companion bill, amend Section 4677 to require that all parental fee collections be deposited in the General Fund.

We recommend approval of the $2,170,000 budgeted for community program development grants. We recommend, however, that these grants be funded in 1982–83 by $981,000 in federal funds available from the state council, a General Fund appropriation of $139,000 in Item 4300-101-001(i), and by $1,050,000 available from the accumulated surplus in the PDF.

PDF Administration

We recommend approval of the two new positions proposed for PDF administration. Contingent upon enactment of legislation requiring parental fees to be deposited in the General Fund, we recommend that these staff and two existing staff be supported from the General Fund, for an augmentation of $176,000 to Item 4300-001-001, and a reduction of $176,000 in Item 4300-001-172.

Currently, the department has two positions administering the PDF and the grant process. These staff and associated expenses cost $118,000, and are supported by the PDF. Because of workload increases, the budget proposes to add two new staff, at an additional cost of $58,000 to the PDF.

Our review of the department's workload data indicates that the request is justified. Accordingly, we recommend approval of the new positions. If the Legislature enacts legislation requiring parental fees to be deposited into the General Fund, we recommend that the two existing and two new positions be supported by the General Fund, for an augmentation of $176,000 in Item 4300-001-001 and a reduction of $176,000 in Item 4300-001-172.

Conversion of Residential Care Facilities

We recommend approval of the request for $384,000 ($197,000 General Fund, $187,000 PDF) to fund 10 residential care facilities pending their conversion to health facility licensure. Contingent upon enactment of legislation requiring parental fees to be deposited in the General Fund, we recommend that the facilities be funded entirely by the General Fund, for an augmentation of $187,000 to Item 4300-101-001 (h), and a reduction of $187,000 in Item 4300-101-172.

The department proposes to assist 10 existing six-bed residential care facilities providing behavior modification services to obtain licenses as intermediate care facilities for the developmentally disabled—habilitative (ICF-DD (H)) by January 1, 1983. The budget proposes $187,000 from the PDF and $197,000 from the General Fund to support these facilities for six months while they apply for licensure. After January 1, 1983, these facilities would be supported by funds from the Medi-Cal program. Because the federal government provides greater matching funds for ICF-DD (H) services than for services provided in community care facilities, the state's share of the cost of these facilities would fall from $1,433 to $888 per client per month, resulting in annual savings of $392,400 to the General Fund.

Because the proposal has a favorable impact on the General Fund, we recommend approval. If the Legislature enacts legislation requiring parental fees to be deposited in the General Fund, we recommend that the entire $384,000 be supported from the General Fund, for an augmentation of $187,000 to Item 4300-101-001 (h), and a reduction of $187,000 in Item 4300-101-172.

Respite Care Augmentation

We recommend, contingent upon enactment of legislation requiring parental fees to be deposited in the General Fund, that regional center purchase of services for respite care and camp services be funded entirely from the General Fund, instead of from the PDF, for a reduction of $500,000 in Item 4300-101-172, and an augmentation of $500,000 in Item 4300-101-001 (f).

The budget proposes $500,000 from the PDF and $7,167,000 from the General Fund for regional center respite care and camp services. This is an increase of $1,865,000, or 32.1 percent, above estimated current-year expenditures.

Consistent with our earlier recommendation that parental fees be deposited in the General Fund, we recommend that all spending for these services be supported through the General Fund appropriation in Item 4300-101-001 (f), rather than the PDF appropriation in Item 4300-101-172, for a reduction of $500,000 in Item 4300-101-172 and an augmentation of $500,000 in Item 4300-101-001 (f).

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Summary of Analyst's Recommendations

Table 8 summarizes the administration's proposal for the PDF and related programs and our recommendations. Although we are recommending augmentations totaling $1,002,000 from the General Fund, these additional costs would be fully offset by increased General Fund revenues from parental fees.

Table 8
Program Development Fund
Summary of Administration Proposal and Analyst's Recommendations
(in thousands)

	Start-up Grants	*Respite Care*	*PDF Administration*	*ICF-DD(H) Conversion*	*Totals*
Administration Proposal:					
Allow DDS to use PDF funds to support regional center services.					
PDF					
Federal funds	$981	—	—	—	$981
PDF surplus	1,050	—	—	—	1,050
Parental fees	139	$500	$176	$187	1,002
General Fund—PDF	—	—	—	—	—
General Fund in regional center item	—	—	—	197	197
Totals	$2,170	$500	$176	$384	$3,230
Analyst's Recommendation:					
Deposit $1,002,000 of fees in General Fund, use PDF only for start-up grants.					
PDF					
Federal funds	$981	—	—	—	$981
PDF surplus	1,050	—	—	—	$1,050
Parental fees	—	—	—	—	—
General Fund—PDF	139	—	—	—	139
General Fund in regional center item	—	$500	$176	$384	1,060
Totals	$2,170	$500	$176	$384	$3,230
Differences					
PDF					
Parental fees	−$139	−$500	−$176	−$187	−$1,002
General Fund—PDF	139	—	—	—	139
General Fund in regional center item	—	500	176	187	863
Totals	—	—	—	—	—
General Fund revenue					($1,002)

Parental fees

We recommend that the Budget Bill continue to include language requiring the department to develop and implement fees for nonresidential services.

Welfare and Institutions Code Sections 4677, 4782, and 4784 authorize the department to require parents of children under the age of 18 who are receiving services purchased by the regional center to contribute to the cost of services. A parent's contribution, however, is limited to the cost of caring for a normal child at home. Diagnosis and counseling services provided by the regional centers are the only regional center services for which existing law does not permit parental fees to be assessed. Fee collections for community services are deposited in the Program Development Fund. Fee collections for state hospital services are deposited in the General Fund. In neither case, however, are fee revenues used as offsets to purchase-of-service expenditures.

To implement these code sections, the department has issued regulations which limit parental fees to two categories of service—community residential care and state hospital care. All other regional center services are provided free of charge.

The fee schedule for community residential care is based upon ability to pay, family size, and client age. No fees are charged to families having a total annual income of less than $8,000. The monthly charges for services range from $13 per month for a family of six or more having an income of $8,000, to $141 per month for a family of two with an income of $20,000 or more. The department estimates that parental fee collections in 1982–83 will be $1,002,000. Because there are approximately 2,700 children in out-of-home placement statewide, the average monthly parental fee payment approximates $35. The General Fund cost of community residential care ranges from $485 to $772 per month, or more if special services are purchased.

In last year's *Analysis,* we pointed out that the existing fee schedule for out-of-home care was regressive and had not kept pace with increased program costs. In response to our recommendations, the Legislature included in the 1981 Budget Act a requirement that the department revise the schedule to reflect changes in the cost of living, and to set fees as a constant proportion of family income. The department has completed these revisions, but they will not be implemented until the department promulgates formal regulatory changes.

We also noted last year that although the department has the authority to require parents to pay for nonresidential services, it has not done so. The Legislature also included in the 1981 Budget Act a requirement that the department develop and implement a fee system for nonresidential services by July 1, 1982. The DDS has only recently begun staff work on this project, and probably will not implement a fee schedule by the statutory deadline. The Budget Bill does not contain the same language as the current-year Budget Act. Unless DDS provides the Legislature assurances that the new fee schedule will be implemented during the current year, we recommend that language identical to that approved last year be inserted into the Budget Bill.

III. STATE HOSPITALS

A. ALL STATE HOSPITALS

The state operates 11 hospitals which provide services to developmentally and mentally disabled clients. Nine of the 11 hospitals (Agnews, Camarillo, Fairview, Lanterman, Napa, Patton, Porterville, Sonoma, and Stockton) are presently under the jurisdiction of the Department of Developmental Services. The remaining two hospitals (Atascadero and Metropolitan) are run by the Department of Mental Health. The Department of Mental Health is also responsible for management of programs for the

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

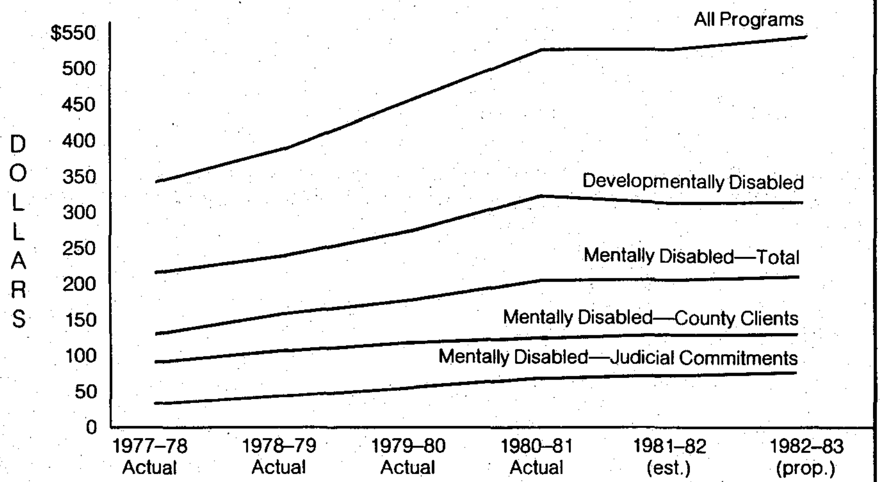
mentally disabled located in three state hospitals (Camarillo, Napa, and Patton) operated by the Department of Developmental Services. Chapter 409, Statutes of 1981, transfers the authority for operation of Patton to the Department of Mental Health, effective July 1, 1982.

The budget proposes an appropriation of $547,155,000 from the General Fund for support of the state hospitals in 1982–83. This is an increase of $12,938,000, or 2.4 percent, above estimated current-year expenditures. Total expenditures including those supported by reimbursements, are proposed at $556,333,000, which is an increase of $13,337,000, or 2.5 percent, above estimated current-year expenditures. Chart 4 shows the increase in hospital expenditures, by program, since 1977–78.

Chart 4

State Hospital General Fund Expenditures All Programs

1977–78 through 1982–83 (in millions)



The budget proposes 18,690 positions for 1982–83, which is 148, or 0.8 percent, less than the current-year authorized level. Table 9 displays, by department, the positions requested for 1982–83 and those authorized for the two previous years.

Population Projections

The budget projects that the hospital population will decline from 13,421 at the end of the current year to 12,779 at the end of the budget year, a reduction of 642, or 4.8 percent. Table 10 shows hospital populations at fiscal year end from 1978–79 through 1982–83.

Table 9
State Hospital Positions
All Programs
1980–81 to 1982–83

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*
Developmental Services [a]			
Positions	16,185	16,014	14,520 [b]
Percent change	.3%	−1.1%	−9.3%
Mental Health			
Positions	2,566	2,824	4,170 [b]
Percent change	3.1%	10.0%	47.7%
Combined Programs			
Positions	18,751	18,838	18,690
Percent change	.2%	.5%	−0.8%

[a] Includes positions which serve mentally disabled clients who are in hospitals managed by the Department of Developmental Services.
[b] Reflects the transfer of Patton State Hospital and 1,343 associated positions from the Department of Developmental Services to the Department of Mental Health.

Table 10
State Hospital In-Hospital Population
At End of Fiscal Years
1978–79 through 1982–83

	Actual 1978–79	*Actual 1979–80*	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*
Mentally Disabled (MD)					
Atascadero	945	963	1,090	1,192	1,100
Metropolitan	769	788	883	877	943
Subtotals	1,714	1,751	1,973	2,069	2,043
Developmentally Disabled (DD)					
Agnews	907	968	1,037	1,125	1,069
Fairview	1,381	1,333	1,296	1,150	1,217
Lanterman	1,469	1,404	1,336	1,200	1,213
Porterville	1,599	1,563	1,520	1,535	1,398
Sonoma	1,804	1,579	1,464	1,400	1,457
Subtotals	7,160	6,847	6,653	6,410	6,354
Combined Populations					
Camarillo	1,461	1,392	1,400	1,414	1,092
DD	(522)	(535)	(584)	(620)	(542)
MD	(939)	(857)	(816)	(794)	(550)
Napa	1,744	1,738	1,687	1,663	1,517
DD	(392)	(387)	(376)	(350)	(281)
MD	(1,352)	(1,351)	(1,311)	(1,313)	(1,236)
Patton	1,235	1,224	1,257	1,174	1,200
DD	(292)	(280)	(181)	–	–
MD	(943)	(944)	(1,076)	(1,174)	(1,200)
Stockton	701	732	692	690	573
DD	(589)	(651)	(619)	(690)	(573)
MD	(112)	(81)	(73)	—	—
Subtotals	5,141	5,086	5,036	4,941	4,382
DD	(1,795)	(1,853)	(1,760)	(1,660)	(1,396)
MD	(3,346)	(3,233)	(3,276)	(3,281)	(2,986)
Totals	14,503	13,684	13,662	13,421	12,779
DD	(8,955)	(8,700)	(8,413)	(8,070)	(7,750)
MD	(5,060)	(4,984)	(5,249)	(5,350)	(5,029)

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Non-Level-of-Care Staffing

We recommend that the Departments of Mental Health and Developmental Services submit a report to the Legislature by April 15, 1982, detailing the standards developed for non-level-of-care positions and the plan for implementing the standards in the state hospitals.

In 1978, the Legislature passed ACR 103 which required the Department of Health Services, in conjunction with the Departments of Mental Health and Developmental Services, to develop staffing standards for all positions in the state hospitals. The departments submitted staffing standards for treatment staff, called level-of-care staff, in the spring of 1979 and the fall of 1980.

At the time that the level-of-care standards were submitted, the departments indicated that standards for non-level-of-care staff would be provided to the Legislature in January 1980. The standards were not submitted at that time. During hearings on the departments' 1981–82 budget requests, the fiscal committees once again directed the departments to submit the standards, as required by ACR 103. The departments submitted a report in April 1981, which contained standards for 49 percent of the non-level-of-care positions and described their plans for completing the remaining standards. Specifically, the departments indicated that they would:

(a) develop standards covering an additional 41 percent of the non-level-of-care positions by December 1, 1981, thus covering 90 percent of the positions by that date,
(b) implement in 1982–83 the standards developed by December 1, 1981,
(c) develop standards for the remaining positions by December 1, 1982, and
(d) review and update the standards annually.

At the time this analysis was prepared, the department had not submitted standards for an additional 41 percent of the non-level-of-care positions. Nor does the budget propose to implement during 1982–83 the standards which have been developed. The department intends to develop an implementation plan for the standards by March 1982, and will propose staffing changes to implement the standards when revised expenditure projections are provided to the Legislature in May.

Implementation of non-level-of-care standards could have major fiscal consequences for the General Fund. Non-level-of-care staff equal approximately 38 percent of the 18,690 positions in the state hospitals. The number of staff available per client varies significantly among the hospitals. For example, in 1979, Porterville State Hospital had .38 non-level-of-care staff per client, while Metropolitan had 1.02 staff per client. If all state hospitals were budgeted at the Porterville ratio, non-level-of-care positions could be reduced by 2,300 and funding statewide could be reduced by $48.2 million. If all state hospitals were budgeted at the Metropolitan ratio, an additional 6,645 new positions would be needed, at a cost of $139.4 million. Thus, nearly 9,000 positions and $188 million is at stake in this issue.

Because the standards may have major fiscal implications, the Legislature should be given more time to review the department's implementation proposal than it would have if an amended staffing request is not submitted until May. Therefore, we recommend that the departments submit a report to the fiscal committees not later than April 15, 1982, detailing the standards which have been developed to date, and providing a plan for implementing the standards in the state hospitals which specifies any proposed staffing changes.

B. DEVELOPMENTAL DISABILITIES PROGRAMS

The budget proposes a General Fund appropriation of $320,037,000 to support state hospital programs for the developmentally disabled. This is an increase of $3,692,000, or 1.2 percent, above estimated current-year expenditures. Total expenditures, including those supported by federal funds and reimbursements, are proposed at $323,419,000, which is an increase of $3,723,000, or 1.2 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary and benefit increase approved for the budget year. Table 11 shows the adjustments to the current-year budget proposed for 1982–83.

Table 11
State Hospital Developmental Disabilities Program
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
Adjusted base budget, 1981–82	$316,345	$319,696
A. Changes to maintain current program	8,133	8,164
1. Merit salary increase	(4,090)	(4,090)
2. Price increase	(4,819)	(4,819)
3. Special repairs	(−45)	(−45)
4. Transfer Patton non-level-of-care staff to Department of Mental Health	(−607)	(−607)
5. Restore funds for UC research trailers	(96)	(96)
6. Delete one-time expenditure for special education buses	(−286)	(−286)
7. Restore travel reduction	(97)	(97)
8. Reduce psychologist	(−37)	(−37)
9. Eliminate Agnews laundry contract	(−6)	(−6)
10. CFIS/CALSTARS	(12)	(12)
11. Napa mental health research contract (funding shift)	(0)	(31)
B. Changes based on population	−4,874	−4,874
1. Reduce budget-year direct patient care staff	(−1,213)	(−1,213)
2. Reduce temporary staffing allocations	(−3,661)	(−3,661)
C. Budget change proposals	433	433
1. Automated pharmacy	(−566)	(−566)
2. Special education	(172)	(172)
3. Special pilot projects	(−375)	(−375)
4. Staffing augmentations—continuing medical care, physical development	(1,202)	(1,202)
Proposed budget, 1982–83	$320,037	$323,419

Population Adjustments

Based on trends through October 1981, the department projects that the number of developmentally disabled persons residing in state hospitals will decline from 8,070 on June 30, 1982, to 7,750 on June 30, 1983. This is a decline of 320, or 4.0 percent. The budget proposes to reduce the allocations for direct care staff by 120.8 positions and $1,213,000 as a result of the projected population decline, and to delete $3,661,000 in temporary staff allocations that state hospitals receive in order to provide services while

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

the population declines to its year-end figure. An additional $1,213,000 will be reduced in 1983–84.

The department's budget proposal is based on population trends through October 1981. These projections could change in May when the department completes its analysis of population trends through March 1982.

State Hospital Staffing Augmentations

In 1978, the Legislature adopted Assembly Concurrent Resolution 103, which required the Departments of Health Services and Developmental Services to develop a single set of staffing standards for the state hospitals. These standards are needed in order to maintain the hospitals' certification so that the state can continue to receive federal matching funds under Title XIX (Medicaid) for services provided to Medi-Cal eligible clients. DDS completed staffing standards for direct patient care staff in the spring of 1979. Based on these standards, the Legislature authorized additional staffing augmentations in 1979–80 (642 positions and $9.8 million), 1980–81 (187.5 positions and $3.0 million), and 1981–82 (98.4 positions and $1.8 million). The augmentations granted in the current year fully implement the staffing standards required to maintain certification for receipt of federal matching funds for seven of the state hospitals' nine program types. The two remaining program types, Continuing Medical Care and Physical Development, are currently staffed at 97 percent of the standards developed pursuant to ACR 103.

The budget proposes 72.8 new positions for these programs, at a cost of $1,202,000, to fully implement the direct patient care staffing standards for all of the state hospitals' developmental disabilities programs. The request is based on the assumption that the client population in continuing medical care and physical development programs will average 2,333 in 1982-83, which is 48, or 2.0 percent, less than the number of clients residing in those programs during the current year. These population figures are based on population trends in these programs through October of 1981.

Education of State Hospital Residents

Chapter 1191, Statutes of 1980 (AB 1202), requires state hospitals to contract with local education agencies for community-based education services for state hospital residents under the age of 22. Previously, state hospitals provided education services directly.

The *Supplemental Report of the 1981 Budget Act* requests the Departments of Developmental Services and Education to submit by December 1, 1981, a report on the implementation of Chapter 1191. At the time we prepared this analysis, we had not received the report.

The budget proposes $4,692,000 for contract services in 1982–83. This is an increase of $212,000, or 4.7 percent, above estimated current-year expenditures for contract services. Chapter 1191 requires our office to report by March 15, 1982, on the adequacy of funding for these services. We will present our recommendations on this request in the required report, and will be prepared to discuss our findings and conclusions during budget hearings.

Hospital Automation Project

We recommend deletion of 2.9 positions and $62,000 from Item 4300-101-001 because the positions are no longer needed, and $60,000 from Item 4300-001-001 to correct overbudgeting.

In 1980–81, the department established a project to automate numerous state hospital functions. The project design calls for automation of (1) pharmacy and personnel operations in 1981–82, (2) client movement and trust accounting in 1982–83, and (3) plant operation, dietary, clinical records, and accounting in 1983–84.

Budget Year Request. The budget proposes to: (1) add 5.5 new positions (4 professional and 1.5 clerical) to automate client movement and trust functions, (2) eliminate 23.1 positions in the state hospitals because of reduced workload in the pharmacy and trust areas, and (3) continue 5 professional positions and funds previously authorized for the pharmacy and personnel projects.

New Positions. Table 12 shows the department's staffing needs for the current and budget years.

Table 12
Hospital Automation Positions
1981–82 and 1982–83

	1981–82	*1982–83*
Headquarters support staff	1	5.5
Pharmacy	2	1
Personnel	2	2
Client movement	-	1
Trust	-	1
Totals	5	10.5

Our analysis indicates that the department's staffing request is justified, and we recommend approval.

State Hospital Reductions. The department proposes to fund the 5.5 new positions and operating expenses requested for the budget year by eliminating positions in the state hospitals because of reduced workload resulting from the automation project. Specifically, the department proposes to eliminate 16.7 psychiatric technicians no longer needed to perform pharmacy functions and 7.0 office assistants II no longer needed to perform clerical functions in the trust office. The department does not expect to incur savings as a result of the personnel or client movement projects.

Our analysis indicates that the department has underestimated the savings that will result from automation of pharmacy functions. The department's September 1981 feasibility study on the pharmacy automation project identified a decreased workload for psychiatric technicians of 143 hours per year per hospital unit. The hospitals being automated by the department have a total of 47 units. Thus, total hours saved per year will equal 35,321—the equivalent of 19.6 positions. As noted above, the department plans to delete only 16.7. We therefore recommend deletion of the remaining 2.9 positions and $62,000 from Item 4300-101-001.

Funds Overbudgeted for Pharmacy and Automation. In 1981–82, the Legislature appropriated $507,000 for operating expenses for the hospital automation project. The funds, adjusted by 7 percent for price increases and cost-of-living adjustments, have been included in the 1982–83 budget base. Thus, $542,000 is available in the budget year for this project. Certain

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

expenditures made during the current year such as purchase of a software package, however, are one-time in nature. Consequently, the entire amount proposed is not needed to support the hospital automation project in 1982–83. Department staff indicate that only $482,000 will be needed in 1982–83. Consequently, we recommend a reduction of $60,000 from Item 4300-001-001.

Overbudgeted Operating Expenses

We recommend deletion of $832,000 ($666,000 from Item 4300-101-001 and $166,000 from Item 4440-101-001) because operating expenses are overbudgeted.

The Department of Developmental Services' budget includes $51,200,000 for operating expenses in the state hospitals. This is $334,000, or 0.7 percent, higher than estimated current-year expenditures. These funds will support operating expenses for both the mentally and developmentally disabled patients served in hopsitals operated by DDS.

The budget includes $13,147,000 for food and $1,986,000 for clothes in 1982–83. Our analysis indicates that the amount requested for food and clothing is overbudgeted because these amounts do not take into account the reduction in the average state hospital population projected by the Governor's Budget (1,663).

The correct way to calculate budget-year requirements for food and clothing is to: (1) determine the population which will be served in 1982–83 and (2) apply the appropriate cost-of-living adjustments to actual 1980–81 expenditures as described in the Department of Finance Budget Letter No. 4.

We estimate that the department should have budgeted the following amounts: (1) food—$12,428,000 and (2) clothing—$1,873,000. These estimates assume (1) that the hospitals operated by the Department of Developmental Services will serve an average of 9,856 clients per day in 1982–83, (2) cost-of-living adjustments of 13.5 percent over 1980–81 expenditures for food and 10 percent over 1980–81 expenditures for clothing, and (3) the amounts the department spent per client for food and clothing in 1980–81 were $1,111 and $173 respectively. These assumptions are consistent with the Governor's Budget, the price letter, and the department's actual experience in 1980–81.

Consequently, we recommend deletion of $719,000 budgeted for food and $113,000 budgeted for clothing, for a total reduction of $832,000. Because 20 percent of the clients in the DDS-operated hospitals are mentally disabled clients whose care is paid for by the Department of Mental Health, 20 percent of the reduction, or $166,000, should be made from Item 4440-101-001, and the remaining 80 percent ($666,000) should be made from Item 4300-101-001.

Patton Phase-Out

In 1980, the department proposed to phase out the developmental disabilities program at Patton State Hospital in San Bernardino. The DDS submitted a detailed plan to the Legislature in November 1980, proposing that of the 282 clients residing at Patton, 123 be transferred to other state hospitals and 159 be placed in new community programs developed by the Inland Counties and San Diego Regional Centers. The Legislature approved the proposal, and DDS began to phase out the program in January 1981.

On January 12, 1982, we issued a report evaluating the effectiveness of the project and analyzing its policy implications and fiscal consequences. The following summarizes our major findings and recommendations:

Project Status

As of November 10, 1981, 84 developmentally disabled clients remained at Patton. One hundred fifteen have been transferred to other state hospitals, and 82 have been placed in community programs. At that time, we projected that, by January 1, 1982, an additional 36 community placements and 8 state hospital transfers will have been accomplished, reducing the number of developmentally disabled clients still at Patton to 40. The program will close in May or June of 1982, when San Diego Regional Center makes its final community placements.

Conversion of Community Care Facilities

The department's plan for development of new community services to serve Patton's clients calls for conversion of community care facilities containing 149 beds to intermediate care facilities for the developmentally disabled-habilitative (ICF-DD(H)) by July 1, 1982. The objective of converting these facilities is to increase federal financial support of these programs and thereby decrease the cost to the General Fund. In reviewing the conversion of community care facilities to ICF-DD(H), we found that:

- The conversion of the community care facilities in the Patton project probably will not be completed by July 1, 1982.
- The conversion of community care facilities providing special services other than behavior modification will expand the level of services provided, and increase the *total cost* (federal and state) of serving clients with developmental disabilities. Because federal funding for these clients will increase as a result of the conversion, however, *state costs* will decline.
- Expanding services may increase state costs at a later date, if the federal government caps the amount of Medicaid funds available to California.
- Community care facilities providing behavior modification services have no fiscal incentive to convert to ICF-DD(H), because conversion would lower their reimbursement.

Funding Additional Regional Center Contracts

We recommend adoption of Budget Bill language to establish policies regarding funding proposals for new regional center contracts.

The 1981 Budget Act appropriated up to $8 million to DDS in the event that federal regulations are adopted allowing the state to postpone the deadline for completion of state hospital renovation projects. The purpose of this appropriation is to fund additional contracts with regional centers to develop new community programs for state hospital residents. These funds will become available no sooner than 30 days after the department submits a detailed program and fiscal plan to the Joint Legislative Budget Committee.

We recommend the adoption of Budget Bill language establishing the following policies regarding funding proposals for any new contracts:

- The contracts should be between DDS and regional centers.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

- The new programs should be developed by regional centers, in conjunction with clients, parents, state hospital staff, and specific service vendors.
- Interim reimbursement rates should be negotiated by regional centers and vendors, but should not be so high as to preclude obtaining continuation funding from existing regional center or Medi-Cal funding sources.
- The proposal should result in savings to the General Fund and in total funds.
- The proposal should include a detailed timetable for implementation.

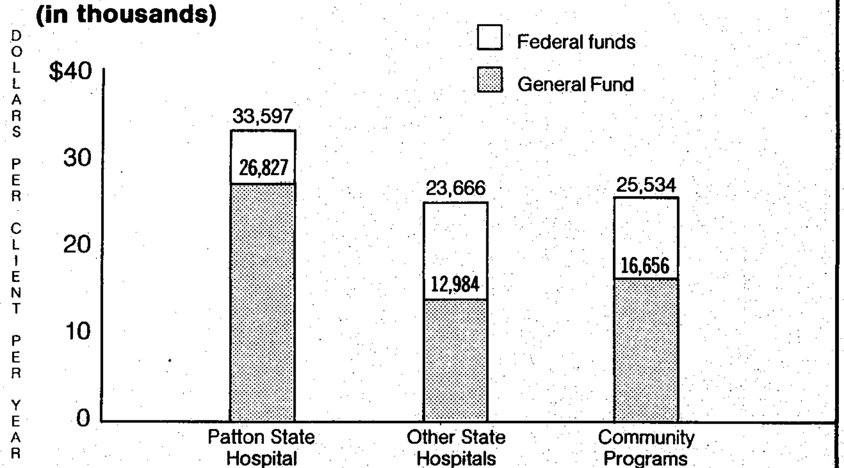
Fiscal Consequences

We analyzed the fiscal effect of the Patton DD phase-out and estimated the annual cost savings that will result from the phase-out. We also estimated the cost per client of (1) continuing the Patton DD program, (2) the new state hospital services, and (3) the new community services. We found that:

- Phasing out the Patton DD program will result in ongoing General Fund savings of $3.26 million annually, and savings from all funds of $2.44 million annually.
- The average cost per client of continuing the Patton DD program would have been $33,597 annually, of which $26, 827 would have been a General Fund cost.

Chart 5

Cost of State Hospital and Community Services Associated With the Closure of Patton State Hospital DD Programs[a]
(in thousands)



[a] Assumptions: Estimated 1982–83 costs (in 1980-81 dollars) derived primarily from the department's Patton phase-out proposal: State hospital costs are variable costs only and include amortized renovation costs. Community costs are based on conversion of 149 residential beds to ICF-DD(H) and include amortized facility start-up costs.

- The average cost per client of the new state hospital services for those Patton clients transferred to other state hospitals is $23,666 annually, of which $12,984 is a General Fund cost.
- The average cost per client of the new community services is $25,534 annually, of which $16,656 is a General Fund cost.

Hence, both the new state hospital and new community services are significantly less costly than continued operation of the Patton program would have been. Although the new state hospital and community services are comparable in terms of total cost, *the community services are significantly more costly to the General Fund.* Chart 5 displays the average costs of these services.

Based on our analysis of the fiscal effect of the Patton DD phase-out, we also concluded that:

- Medi-Cal reimbursement rates are higher for large hospital facilities than for small hospitals. This gives the state a strong fiscal incentive to close a state hospital developmental disabilities program whenever its population declines below 300.
- The population of Napa State Hospital's DD program will decline below 300 in 1983. The General Fund cost of operating that program will increase by $2.2 million annually when the hospital is relicensed as a smaller facility.
- Current federal policy gives the state a fiscal incentive to transfer clients to other state hospitals when closing a hospital program, rather than to place them in community programs.
- It is too early to determine whether recent federal policy changes will reduce the incentive to place clients in state hospitals.

Adequately assessing the comparative benefits of services to developmentally disabled clients requires a high level of detailed research and analysis. For this reason, our report did not specifically examine the quality of alternative services developed as part of the phase-out of the Patton DD program. We recognize, however, that policymakers must take into account program considerations as well as fiscal incentives when deciding on appropriate services for the developmentally disabled.

DEPARTMENT OF DEVELOPMENTAL SERVICES— CAPITAL OUTLAY

Item 4300-301 from the General Fund, Special Account for Capital Outlay; Energy and Resources Fund, Energy Account; and Special Deposit Fund, Department of Energy Consent Order Proceeds Account — Budget p. HW 131

Requested 1982–83	$11,982,000
Recommended approval	3,200,000
Recommended reduction	8,169,000
Recommendation pending	$613,000

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Transfer Savings to the General Fund. Recommend that the $7,964,000 in recommended reductions be transferred from the Special Account for Capital Outlay and Energy and Resources Fund to the General Fund in order to increase the Legislature's fiscal flexibility to meet high-priority needs statewide.	932
2. Fire and Life Safety and Environmental Improvements Program. Recommend the Department of Finance report to the Legislature on status of renovation program.	932
3. ***Fire and Life Safety and Environmental Improvements—Camarillo. Reduce by $96,000.*** Recommend funds for completion of renovation project be reduced to eliminate work previously funded by the Legislature.	935
4. Fire Protection System—Napa. Withhold recommendation on $39,000 for preliminary plans and working drawing funds proposed for code correction, pending receipt of additional information.	936
5. Central Supply—Sonoma. Withhold recommendation on $62,000 for preliminary plans and working drawings to alter Paxton building for central supply, pending receipt of additional information.	936
6. Cogeneration Facilities—Statewide. Recommend Budget Act language be adopted requiring departments to provide cost benefit information based on completed preliminary plans prior to requesting working drawing and construction funds for cogeneration projects.	937
7. ***Cogeneration Facility—Camarillo. Reduce by $1,300,000.*** Recommend working drawing and construction funds be deleted because adequate information has not been developed to substantiate the project scope and cost.	940
8. ***Cogeneration Facility—Agnews (East Campus). Reduce by $1,623,000.*** Recommend working drawings and construction funds be deleted because the proposed project does not provide optimum efficiency, as required by legislative policy statement.	941
9. ***Cogeneration Facility—Lanterman. Reduce by $133,000.*** Recommend working drawing funds be deleted because preliminary planning funds appropriated in the current year have not been expended and no additional information is available to justify additional funds.	941
10. Cogeneration Facility—Napa. Recommend that prior to legislative hearings, the Department of Finance identify additional funds which may be needed to complete this project.	942
11. ***Boiler Replacement—Camarillo. Reduce by $630,000.*** Recommend preliminary plans, working drawings and construction funds be deleted because the proposed boiler capacity to be provided through this project is not needed.	943
12. Boiler Replacement—Agnews (West Campus). Withhold recommendation on $512,000 for working drawings	944

and construction of boiler replacement pending receipt of information on the impact of cogeneration and energy conservation measures proposed at this hospital.

13. ***Insulate Hot Water and Steam Lines—Agnews (West Campus). Reduce by $942,000.*** Recommend that construction funds be deleted because adequate design engineering has not been completed to substantiate the requested construction amount. 945
14. ***Hot Water and Steam Pipe Insulation—Agnews (East Campus). Reduce by $150,000.*** Recommend construction funds be deleted because adequate engineering has not been completed to substantiate the requested construction funds. 945
15. ***Steam and Hot Water Pipe Insulation—Camarillo. Reduce by $253,000.*** Recommend that construction funds be deleted because adequate design engineering has not been completed to substantiate the requested construction amount. 945
16. ***Replace Interior Lighting—Lanterman. Reduce by $221,000.*** Recommend project funds be reduced to correspond with high-priority energy conservation improvements identified in energy consultant's report. 946
17. ***Install Heat Reclaim System for Laundry—Lanterman. Reduce by $44,000.*** Recommend construction funds be reduced to eliminate overbudgeting of inflationary cost adjustment. 947
18. ***Conservation—Comfort Conditioning of Patient-Occupied Space—Napa.*** Reduce by $2,562,000. Recommend this project proceed in the current year, using funds which were appropriated in the 1981 Budget Act, so that licensing requirements are met at a minimum cost to the state. 947
19. ***Hot Water and Steam Pipe Insulation—Lanterman. Reduce by $55,000.*** Recommend project be deleted because operating funds can be redirected to accomplish this work in the budget year. Further, recommend budget language be adopted to allow redirection of operating funds for higher priority energy conservation projects. 948
20. ***Minor Capital Outlay. Reduce by $160,000.*** Recommend boiler modifications at Lanterman State Hospital be deleted because existing upgraded facilities will provide adequate capacity. Further, recommend funds for fire and life safety and environmental improvements at Sonoma State Hospital be deleted because funds for this work have previously been appropriated by the Legislature. 949

ANALYSIS AND RECOMMENDATIONS

The budget includes three capital outlay items for the Department of Developmental Services, totaling $11,982,000. This amount includes $3,190,000 from the Special Account for Capital Outlay in the General Fund, $8,573,000 from the Energy and Resources Fund, Energy Account, and $219,000 from the Special Deposit Fund, Department of Energy, Consent Order Proceeds Account. The Special Deposit Fund contains the state's share of a federal price regulation settlement with a major oil producer. (A discussion of these revenues is contained in our analysis of Item 6610-

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

301 for the California State University.)

Our analysis of the department's capital outlay budget is divided into four parts: (1) a discussion of the fire and life safety and environmental improvements program currently underway, (2) projects relating to general improvements, (3) projects relating to energy conservation and alternative energy systems, and (4) minor capital outlay. In this analysis, we have recommended a total reduction of $8,169,000.

Transfer to General Fund

We recommend that the savings resulting from our recommendations on Items 4300-301-036 and 4300-301-189—$7,964,000—be transferred from the Special Account for Capital Outlay and the Energy and Resources Fund to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend reductions amounting to $7,964,000 in the Department of Developmental Services capital outlay proposal from tideland oil funds. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tidelands oil revenues in the Special Account for Capital Outlay and Energy and Resources Fund where they would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we recommend that any savings resulting from approval of our recommendations be transferred to the General Fund.

A. STATUS OF RENOVATION PROGRAM

Fire and Life Safety and Environmental Improvement Program

We recommend that prior to legislative budget hearings, the Department of Finance provide to the Legislature:

1. A post-audit report on all alteration projects undertaken as part of the fire and life safety and environmental improvements program. The report, at a minimum, should identify all funds appropriated, additional funds provided through augmentations, and any project savings returned to the original funding source.

2. An analysis of funds transferred to the Office of State Architect which are not needed and can be returned to the appropriations.

3. A status report on proposed federal regulations which would allow a reduction in the capacity that must be renovated by July 1982 under the fire and life safety and environmental improvements program.

Background. During the past three years, the Legislature has appropriated approximately $200 million for alterations of state hospital facilities. These building alterations corrected fire/life safety and environmental deficiencies in order to meet licensure requirements. Alterations are to be completed by July 18, 1982, the federal deadline for compliance. The program funded by the Legislature provides a renovated capacity for 8,070 developmentally disabled clients.

Throughout the implementation phase of this program, we have consistently expressed concerns regarding (1) the amounts budgeted for construction, (2) the policy of transferring more money to the Office of State Architect (OSA) than what is needed to finance the alterations, and (3) renovating buildings which will be vacated within five years, particularly given proposed changes in federal licensing regulations that may eliminate the requirement that such buildings be renovated.

Post-Audit Report Needed. Appropriations for modification of the state hospital facilities have spanned several fiscal years. In some cases, the amounts appropriated were determined to be insufficient to accomplish the scope of work needed. Whenever this happened, the appropriations were reverted and new appropriations were provided by the Legislature. In other cases, the Public Works Board authorized substantial augmentations for some projects in the early phases of the program. Because of the varied mechanisms used to fund the program, it is difficult to account for the total amounts which have been devoted to the program.

In view of the magnitude of this program, and the uncertainties regarding appropriations and costs to date, the administration should provide the Legislature with a current accounting of all funds associated with this program. Accordingly, we recommend that, prior to legislative hearings on the budget, the Department of Finance provide a post-audit report of all funds appropriated and allocated for fire and life safety and environmental improvements at state hospitals.

Transfer of Excess Funds. Over the years, our analyses of proposed appropriations for the alteration of the state hospitals have indicated that the Office of State Architect (OSA) estimates included an excessive amount of funds for inflationary cost adjustments. These analyses indicated that the amount of construction funds needed for the projects was overstated and that overappropriation of funds would result.

Information provided by the department indicates that in most cases, the contract bid for the proposed alterations was substantially below the construction estimate prepared by OSA. Table 1 shows the difference between the estimated construction cost and the actual contract bid for all alteration projects completed or currently under construction at each hospital.

Table 1
Department of Developmental Services
Fire and Life Safety and Environmental Improvements
Comparison of Construction Estimate to Contract Bids
Through November 1981
(in thousands)

Hospital	*Estimated Construction Cost*	*Contract Bid*	*Difference*
Agnews	$18,222	$13,318	−$4,904
Camarillo	8,936	8,104	−832
Fairview	15,048	11,284	−3,764
Lanterman	11,745	11,105	−640
Metropolitan	1,788	1,950	+162
Napa	3,596	3,525	−71
Porterville	19,457	13,509	−5,948
Sonoma	29,837	30,327	+490
Stockton	8,429	6,897	−1,532
Totals	$117,058	$100,019	−$17,039

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Under current state procedures, the funds proposed for a project are transferred to OSA prior to receipt of construction bids. Consequently, if contract bids are substantially below the estimated construction costs, excessive funds will be on deposit with the OSA. In some cases, these excess funds have been transferred to the unappropriated surplus of the fund from which the appropriation was made. In many cases, however, such transfers have not occurred. For example, contract bids for two projects were received several months ago and the bids were $5 million below the estimated contract cost. The budget, however, indicates that construction funds for the projects were fully expended.

In order to clarify the expenditures for this program, we recommend that prior to legislative hearings on the budget, the Department of Finance provide an analysis of excess project funds on deposit at the OSA.

Status Report of Proposed Changes in Federal Regulations. During legislative hearings on the 1981 Budget Act, the Department of Developmental Services indicated that the federal government was considering changes in regulations which would allow a reduction in the proposed renovated capacity of the fire and life safety and environmental improvement program. In recognition of these proposed regulations, the Legislature appropriated funds for this program in two categories (a) $13.8 million for renovations which would be undertaken regardless of any changes in federal regulations, and (b) $23.3 million to complete renovations as originally planned which, if the proposed regulations were adopted, would not be undertaken, making the funds available for other purposes.

At the time this analysis was prepared, the proposed changes in federal regulations had not been adopted, and renovation of the potentially affected buildings had not begun. We recommend that prior to legislative hearings on the budget, the department provide a status report on the proposed changes in federal regulations and indicate the administration's plan for completing the renovation program.

Table 2
Department of Developmental Services
Capital Outlay Program 1982–83
General Improvement Projects
(in thousands)

(Item 4300-301-036) Project Title	*Location*	*Budget Bill Amount*[a]	*Analyst's Proposal*[a]	*Estimated Future Cost*[b]
(a) Items to Complete (Fire, Life Safety and Environmental Improvements)	Camarillo	$311 wc	$215 wc	—
(e) Install Fire Sprinklers	Napa	127 pwc	127 pwc	—
(f) Install Fire Protection System	Napa	39 pw	pending	$367
(g) Alter Paxton Building for Central Supply	Sonoma	62 pw	pending	521
Totals		$539	Pending	$888

[a] Phase symbols indicate: p–preliminary plans, w–working drawings, c–construction.
[b] Department's estimate.

B. GENERAL IMPROVEMENT PROJECTS

Fire and Life Safety/Environmental Improvements—Camarillo State Hospital

We recommend Item 4300-301-036(b), items to complete for remodeling at Camarillo, be reduced by $96,000 because a portion of the work proposed to be accomplished is not justified.

Of the nearly $200 million appropriated for the fire/life safety and environmental improvements program, approximately $11 million was for building modifications at Camarillo State Hospital. The first two phases of construction at this hospital have been completed, and the third phase is scheduled for completion by July 1982. The budget includes $311,000 for additional modifications to buildings altered under phase I.

Buildings modified under the phase I alteration program were occupied in December 1981. The cost to modify these buildings exceeded the appropriated funds by approximately $750,000 because (1) construction bids exceeded funds available for construction and (2) additional work was required during the course of construction, because of the age of the facilities. The State Public Works Board augmented the appropriation for phase I modifications as recently as June 1981, when $233,000 was allocated to augment project contingencies.

The department is now requesting an additional $311,000 to "complete" the project. The proposed amount includes $182,000 to replace waste drain pipe which have deteriorated beyond repair. The department indicates that replacement of the pipe is necessary in order to make the remodeled facilities operable. On this basis, we recommend approval of the requested amount for this replacement, plus $33,000 for design and contingencies, for a total project cost of $215,000.

Our analysis indicates that the remaining items requested are not justified because adequate project funds to provide for these items were included in the initial appropriations and State Public Works Board augmentations. For example, the request includes $10,000 to make the fire alarm system functional. The fire alarm system was included in the original project; if it is not functional, the OSA should require the contractor to make whatever modifications are necessary at the contractor's cost. Other improvements, such as metal corner guards and stainless steel screens for new windows, are not related to fire and life safety/environmental improvements, and are not needed to make the buildings functional. We recommend that these items be deleted, for a savings of $96,000.

Fire Sprinklers—Napa State Hospital

We recommend approval of Item 4300-301-036(e), installation of fire sprinklers at Napa State Hospital.

The budget includes $127,000 to install fire sprinklers in the Receiving and Treatment Center (RTC) building at Napa State Hospital. The State Fire Marshal's survey of the hospital indicates that three laboratory facilities in this building must be protected by an automatic fire sprinkler system because of the flammable liquids used and stored in the laboratories. The OSA has prepared a cost estimate for installing such a system in the labs and associated storage space. The proposed improvements are needed for code compliance, and we recommend approval.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Fire Detection System—Napa State Hospital

We withhold recommendation on Item 4300-301-036(f), pending receipt of additional information on project scope.

The State Fire Marshal has recently surveyed seven buildings at Napa State Hospital. Three of the buildings are used for employee housing, and the other four buildings house various activities including housekeeping, the volunteer center, the electric shop and the neuro-assessment clinic. The department indicates that the cost to correct deficiencies noted in the State Fire Marshal's report is $405,000. The budget proposed $39,000 for preparation of preliminary plans and working drawings for the project.

The State Fire Marshal's report on the deficiencies in these buildings indicates that there are various alternative means for eliminating the noted deficiencies. For example, in lieu of providing a full fire sprinkler system in the building, various improvements to the exiting system and installation of smoke detectors would meet the fire code requirements. The department's proposal, however, does not specify the work to be undertaken in response to the Fire Marshal's report. Consequently, we cannot determine if the department's proposal reflects the most cost-efficient solution to the deficiencies.

The OSA is preparing plans and a cost estimate for the proposed corrections, based on the most cost-efficient solution. The department indicates this information will be available prior to budget hearings. Pending receipt and review of this information, we withhold recommendation on the $39,000 requested in Item 4300-301-036(f).

Central Supply Alteration—Sonoma State Hospital

We withhold recommendation on Item 4300-301-036(g), pending receipt of additional information on the scope of work to be accomplished.

The budget includes $62,000 for preliminary plans and working drawings to alter the Paxton building at Sonoma State Hospital. The alterations would provide appropriate space for the hospital's central supply operation. The estimated future cost for construction plus equipment is $521,000. The current central supply facility—located in the basement of the acute hospital—does not provide adequate separation of clean, sterile areas from contaminated areas. Because of this, the location has been noted as a deficiency in an environmental health survey.

While the department's proposal to move the facility to a new location would correct these licensing deficiencies, the proposal also includes $143,000 for purchase of new equipment. The environmental health survey does not indicate that the existing equipment is inadequate. Furthermore, the OSA has not prepared a schematic budget package or cost estimate for the proposed modications. Consequently, adequate information is not available at this time to determine if the proposal will satisfy licensing requirements.

We withhold recommendation on the proposed preliminary plans and working drawing funds until the department has provided (1) justification for the equipment proposed to be included in the project and (2) schematic plans and cost estimates for the proposed alternatives.

C. COGENERATION AND ENERGY CONSERVATION PROJECTS

Cogeneration—Statewide Policy

We recommend that Budget Bill language be adopted requiring all departments to provide cost/benefit information on cogeneration proposals based on completed preliminary plans, prior to requesting working drawings and construction funds for such projects.

The budget proposes working drawings and/or construction of cogeneration facilities in several departments' capital outlay budgets. Cogeneration facilities are energy-conserving improvements which provide generation of electrical energy and the simultaneous application of waste heat to meet other energy needs. For example, several projects include installation of natural gas fueled turbine generators which produce electricity. The exhaust heat from the generator is diverted to a boiler which produces steam to meet space heating or domestic hot water requirements.

Cogeneration Feasibility. The economic viability of cogeneration proposals is dependent upon four variables:

1. The capital cost of constructing the proposed plant.
2. The value of the electrical energy produced which is used on site and/or sold to a utility organization.
3. The cost of the fuel used in the electrical generator.
4. The demand for steam at the facility.

The cogeneration proposals included in the budget are generally based on feasibility studies prepared by consulting engineers. These studies make general assumptions related to these four variables.

1. ***Capital Cost.*** The feasibility studies generally include an estimate of capital costs of installing the selected cogeneration configurations most appropriate for a particular facility. Such estimates are typically prepared on an order-of-magnitude basis, and are not based on specific engineering design and evaluation. An adequate cost estimate for the cogeneration proposal is available only after completion of preliminary plans.

2. ***Value of Electrical Energy.*** Information presented in feasibility studies generally addresses the value of electrical energy produced in two ways. First, the amount of energy produced is valued at the current rate that the facility is paying the utility district. For life-cycle cost analysis purposes, this value is escalated based on the most recent information on energy price increases. Secondly, some studies assign a value to the electrical energy produced based on the Public Utilities Commission's (PUC) ruling that utility districts purchase power from cogenerators at the district's avoided cost. The avoided cost represents the calculated cost for the district to produce additional energy output using central coal or oil fired power plants. Some utilities have adopted preliminary rate schedules for purchase of electricity from energy producers. If available, this information is contained in the cogeneration feasibility studies.

3. ***Cost of Fuel for the Cogenerator.*** In all cases, the cogeneration units proposed are to be fueled by natural gas. The cost of this fuel is generally the rate in effect for firing of boilers. Some feasibility studies discount this rate by 5 percent to 12 percent, based on the PUC preliminary ruling that natural gas suppliers provide a discount to cogeneration customers.

4. ***Steam Demand.*** The major portion of the feasibility studies deals with steam requirements associated with the particular state facility, because the cogeneration units provide an additional source of steam for the

**DEPARTMENT OF DEVELOPMENTAL SERVICES—
CAPITAL OUTLAY—Continued**

facility. The size of the cogeneration unit is dependent on the amount of steam used by the facility. The amount of steam used, however, will be reduced if various energy conservation measures are implemented. These conservation measures may have a significant impact on the scope of the cogeneration plant. Consequently, it is essential that proposed energy conservation measures be considered in determining the appropriate configuration and the economic feasibility of the proposed cogeneration system.

Policy Considerations. Chapter 102, Statutes of 1981, amended the Public Resources Code to establish legislative policy regarding cogeneration at state facilities. In part, this amendment indicates that, "It is the policy of the state to use available resources at state facilities which can substitute for traditional energy supplies or produce electricity at its facilities when use or production will reduce long-term energy expenditures. Criteria used in analysis of proposed actions shall include life-cycle cost evaluation, benefit to taxpayers, reduced fossil fuel and improved efficiency. Energy facilities at state-owned sites shall be scaled to produce optimal system efficiency and best economic advantage to the state. Energy produced in excess of state facility needs may be sold to nonstate purchaser."

It is clear from the provisions of Chapter 102 that the Legislature expects proposed new facilities such as cogeneration plants to be scaled to produce *optimum* system efficiency and provide the *best* economic advantage to the state. Consequently, state agencies have a mandate from the Legislature to thoroughly evaluate all alternatives for energy-conserving cogeneration and to choose the alternative which complies most closely with the state policy.

Our review of the feasibility studies submitted for proposed cogeneration facilities as part of the 1982–83 budget indicates that the policy established by the Legislature has not been followed consistently. Most of the feasibility studies concentrate on technical feasibility, and place relatively little emphasis on the economic advantage to the state. For example, one feasibility study stated that the equipment configuration was sized to eliminate any requirement for sale of power to the serving utility, on the basis that the facility administrators did not desire to become energy suppliers. Consequently, the scope of the feasibility study in this case was restricted from the outset by the facility administration's policy, which is in conflict with the legislative policy of evaluating alternatives and selecting the one that provides the best economic advantage to the state.

Recommended Clarification of State Policy. Our analysis of the various cogeneration proposals indicates that a more systematic approach to the evaluation of projects is needed. At a minimum, we believe the following improvements should be made.

- Initial feasibility studies prepared on cogeneration facilities should be used only as justification for further planning. Feasibility studies do not provide adequate information for appropriation of construction funds.
- The first task to be undertaken by a consulting engineer assigned to design cogeneration facilities should be to reassess and reconfirm conclusions contained in the initial feasibility study. This engineering evaluation should take into account all approved and proposed ener-

gy conservation measures anticipated at the facility.

- The anticipated revenue and/or cost avoidance attributable to cogeneration facilities should be determined based on completed negotiations with the utility district. The duration of such agreements should be sufficient to ensure that the economic viability of the project is not undermined by future price adjustments.
- The cost of fuel proposed for the cogeneration facility should be based on a negotiated price agreed to by the serving utility. Again, such agreement should be in force for a sufficient amount of time to ensure that cost escalations do not undermine the economic viability of the project.
- Each state facility where cogeneration is proposed should be the subject of a comprehensive energy conservation plan. The plan should identify projects which are anticipated in the future to reduce overall energy consumption. Cogeneration facilities should be sized to meet the facility's steam requirements assuming that all viable conservation projects have been implemented. For example, if a conservation project for insulation of the energy distribution system will significantly reduce steam requirements, and the project is scheduled to be completed after construction of a cogeneration facility, the size of the cogeneration facility should take into account the reduced steam requirements after completion of the conservation project.

In summary, we believe that clarification of the Legislature's policy on cogeneration is needed. Adoption of the policies and requirements set forth above would, in our judgment, result in a more comprehensive, systematic approach to energy conservation and alternate energy production.

Until such time as adequate information on proposed cogeneration projects is developed in conformance with the guidelines listed above, we recommend that the Legislature approve only preliminary planning funds for these projects. Our recommendations in this analysis relative to proposed new projects reflect this policy recommendation. In the case of those projects for which the Legislature has already provided funds for working drawings or construction, we have recommended that the projects proceed as previously approved. If, however, the Legislature chooses to adopt the policies we recommend and to apply these policies to projects previously funded beyond the planning stage, a portion of the funds requested for these projects should be deleted.

Table 3
Department of Developmental Services
Cogeneration Projects
(in thousands)

Fund, Location	*Budget Bill Amount*[a]	*Analyst's Proposal*	*Estimated Future Cost*[b]
Special Account for Capital Outlay			
Camarillo	$1,345 pwc	$45 p	—
Energy and Resources Fund			
Agnews (east)	1,623 wc	—	—
Lanterman	220 pw	7 p	$3,026
Napa, phase 2[c]	1,302 c	1,302 c	—
Totals	$4,490	$1,434	$3,026

[a] Phase symbols indicate: c–construction, p–preliminary planning, and w–working drawings.
[b] Department estimate.
[c] Project funded in 1981 Budget Act but proposed for reversion in the current year.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Cogeneration Projects—Camarillo, Agnews, Lanterman, and Napa State Hospitals

The Department of Developmental Services budget includes funds for four cogeneration projects. Table 3 summarizes this proposal. A discussion of the individual projects follows.

Cogeneration Facility—Camarillo State Hospital

We recommend that Item 4300-301-036(d), $1,345,000, cogeneration facility at Camarillo, be reduced by $1,300,000 because the construction request is premature.

The budget includes $1,345,000 for preliminary plans, working drawings and construction of a cogeneration facility at Camarillo State Hospital. The project would install a natural gas-fueled turbine electrical generator, and provides for the use of exhaust heat from the generator for production of steam needed at the hospital. The proposal is based on a feasibility study completed in July 1981.

Request for Construction Funds Premature. The Budget Act of 1981 included $45,000 for preparation of preliminary plans for this project. These funds have not been expended and are proposed for reversion in the current year. Consequently, the design of the proposed facility has not begun and there is no basis on which to judge the adequacy of the proposed construction amount.

Given the Legislature's previous action to approve preliminary planning funds for this project, we recommend approval of $45,000 to prepare the necessary preliminary plans. We further recommend that this item be reduced by $1,300,000 because the request for construction funds is premature. Presumably, the plans to be developed in the budget year will provide adequate information to the Legislature on future funding requirements.

System Energy Saving Overstated. Our review of the information provided by the department indicates that the effects of energy conservation measures proposed at this hospital have not been considered in determining the size of the proposed cogeneration plant. Energy conserving proposals recommended by a consultant's report include insulation of existing steam lines for a savings of 121,000 therms per year, installation of a cover on the existing swimming pool for a savings of 70,000 therms per year, and repair of existing window latches with a savings of 170,000 therms per year. Implementation of these capital improvement and maintenance items would significantly reduce energy consumption at this hospital. The size of the cogeneration facility should be modified to take into account the reduced steam requirements due to these conservation measures.

Project Funds Overbudgeted. If the Legislature decides to appropriate construction funds for this project, the amount appropriated should be reduced because preliminary plan funds have been budgeted twice. The $1,300,000 requested by the department would provide for all project costs—including costs for preliminary plans. The Department of Finance, however, added $45,000 to the department's request because the preliminary planning funds appropriated in the current year are proposed for reversion. Consequently, the proposed amount should be reduced by $45,000 if funds for preliminary plans are double-budgeted, and the Legislature wishes to provide for the construction of this project.

Cogeneration—Agnews State Hospital

We recommend Item 4300-301-189(b), working drawings and construction for a cogeneration plant at Agnews State Hospital, be deleted because the proposed project does not provide optimum efficiency.

The budget proposes $1,623,000 for working drawings and construction of a cogeneration plant at the east campus of Agnews State Hospital. Preliminary plan funds ($43,800) for this project were appropriated in the 1981 Budget Act. The project would provide for installation of a gas-turbine generator to produce electricity for use at the hospital and for sale to the utility district. Waste heat from the generator would be used to produce steam for space heating and hot water.

Feasibility Report Incomplete. A consultant has prepared a feasibility report on the potential for cogeneration at this hospital. The report indicates that the installed cost for the recommended system is $1,435,000, with potential energy savings of $176,000 per year. Our analysis of the feasibility study indicates the following:

1. The feasibility study does not address the relative economic advantages of alternative cogeneration configurations. The Legislature directed in Ch 102/81 that alternate energy proposals including cogeneration be evaluated on the basis of the maximum return to the taxpayer. The consultant's report does not address this issue.

2. The consultant's report does not consider the impact of energy conservation measures proposed elsewhere in this budget. Proposed conservation meaures will significantly reduce the steam and hot water requirements at this hospital. In turn, this will reduce the size of the proposed cogeneration facility. Failure to recognize the conservation efforts would result in production of electricity with no potential use of the steam produced by the cogeneration plant. Under this mode of operation the cogeneration plant is not efficient and energy produced for steam would be wasted by being exhausted into the atmosphere.

Data on the Proposed Project Incomplete. The proposed project represents a modified version of one alternative evaluated by the consultant. No data is available to indicate the economic impact of the modified project.

Construction Request Premature. Because preliminary plans have not been completed, we have no basis on which to evaluate the adequacy of either the cogeneration configuration or the construction funds contained in the budget. Under the circumstances, the request for working drawing and construction funds is premature.

For these reasons, we recommend Item 4300-301-189(b) be deleted, a reduction of $1,623,000. Moreover, during development of preliminary plans the department should address the shortcomings of the feasibility report and adjust the cogeneration proposal to assure that legislative policy is followed.

Cogeneration—Lanterman State Hospital

We recommend Item 4300-301-189(f), $220,000 for preliminary plans and working drawings for a cogeneration facility at Lanterman State Hospital, be reduced by $133,000 by deleting working drawing funds.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

The budget includes $220,000 for preliminary plans and working drawings for a cogeneration facility at Lanterman State Hospital. The proposal includes installation of an 800 kilowatt gas-turbine generator set with 1 12,000 pound per hour steam heat recovery system. The estimated total project cost is approximately $3.5 million.

The Legislature approved $87,000 in the 1981 Budget Act for preliminary plans for the proposed Lanterman cogeneration project. These funds, however, will not be spent in the current year and are proposed for reversion under Item 4300-495. Consequently, no additional information has been developed in support of the proposed cogeneration facility.

Given the delay in the implementation of this project and the fact that the Legislature has no more information than it had last year, only preliminary planning funds should be provided. Accordingly, we recommend that Item 4300-301-189(f) be reduced by $133,000, by deleting working drawing funds. The remaining $87,000 should be adequate to develop the necessary preliminary plans. Development of these plans in the budget year should provide the Legislature with adequate information to determine additional funding requirements in 1983.

Cogeneration—Napa State Hospital

We recommend approval of Item 4300-301-189(i) for phase II of the cogeneration facilities at Napa State Hospital. Further, we recommend that the Department of Finance identify any additional costs needed to complete this project.

The budget includes funds for construction of a second phase of cogeneration at Napa State Hospital. Although this project was approved for construction in the 1981 Budget Act, the funds are proposed for reversion (Item 4300-495) in the current year. The project includes installation of an 800 kilowatt gas-turbine generator and a waste heat boiler for additional steam production.

Given the previous action by the Legislature to approve funding for this project, we recommend approval of Item 4300-301-189(i). However, our analysis indicates that the amount proposed in the budget for the second phase of cogeneration is identical to the amount previously appropriated by the Legislature and proposed for reversion in the current year. Since the time these funds were appropriated, the cost of the proposed system may have increased due to inflation. We recommend that prior to legislative hearings on the budget, the Department of Finance identify any additional costs to fund the project as approved in the Budget Act of 1981.

Energy Conservation Projects

The budget includes $5,776,000 for 10 energy conservation projects at various state hospitals. Table 4 summarizes the request.

Boiler Improvements—Camarillo State Hospital

We recommend Item 4300-301-036(c), working drawings and construction of new boiler facilities at Camarillo State Hospital, be deleted, for a savings of $630,000.

This project requests funds to upgrade one existing boiler and install one new boiler in the central steam plant at Camarillo State Hospital. The central plant provides energy for space heating, domestic hot water and

Table 4
Department of Developmental Services
Capital Outlay Program 1982–83
Other Energy Conservation Projects
(in thousands)

Fund, Project Title	*Location*	*Budget Bill Amount*[a]	*Analyst's Proposal*[a]
Special Account for Capital Outlay (SAFCO)			
Boiler replacement	Camarillo	$630 pwc	—
Energy and Resources Fund (ERF)			
Boiler replacement, west campus	Agnews	512 wc	pending
Repair and insulate hot water, steam and return lines, west campus	Agnews (west)	997 pwc	$55 pw
Steam and Hot water pipe insulaton	Camarillo	266 pwc	13 pw
Replace interior lighting	Lanterman	332 pwc	111 pwc
Install heat reclaim system for laundry	Lanterman	258 pwc	214 pwc
Conservation-comfort conditioning of patient-occupied space[c]	Napa	2,562 c	—
Special Deposit Fund (SDF) (Department of Energy)			
Install temperature controls, R & T building	Agnews	6 c	6 c
Hot water and steam pipe insulation, east campus	Agnews (east)	158 pwc	8 pw
Hot water and steam pipe insulation	Lanterman	55 c	—
Totals		$5,776	pending

[a] Phase symbols indicate: c—construction, p—preliminary plans, and w—working drawings.
[b] Department estimate.
[c] Funds for these projects were appropriated in the 1981 Budget Act but the Budget Bill does not show reversion of the prior appropriation.

food preparation. The department indicates that the existing three boilers (two boilers rated at 18,000 pounds per hour and one rated at 40,000 pounds per hour) are obsolete and inefficient by modern standards. Overall plant efficiency is approximately 75 percent (steam output compared to fuel input).

The new boiler would have a capacity of 32,000 pounds of steam per hour, and the existing 40,000 pound-per-hour boiler would be upgraded. The proposed upgrade would increase the plants efficiency by 10 percent. The 1981 Budget Act included $38,000 for preparation of preliminary plans for this project. In providing these funds, the Legislature adopted Budget Act language under this item that states, "If the Department of Finance determines that cogeneration is feasible at Camarillo State Hospital, then the design for replacement of boilers shall take into account the potential cogeneration at the facility."

The Department of Finance has apparently determined that cogeneration is feasible at Camarillo State Hospital because the budget includes $1,345,000 (Item 4300-301-036(d)) for a cogeneration project. The feasibility study prepared in support of cogeneration indicates that the facility will be capable of producing 18,000 pounds of steam per hour. The feasibility study further indicates that after implementation of recommended conservation improvements at the hospital, the steam demands on the coldest winter day will be approximately 14,000 pounds of steam.

Given the findings set forth in the feasibility study, the proposed upgrading of the boiler plant would result in excess steam generation capacity. Once it is operating, the cogeneration plant will produce *all* of the steam required at the hospital. The boilers will be used as a standby in the

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

event the cogeneration plant is inoperative. The existing boiler plant has an efficiency of approximately 75 percent, which is reasonable for such facilities—especially when used for standby purposes. Given the fact that the boiler facilities will be used infrequently, substantial upgrading of the plant is not justified. Accordingly, we recommend deletion of the proposed working drawings and construction funds, for a savings of $630,-000.

Boiler Facilities—Agnews State Hospital

We withhold recommendation on Item 4300-301-189(c), preliminary plans, working drawings and construction to replace boilers at Agnews State Hospital, pending receipt of an evaluation of the impact of cogeneration and energy conservation measures on steam requirements at this hospital.

The budget includes $512,000 for a project to install one new boiler and upgrade boiler equipment at the west campus of Agnews State Hospital. The department indicates that upgrading the boilers will save approximately 250,000 therms of natural gas per year, by increasing efficiency of the present plant.

Our analysis indicate that, in deciding whether to upgrade and replace existing boilers at the Agnews West Campus, the Legislature should keep in mind that (1) installation of a cogeneration facility would significantly reduce steam requirements from the boiler plant and (2) implementation of energy conservation measures would reduce overall steam requirements.

Cogeneration Facility. The 1981 Budget Act appropriated $79,000 for preparation of preliminary plans for a cogeneration plant at the Agnews west facility which would provide a minor portion of the steam production needed at this facility. According to the department, preliminary plans for the proposed facility are currently being prepared. The budget does not contain any additional funds for this project, and we have not received any additional information beyond the feasibility study.

Conservation Projects. The Budget Bill proposes $997,000 for an energy conservation project at the Agnews West Campus which would insulate the existing steam and hot water pipe distribution system. A consultant's report indicates that approximately 40 percent of the existing steam energy produced by the boilers is lost because of the inefficient distribution system. We have recommended that preliminary planning and working drawing funds for this project be approved. Implementation of the pipe insulation project will significantly reduce the steam production requirements. It is not apparent that the department has taken this reduction into account in requesting funds to upgrade the boiler facility.

In summary, preliminary feasibility studies indicate that upgrading of the existing boiler plant will conserve energy. The impact of proposed cogeneration and energy conservation improvements however, should be evaluated when determining the appropriate upgrade of the boiler plant. Pending receipt of this evaluation, we withhold recommendation on the proposed funds for this project.

Steam and Hot Water Insulation—Agnews State Hospital

We recommend Item 4300-301-189(d), $997,000 for preliminary plans, working drawings and construction to insulate steam and hot water pipes at Agnews West Campus, be reduced by $942,000 because the request for construction funds is premature. Further, we recommend Item 4300-301-942(b), $158,000 for a similar project at Agnews East Campus, be reduced $150,000 by deleting construction funds.

The budget includes $997,000 and $158,000 for energy conservation projects at the west campus and east campus, respectively, Agnews State Hospital. The projects include insulation of all existing steam and hot water pipes which run between the existing central heating plants and the various buildings on the campuses.

A study of energy conservation opportunities at the Agnews State Hospital was recently completed. The report indicated that the existing underground steam distribution systems appear to be totally uninsulated and susceptible to flooding. At the west campus the bare steam pipes are in contact with water, boiling it continuously, and thus reducing the heat available for the buildings. The consultant indicates that the cost of the energy wasted from this deficient system can be conservatively estimated at 40 percent of the total natural gas fuel used to produce steam at the west campus, or approximately 877,000 therms of natural gas which cost $400,000. The savings at the east campus would be 131,000 therms, or $60,000.

Based on the information provided by the department it appears that the existing steam distribution system at this hospital is not energy efficient and a major upgrading is needed. The department's proposal, however, is based solely on the initial study conducted by the energy consultant, and does not reflect an engineering evaluation of a solution to the problem identified in the report. Furthermore, the hospital is experiencing a decline in population and any improvements to the distribution system should be limited to utility lines serving buildings anticipated to be occupied on a long-term basis.

Our analysis indicates that additional engineering evaluation and project scope information should be developed before construction funds for these projects are approved. Development of preliminary plans and working drawings generally requires approximately 12 months. Accordingly, deferral of construction funds to 1983–84 will not delay implementation of the project. Moreover, deferral of this portion of the request would allow the Legislature to have adequate information on the amount needed for construction when it considers the request for funds. Accordingly, we recommend that Item 4300-301-189(d) be reduced by $942,000 by deleting construction funds proposed for the west campus project, and that Item 4300-301-942(b) be reduced by $150,000 by deleting construction funds for the east campus project.

Energy Conservation Improvements—Camarillo State Hospital

We recommend Item 4300-301-189(e), $266,000 for preliminary plans, working drawings and construction of energy conservation improvements at Camarillo State Hospital, be reduced $253,000 by deleting construction funds.

This $266,000 request is for preliminary plans, working drawings and construction to insulate a portion of the steam and hot water pipes at Camarillo State Hospital. A recently completed study indicates that significant energy savings can be realized by insulating the steam and hot

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

water distribution system. The project includes insulation of those portions of the distribution system which are easily accessible—approximately one-half of the 2.5 miles of steam lines and approximately one-third of the 12.5 miles of hot water lines. The project also includes reduction of the hot water temperature from 120° to 105°. The study concludes that implementation of these improvements would save approximately 120,000 therms of natural gas each year, or $42,000.

Insulation of Steam and Water Pipes. Based on the report covering the energy conservation potential at this hospital, insulation of the existing steam and hot water distribution system will save a considerable amount of energy. The proposal included in the budget, however, is not based on an engineering evaluation of the work to be accomplished. For example, the consultant who prepared the report, has only estimated the cost of insulating that portion of the existing systems which are accessible and available for installation of insulation. Furthermore, reduction in the temperature of the hot water distributed to buildings can be accomplished without any capital outlay expenditure.

A more thorough evaluation of the energy conservation potential of the proposed upgrading should be accomplished during preparation of the preliminary plans for this project. This information is necessary to support the request for construction funds. Accordingly, we recommend this item be reduced by $253,000, leaving the remaining $13,000 for preparation of preliminary plans and working drawings. The appropriate amount needed for construction can be determined in 1983, when adequate information will be available.

Status of Other Conservation Measures Needed. The consultant's report on the energy conservation potential at Camarillo State Hospital indicates that several minor improvements, capable of yielding substantial savings in energy, should be implemented. For example, the consultant indicates that installation of a $10,000 cover for the swimming pool would save approximately 70,000 therms of natural gas per year—50 percent of the amount used for heating the pool. The project has a payback period of less than five months. Improvements such as this, which have a relatively short payback period, should be implemented before major capital outlay projects for energy conservation are implemented. Accordingly, we recommend that the department provide a status report on the energy conservation proposals recommended in the consultant's report, and an estimate of the savings attributable to these improvements.

Energy Conservation, Lighting—Lanterman State Hospital

We recommend Item 4300-301-189(g) be reduced by $221,000 by eliminating projects elements which are not cost-effective.

The budget includes $332,000 to replace existing lighting systems at Lanterman State Hospital. The project proposes replacement of 3,500 existing incandescent lamps with 1,950 energy-efficient fluorescent fixtures and 30 mercury-vapor fixtures. The department indicates that the proposed project is based on a consultant's study of energy conservation measures which could be implemented at this hospital. This study was completed in May of 1981.

The consultant's report on energy conservation indicates that eight alternative measures for energy-saving modifications to the lighting system were evaluated. Among the alternatives evaluated were (1) installation of "turn me off" stickers on light switches—which the department has completed at a cost of approximately $500—estimated to save approximately $16,000 a year in energy costs, and (2) replacement of the exterior incandescent fixtures with high pressure sodium fixtures, having a discounted pay back period of 22 years. The consultant's report relative to replacement of the interior light fixtures indicates that the initial cost would be $55,000, and that the potential savings are approximately $200,000 over the 20-year life of the new system.

The department's proposal does not appear to be in agreement with the recommendations contained in the consultant's report. Our analysis indicates that two alternatives recommended by the consultant are justified: (1) replacement of the interior light fixtures at a cost of $55,000, with a discounted pay back of 5.6 years and (2) replacement of standard 40-watt lamps with energy conserving 35-watt lamps at a cost of $56,000, with a discounted pay back period of 4.2 years. The other six recommendations all had pay back periods which exceed 12 years and are not high priority energy conserving modifications.

The Legislature has generally supported energy conservation projects with a net discounted pay back period of five to seven years. On this basis, we recommend that this item be reduced by $221,000. The remaining $111,000 will fund the two high priority conservation measures recommended in the consultant's report. Our review of the cost data for these modifications indicates that they are reasonable and no engineering detail is needed.

Laundry Modification for Energy Conservation—Lanterman State Hospital

We recommend Item 4300-301-189(h), for energy conserving modification to the laundry facility at Lanterman, be reduced by $44,000 by eliminating overbudgeting of inflationary cost adjustments.

The budget includes $258,000 for preliminary plans, working drawings and construction to modify the laundry facility at Lanterman State Hospital. The proposal includes installation of a prefabricated heat reclamation system to recirculate laundry waste water. Cool water entering the laundry facility would be heated by the hot water being discharged from the laundry. A recently completed study by a consulting engineer indicates that the proposed modification would save 162,000 therms of natural gas per year. The report indicates that the estimated cost of the project at the time the report was prepared (May 1981) was $194,000.

The department's proposed budget for implementation of the project recommended by the consulting engineer is $64,000 higher than the amount indicated by the consultant. The projects included in the 1982–83 budget are to be included at an estimated cost basis for July 1, 1982. Given the fact that the consultant's report was prepared 7 months ago and that inflation has been approximately 0.75 a percent a month since then, the proper inflation adjustment to the project estimate is $20,000. This suggests that the appropriate funding level for the project is $214,000. Accordingly, we recommend the project be approved, but that the amount budgeted be reduced by $44,000 to eliminate overbudgeting for inflation.

Energy Conservation and Comfort Conditioning—Napa State Hospital

We recommend that Item 4300-301-189(j), conservation and comfort conditioning of patient-occupied building at Napa, be deleted because this project should proceed in the current year so that licensing requirements *are met at a minimum cost to the state. (Reduce by $2,562,000)*

The 1981 Budget Act included $2,562,000 for construction of energy conservation measures at Napa State Hospital. The proposal included installation of comfort conditioning, which is a low cost alternative to air conditioning and is needed to meet licensing requirements. These proposed modifications were to be integrated into the major project for renovation of patient-occupied buildings to meet fire and life safety and other licensing requirements.

The administration is proposing to (1) revert these funds in the current year and (2) appropriate new funding for the project in 1982–83. If this is done, it will not be possible to integrate the proposed improvements with the major renovation projects.

Our analysis indicates that the most economical means of completing the proposed energy-conservation measures would be to undertake them as part of the renovations to be completed under the fire and life safety contract. Delay of the modifications would result in additional costs to the state, and may jeopardize licensure of the renovated facilities. Accordingly, we recommend that (1) this project proceed with the fire and life safety modifications to be undertaken in the current year and (2) the funds proposed in Item 4300-301-189(j) be deleted.

Temperature Controls—Agnews State Hospital

We recommend approval of Item 4300-301-942(a), installation of temperature controls in the receiving and treatment building at Agnews State Hospital.

This $6,000 project, funded from the Special Deposit Fund, Department of Energy Consent Order Proceeds Account, would provide for installation of new control mechanisms in the heating, ventilation, and air conditioning system of the receiving and treatment building at Agnews State Hospital. The department indicates that existing controls are inoperable, and replacement of the system would save approximately $4,000 per year in energy costs. The project was identified in an energy conservation study as a high priority, and we recommend approval of the requested funds.

Hot Water and Steam Pipe Installation—Lanterman State Hospital

We recommend deletion of $55,000 in Item 4300-301-942(c), to provide for insulation on existing hot water and steam pipes. Further, we recommend budget language be adopted to redirect utility funds (under Item 4300-011-001) to accomplish this project.

The budget proposes $55,000 from the Special Deposit Fund, Department of Energy, Consent Order Proceeds Account, to insulate hot water and steam pipes at Lanterman State Hospital. An energy conservation study of the hospital, completed in July 1981, indicated that insulating the existing steam and hot water distribution system would save 230,000 therms of natural gas per year, or $97,000 at current prices. The study estimated that the project would cost $41,000. The budget request of $55,000 includes the project recommended in the consultant's report plus additional funds for inflationary cost increases, contingency and architectural and engineering services.

According to the feasibility study, this project has a very short payback period—the initial investment would be repaid through energy savings in only four months. Accordingly, capital outlay funds should not be needed for this project. The proposed conservation measures could be financed using operating funds budgeted for natural gas costs at this hospital. Redirection of budget year funds would be the most cost-effective means of accomplishing this project because it would avoid future price escalations and allow the department to realize the anticipated savings during the budget year. Accordingly, we recommend deletion of this item provided that funds in the budget year are redirected to accomplish the needed work. The following language should be adopted under Item 4300-011-001, for support of the Department of Developmental Services:

"Provided that, of the funds appropriated for utility costs, $55,000 shall be redirected to provide for insulation of hot water and steam pipes at Lanterman State Hospital."

D. MINOR CAPITAL OUTLAY PROJECTS

Minor Capital Outlay—General Improvements

We recommend Item 4300-301-036(a), $676,000 for minor capital outlay, be reduced by $160,000 by deleting two projects which are not justified.

The budget proposes $676,000 for 13 minor capital outlay projects (projects costing $150,000 or less) for general improvements at the state hospitals. These projects would correct existing code deficiencies and make modifications to meet licensing requirements in kitchen facilities, pharmacies and central supply facilities. We recommend approval of 11 projects totaling $516,000. Our analysis indicates, however, that two projects estimated to cost $160,000 are not justified.

Boiler Controls—Lanterman. One project for $65,000 would install combustion control and safety devices on a boiler at Lanterman State Hospital. The department indicates that this is a third phase of a three-phase project to upgrade boilers at Lanterman State Hospital. Our analysis of energy conservation measures proposed at this hospital and the potential for cogeneration indicates that the existing four boilers will not be needed once these proposed projects are implemented. The two boilers which have already been upgraded should provide sufficient capacity to meet hospital requirements. Accordingly, we recommend deletion of $65,000 proposed to upgrade an additional boiler.

Fire and Life Safety and Environmental Improvements, Items to Complete—Sonoma. One project for $95,000 would provide additional funds for fire and life safety and environmental improvements at Sonoma State Hospital. The proposed modifications include revisions to the hot water distribution system, ventilation system, and installation of additional cabinetry. Alteration of these facilities for fire and life safety requirements and environmental improvements was completed at the cost of over $9 million.

Our analysis indicates that adequate funds were provided by the Legislature for modifying these buildings for fire and life safety and environmental improvement requirements. The additional work to be accomplished relates to maintenance and operational issues and was not included in the original project scope. Moreover, if existing systems are not functioning properly, the contractor for the completed alterations should be held responsible for making systems operable. Accordingly, we recommend deletion of the $95,000 for items to complete at Sonoma State Hospital.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Minor Capital Outlay—Energy Conservation Projects

We recommend approval of Item 4300-301-189(a), $501,000 for energy conservation projects.

The budget includes $501,000 for six minor capital outlay projects proposed to conserve energy. These projects have payback periods of less than six years. The proposed projects are jusitified on a cost-saving basis and we recommend approval.

Projects by Descriptive Category

In the A-pages of our Analysis, we discuss the capital outlay funding problems resulting from the distribution of tidelands oil revenue in 1982–83. To aid the Legislature in resolving these problems, we have divided those projects which our analysis indicates are justified into the following categories:

1. Critical fire/life safety and security projects—includes projects to correct life threatening conditions.
2. Projects needed to meet code requirements—includes projects that do *not* involve life threatening conditions.
3. Essential utility, site development and equipment—includes projects needed to make new buildings usable or continue usability of existing buildings.
4. Meet existing instructional capacity needs in higher education—includes projects that are critical, and for which no alternatives are available other than reducing enrollments.
5. Improve program efficiency or cost effectiveness—includes new office buildings, alterations, etc.
6. Energy conservation projects—includes projects with a payback period of less than five years.

Table 5
Major Projects by Descriptive Category
Department of Developmental Services
(in thousands)

Category/Item/Project Title	*Analyst's Proposal*	*Estimated Future Cost*
1. None		
2. 4300-301-036(e) Fire Sprinklers—Napa	$127	—
3. 4300-301-036(b) Utility Lines—Camarillo	215	—
4. None		
5. None		
6. 4300-301-036(a) Cogeneration—Camarillo	45	$1,300
4300-301-189(d) Pipe Insulation—Agnews	55	942
4300-301-189(e) Pipe Insulation—Camarillo	13	253
4300-301-189(f) Cogeneration—Lanterman	87	3,500
4300-301-189(g) Energy Saving Lighting—Lanterman	111	—
4300-301-189(h) Heat Reclaim, Laundry—Lanterman	214	—
4300-301-189(i) Cogeneration—Napa	1,302	—
4300-301-942(a) Temperature Controls—Agnews	6	—
4300-301-942(b) Pipe Insulation—Agnews	8	150
Subtotals, Category 6	$2,183	$6,145
Totals	$2,525	$6,145

7. Energy conservation projects—includes projects with a payback period greater than five years.

Table shows how we categorize the projects funded by this item that our analysis indicates are warranted.

DEPARTMENT OF DEVELOPMENTAL SERVICES—REVERSION

Item 4300-495 to the General Fund and Energy and Resources Fund

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Energy and Resources Fund. Recommend one proposed reversion be denied because the project is needed to meet licensing requirements and should proceed in the current year.	951

ANALYSIS AND RECOMMENDATIONS

General Fund

We recommend approval.

This item proposes reversion of the unencumbered balances of four appropriations to the Department of Developmental Services. The funds would revert to the unappropriated surplus of the General Fund. The four appropriations are:

(1) Item 295 of the 1980 Budget Act, regional center uniform fiscal systems,

(2) Chapter 644, Statutes of 1980, coroners' inquests at state hospitals,

(3) Chapter 1304, Statutes of 1980, court-appointed public defenders, conservatorship and guardianship proceedings, and

(4) Chapter 1253, Statutes of 1980, court-appointed public defenders, judicial commitment proceedings.

These reversions are proposed because funds for 1982–83 program costs are included in the department support item in the Budget Bill. On this basis, the reversions are warranted.

Energy and Resources Fund

We recommend that construction funds appropriated in the 1981 Budget Act for conservation and comfort conditioning of patient-occupied space be deleted from the items to be reverted.

This item proposes reversion of $3,995,935 appropriated in the Budget Act of 1981 from the Energy and Resources Fund (ERF) for four projects. Table 1 summarizes this proposal.

The amounts reverted by this item would be transferred from the ERF to the General Fund under Control Section 19.91 of the Budget Bill. The Department of Finance has indicated that the proposed reversions and transfer are needed in order to avoid a deficit in the General Fund during the current year. Funds for these projects are included in the 1982–83 Budget under Item 4300-301-189.

DEPARTMENT OF DEVELOPMENTAL SERVICES—REVERSION—Continued

Table 1
Department of Developmental Services
Proposed Reversions—Item 4300-495
Energy and Resources Fund

Appropriation/Project Title	*Amount Appropriated Reverting*
(1) Item 4300-301-189(b)(2), Budget Act of 1981, Camarillo State Hospital, cogeneration system—preliminary plans	$44,960
(2) Item 4300-301-189(c), Budget Act of 1981, Lanterman State Hospital, cogeneration system—preliminary plans	87,000
(3) Item 4300-301-189(d)(1), Budget Act of 1981, Napa State Hospital, cogeneration system phase II—construction	1,301,775
(4) Item 4300-301-189(d)(3), Budget Act of 1981, Napa State Hospital, conservation and comfort conditioning of patient occupied space, R&T building—construction	2,562,200
Total	$3,995,935

Project at Napa State Hospital should proceed in the current year. Our analysis indicates that one of the proposed reversions would result in a substantial delay in the renovation of state hospital facilities to meet fire and life safety and licensing requirements. The project to provide conservation and comfort conditioning of patient-occupied space at Napa State Hospital is to be integrated with proposed building alterations necessary to meet licensing requirements. This alteration project is scheduled to be undertaken during the current year. Reversion of the funds, as proposed, would delay the project. Furthermore, the state licensing agency has indicated that comfort conditioning of these areas is a licensing requirement.

Accordingly, we recommend that the proposal to revert these funds in the current year be denied, and that the project proceed as scheduled in the current year. Similarly, we have recommended under Item 4300-301-189(j) that funds rebudgeted for this project in 1982–83 be deleted.

Health and Welfare Agency

DEPARTMENT OF MENTAL HEALTH

Item 4440 from the General Fund — Budget p. HW 140

Requested 1982–83	$618,007,000
Estimated 1981–82	590,339,000
Actual 1980–81	566,902,000
Requested increase (excluding amount for salary increases) $27,668,000 (+4.7 percent)	
Total recommended reduction	$6,974,000
Recommendation pending	$4,555,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4440-001-001	—Support	General	$15,437,000
4440-011-001	—State operations—judicial commitments	General	88,449,000
4440-101-001	—Local assistance	General	513,807,000
4440-111-001	—Local mandates	General	314,000
Total			$618,007,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Reduction in Audit Staff. Recommend that the department provide the fiscal committees with a cost/benefit analysis of deleting nine positions from the Audits and Appeals Branch.	958
2. ***Overbudgeting of Benefits. Reduce Item 4440-001-001 by $11,000 and Item 4440-101-001(e) by $162,000.*** Recommend deletion of funds overbudgeted for overtime benefits.	958
3. Consolidated Pilot Project. Recommend that the administration inform the fiscal committees how it intends to comply with Ch 1194/79, if positions budgeted for this purpose are redirected to implement a pilot project.	959
4. Health Training Centers. Recommend adoption of Budget Bill language prohibiting the department from redirecting General Fund money to support the centers in 1982–83. Further recommend that the department inform the fiscal committees of the actions it is taking to reduce the centers' current-year expenditures and the funding sources which will support the centers in the budget year.	959
5. Non-Level-of-Care Positions. Recommend that the department report to the Legislature by April 15, 1982, detailing standards developed for non-level-of-care positions and the plan for implementing them.	964
6. State Hospital Three-Year Plan. Recommend that, prior to budget hearings, the department report to the Legislature on whether it intends to implement recommendations contained in the Three-Year State Hospital Plan on (a) regular administration of the level-of-care survey, (b) future use of the state hospitals, and (c) hospital staffing standards.	964
7. ***Hospital Automation. Reduce Item 4440-001-001 by $711,000.*** Recommend (a) deletion of eight positions and $711,000 because the department has not justified expansion of the project and (b) adoption of Budget Bill language requiring the department to submit justification before expanding the project.	966
8. Increasing Judicial Commitments. Withhold recommendation on $3,117,000 requested in Item 4440-011-001 for additional staff resulting from increasing judicial commitments, pending additional information.	969
9. Community Treatment of Mentally Disordered Offenders. Recommend adoption of supplemental report language requiring the department to report on the effect of Ch 928/81, on the funding level required for community treatment of mentally disordered offenders.	969
10. Security at Patton State Hospital. Withhold recommendation on the $620,000 requested in Item 4440-011-001 for	970

DEPARTMENT OF MENTAL HEALTH—Continued

22 peace officer positions at Patton State Hospital. We recommend that the department provide the fiscal committees with (a) a revised estimate of its staffing and capital outlay needs in light of the passage of Ch 9/82 and (b) an assessment of the recommendations of the Ch 928/81 task force on the department's budget request.

11. Block Grant. Recommend that the Department of Finance provide to the fiscal committees by March 15, 1981, the information on block grants required by Ch 1186/81, including (a) a description of the effect of the alcohol, drug abuse, and mental health block grant on clients, (b) information documenting assumptions used in estimating 1982–83 funding levels, and (c) a proposal for administering the block grants. In addition, we recommend that the department (a) provide an expenditure plan for use of the funds and (b) include in its proposal for administering the block grant an analysis of staffing requirements. 975
12. Continuation of Current-Year Projects. We recommend that the department inform the fiscal committees which current-year projects authorized by the Legislature will not be funded in the budget year. 979
13. Patch Programs. We recommend (a) transfer of $6.4 million from Item 4440-101-001(e) to Item 4440-101-001(b), (b) adoption of Budget Bill language permitting the department to allocate the funds only if federal funds are unavailable, and (c) deletion of Budget Bill language authorizing the department to transfer funds budgeted for the state hospitals to support patch programs. 979
14. ***State Hospital Savings. Reduce Item 4440-101-001(e) by $4.2 million.*** We recommend deletion of funds identified in the state hospitals budget for transfer to community programs because the department does not have an expenditure plan for the funds. 981
15. ***1981–82 Augmentation Funds. Reduce Item 4440-101-001(b) by $1,890,000.*** Recommend deletion of funds because expenditure plans are unknown. 981
16. County Claims. Recommend adoption of Budget Bill language prohibiting the department from reimbursing county claims submitted later than two months after the month in which service was provided. 982
17. Out-of-Home Placement. Recommend appropriation of $5.3 million budgeted for out-of-home placement of mentally disordered children in a separate item to ensure that funds are not used for other purposes. 982
18. Mental Health Promotion Contracts. Withhold recommendation on $818,000 budgeted for mental health promotion contracts pending receipt of (a) information explaining how funds were used in 1981–82 and (b) a proposal for use of the funds in 1982–83. 984

GENERAL PROGRAM STATEMENT

The Department of Mental Health directs and coordinates state efforts for the prevention and treatment of mental disabilities. The department's primary responsibilities are to:

1. Administer the Short-Doyle Act which provides for delivery of mental health services through a state-county partnership.
2. Operate two state hospitals which exclusively serve the mentally disabled (Atascadero and Metropolitan) and manage programs for the mentally disabled located in three state hospitals (Camarillo, Napa, and Patton) which serve both the mentally and developmentally disabled. Patton State Hospital is currently phasing out its programs for the developmentally disabled. Chapter 409, Statutes of 1981, requires the Department of Mental Health to assume responsibility for operating the hospital effective July 1, 1982.
3. Manage the Lanterman-Petris-Short Act which provides for involuntary treatment of the mentally disabled.

The department has 3,630 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $683,168,000 from various funds for support of the Department of Mental Health's activities in 1982–83. This is an increase of $41,829,000, or 6.5 percent, above estimated current-year expenditures. The budget proposes an appropriation of $618,007,000 from the General Fund, which is an increase of $27,668,000, or 4.7 percent, above estimated current-year expenditures. This amount

Table 1
Department of Mental Health
Expenditures and Funding Sources
1980–81 through 1982–83
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change*	
				Amount	*Percent*
Department support					
General Fund	$12,990	$14,615	$15,437	$822	5.6%
Reimbursements [a]	2,579	3,823	3,891	68	1.8
Federal funds	677	958	403	−555	−57.9
Subtotals	$16,246	$19,396	$19,731	$335	1.7%
State hospitals—judicial commitments					
General Fund	$72,366	$81,861	$88,449	$6,588	8.0%
Reimbursements	3,954	5,428	5,796	368	6.8
Subtotals	$76,320	$87,289	$94,245	$6,956	8.0%
Local assistance [b]					
General Fund	$481,546	$493,863	$514,121	$20,258	4.1%
Reimbursements	67,172	40,791	40,791	—	—
Federal funds	45	—	14,280[c]	14,280[c]	N/A
Subtotals	$548,763	$543,654	$569,192	$34,538	6.4%
All programs					
General Fund	$566,902	$590,339	$618,007	$27,668	4.7%
Reimbursements	73,705	50,042	50,478	436	0.9
Federal funds	722	958	14,683[c]	13,725[c]	1,433.0
Totals	$641,329	$641,339	$683,168	$41,829	6.5%

[a] Excludes amounts payable from other appropriations made to the department.
[b] Includes local assistance for state hospitals.
[c] Includes federal block grants.

DEPARTMENT OF MENTAL HEALTH—Continued

will increase by the amount of any salary or staff benefit increase approved for the budget year.

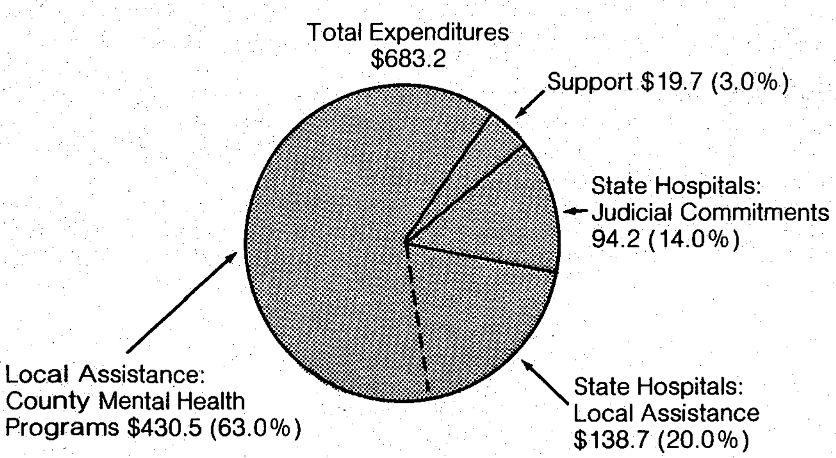
Table 1 shows actual, estimated, and proposed expenditures for the department's activities.

Chart 1 shows proposed department expenditures, by program, for 1982–83.

Chart 1

Department of Mental Health Proposed Expenditures—All Funds

1982–83 (in millions)



1. DEPARTMENT SUPPORT

The budget proposes total expenditures of $19,731,000 for support of the Department of Mental Health in 1982–83. This is an increase of $335,000, or 1.7 percent, above estimated current-year expenditures. The budget

Table 2
Department of Mental Health Support Expenditures and Funding Sources
1980–81 to 1982–83
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
General Fund	$12,990	$14,615	$15,437	$822	5.6%
Reimbursements [a]	2,579	3,823	3,891	68	1.8
Federal funds	677	958	403	−555	−57.9
Totals [a]	$16,246	$19,396	$19,731	$335	1.7%

[a] Excludes amounts payable from other appropriations made to the department.

proposes an appropriation of $15,437,000 from the General Fund, which is an increase of $822,000, or 5.6 percent, above estimated current-year expenditures. Table 2 shows actual, estimated, and proposed expenditures for department support.

Table 3 details the department's proposed General Fund adjustments to estimated current-year expenditures.

Table 3
Department of Mental Health Support
Proposed General Fund Budget Changes

	Adjustments	*Total*
Adjusted base budget, 1981–82		$14,615,000
Baseline adjustments:		
Personnel services		
Staff benefits and merit salary adjustments	$181,000	
Limited-term positions	−238,000	
Transfer to Department of Alcohol and Drug Programs	−30,000	
Operating expenses		
Travel restoration	568,000	
Price increase	179,000	
CALSTARS adjustment	9,000	
One-time adjustments		
Office of Administrative Law	−2,000	
Restore 1981–82 2 percent reduction	304,000	
Five percent reductions	−787,000	
Budget change proposals:		
Hospital automation—Metropolitan	213,000	
Hospital automation—Patton	357,000	
Citizens Advisory Council	68,000	
Total adjustments		822,000
Proposed budget, 1982–83		$15,437,000

Five Percent Reductions in Department Support

The department's support budget reflects a General Fund reduction of $787,000, or 5 percent, proposed to comply with Budget Letter No. 14. Table 4 details the adjustments proposed to achieve this reduction.

Table 4
Five Percent Support Reductions

Category	*Reduction*
1. Reduce one-half position from the 8.5 professional positions in the legal office	$22,000
2. Reduce professional position from the Director's staff	35,000
3. Reduce 9 of 29 professional positions in the Audits and Appeals Branch	284,000
4. Reduce 2 psychiatrist positions from the service area teams	143,000
5. Reduce the equipment budget by 29 percent	46,000
6. Reduce consultant services by 11 percent	57,000
7. Reduce in-state travel by 12 percent	200,000
Total	$787,000

DEPARTMENT OF MENTAL HEALTH—Continued

Reduction of Audit Staff

We recommend that, prior to budget hearings, the department provide the fiscal committees a cost/benefit analysis of the proposal to eliminate 9 of the 29 professional positions in the Audits and Appeals Branch.

In order to help achieve the 5 percent reduction in department support required by Budget Letter No. 14, the department proposes to delete 9 of the 29 professional positions in the Audits and Appeals Branch. These positions audit county expenditures to determine whether the state has been appropriately charged for service provided by the counties.

We asked the department to provide justification for its decision to delete the positions. Department staff reported that the department intends to increase the effectiveness of the remaining audit staff by focusing their efforts on the areas of greatest payoff. Thus, auditors would continue to audit large counties annually, but would audit moderate- and small-size counties less frequently. Department staff also reported, however, that the department has not prepared a detailed analysis showing the amount of General Fund recoveries which would be lost by deleting the positions. In fact, documents prepared by department staff indicate that, over time, "lost General Fund recoveries could exceed savings attributable to these position reductions."

We believe that it would be unwise to eliminate the nine positions if these positions are capable of generating General Fund recoveries which are equal to or exceed position costs. To give the Legislature a sounder basis for considering this proposal, we recommend that, prior to budget hearings, the department provide the fiscal committees a cost/benefit analysis of its decision to delete the nine auditor positions.

Overbudgeting of Benefits

We recommend a reduction of $173,000 ($11,000 in Item 4440-001-001 and $162,000 in Item 4440-101-001(e)) for overbudgeted benefits.

The department's budget includes $641,150 to pay employees for overtime work ($48,150 for support and $593,000 for state hospitals). This is the same level that was budgeted for overtime in the current year, after making adjustments to reflect the addition of Patton State Hospital expenditures to the department's budget in 1982–83.

Our analysis indicates that the department has overbudgeted benefits for overtime expenditures. Only social security benefits should be budgeted for overtime work, an amount which would equal 6.7 percent of overtime costs. Additional funds for other benefits, such as vacation and health benefits, are not required when staff work overtime. The department, however, has budgeted funds for *full* benefits on overtime work. Thus, it is requesting an amount for benefits equal to 29 percent of overtime pay, or $13,964, for department support and 34 percent of overtime pay, or $201,620, for state hospitals.

We recommend that funds requested to pay benefits other than social security in connection with overtime work be deleted, for a savings of $11,000 in Item 4440-001-001 and a savings of $162,000 in Item 4440-101-001(e), for a total savings of $173,000.

Consolidated Pilot Project

We recommend that the administration report to the fiscal committees, prior to budget hearings, how it intends to comply with Ch 1194/79, which requires the department to establish rates for residential care facilities, if positions budgeted for this purpose are redirected to staff the pilot project.

Staffing Request for Chapter 1163, Statutes of 1981. The budget proposes six positions (five professional and one clerical) and $221,086 ($110,543 from the General Fund and $110,543 from federal Medi-Cal reimbursements) to implement pilot projects mandated by Ch 1163/81. Chapter 1163 requires the Department of Mental Health, in consultation with the Department of Health Services, to establish pilot projects in at least three counties which consolidate county mental health program funds and Medi-Cal mental health funds to test whether consolidation results in more efficient and appropriate delivery of services. The measure requires the department to (1) contract with each pilot county, (2) evaluate the projects, and (3) submit periodic reports to the Legislature.

In the current year, the department plans to redirect 1.5 positions assigned to work on Short-Doyle/Medi-Cal compliance issues to implement the requirements of Chapter 1163. In the budget year, the department proposes six positions, including two new positions, one position redirected from Short-Doyle/Medi-Cal compliance issues in the current year, and three positions redirected from staff presently developing a rate system for residential care facilities pursuant to Ch 1194/79.

Our analysis indicates that the staffing level proposed to implement Ch 1163/81 is justified and we recommend approval.

Requirements of Chapter 1194. Chapter 1194, Statutes of 1979, required the Department of Mental Health to (1) establish payment rates for private residential facilities, based on the functional ability and programmatic needs of clients and (2) propose the rates to the Legislature by March 1 of each year, beginning in March 1981. The department submitted a report to the Legislature during budget hearings last year which described the method the department had selected to establish and maintain a rate system. The department did not, however, propose rates, as required by Chapter 1194. In the 1982–83 budget, the department proposes to redirect to Ch 1163/81 activities all of the positions assigned to implement the rate system.

We recommend that the administration inform the fiscal committees during budget hearings on its plans to comply with the requirements of Ch 1194/79.

Health Training Centers

We recommend adoption of Budget Bill language in Item 4440-001-001 prohibiting the department from redirecting monies appropriated from the General Fund to support the health training centers in the budget year. We further recommend that, prior to budget hearings, the department inform the fiscal committees of the actions it is taking to reduce center expenditures in the current year and the funding sources which will support the centers in the budget year.

Background. The department maintains two health training centers—one in Los Angeles and one in Berkeley.

The centers were established in the early 1960s to train community mental health professionals representing all sectors of public and private employment. When the centers were placed within the former Depart-

DEPARTMENT OF MENTAL HEALTH—Continued

ment of Health in 1973, their role was expanded to provide training for all human service professionals. In 1978, following the Health and Welfare Agency reorganization, the centers were assigned to the Department of Mental Health. They continue to provide training services in all of the human services areas for private and public employees.

Funding of the Centers. Traditionally, the centers have been fully supported by the General Fund. In 1980, however, the Legislature adopted Budget Act language requiring the department to submit a report on the centers by December 1, 1980, which (1) established a plan for operating the centers on a reimbursement basis in 1981–82 and (2) proposed a fee schedule for services.

The administration never provided the required report to the Legislature. Instead, the department's 1981–82 budget proposed that the centers operate on a fully reimbursable basis. To provide interim funding while the centers developed other funding sources, however, the department proposed Budget Bill language permitting the transfer of up to $500,000 from the General Fund amount budgeted for county mental health programs to support the centers. The department estimated that the centers would obtain $720,875 in reimbursements which, when added to the $500,000 to be transferred from local assistance, would provide for an estimated expenditure level of $1,220,875 in 1981–82.

The Legislature approved the department's proposal. In order to assure that the department would not redirect funds from other areas to support the centers if actual reimbursements were less than the estimated level, the Legislature adopted additional Budget Act language which required the department to (1) report by October 31, 1981, to the Joint Legislative Budget Committee on the level of reimbursements obtained to support the centers and (2) phase out center staff and operations beginning January 1, 1982, to the extent that identified reimbursements plus the $500,000 transfer are less than the budgeted amount of $1,220,875.

Department Report. The department submitted its report to the Joint Legislative Budget Committee on November 19, 1981. The report identified the following sources of funding for center expenditures in 1981–82: $500,000 in local assistance funds, $225,000 in grants, and $250,000 in estimated training reimbursements, for a total of $975,000. This is $245,875 less than the budget amount of $1,220,875. The report indicated that, to comply with the Budget Act language requiring the centers to phase out staff and operations to the extent that budgeted funds are unavailable, the department intended to (1) reduce 7.8 positions of the centers' 29.1 positions and (2) move the Berkeley center to Sacramento.

More recent data indicate that the department overestimated by approximately $200,000 the funding which will be obtained in the current year. Thus, the department will have to make additional reductions. We recommend that, prior to budget hearings, the department inform the fiscal committees what additional actions it is taking in the current year to reduce expenditures.

Funding for the Budget Year. The budget proposes to continue expenditures for 1982–83 at the current-year level of $975,000. The budget does not propose Budget Bill language authorizing transfer of local assistance funds to the centers such as the 1981 Budget Act contained. The department, however, has not been able to identify the source of funds for support of the centers in 1982–83.

We recommend that, prior to budget hearings, the department submit a report to the fiscal committees identifying the funding sources for the support of the centers in 1982–83.

In addition, consistent with legislative action last year, we recommend adoption of the following Budget Bill language in Item 4440-001-001 to ensure that General Fund monies are not redirected from other areas to fund the centers in the budget year:

"The department shall not use monies appropriated from the General Fund to support the health training centers."

2. STATE HOSPITALS—MENTAL DISABILITIES PROGRAM

In 1982–83, the department will operate three state hospitals—Atascadero, Metropolitan, and Patton. Chapter 409, Statutes of 1981, transfers the authority for administering Patton from the Department of Developmental Services to the Department of Mental Health on July 1, 1982. In addition to managing these hospitals, the Department of Mental Health manages programs for the mentally disabled in two hospitals which will continue to be operated by the Department of Developmental Services in the budget year—Camarillo and Napa State Hospitals.

The state hospitals serve three types of patients: (1) county patients who have either sought admission to the hospitals voluntarily or who have been involuntarily detained for treatment by county mental health programs; (2) judicially committed patients who have been found to be (a) not guilty by reason of insanity, (b) incompetent to stand trial, or (c) mentally disordered sex offenders; and (3) other patients admitted under various criteria (for example, referral by the Department of Corrections).

The budget proposes state hospital expenditures of $232,914,000 for programs serving the mentally disabled in 1982–83. This is an increase of $9,613,000, or 4.3 percent, above estimated current-year expenditures. The budget proposes an appropriation of $227,118,000 from the General Fund, which is an increase of $9,245,000, or 4.2 percent, above estimated current-year expenditures. Table 5 shows actual, estimated, and proposed expenditures for mentally disabled programs in state hospitals.

Table 5
State Hospitals—Mental Disabilities Program
All Funds
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
Judicially committed:					
General Fund	$72,366	$81,861	$88,449	$6,588	8.0%
Reimbursements	3,954	5,428	5,796	368	6.8
Subtotals	$76,320	$87,289	$94,245	$6,956	8.0%
Local assistance:					
General Fund	$132,863	$136,012	$138,669	$2,657	2.0%
All state hospital expenditures:					
General Fund	$205,229	$217,873	$227,118	$9,245	4.2%
Reimbursements	3,954	5,428	5,796	368	6.8
Totals	$209,183	$223,301	$232,914	$9,613	4.3%

Table 6 shows the adjustments to the current-year base which were used to derive the proposed 1982–83 level of expenditures.

DEPARTMENT OF MENTAL HEALTH—Continued

Chart 2

State Hospital In-Hospital Population Last Wednesday of Fiscal Year 1978 through 1983

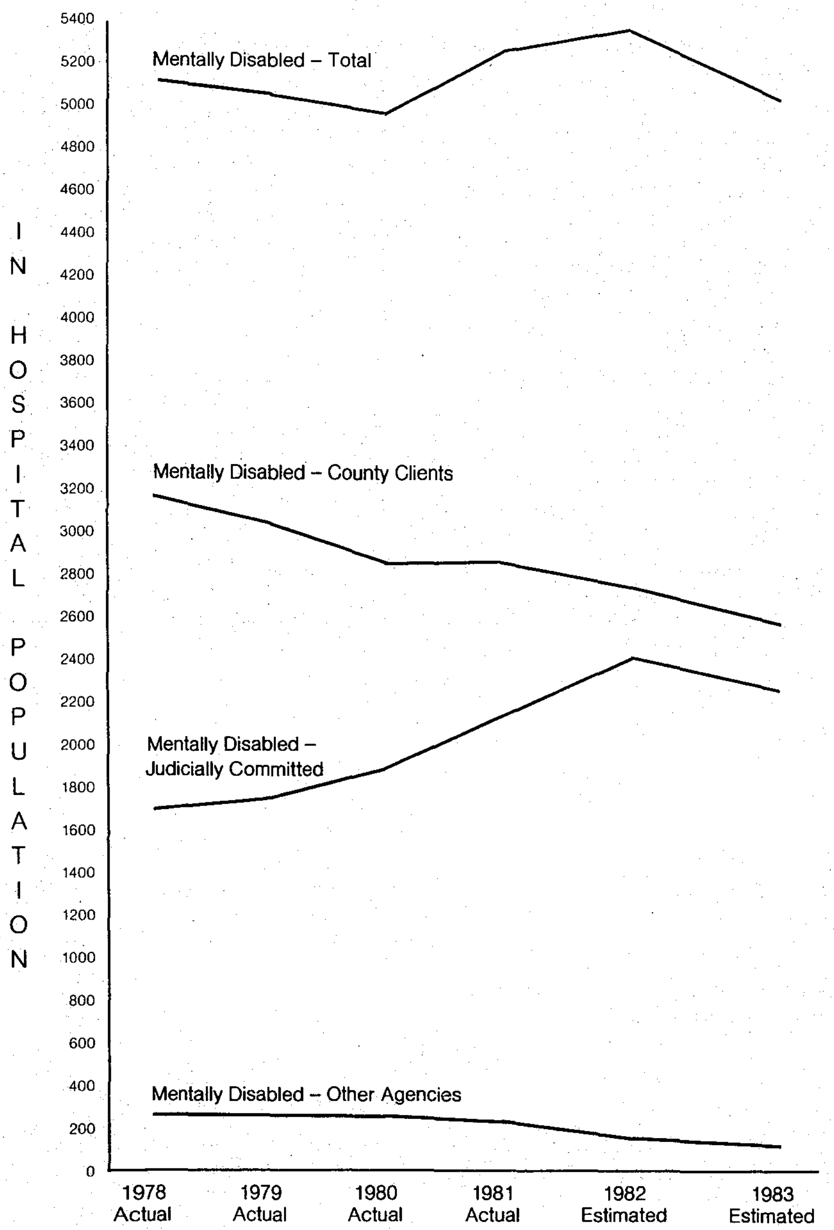


Table 6
State Hospitals—Mental Disabilities Program
Proposed General Fund Budget Changes

	Adjustments	*Total*
Adjusted base budget, 1981–82		$223,301,000
Baseline adjustments:		
Personnel services		
Staff benefits and merit salary adjustments	$3,196,000	
Patton training officer	37,000	
Augmentation for judicially committed program	3,117,000	
Operating expenses		
Price increase	2,790,000	
CALSTARS	14,000	
Reimbursements		
Patton transfer	223,000	
One-time adjustments		
Restore travel	42,000	
Restore 2 percent reduction	10,000	
Five percent reduction	−26,000	
Cost-of-living adjustment for mentally disordered offender community programs	160,000	
Budget change proposals:		
Hospital automation—Patton	−$54,000	
Hospital automation—Metropolitan	−516,000	
Patton security	620,000	
Total proposed changes		9,613,000
Proposed budget, 1982–83		$232,914,000
General Fund		*$227,118,000*
Reimbursements		*5,796,000*

Population Estimates

Chart 2 displays the changes in use of the hospitals by the mentally disabled from 1978 through 1981, and shows the population estimated in the budget for 1982 and 1983. Chart 3 shows the administration's estimates of state hospital use during 1982–83, by hospital and client type.

Cross-Cutting Issues

Some issues concerning the state hospitals involve both the Departments of Mental Health and Developmental Services. These issues are discussed in the "All State Hospitals" section of our analysis of the Department of Developmental Services budget request (page 919). In that section, we recommend that the Departments of Mental Health and Developmental Services submit a report to the Legislature by April 15, 1982, detailing the standards developed for non-level-of-care positions and the plan for implementing these standards.

State Hospital Three-Year Plan

We recommend that, prior to budget hearings, the department report on whether it intends to implement recommendations contained in its Three-Year State Hospital Plan on (1) regular administration of the level-of-care survey, (2) future use of the state hospitals, and (3) hospital staffing standards.

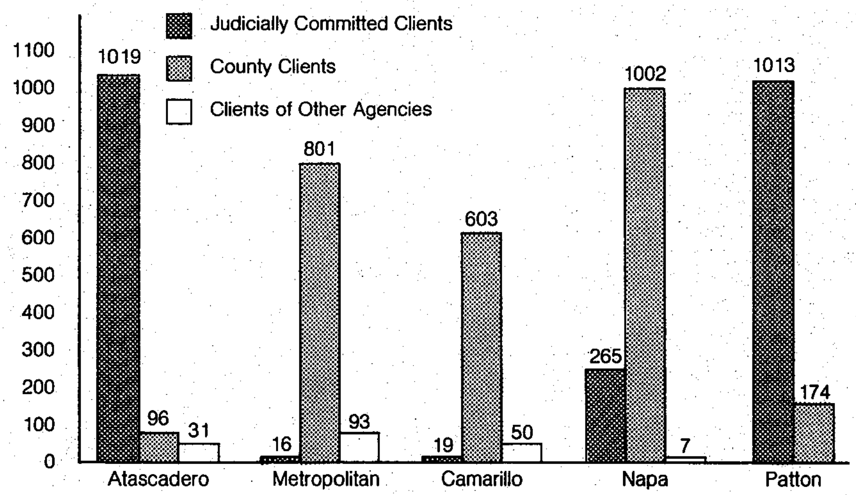
Background. Chapter 64, Statutes of 1979 (SB 354), required the Department of Mental Health to submit a five-year state hospital plan to the Legislature by September 1979 describing (1) which types of patients are appropriately served in state hospitals, (2) the number of state hospital

DEPARTMENT OF MENTAL HEALTH—Continued

Chart 3

Estimated Average Use of State Hospital Beds By the Mentally Disabled

By Hospital and Client Type (1982–83)



beds needed to serve these patients, (3) the capital outlay modifications necessary to bring the hospitals into compliance with fire, life safety, and environmental requirements, and (4) the types of community programs which should be developed so that inappropriate use of the hospitals could be eliminated.

The department submitted a preliminary report to the Legislature in September 1979, which recommended that the hospitals contain 3,600 beds—1,600 for county patients and 2,000 for judicially committed patients. Consistent with this goal, the department proposed to eliminate, by June 1982, 1,500 beds used by the counties. The report indicated that the resources to develop community programs to replace the hospital beds would be provided in future budgets.

Because the department had prepared its recommendations without (1) analyzing which types of patients were being served in state hospitals or (2) working with the counties, the Legislature rejected the department's recommendations and added language to the 1980 Budget Act which required the department to submit to the Legislature by October 1980, a three-year state hospital plan which (1) was developed with the counties, (2) analyzed the type of care currently being provided in the hospitals, (3) described the type of care which should be provided, (4) described capital outlay requirements both for the state hospitals and local programs, and (5) proposed a staffing level for the hospitals consistent with the type of care which should be provided in the hospitals. The report was completed in March 1981 and transmitted to the Legislature on December 9, 1981.

Plan Development Process. To involve counties in the development of the plan, the department established 11 task forces on various subjects relating to state hospital use. Task force members were county staff, department staff, and people who have received mental health services. The task forces submitted reports on their specific topics to a steering committee whose membership was comprised of staff of the department, the Department of Finance, and the Legislature, and representatives of the Conference of Local Mental Health Directors. The steering committee served as an advisory body to the department.

Level-of-Care Study. To assess the level of care provided in the state hospitals, the department obtained a survey instrument, called the "Level-of-Care Survey," which the state of New York uses to assess the kind of care needed for patients in mental hospitals and community programs. The department administered the survey to county patients in September 1980, and to judicially committed clients in June 1980. The department intends to readminister the survey to county patients in February 1982, and to judically committed patients in June 1982.

The three-year state hospital plan prepared by the department contains results from the September survey of county patients, including tabulations, by hospital, of (1) the age, sex, and race of patients, (2) patient length of stay, (3) type of care needed by patients, and (4) the incidence of special behavior and physical problems which impair community placements. This type of data on the patients treated in the state hospitals has not been available before.

The plan recommends that this survey be administered to each hospital patient at the time of admission, discharge, and, for long-term patients, once per year. Department staff indicate, however, that the department has no plans to implement the recommendation in the report.

We believe that regular administration of the level-of-care survey would provide information which would (1) permit the Department of Mental Health and the individual hospitals to manage the hospitals more effectively, (2) improve their ability to plan treatment programs and (3) enable long-range planning for hospital and community services. With the data provided by the survey, for example, a hospital would be aware of changes in the types of patients being treated and could restructure programs to suit patient needs. The department could also determine whether programs in specific hospitals needed to be redesigned to meet statewide needs.

We recommend that, prior to budget hearings, the department inform the fiscal committees whether it intends to administer the level-of-care survey on a regular basis.

Proposals on Future Use of State Hospitals. The department did not use the patient survey data to develop its recommendations for future use of the hospitals. Instead, the department surveyed state hospital directors and 42 counties to determine (1) how the counties presently use the hospitals, (2) which services should be provided by the hospitals in the future, and (3) which services should be provided by the counties. Based on survey results, the department determined that 1,605 state hospital beds were being used for patients more appropriately served in other settings. Specifically, the department found that 1,485 patients should be served in local or regional programs and 120 mentally disordered offenders should be returned to prison. The types of patients who the department believes should be served in local or regional programs include children, patients requiring short-term evaluation, substance abusers, and certain judicially committed patients.

In the three-year plan, the department recommends that the hospitals limit admissions to patients appropriately served in the hospitals. The plan, however, does not discuss requirements for the development of

DEPARTMENT OF MENTAL HEALTH—Continued

community programs for other persons requiring treatment.

Nor does the three-year plan include specific recommendations on the number of state hospital beds which should be renovated. It indicates, however, that the estimated cost of modifying (1) 1,880 county beds would be $41.5 million and (2) 2,000 judicially committed beds would be $52.8 million. The department notes in the plan that if the anticipated reduction of 1,605 beds fails to occur, additional capital outlay funds would be required.

The budget indicates that no county beds will be reduced in 1982–83 except those which counties agreed to reduce in order to receive additional funds appropriated by the 1980 Budget Act. Further, it does not contain any discussion of the three-year plan's proposals for future use of the state hospitals.

We recommend that, prior to budget hearings, the department inform the fiscal committees whether it intends to implement the plan's proposals, and if not, what its plans are for future use of the state hospitals.

State Hospital Staffing. The three-year plan proposes staffing standards which would provide enriched staffing for the hospitals. The plan presents the standards in terms of staff per hundred clients for each type of program. The plan does not indicate the numbers or cost of increased staff which would be required to implement the standards over all programs statewide. Instead, it indicates that the standards would be implemented in 1982–83 through the budget process.

The budget, however, does not propose to implement the staffing standards.

We recommend that, prior to budget hearings, the department inform the fiscal committees whether it intends to implement the staffing standards proposed in the Three-Year State Hospital Plan.

Hospital Automation

We recommend (1) deletion of eight positions and $711,000 budgeted in Item 4440-001-001 to expand the hospital automation project because the department has not justified the proposed expansion and (2) adoption of Budget Bill language requiring the department to submit information required by the Legislature before expanding the project.

Background. In its 1980–81 budget, the department requested $355,639 and eight positions to implement a hospital automation project at Metropolitan State Hospital. At the time it made this request, the department had already procured a software package called the Patient Care System (PCS), which automates numerous hospital functions. It did so without (1) performing an adequate feasibility study, (2) requesting competitive bids, or (3) reviewing the impact of the system on automation requirements in other state hospitals. The 1980 Budget Act appropriated funds to install PCS on a pilot basis only, and restricted the project to the automation of the admissions, discharge, and patient transfer function (ADT).

The department failed to implement the pilot project during 1980–81, and the budget for 1981–82 again requested funding to automate the ADT function at Metropolitan. The Legislature approved the eight positions and $654,072 requested for the project, but added Budget Act language which prohibited the department from automating any additional functions or installing PCS at any other hospital unless it requested funds for expansion from the Legislature and submitted with its request (1) an evaluation of the Metropolitan pilot project, including a cost-benefit analysis, and (2) a feasibility study report for expansion which had been approved by the Department of Finance.

At the time this analysis was prepared, the department had implemented the system on only one of Metropolitan's 38 wards because the department has not yet been able to obtain additional terminals. Department staff anticipate installing terminals on 16 more wards by the end of February 1982. Installation on the remaining 21 wards will not be accomplished until sometime in the budget year.

Budget-Year Request. The department's budget includes (1) $566,000 for four positions and data processing support to continue automation of the ADT function at Metropolitan, (2) $213,000 and four positions to automate the pharmacy and laboratory functions at Metropolitan and (3) $357,000 and six positions to automate the ADT function at Patton, for a total of 14 positions and $1,136,000 for the automation project in 1982–83. The department has not provided an evaluation of the automation of the ADT function at Metropolitan nor a feasibility study on the expanded project, as required by the 1981 Budget Act. We continue to believe the evaluation and the feasibility study should be completed and reviewed by the Legislature before any additional funds are appropriated.

The department indicates that the evaluation will be submitted in April 1982, and the feasibility study will be available June 1982. For the following reasons, however, we doubt that the department will be able to perform an adequate evaluation, prepare the required reports, and receive Department of Finance approval for the feasibility study in time for the Legislature to consider before it must act on the department's budget requests:

1. The department's schedule allows for only one month of operation after the terminals have been installed in the 16 additional wards before the evaluation is conducted. One month of operations does not provide sufficient time to assess the effectiveness of the project.

2. The department's schedule for the feasibility study indicates that the report will be provided to the Department of Finance at the same time that it is provided to the Legislature. The Budget Act requires that the department obtain Department of Finance approval *prior* to submitting a funding request.

Because the department has not complied, and apparently will not be able to comply, with the requirements of the Budget Act, we recommend that funds and positions budgeted to expand the project at Metropolitan and Patton be deleted. Our analysis indicates that the department will require two staff in addition to the four presently budgeted for the ADT project to (1) finish development of the ADT function and (2) prepare the reports required by the Budget Act language. Consequently, we recommend that the following amounts be budgeted for the hospital automation project in 1982–83: $196,000 to support six positions (one staff services manager III, one senior data processing analyst, one staff programmer analyst, one associate programmer analyst, and two senior data technicians) and $229,000 for computer time at the Health and Welfare Data Center and other operating expenses. Consequently, we recommend a deletion of eight positions and $711,000 in Item 4440-001-001. To ensure that the department provides the information needed by the Legislature before it considers whether to expand the hospital automation project, we also recommend adoption of the following Budget Bill language which was included in the 1981 Budget Act:

DEPARTMENT OF MENTAL HEALTH—Continued

"The department may expand the automated patient admissions, discharge, and transfer system at Metropolitan State Hospital to include automation of additional hospital functions, or install any such systems at a hospital other than Metropolitan State Hospital, only if the department requests funds for such expansion or installation from the Legislature and submits with its request an evaluation of the Metropolitan pilot project, including a cost-benefit analysis, and a feasibility study report on the expanded project which reviews the feasibility of automating all additional functions which the department intends to automate with the existing system and which has been approved by the Department of Finance."

Elimination of Mentally Disordered Sex Offender Program

Chapter 928, Statutes of 1981, requires prison commitments for all sex offenders who are convicted on or after January 1, 1982. Previously, a judge could commit a sex offender to a state hospital instead of a prison, if, after a court hearing, the judge found that the offender was mentally disordered. This measure will ultimately result in the elimination of state hospital programs for mentally disordered sex offenders (MDSOs), as those offenders who were committed before January 1, 1982, serve their time, and are released. The Department of Mental Health estimates that the phase-down process will take approximately five years.

The elimination of the MDSO program will have a major effect on state hospital populations. Presently, about 45 percent of the mentally disordered offenders committed to the state hospitals are mentally disordered sex offenders. Table 7 displays, by category, the mentally disordered offenders who resided in the hospitals on October 28, 1981.

Table 7
Mentally Disordered Offenders In the State Hospitals October 28, 1981

	Mentally Disordered Sex Offender	*Not Guilty by Reason of Insanity*	*Incompetent To Stand Trial*	*Total*
Atascadero	527	284	132	943
Camarillo	—	1	1	2
Metropolitan	13	6	7	26
Napa	5	184	45	234
Patton	422	335	170	927
Totals	967	810	355	2,132

Chapter 928 also expresses the intent of the Legislature to provide mental health treatment for prisoners who are mentally ill and who could benefit from treatment. The law requires that a task force established by the Secretaries of the Health and Welfare Agency and the Youth and Adult Correctional Agency submit a report to the Legislature by April 1, 1982, which:

(1) contains an implementation plan for transfer of mentally ill prisoners to the state hospitals, and
(2) makes recommendations for the future use of mental health and correctional facilities that may be affected by the termination of the MDSO program.

The impact of Chapter 928's provisions on state hospital resources will not be known until the Legislature acts on the recommendations contained in the task force report in the spring of 1982.

Judicial Commitments

We withhold recommendation on the $3,117,000 budgeted to support additional staff associated with the estimated increases in the judicially committed population, pending receipt of additional information on the effect of the phase-out of the mentally disordered sex offender program.

The department proposes $3,117,000 to fund additional staff associated with projected increases in the number of judicially committed patients. The assumptions which the department has made in budgeting for increased judicial commitments are that:

- In the current year, the department will treat 194 more patients than anticipated in the 1981–82 budget. Because these patients will continue to receive treatment through 1982–83, the department has included in the proposed budget $4,997,770 for their care.
- In the budget year, the department estimates that:
  (1) The implementation of Ch 928/81, will result in a decrease of 369 mentally disordered sex offenders (MDSOs) and an increase of 50 mentally disordered prisoners who will be transferred to the hospitals by the Department of Corrections. The department has reduced $4,108,991 from the budget to account for the reduction in costs associated with the net decline of 319 offenders in the budget year.
  (2) The number of mentally disordered offenders committed to the state hospitals will increase by 173. The department has budgeted $2,228,837 to provide additional staff for the anticipated population increase.

We withhold recommendation on the $3,117,000 budgeted for increased judicial commitments because sufficient information is not available at this time to permit an analysis of the request. This is because:

(1) The administration is uncertain when judges will begin sentencing sex offenders to prison instead of state hospitals. The department believes that some judges may continue sentencing to state hospitals those sex offenders whose offense was committed while the mentally disordered sex offender provisions were in place. Thus, the decline in the MDSO population may not begin immediately after January 1, 1982, the effective date of Chapter 928. The department's population estimates assume that the impact of Chapter 928 will be delayed until July 1982. The department will be able to determine whether this is a realistic assumption as it obtains data over the next few months on the sentences being imposed by judges.

(2) The Legislature will not be able to determine how many mentally disordered prisoners should be transferred to the state hospitals until it reviews the recommendation of the Ch 928/81 task force, which will be submitted in April 1982.

Community Treatment of Mentally Disordered Offenders

We recommend adoption of supplemental report language requiring the Department of Mental Health to report to the Legislature by October 1, 1982, on the effect elimination of the mentally disordered sex offender program will have on the funding level required for community-based treatment of mentally disordered offenders.

DEPARTMENT OF MENTAL HEALTH—Continued

The budget proposes expenditures of $3,663,000 to provide community-based treatment for mentally disordered offenders released from state hospitals. This is a $7,000, or 0.2 percent, increase above current-year estimated expenditures.

Chapter 1274, Statutes of 1975 (AB 1229), authorized counties to establish community-based treatment programs for mentally disordered offenders released from state hospitals. Eighteen counties established community programs, and funds to continue support for these 18 programs have been included annually in the department's budget.

The elimination of the mentally disordered sex offender (MDSO) program may ultimately result in fewer patients being treated in the community-based programs. The Department of Mental Health indicates that approximately 54 percent of the mentally disordered offenders referred to community programs are MDSOs. Thus, a significant portion of the $3.7 million budgeted for community treatment is spent on treatment for the MDSO population.

While we do not anticipate that the elimination of the MDSO program will affect community-based programs during the budget year, we believe that the administration should review the impact of Ch 928/81 on funding requirements for community programs so that appropriate funding levels can be included in the budgets for future years. Consequently, we recommend that the fiscal committees adopt the following supplemental report language:

> "The Department of Mental Health shall report to the fiscal committees by October 1, 1982, on the effect elimination of the mentally disordered sex offender (MDSO) program will have on the funding level needed to support community-based programs for mentally disordered offenders. This report shall include an analysis of the extent to which MDSOs have used community-based programs."

Security at Patton State Hospital

We withhold recommendation on $620,000 requested in Item 4440-011-001 to support 22 new peace officer positions for Patton State Hospital. We recommend that prior to budget hearings the department submit to the fiscal committees (1) a revised estimate of its requirements for peace officer staffing and capital outlay proposals that takes into account the passage of Ch 9/82 (AB 2385) and (2) an assessment of how the recommendation made by the Ch 928/81, task force on the future role of Patton would affect the department's budget-year requirements.

Effect of Increasing Judicial Commitments at Patton. The number of persons judicially committed to all of the hospitals, including Patton, has been increasing in recent years. In 1971–72, 310 mentally disordered offenders were housed at Patton. Presently, 900 mentally disordered offenders are housed in the fenced-in portion of the hospital. Eighty-nine offenders are housed in locked wards outside the fence.

A number of mentally disordered offenders escape Patton each year. In 1980, 86 offenders escaped; another 46 escaped in 1981. The increasing numbers of judicial commitments to Patton, coupled with the numbers of offenders escaping, have alarmed the community surrounding the hospital. In August, a panel of community representatives issued a report calling for increased security measures at the hospital. The Assembly Criminal Justice Committee held a hearing on December 2, 1981, to review the adequacy of security arrangements at Patton. Subsequent to the hearing, the Department of Mental Health determined that security improvements were required, and developed a proposal which is described below.

Existing Security Arrangements. In response to the increased use of Patton to house offenders, the Legislature has approved funds for various security measures. In 1974, the Legislature authorized 21 peace officers to patrol the grounds. A year later, a 14-foot fence was constructed around that portion of the hospital housing the mentally disordered offenders.

In the 1981–82 budget, the administration requested, and the Legislature authorized: (1) construction of a road around the offender-occupied area so that peace officers could control the perimeter, (2) installation of three feet of mesh on top of the 1975 fence around the primary offender-occupied area, (3) procurement of a TV camera monitoring system to scan the grounds, and (4) 3.2 additional peace officer positions to staff the monitoring system. The additional staff positions have been filled. However, despite the fact that funds for the security improvements have been available since July, the security improvements were not started until December. The road and fence improvements are expected to be completed by February. The completion date for the TV system is unknown.

Section 28 Request. Even though the modifications approved by the Legislature had not yet been fully implemented, the administration in December determined that additional security measures were required for Patton. On December 30, 1981, the Director of Finance requested that the Chairman of the Joint Legislative Budget Committee waive the 30-day waiting period required by Section 28 of the Budget Act of 1981 so that the Department of Mental Health could immediately (1) establish 11.6 hospital peace officer positions, using $158,545 redirected from funds appropriated in Item 444-101-001 for state hospital services to county mental health patients, and (2) install a new key/lock system and a 12-foot fence, using $433,000 redirected from funds appropriated in Item 444-301-036 for preparation of working drawings for an air conditioning project at Atascadero State Hospital.

On January 14, before the Chairman had responded to the Director's request, the Legislature passed Ch 9/82 (AB 2385) which assigned responsibility for the security of patients at Patton to the Department of Corrections and transferred 27 correctional officers to the hospital. Although the Governor had not yet taken action on the bill, the Department of Corrections transferred the correctional officers to Patton on January 14. The bill was signed by the Governor on January 27 and chaptered on January 28.

Because (1) it was uncertain which department would be responsible for Patton security, pending the Governor's action on AB 2385, and (2) correctional officers were already patrolling the hospital, the Chairman denied that portion of the waiver request pertaining to the 11.6 new peace officer positions on January 19. With respect to the other proposed expenditures covered by the waiver request, the Chairman took the following action: (1) he approved the waiver for replacement of the fence, contingent upon the Departments of Finance and Mental Health reevaluating the design and cost, and (2) he approved the waiver to replace the key/lock system, but only in the areas housing judicially committed patients. Finally, he recommended that the Director of Finance use the emergency fund to finance the modifications instead of redirecting funds appropriated for an air conditioning project at Atascadero.

In addition to reviewing the specific expenditures proposed in the waiver request, the Chairman also recommended that the Departments of

DEPARTMENT OF MENTAL HEALTH—Continued

Mental Health and Corrections submit to the fiscal committees by April 15 the following additional information on the security problems caused by judicial commitments:

(1) An explanation of the measures that the departments would take to address the numerous deficiencies in security procedures at Patton which had been identified by an interagency task force in a report released on December 10, 1981.

(2) An assessment of the security requirements at Napa State Hospital, as well as any other state hospital experiencing an increase in the number of judicial commitments.

Budget-Year Request. In its 1982–83 budget, the Department of Mental Health requests: (1) $317,000 to continue the 11.6 positions covered by the Section 28 waiver request, (2) $744,000 to fence another group of buildings at the hospital and make other security modifications, and (3) $303,000 to support an additional 10.4 peace officer positions for the new secure area.

We withhold recommendation on the department's request for the following reasons:

(1) The department may no longer need the 22 requested peace officer positions, because the Department of Corrections is now responsible for security at Patton.

(2) The department's proposal to secure another portion of the hospital may not be appropriate for the population the facility will house in the future. As we noted above in our discussion of the phase-out of the mentally disordered sex offender program, Ch 928/81 requires the Health and Welfare Agency and the Youth and Adult Correctional Agency to submit a report to the Legislature by April 1 which recommends how hospitals affected by the phase-out of the mentally disordered sex offender population should be used in the future. Patton will clearly be one of the hospitals affected by the phase-out. Thus, the population which Patton will house in the future will not be known until the Legislature takes action on the recommendations contained in the Chapter 928 report.

We recommend that the department submit to the fiscal committees (1) a revised estimate of the department's staffing and capital outlay needs in the light of passage of Ch 9/82 and (2) an assessment of the impact on the department's budget request of the Chapter 928 task force recommendations on the future use of Patton State Hospital.

3. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $514,121,000 from the General Fund for assistance to local mental health programs in 1982–83. This is an increase of $20,285,000, or 4.1 percent, over estimated current-year expenditures. Total proposed expenditures in 1982–83, including reimbursements and federal funds, are $569,192,000, which is $34,538,000, or 6.4 percent, above estimated current-year expenditures. Table 8 displays local assistance expenditures and funding sources for the past, current, and budget years.

Of the $514,121,000 requested from the General Fund to provide local assistance to county programs, $138,669,000, or 27 percent, is budgeted to support county mental health patients receiving state hospital services. We discuss the budget request for the state hospitals on page 961.

The General Fund amount budgeted for local mental health programs, excluding state hospitals, is $375,452,000, which is $17,601,000, or 4.9 per-

Table 8
Department of Mental Health Local Assistance
Expenditures and Funding Sources
1980–81 through 1982–83
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
State hospitals					
General Fund	$132,863	$136,012	$138,669	$2,657	2.0%
Local programs					
General Fund	$348,683	$357,851	$375,452	$17,601	4.9%
Reimbursements	67,172	40,791	40,791	—	—
Federal funds	45	—	14,280[a]	14,280[a]	N/A
Subtotals	$415,900	$398,642	$430,523	$31,881	8.0%
Local assistance total					
General Fund	$481,546	$493,863	$514,121	$20,258	4.1%
Reimbursements	67,172	40,791	40,791	—	—
Federal funds	45	—	14,280[a]	14,280[a]	N/A
Totals	$548,763	$534,654	$569,192	$34,538	6.4%

[a] Estimated share of the federal Alcohol, Drug Abuse, and Mental Health block grant.

cent, above estimated current-year expenditures of $357,851,000. Table 9 displays local program expenditures from all sources for the past, current, and budget years.

Table 9
Local Mental Health Programs (Excluding State Hospitals)
Expenditures and Funding Sources
1980–81 through 1982–83
(in thousands)

	Actual 1980–81	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
General Fund					
Prevention contracts	$816	$818	$818	—	—
County programs	347,572	356,719	357,052	$333	0.1%
Local mandates	295	314	314	—	—
Cost-of-living adjustment	—	—	17,268	17,268	N/A
Subtotals	$348,683	$357,851	$375,452	$17,601	4.9%
Federal funds	45	—	14,280[a]	14,280[a]	N/A
Reimbursements	67,172	40,791	40,791	—	—
Totals	$415,900	$398,642	$430,523	$31,881	8.0%

[a] Estimated share of the federal Alcohol, Drug Abuse, and Mental Health block grant.

Table 10 shows the proposed adjustments to estimated current-year expenditures.

Alcohol, Drug Abuse, and Mental Health Block Grant

The federal Omnibus Budget Reconciliation Act of 1981 consolidated a number of federal categorical grants programs into block grants which are to be administered by the states. One of the categorical programs consolidated was the Community Mental Health Centers program established under the Community Mental Health Centers Act. Funding for the community mental health centers was consolidated with four categorical sub-

DEPARTMENT OF MENTAL HEALTH—Continued

Table 10
Local Mental Health
Proposed Budget Changes

	General Fund	*All Funds*
Adjusted base budget, 1981–82	$357,852,000	$398,643,000
Baseline adjustments:		
Personnel services		
Staff benefits and merit salary adjustments	123,000	123,000
Operating expenses		
Price increase	378,000	378,000
One-time adjustments:		
Budget Act of 1981, Item 444-490: reappropriation for local programs	−4,900,000	−4,900,000
Chapter 1194, Statutes of 1979: case management	−500,000	−500,000
Cost-of-living adjustment for local programs	17,268,000	17,268,000
Federal block grant	—	14,280,000
Budget change proposals:		
Placement of mentally ill children	5,311,000	5,311,000
Citizens advisory council	−80,000	−80,000
Total budget changes	$17,600,000	$31,880,000
Proposed budget, 1982–83	$375,452,000	$430,523,000

stance abuse programs to create the alcohol, drug abuse, and mental health (ADAMH) block grant.

Funding Authorized by the Reconciliation Act

The reconciliation act authorized nationwide funding levels for the ADAMH block grant as follows:

- Federal fiscal year 1982 (FFY 82): $491 million
- FFY 83: $511 million
- FFY 84: $532 million

In contrast, the amount appropriated in FFY 81 for the five categorical programs was $548.6 million.

Funds actually appropriated for the block grant will probably be less than the authorized levels set by the reconciliation act. At the time this analysis was prepared, the appropriation for FFY 82 still had not been established, although Congress had passed a continuing resolution which provided funds through March 31, 1982. If Congress appropriates funds for FFY 82 at a level consistent with what has been appropriated for the period through March, the funding level for the year would be $428 million.

Reconciliation Act Provisions

The reconciliation act includes the following specific provisions regarding the alcohol, drug abuse, and mental health block grant.

Allocation to States. For FFY 82, funds will be allocated to states based on the amounts received under the categorical programs in FFY 81 for mental health and FFY 80 for substance abuse (alcohol and drugs). The measure requires the U.S. Department of Health and Human Services (DHHS) Secretary to develop a formula for allocation of funds in the future, and to submit a report on the formula to Congress by June 1982.

Maintenance of Effort. Federal funds may not be used to replace existing state, local, or other nonfederal funds.

Application Process. States must submit plans for using the funds and hold public hearings. States are required to assure that funds will be distributed based on the need for services. Beginning in FFY 83, states must report on their progress towards meeting objectives established in the previous fiscal year.

Use of Funds. In any fiscal year, up to 7 percent of the funds appropriated can be transferred to the maternal and child health, preventive health, or primary care programs; and up to 10 percent can be used by the state to cover administrative costs. Of the funds remaining, 100 percent must be used in FFY 82 for specified mental health and substance abuse services, 95 percent must be so used in FFY 83, and in FFY 84 the percentage drops to 85.

Restrictions. Funds may not be used for capital outlay, cash grants, inpatient services, or match for other federal funds. Mental health funds must be used to support community mental health centers.

Transition. A state may assume responsibility for administering the block grant programs at the beginning of any quarter in FFY 82. A state, however, must assume responsibility for the program by October 1, 1982, or its share of the funds will be reallocated to other states.

Block Grant Information Needed

We recommend that the Department of Finance provide to the fiscal committees by March 15 the information required by Ch 1186/81, including (1) a description of the clients and programs affected by the alcohol, drug abuse, and mental health block grant, (2) information documenting the assumptions used in estimating the funding level for 1982–83, and (3) a proposal for administering the block grant. We further recommend that the department (1) provide an expenditure plan for use of the funds and (2) include in its proposal for administering the block grants an analysis of staffing requirements.

Requirements of Chapter 1186, Statutes of 1981. Chapter 1186, Statutes of 1981, requires the state to assume administrative responsibility for the ADAMH block grant no sooner than July 1, 1982. In addition it:

(1) Requires the Governor to submit as part of the 1982–83 budget (a) a description of the programs and clients affected by consolidation of the categorical programs, (b) data on the block grant funding level estimated for 1982–83, and (c) a proposal for the administration and organization of each program.

(2) Establishes a block grant advisory committee to prepare recommendations by February 1, 1982, on numerous issues concerning administration of all block grant funds, including (a) proposed use of funds, (b) method of allocating funds, and (c) integration of the block grant programs with existing state and local programs.

Budget Proposal. The budget proposes that the state will assume responsibility for the ADAMH block grant on October 1, 1982. The budget estimates that, in the budget year, California will receive $47,017,000 for the ADAMH block grant, of which $32,737,000 would be for substance abuse programs and $14,280,000 would be for mental health programs. (We discuss the substance abuse portion of the block grant in our analysis of the Department of Alcohol and Drug Programs (Item 4200).) The budget proposes to spend 10 percent, or $1,428,000 of the $14,280,000 in

DEPARTMENT OF MENTAL HEALTH—Continued

block grant funds anticipated for mental health programs on administration.

Our analysis indicates that the budget fails to provide the information required by Chapter 1186. Specifically:

1. The budget fails to include any information on the clients and programs affected by the consolidation of the Community Mental Health Centers program into the ADAMH block grant.
2. The administration cannot provide backup information demonstrating how the estimate of $14,280,000 was made.
3. The budget does not include a proposal for administering the program. Instead, the budget states that information on the funding level proposed for administration will be provided prior to budget hearings.

Because California has not participated in the administration of community mental health centers in past years, we believe that careful planning is essential before the state assumes responsibility for the ADAMH block grant. Consequently, we recommend that by March 15, 1982, the Department of Finance provide the fiscal committees with (1) a description of the impact that block grant funding is expected to have on the community mental health centers, (2) additional information documenting the assumptions used in estimating the block grant funding level for 1982–83, and (3) a proposal for administering the block grant, as Chapter 1186 requires. We recommend that the department include with its proposal for administering the block grants (1) an expenditure plan for use of the funds, including a description of the method which will be used to allocate the funds, and (2) an analysis of staffing requirements by function.

Other Local Program Issues

County Share of Mental Health Costs

Chapter 133, Statutes of 1981 (AB 250), revised provisions of law which established state and county responsibilities for funding county mental health programs. First, the measure reinstated the requirement that counties fund 10 percent of the net cost of county mental health programs. After passage of Proposition 13, the Legislature had waived the local share requirement through July 1, 1983. Chapter 133 provided that the Director of the Department of Mental Health could waive the 10 percent match requirement if a county's board of supervisors requested the waiver after holding public hearings to review the impact that waiver of the local share requirement would have on the county programs. Second, Chapter 133 increased the local match required for local acute hospital inpatient services and state hospital services, from 10 percent of the net cost of the program to 15 percent. Third, the measure waived the match requirement for counties with less than 100,000 population except for local acute hospital inpatient services and state hospital services.

Short-Doyle/Medi-Cal

The budget assumes that county mental health programs will receive $40,791,000 in federal funds through the Short-Doyle/Medi-Cal program.

Since 1971, Medi-Cal funds have been included as part of the allocation for local mental health programs. The General Fund share of Medi-Cal is appropriated to the Department of Mental Health. The federal fund share, however, is appropriated to the Department of Health Services. To obtain the federal share of the allocation, counties must bill the Department of Mental Health, which bills the Department of Health Services. The department's budget assumes that $40,791,000 in federal funds will be allocated to the counties for Short-Doyle/Medi-Cal in 1982–83.

For several years, the federal government has been examining the use of federal funds for local mental health programs. Federal officials, as well as staff in the Department of Health Services, have raised a number of questions about the extent to which use of federal funds in these programs complies with federal Medicaid law and regulations. Because these issues have not been resolved (1) the federal government has been withholding a portion of the funds requested for Short-Doyle/Medi-Cal from the advances it provides to the Department of Health Services and (2) the Department of Health Services has been refusing payment for a portion of the claims submitted to it by the Department of Mental Health.

At the time this analysis was written, the Department of Mental Health had not been reimbursed by the Department of Health Services for $18.1 million claimed for services provided in 1979–80, $38 million for services provided in 1980–81, and $19 million for services provided in the current year.

The Department of Mental Health may be unable to resolve the problems which have caused the federal Department of Health and Human Services and the Department of Health Services to refuse reimbursement. The department has informed the counties that if Medi-Cal funds do not become available to the department to pay the claims, the counties would be liable for the costs. Thus the counties may never receive full payment for services which they have provided.

In any event, given the problems that the Short-Doyle/Medi-Cal program is experiencing, it is unlikely that county programs will receive $41 million in federal Medi-Cal funds during 1982–83, as the budget assumes.

Amount Available to Augment Local Programs in the Current Year Unknown

The Administration's Proposal for 1981–82. In the budget submitted in January 1981, the department proposed an augmentation of $20.1 million tc expand local mental health programs. The $20.1 million consisted of the following amounts: (1) $13.7 million in state hospital savings, (2) $4.6 million in 1980–81 local program savings which was proposed for reappropriation, and (3) $1.8 million in new funds. In the May budget revision, the department proposed to redirect $3.8 million of the state hospital savings to fund increased costs in state hospitals resulting from the increasing number of judicial commitments, thereby reducing the amount which would be available to augment local programs from $13.7 million to $9.9 million. This reduced the total proposed local program augmentation to $16.3 million.

Action by the Legislature. The Legislature approved the department's revised augmentation proposal. In addition, the Legislature reappropriated $3.3 million in 1980–81 funds on the basis of testimony by department representatives that counties would save that much more than had been originally anticipated in 1980–81. Table 11 displays the sources of funding for the local program augmentation, as proposed in January and May, and as approved by the Legislature.

In addition to appropriating additional funds for local programs, the Legislature adopted Budget Act language specifying how the funds should be spent. Table 12 details the expenditures authorized by the Legislature.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 11
Change in Funding Sources for 1981–82
Augmentation for County Programs
(in thousands)

Source of Funding	*January Proposal*	*May Proposal*	*Legislature's Action*
State hospital savings	$13,700	$9,900	$9,900
Local program savings	4,600	4,600	7,900
New funds	1,800	1,800	1,800
Totals	$20,100	$16,300	$19,600

Table 12
Expenditures Authorized by the Legislature
From 1981–82 Augmentation Funds
(in thousands)

Program	*Amount*
Short-Doyle/Medi-Cal patch	$6,400
Additional performance contracts	5,700
Augmentation for Los Angeles County	2,300
Housing projects	125
Health training centers	500
Allocation for equity funding	3,625
Funds reserved for legislation	95
Total	$19,600

Only $5.1 Million of $19.6 Million Has Been Allocated to Date. The department has allocated approximately $5.1 million of the $19.6 million provided to expand local programs in the current year. Specifically, it has allocated $500,000 of the $1.8 million in new funds to the health training centers (discussed earlier), and $4.6 million of the $7.9 million reappropriation for "patch" programs (discussed below). One of the reasons why the department has not allocated a greater portion of the funds is that it is not certain how much will be available from state hospital and local program savings.

State Hospital Savings Uncertain. The department expects to obtain hospital savings as certain counties reduce their use of state hospitals. These counties signed contracts with the department which require them to reduce their use of state hospitals by a specified number of beds in exchange for state funding of new county-based programs for the mentally ill. Some counties have not been reducing their use of state hospital beds as required by the contract, thus imperiling the savings anticipated in the state hospital budgets. In fact, Los Angeles County, which agreed to reduce its use by 200 beds, has attempted to obtain court orders preventing the department from reducing L.A.'s access to the state hospitals.

The department indicates that funds will be available to support the new county projects authorized by the 1981 Budget Act even if a county has not achieved the required bed reductions, because it intends to reduce the county's allocation for local programs by an amount equal to the hospital savings for which the county is responsible but could not achieve.

Local Program Savings Uncertain. In the 1981 Budget Act, the Legislature reappropriated (1) $3 million in 1979–80 savings which had been reappropriated by Control Section 10.22 of the 1980 Budget Act and (2)

$4.9 million in 1980–81 savings. The actual amount of savings that can be realized from these two sources was not known at the time the Legislature took these actions because a number of counties had not submitted final claims for 1979–80 and 1980–81. Recognizing this, the Legislature (1) required counties to submit 1979–80 claims by October 1, 1981, and 1980–81 claims by March 1, 1982, and (2) authorized the department to obligate the $7.9 million only if it could demonstrate that the funds were available.

At the time this analysis was written, the department had determined that $4.6 of the $4.9 million from 1980–81 savings is available for expenditure, and had allocated these funds for patch programs. It had not determined if the remaining funds from 1980–81 and the funds from 1979–80 will be available. For these reasons, we do not know how much of the $19.6 million budgeted for new or expanded local programs will actually be made available for this purpose. Nor do we know how much of whatever augmentation is provided will be offset by reductions in the regular mental health allocations to individual counties. This makes it difficult for the Legislature to assess funding needs for 1982–83.

Continuation of Current-Year Projects

We recommend that the department advise the fiscal committees prior to budget hearings which current-year projects authorized by the Legislature will not be funded in the budget year.

The budget proposes $12,490,000 to continue the local program augmentation provided in the current year. Specifically, the budget proposes to continue funds from (1) hospital savings at a level of $10.6 million ($9.9 million plus a cost-of-living adjustment), and (2) the new funds included in the 1981 budget at a level of $1,890,000 ($1.8 million plus a cost-of-living adjustment).

Our analysis indicates that funds authorized for the health training centers and the funds reserved for legislation are one-time expenditures and would not require continued support in 1982–83. We estimate that to provide support for all projects with ongoing funding needs that were authorized by the Legislature for 1981–82, $18,150,000 would be needed in the budget year, or $5,660,000 more than the $12,490,000 proposed by the budget.

We recommend that the department report to the fiscal committees prior to budget hearings as to which projects authorized by the 1981 Budget Act will not be funded in 1982–83.

Patch Programs

We recommend (1) transfer of $6.4 million from Item 4440-101-001(e) to 4440-101-001(b) to fund "patch" programs in 1982–83, (2) adoption of Budget Bill language authorizing the department to spend the funds only if federal funds are not available, and (3) deletion of Budget Bill language in Item 4440-101-001 authorizing the department to transfer $6.4 million from the state hospitals to fund "patch" programs.

The budget states that $10.6 million of the funds budgeted to support the state hospitals will be transferred to county mental health programs in 1982–83. The funds will become available as counties reduce their use of state hospitals and the state hospitals, therefore, experience savings. These are the same funds, adjusted for inflation, which were identified in the 1981–82 budget for transfer to local programs. At the time this analysis was prepared, none of the funds from state hospital savings had been transferred to local programs.

DEPARTMENT OF MENTAL HEALTH—Continued

The department proposes Budget Bill language which would require the Department of Mental Health to transfer up to $6.4 million from the state hospitals' appropriation to fund patch programs in 1982–83. Department staff indicate that the department's intent is to fund the patch programs in the budget year from the $10.6 million set aside in the state hospitals for transfer to county programs.

Patch Programs. Prior to 1980–81, a number of local programs received federal funds through the Medi-Cal program to provide mental health services to residents of skilled nursing, intermediate care, and residential facilities *at their place of residence.* These additional services are called "patch" services. In the fall of 1980, the U.S. Department of Health and Human Services (DHHS) determined that because regulations do not authorize Medi-Cal reimbursement for programs designed to provide mental health treatment at a client's place of residence, reimbursement for these services was inappropriate. Since that time, the Department of Health Services, which administers the Medi-Cal program, has not reimbursed counties for "patch" services. The Department of Mental Health, the Health and Welfare Agency, and the Department of Finance do not agree with DHHS's interpretation of the regulations, and these departments have been attempting to obtain a reversal of the policy since 1980.

The General Fund has supported the patch programs since the Department of Health Services ceased reimbursing claims for patch services in 1980. Claims submitted in 1980–81 were paid with funds redirected from General Fund appropriations for local mental health programs.

The Governor's Budget for 1981–82 did not include General Fund support for the patch programs. The 1981 Budget Act, however, made General Fund support available for the programs through control language which authorized the Department of Mental Health to use up to $6.4 million of the $7.9 million in reappropriated funds for patch services if federal funds did not become available.

The 1982–83 budget proposes to continue to fund patch programs at the level of $6.4 million. Funding for these programs, however, would come from state hospital savings, rather than from reappropriations or new funds. Total projected state hospital savings are $10.6 million in 1982–83. Thus, this proposal leaves $4.2 million in the state hospitals' budget available for transfer to county programs.

We believe that the Legislature intended to provide ongoing General Fund support to the patch programs when it adopted 1981 Budget Act language which identified funds and directed the department to support the programs in 1981–82. Accordingly, we believe it is appropriate to provide continued General Fund support for the programs in 1982–83 if federal funds do not become available.

We see no reason, however, for budgeting these funds in the state hospitals item when they will support local program expenditures for patch services. Consequently, we recommend (1) transfer of $6.4 million from Item 4440-101-001 (e) to 4440-101-001 (b), (2) deletion of the language included in the Budget Bill which authorizes transfer of state hospital funds to support patch programs, and (3) adoption of the following Budget Act language authorizing the department to spend the funds only if federal funds are not made available in 1982–83:

"The department may allocate $6.4 million from the General Fund to support patch programs only to the extent that federal funds are not available for the programs in 1982–83. In the event that federal funds do become available, the department shall revert the $6.4 million to the General Fund."

State Hospital Savings

We recommend deletion of $4.2 million from Item 4440-101-001(e) because the department does not have an expenditure plan for the funds.

Traditionally, state hospital savings attributable to the decreased use of state hospitals by the counties have been set aside in the state hospitals' budget for transfer to county mental health programs. The Legislature has approved this action through the Budget Act by approving the amount set aside for transfer when it appropriates funds for the state hospitals. There is no statutory authorization to do this.

Our analysis has identified two problems which result from this practice.

The department frequently uses the savings to fund projects of high department priority instead of transferring the funds to the counties. In 1978–79, for example, $7,600,000 in state hospital savings associated with a decline in the number of county clients was used to cover the increased costs of judicially committed clients. In 1979–80, the department reallocated $1,900,000 in savings to fund the 10 percent local match for services provided by the Office of Mental Health Social Services. Also, in a Section 28 waiver request submitted to the Joint Legislative Budget Committee on December 30, 1981, the department proposed to fund 11.6 peace officer positions for Patton State Hospital from the savings identified for transfer to county programs.

The department rarely develops specific expenditure plans for the funds. Historically, the budget does not describe how funds transferred to the counties will be used. The 1982–83 budget is typical in this respect. It proposes to allocate $6.4 million of the $10.6 million projected savings to fund Short-Doyle "patch" programs. No expenditure plans for the remaining $4.2 million, however, have been presented.

We believe that the practice of requesting funds for support of the state hospitals that will not be needed because of anticipated "hospital savings" should be discontinued. This method of providing funds for local programs is unreliable, and maximizes the department's flexibility at the expense of legislative control and priority-setting. Any savings anticipated in the hospitals' operating costs should remain in the General Fund, and any additional funding for county programs that the Legislature believes is justified should be included in funds budgeted for local programs. Because the department has not justified the need for the $4.2 million in state hospital savings which remain in Item 4440-101-001(e) after transfer of $6.4 million for patch programs, we recommend that these funds be deleted.

1981–82 Augmentation Funds

We recommend deletion of $1,890,000 from Item 4440-101-001(b) because the department has not provided an expenditure plan for the funds.

As discussed above, the department has allocated only $500,000 of the $1.8 million in new funds budgeted in the current year for new programs. The $500,000 has been allocated to counties for purchase of training services from the health training centers. At the time this analysis was prepared, an expenditure plan for the remaining $1.3 million had not been established, despite the fact that only five months remain in the fiscal year.

DEPARTMENT OF MENTAL HEALTH—Continued

The budget for 1982–83 includes these funds, adjusted for inflation ($1,890,000). Once again, it has not indicated how any of the funds will be spent in the budget year. The department indicates, however, that it does *not* propose to continue funding the training centers from this source. The current-year funds were intended to provide interim funding for the centers while they develop other funding sources.

We are unable to substantiate the need for the funds in the budget year in the absence of an expenditure plan. Consequently, we recommend deletion of $1,890,000 from Item 4440-101-001(b).

County Claims

We recommend adoption of Budget Bill language in Item 4440-101-001 prohibiting the department from reimbursing county claims which are submitted more than two months after the month in which services were provided.

Existing law requires counties to submit their reimbursement claims to the Department of Mental Health "within 30 days after the close of the period for which such reimbursement is sought." The department has established the reimbursement period as the month of service. The law further permits the department director to extend the claims submission date by an additional 30 days if he finds that presenting the claim within 30 days would create a hardship for the county.

Most counties submit their claims within the time limits authorized by law. Some counties, however, have taken one to two years to submit claims. Because these counties fail to submit claims in a timely fashion, accurate and timely information on expenditures is not available to the Legislature, making it difficult for the Legislature to assess the need to continue funding for specific projects or the need for additional funds.

In recognition of this problem, the Legislature adopted language in the 1981 Budget Act which prohibited the department from paying claims for (1) services provided in 1979–80 if a claim is submitted after October 1, 1981, (2) services provided in 1980–81 if a claim is submitted after March 1, 1982, and (3) services provided in 1981–82 if the claim is submitted after six months from the date of service.

The 1982 Budget Bill does not contain any language which prohibits the department from paying claims submitted in an untimely manner. We recommend that the following language be added to Item 4440-101-001 to prohibit the department from paying claims submitted after the time period authorized by law:

> "Provided that the department shall reimburse county claims only if the claims are submitted within 60 days of the end of the month in which service was delivered."

Out-of-Home Placement for Children

We recommend that the Legislature appropriate the $5.3 million requested for out-of-home placement for children in a separate item of the Budget Bill to ensure that funds will not be diverted for other purposes.

The budget contains $5.3 million to fund out-of-home placements for mentally disabled children. In past years, out-of-home placements for mentally disabled children were fully funded by the Aid to Families with Dependent Children-Foster Care (AFDC-FC) program, regardless of whether the placement was mandated by a court. Chapter 409, Statutes of 1981, which became effective on January 1, 1982, limits to six months the time period for which AFDC-FC payments can be made on behalf of children in placement without court orders. Some mentally disordered children remain in these "voluntary" placements for longer than six months. The budget proposes to provide support from the General Fund for out-of-home placements exceeding six months so that mentally disabled children can remain in an out-of-home setting until treatment staff decide that it is appropriate for them to return home.

Funding Requirement Unknown. To determine the funding level required to replace the AFDC-FC funds no longer available to support voluntary out-of-home placements, the department estimated the number of children needing out-of-home placement for longer than six months, and the cost of placements per month. The estimates, based on data generated by the Department of Social Services (DSS) October 1979 Survey of Foster Care Services, assume that (1) 396 children per month will require General Fund support of $1,158 a month, for an annual cost of $5,504,432, and (2) the state will pay 95 percent of the costs, or $5,229,211, and counties will pay 5 percent, or $275,221.

We have the following problems with the department's estimate:

1. The amount requested in the budget, $5.3 million, is more than what the department estimates that it will need—$5,229,211.

2. The department's caseload and cost estimates are inconsistent with the numbers produced from the survey. Because DMH staff believed that the DSS data underestimated costs and caseload, the actual numbers DMH used in the estimate were negotiated between DSS and DMH by the Health and Welfare Agency.

3. Even if the department had used the DSS data, the estimate would not have been based on statistically valid data. Mentally disabled children are a small percentage (5.6 percent in October 1979) of the children in foster care. The DSS staff indicate that the sample number was not large enough to produce statistically valid data on the placements of mentally disabled children.

4. The department cost estimate is inaccurate for two additional reasons: (a) The department applied incorrect cost-of-living adjustments (COLAs) to the 1979–80 cost/month figure to obtain 1982–83 estimates. COLAs provided or proposed for foster care have been as follows: 1980–81—15.5 percent; 1981–82—9.2 percent; 1982–83—8.8 percent (proposed). Applying these COLAs to the $958/month which the department estimates was spent for foster care for mentally disabled children in 1979–80 would result in a cost/month of $1,315/month, versus the department's estimate of $1,158/month. (b) The department's estimate presumes that the cost-sharing ratio for mental health programs is 95 percent state/5 percent county. In fact, the ratio is 90 percent state/10 percent county.

Although our analysis indicates that the department's estimates are not based on objective, verifiable data, we do not believe that sufficient information is available to permit a more accurate estimate of the funding level needed for out-of-home care for mentally disabled children. Consequently, we recommend that the Legislature approve the department's funding request. We further recommend, however, that the funds be appropriated in a separate item so that they cannot be redirected to support other expenditures if the amount needed for out-of-home placement is less than the estimated amount.

DEPARTMENT OF MENTAL HEALTH—Continued

Contracts for Mental Health Promotion

We withhold recommendation on the $818,000 budgeted for mental health promotion contracts, pending receipt of (1) information on how funds were used in 1981–82 and (2) a proposal for how funds would be used in 1982–83.

The budget proposes $818,000 from the General Fund to fund mental health promotion contracts in 1982–83. This is the same amount appropriated in both 1980–81 and the current year. In past years, the department has spent the funds provided to promote mental health on a variety of projects, ranging from a media campaign to regular publication of a bulletin.

Information on Proposed Expenditures Not Available. On December 7, we requested that the department inform us how these funds were being spent in 1981–82, and how funds would be used in 1982–83. At the time this analysis was prepared, the department had not responded to our request for information. Department staff indicate that the department will not be able to inform the Legislature how funds will be used in 1982–83 until the Health and Welfare Agency reviews an evaluation of the media project to determine whether the project should be continued in the budget year.

Effective Prevention Programs Could Result in Significant Savings. California spends a considerable amount of public funds under the Short-Doyle, Medi-Cal, and SSI/SSP programs to care for people experiencing mental problems. The Office of Statewide Health Planning and Development estimates that in 1977–78, the state spent $1,059,000,000 from all sources on the mentally disabled. Clearly, supporting programs to *prevent* mental disorder, if they are effective, is sound public policy for both humanitarian and fiscal reasons. Experts do not agree, however, on which programs are successful in preventing mental disabilities. While many have theories on the best approach to prevention, there is little data which demonstrates the value of specific programs.

Effectiveness of the Department's Prevention Program Cannot be Determined. Department staff report that they do not intend to include an evaluation component in plans for expenditure of the contract funds in the budget year. Thus, the Legislature will again be asked to appropriate funds for the promotion project, largely on the basis of faith. Lacking objective data on program effectiveness, it is difficult for us to advise the Legislature what level of expenditures for this program is warranted.

Nevertheless, we believe that the department should provide the Legislature with an expenditure plan for the requested funds before additional amounts are appropriated for mental health promotion contracts in 1982–83. Consequently, we withhold recommendation on the $818,000 budgeted for contracts, pending submission of an expenditure plan for the funds.