STATE WATER RESOURCES CONTROL BOARD—Continued

We recognize that hazardous waste control is a high priority of the legislature. Nevertheless, we are unable to recommend approval of the board's request for site closure and maintenance activities for the following reasons.

- ***Uncertain implementation.*** The board's request assumes full-year implementation of the hazardous waste site closure and maintenance program. Based on the board's experience to date, full-year implementation is unlikely.
- ***Uncertain Workload.*** The board's review of site closure plans is dependent on DHS issuing hazardous site permits. DHS's schedule for issuing these permits has not been established.
- ***Fund Condition.*** The Hazardous Waste Control Account faces a potential deficit in 1983–84 (see discussion under Department of Health Services). If such a deficit materializes, the board may not receive as much money from the fund as it now anticipates.

For these reasons, we withhold recommendation on the $338,000 requested for site closure, pending receipt of additional information on the hazardous waste site closure and maintenance program.

We recommend that the board and the Department of Health Services explain why a joint work program has not been developed for the site closure and maintenance activities required by Chapter 90. The workplan should include (1) the date of implemention, (2) the number and types of plans to be reviewed, (3) the scope of work to be performed by each agency (4) justification for the expenditures and staffing levels proposed in the budget and (5) clarification of funding priorities for the Hazardous Waste Control Account.

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 1983–84	$3,212,000
Estimated 1982–83	3,587,000
Actual 1981–82	3,630,000
Requested decrease (excluding amount for salary increases) $375,000 (−10.5 percent)	
Total recommended reduction	None

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4100-001-890	State Council on Developmental Disabilities	Federal Trust	$3,212,000
	—Support		(724,000)
	—Community Program Development		(955,000)
	—Allocation to Area Boards		(1,537,000)
	—Reimbursements		(−4,000)
4110-001-001	Area Boards on Developmental Disabilities	Reimbursements	—

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, monitoring, and evaluating the service delivery system for persons with developmental disabilities.

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

The state council and area boards are authorized 55.5 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $3,212,000 from federal funds for support of the state council and area boards in 1982–83. This is a reduction of $375,000, or 10 percent, below estimated current-year expenditures. The decrease reflects the deletion of one-time federal funding for (1) an ethnic minority parent education project ($115,000) and (2) state council and area board operating expenses ($342,000). If these one-time expenditures are deducted from current-year expenditures, the level of funding proposed in the budget represents an increase of $82,000, or 2.6 percent.

The proposed budget is based on federal funding levels contained in the latest continuing resolution for federal fiscal year 1983. The amount of federal funds available to the state in 1983–84 may change if Congress takes further action on the 1983 budget.

Table 1 displays how the budget proposes to allocate federal funds to the state council, area boards, and the Program Development Fund.

Table 1

Allocation of Federal Developmental Disabilities Funds
(in thousands)

	Estimated 1982–83		*Proposed 1983–84*		*Percent*
	Amount	*Percent*	*Amount*	*Percent*	*Change*
State council	$747	20.8%	$724	22.5%	−3.1%
Area boards	1,868	51.9	1,537	47.8	−17.7
Program development	981	27.3	955	29.7	−2.7
Subtotals	$3,596	100.0%	$3,216	100.0%	−10.6%
Less: reimbursements	−9		−4		−55.6
Totals	$3,587		$3,212		−10.5%

The budget proposes a total of 52 positions for these programs in 1983–84, including 13 for the state council and 39 for the area boards. This is a reduction of 3.5 positions from the current year.

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

EVALUATION OF STATE COUNCIL AND AREA BOARDS

The Lanterman Act requires the Legislative Analyst to conduct an evaluation every three years of the costs and effectiveness of the council and area boards. To assess the council's performance, we met with selected members and staff and reviewed the state plan, council meeting minutes, newsletters, and reports. To assess the area boards' performance, we met with staff of the area boards and committee members of the Organization of Area Boards, visited area boards, attended board meetings, and reviewed annual activity reports of individual boards for 1978 through 1981.

One significant problem we encountered in conducting our assessment is that the Lanterman Act does not state precisely the objectives or intended consequences of the activities of either the council or the area boards. Thus, the effectiveness of these agencies in accomplishing legislative objectives cannot be determined analytically.

In the following sections, we (1) discuss the costs incurred by the council and area boards in recent years and (2) identify activities carried out by the council and area boards. Wherever possible, we have attempted to point out significant problems or areas of noncompliance on the part of either the council or the boards.

A. STATE COUNCIL AND AREA BOARD EXPENDITURES

During the five-year period 1979–80 to 1983–84, expenditures by the state council and area boards have fluctuated sharply, primarily due to fluctuations in the amount of federal funds allocated to the state. For the period as a whole, state council expenditures have declined at an average annual rate of 0.4 percent. Meanwhile, area board expenditures have grown at an average annual rate of 6.2 percent. During this same period, total state expenditures have increased at an average annual rate of 6.6 percent. Expenditures by the council and the area boards are displayed in Table 2.

Table 2
State Council and Area Board Expenditures
Federal Funds

	State Council		*Area Boards*	
	Amount	*Change from Prior Year*	*Amount*	*Change from Prior Year*
1979–80	$825	—	$1,318	—
1980–81	881	6.7%	1,682	27.6%
1981–82	577	−34.5	1,454	−13.6
1982–83 (estimated)	747	29.5	1,868	28.5
1983–84 (proposed)	724	−3.1	1,537	−17.7
Average annual rate of change, 1979–80 to 1983–84		−0.4%		6.2%

Source: Governor's Budgets, 1980–81 through 1983–84.

B. STATE COUNCIL ACTIVITIES

Legislative Requirements

Chapter 1365 provides that the council shall:

1. Develop the California Developmental Disabilities State Plan every three years. The plan is intended to coordinate the planning and budgeting activities of those state agencies providing services to developmentally disabled persons and to satisfy federal requirements. Existing law specifically requires administrative agencies to review the plan "prior to making an appropriation or allocating any state or federal funds for new or major expansions of programs or facilities to determine if the proposed expenditure is consistent with priorities approved in the plan." The council is also responsible for monitoring and evaluating the plan's implementation.
2. Review and comment on the proposed plans and budgets of other state agencies serving the developmentally disabled. This responsibility includes advising policy and fiscal committees of the Legislature.
3. Monitor and evaluate the implementation of the Lanterman Act and report any delay in its implementation to the Governor and the Legislature.

1. Planning and Coordination

Planning. The council's current plan is superior to the previous plan in terms of describing the service system, outlining local area needs, determining needs of the service network, and defining realistic objectives to address those needs. The plan, however, does not provide detail on the programs and budgets of state agencies serving developmentally disabled persons. Consequently, the usefulness of the plan to state agencies involved in developing policy and programs is limited. We believe it would be difficult for the council to expand the plan to include such detail. Most agencies, other than the Department of Developmental Services, do not differentiate programs and expenditures for developmentally disabled clients from programs and expenditures serving other clients. In addition, because there are 12 major state agencies that provide services to developmentally disabled persons, it is unlikely that the council could, within current staffing and funding levels, develop the detail necessary to fully comply with the requirements.

Coordination. The council coordinates the allocation of resources for services to the developmentally disabled by reviewing related agency budgets and advising the Legislature and the Governor of its findings and conclusions.

2. Monitoring and Evaluation

Monitoring. The council monitors the implementation of the Lanterman Act by reviewing the activities of major state agencies affecting persons with developmental disabilities and by conducting studies of various aspects of the service system. For example, the council has commented on regulations proposed to implement Intermediate Care Facilities for the Developmentally Disabled-habilitative, home- and community-based services under the Title XIX waiver, as well as regulations covering special education programs required under federal law (PL 94-142). The council also has worked with the Department of Developmental Services to develop purchase-of-service guidelines for regional centers in 1982–83, and with the Department of Rehabilitation to redefine eligibility requirements for work activity centers. In addition to monitoring state agency

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

actions, the council has commissioned several studies assessing regional center activities, family support services, adult services, infant services, and alternative community living arrangements.

Evaluation. The council has not complied with Lanterman Act requirements to evaluate programs identified in the state plan. In the past, provisions of federal law required the council to describe, in the state plan, procedures used to evaluate the effectiveness of state programs in helping developmentally disabled persons live more independent, productive, and normal lives. In 1982 the federal government rescinded the evaluation requirement, because most states found it unduly burdensome to comply. The Lanterman Act, however, continues to require the evaluations. The council has not evaluated programs identified in the state plan, and it is not likely that the council can comply with this requirement given its current staff and funding levels.

C. AREA BOARD ACTIVITIES

Legislative Requirements

Chapter 1367 requires the area boards to:

1. Protect and advocate the rights of developmentally disabled persons. In order to fulfill this responsibility, area boards are authorized to review the policies and practices of publicly funded agencies serving persons with developmental disabilities. If the area boards find that such agencies are not meeting their obligations under local, state, or federal law, they are authorized to pursue legal, administrative, and other appropriate remedies to insure the protection of the legal, civil, and service rights of individuals.
2. Encourage the development of needed services for developmentally disabled persons.
3. Assist the council in the preparation of the state plan by submitting information concerning each area's services, needs, and priorities to the council as requested. Area boards are also authorized to develop an area plan which would provide "information about service needs, priorities, program objectives, and the availability and quality of programs for persons with developmental disabilities in the area."
4. Conduct public information programs for professional groups and the general public to eliminate barriers which prevent developmentally disabled persons from participating in community programs.

Performance Objectives

In 1982 the state council initiated a new process of setting performance objectives for each of the area boards. As part of the annual funding agreement with the council, the area boards are required to submit a minimum of three performance objectives addressing needs specific to their area. At least one objective is required in each of the following two categories: (1) advocacy and program review and (2) planning, coordination, and program development. The council reviews the area board's objectives to determine if they are consistent with system-wide priorities and to ensure that the objectives are attainable. Because 1982–83 is the first full year during which area boards will operate under the new process, it is not possible at this time to determine if the process will increase the effectiveness of area boards. It is reasonable to expect, however, that given

the broad responsibilities conferred upon area boards by the Lanterman Act, any procedure that focuses the boards' limited staff resources on attainable objectives will improve their effectiveness.

1. Protection and Advocacy

Individual area boards conduct protection and advocacy activities in various forms. A review of the 1981 area board activity reports indicates that most issues are resolved through discussion with the local agencies involved or through other administrative channels. Although the boards are authorized to pursue legal actions in order to maintain clients' rights, they resort to litigation as a remedy only infrequently.

Two significant court actions have been initiated by the area boards. On November 21, 1980, Area Boards I, V, and VI filed suit in Humboldt County Superior Court against David Loberg, Director of the Department of Developmental Services, for his alleged failure to establish an equitable system of reimbursement rates for providers of nonresidential services. On February 27, 1981, Area Boards I, V, and VI filed suit in Alameda County Superior Court against Governor Brown, et. al., alleging violation of clients' rights to treatment. Both cases are still under litigation.

As part of the protection and advocacy function, area boards are required to review the policies and practices of local public agencies serving developmentally disabled people. These local agencies include regional centers, school districts, mental health clinics, transportation agencies, and state hospitals. Generally, area board reviews of these agencies are prompted by consumer complaints; however, some reviews are initiated by an area board. A review of the area boards' activity reports for 1981 indicates that all area boards engage in these review and advocacy activities to assist developmentally disabled persons in gaining services from local agencies.

2. Program Development Function

The primary activity undertaken by area boards to encourage the development of needed services is the review of applications by local community organizations for Program Development Fund grants. In 1981 area boards reviewed 65 applications, of which 22 were approved and funded in the amount of $1,720,000 by the Department of Developmental Services. The area boards also assist the department in developing the request for proposals and soliciting proposals.

3. Planning and Coordination

To fulfill the planning requirement, area boards submit to the state council (1) a summary of client service needs by local agency, county, and catchment area and (2) a description of the process used to assess unmet needs. Some of the processes used by area boards to assess needs include conducting surveys, interviewing regional center case managers, reviewing regional center information, holding public meetings, and reviewing state hospitals' community placement lists.

Coordination activities of area boards include establishing community coordinating committees; coordinating planning activities with health systems agencies, the Department of Rehabilitation, and local transportation agencies; and conducting information-sharing activities with local services agencies.

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

4. Public Information

Area board activity reports indicate that they have undertaken a variety of public information activities. The most common of these activities are publishing and disseminating clients' rights handbooks, service directories, and newsletters, and conducting public relations campaigns (including press releases and radio advertisements), workshops, seminars, and professional conferences.

Health and Welfare Agency

EMERGENCY MEDICAL SERVICES AUTHORITY

Item 4120 from the General Fund — Budget p. HW 3

Requested 1983–84	$978,000
Estimated 1982–83	997,000
Actual 1981–82	921,000
Requested decrease (excluding amount for salary increases) $19,000 (−1.9 percent)	
Total recommended reduction	$13,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4120-001-001—Support		General	$978,000
4120-001-890—Support		Federal	(1,617,000)
Total			$978,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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 pre-hospital personnel classifications, including paramedics.

The authority is also responsible for (1) medical disaster planning, (2) administering a General Fund local assistance program for ongoing support of certain regional EMS agencies, and (3) administering federal funds provided to California as part of the preventive health block grant for the development of regional EMS systems. The authority has 14.1 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $978,000 from the General Fund for support of the authority's programs in 1983–84. This is a decrease of $19,000, or 1.9 percent, below estimated current-year expenditures. This decrease, however, makes no allowance for any salary or staff benefit increases that may be approved for the budget year.

The proposed appropriation from federal funds is $1,617,000, which is a decrease of $1.6 million, or 50 percent, below the current-year appropriation. The decrease, however, does not reflect a reduction in program level. Instead it reflects the fact that the 1982 Budget Act contains funds to support program expenditures in *two* years: 1982–83 and 1983–84. In contrast, the proposed budget contains funds to support program expenditures in only *one* year: 1984–85. Actual expenditures in each of these three years are expected to be about the same.

Personnel Reclassification Results in Savings

We recommend that the Legislature delete $13,000 from the authority's General Fund appropriation to recognize savings which will result from the reclassification of an existing physician position.

Current staffing for the EMS Authority includes two physician positions: the Director and the disaster medical services coordinator. During the current year, the authority plans to reclassify the disaster medical services coordinator position to a health program specialist I, which will result in a General Fund savings of $13,000. This savings is not reflected in the budget. Accordingly, we recommend that the General Fund appropriation be reduced by $13,000.

Federal Block Grant

The federal Omnibus Budget Reconciliation Act of 1981 consolidated a number of federal programs, including grants for EMS systems development, into a preventive health services block grant. The Legislature approved state assumption of administrative responsibility for the block grant beginning on July 1, 1982. The non-EMS programs included in the block grant are administered by the Department of Health Services.

The reconciliation act required any state that assumed responsibility for the block grant program in federal fiscal year 1982 (FFY 82) to continue funding existing eligible EMS agencies during the first year of the block grant. The reconciliation act does not, however, require states to fund EMS programs after the first year. To the extent states elect to fund EMS agencies with block grant funds, the act prohibits the use of these funds to pay for equipment or ongoing system operating costs.

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

The *Supplemental Report of the 1982 Budget Act* required the authority to make maximum use of the flexibility granted to the states by the reconciliation act. In response to that language, the authority has established a new funding category for special projects designed to improve regional services, including special training programs, in addition to grants for basic and advanced systems development.

Eliminate One Federally Funded Position

We recommend deletion of one position and $35,000 in federal funds because the developmental activities performed by this position will be complete after the state's first year of administering the block grant.

The 1982 Budget Act authorized 3.5 positions and $138,000 in federal funds to administer the EMS portion of the block grant. Based on documentation in the authority's 1982–83 budget request, the following one-time functions are being performed in the current year:

- Develop contract administration guidelines, procedures, and evaluation tools based on past federal criteria.
- Develop budgeting and accounting procedures.
- Develop needs assessment and criteria for funding decisions.

Our analysis indicates that because these initial development tasks will be completed during the current year, the staffing level for administering the block grant can be reduced from 3.5 positions to 2.5 positions in 1983–84. We therefore recommend the deletion of one associate governmental program analyst position, for a savings of $35,000 in federal funds.

Eliminate Forward Funding of Federal Block Grant Funds

We recommend deletion of $1,617,000 in federal funds requested to support 1984–85 expenditures, because appropriation of these funds in the 1983 Budget Act would reduce the Legislature's flexibility in setting 1984–85 spending priorities.

The federal EMS program had been operated on a forward-funded basis, under which funds appropriated in one federal fiscal year (October to September) are utilized to support local agency expenditures occurring in the last quarter of *that* fiscal year (July to September) and the first three quarters of the *next* fiscal year (October to June).

By accepting the federal block grant in July 1982, the state received federal funds sufficient to support the program during *two* fiscal years. Specifically, in July 1982, the state received $1,617,000 in federal fiscal year 1982 (FFY 82) EMS funds for expenditures occurring from July 1982 to June 1983. In October 1982, the state received an additional $1,617,000 in FFY 83 funds which could be used for EMS programs or for other preventive health services. The 1982 Budget Act appropriated the full amount of both grants: $1,617,000 for 1982–83 administrative and local assistance expenditures and $1,617,000 for these expenditures in 1983–84.

The budget proposes to continue forward funding of this program. Specifically, the budget proposes an appropriation of $1,617,000 for expenditure in 1984–85. This amount includes $143,000 for state operations and $1,474,000 for local assistance.

We recommend deletion of the $1,617,000 proposed for expenditure in 1984–85. While we acknowledge that EMS agencies would derive some benefit from knowing in advance how much they could expect to receive from the state in 1984–85, *so would all other recipients of state funds.*

There is nothing unique about EMS agencies that warrants favored treatment in this manner, yet we are aware of no state local assistance program, other than multi-year training programs, which receives funds one year in advance. Other programs, including those with local matching requirements, receive funds in the annual Budget Act to support activities occurring in that budget year.

More importantly, appropriating funds one year in advance of need reduces the Legislature's flexibility in allocating funds to meet its priorities and weakens its ability to respond when program needs change. If the $1,617,000 is not appropriated in the 1983 Budget Act, it will still be available for allocation next year. At that time, the Legislature might choose to allocate the full amount for EMS. It is also possible, however, that the Legislature might choose to use a portion of these funds for other preventive health services programs. We see no reason to protect the EMS program from legislative priority setting such as occurs when funding is guaranteed one year in advance.

Postponing the appropriation of these funds until 1984 would not create an inordinate hardship for local EMS agencies. Other programs typically negotiate and award contracts in April or May, contingent on the availability of funds in the Budget Act. We see no reason why the EMS Authority cannot use these same contracting procedures. In fact, the authority does not intend to award 1983–84 contracts until April or May 1983, even though the funds were appropriated and available in July 1982.

Establish Separate Item for Local Assistance

We recommend that the Legislature establish a separate Budget Bill item for the local assistance portion of the authority's appropriation, to more accurately reflect the character of the expenditures.

The budget for the EMS Authority requests $398,000 for aid to local agencies. This request, however, appears in the authority's *support* budget, Item 4120-001-001. These expenditures are more appropriately considered as local assistance. Accordingly, we recommend that a new item be established (Item 4120-101-001) in the amount of $398,000, and that Item 4120-001-001 be reduced by the same amount. This would (1) more accurately reflect the character of the proposed expenditure, (2) facilitate legislative oversight of the authority's budget, and (3) prevent the authority from redirecting funds intended for local agencies to pay for support staff and operating expenses.

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

Item 4130 from the Health and Welfare Data Center Revolving Fund — Budget p. HW 5

Requested 1983–84	$24,164,000
Estimated 1982–83	21,752,000
Actual 1981–82	16,059,000
Requested increase (excluding amount for salary increases) $2,412,000 (+11.1 percent)	
Total recommended reduction	$1,194,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Funding Shortfall. Reduce by $1,167,000.*** Recommend reduction to conform data center spending authorization with amounts allocated in customer agency budgets for data center services.	719
2. ***Printing Workload. Reduce by $180,000.*** Recommend reduction to reflect anticipated transfer of computer output printing workload to the Employment Development Department.	720
3. ***Pro Rata. Augment by $153,000.*** Recommend augmentation to provide sufficient funds to meet scheduled payment.	720

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 has 208.2 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $24,164,000 from the Health and Welfare Data Center Revolving Fund for support of the data center in 1983–84. This is an increase of $2,412,000, or 11 percent, over estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year. Most of the increase is needed to cover the full year cost of a new computing facility scheduled to begin operations in the current year.

Significant Budget Changes

Table 1 displays the primary components of the increase in the data center's budget for 1983–84.

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

Item	*Proposed Amount*
1. New computing facility	$1,747
2. New equipment dedicated to data center customers	321
3. Personal services	267
Total	$2,335

New Facility

The data center's staffing complement of approximately 200 positions currently is distributed at three locations in Sacramento. The computer facility is located at the Employment Development Department headquarters complex, while administration and customer services are located elsewhere. The data center plans to consolidate its activities in one location in May 1983. The new facility is a remodeled structure which will be leased under an arrangement that gives the state an option to purchase. It will provide the data center with 78,000 square feet of space, of which 35,000 square feet will be raised flooring for computer-related operations. The new facility will end the serious overcrowding situation which exists in the current computer complex. Further, under the terms of the lease, additional space may be added, as required.

The added cost of the new computer facility—about $1.7 million in 1983–84—may result in a general increase in data center rates. The amount of the increase, if any, will be determined in April 1983 when the data center completes its annual review of the rate schedule. The requirement for an increase may be alleviated, depending on the extent to which the projected increase in customer workload requirements can be met in 1983–84 using existing surplus computing capacity. If the excess capacity is adequate to meet customer needs, cost increases other than the $1.7 million will be minimized, while revenues will increase by the amount charged for the additional workload. The revenue increase would offset, at least partially, the cost of the new facility. Even if this offset does not materialize, data center management does not foresee a general rate increase in excess of five percent.

Funding Shortfall

We recommend a reduction of $1,167,000 in the data center's spending authorization in order to bring the data center's budget into conformance with the amount budgeted by the data center's customers.

The cost of the Health and Welfare Agency Data Center is fully reimbursed by the data center's customers. Consequently, the data center's annual budget is developed on the basis of (1) the amount of work it anticipates processing for each customer, and (2) the cost it expects to incur in processing this work. Customers typically budget separately for services to be provided by the data center, in the form of a line item in the operating expenses and equipment portion of their budget schedules.

Our review of the amount identified in the budget of each data center customer for payments to the data center indicates that the total amount budgeted for payment is $1,947,000 *less* than the amount of reimbursements anticipated by the data center. Part of this difference is due to inconsistent budgeting practices among the customer agencies, which results in some planned data center payments being included in other line items. Our review of customer budgets revealed that $780,000 of payments were budgeted in this manner. Consequently, the actual difference

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

between payments to and reimbursements received by the data center is $1,167,000. This difference has been verified by data center staff.

Accordingly, we recommend that the data center's spending authorization be reduced by $1,167,000, so as to conform its budget with the budgets of its customers.

Printing Costs Will be Reduced

We recommend a reduction of $180,000 and two personnel years budgeted in support of the data center's printing operation, because the installation of a new computer output printing system in the Employment Development Department will reduce the data center's printing workload.

The data center maintains an extensive printing operation to produce computer-generated reports, forms and listings for its customers. According to information provided by the data center in support of its budget request, the cost of the data center's printing operation has been budgeted at $169,000 per month for 1983–84.

The Employment Development Department (EDD), which accounts for about 38 percent of the data center's billings for all services, recently completed plans to acquire its own computer printing system in the current year, and intends to transfer some of the printing work now performed by the data center to its own system. These plans were approved by the Department of Finance on January 17, 1983.

We have been informed by EDD staff that the transfer of printing workload to its own facilities will reduce data center billings by $180,000 in 1983–84. The data center has informed us that this reduction will necessitate the release of some printing equipment and a reduction of at least two positions in staff associated with computer printing operations. For this reason, we recommend a reduction of $180,000 and two personnel-years.

State Pro Rata Underbudgeted

We recommend that the amount budgeted for central administrative cost be augmented by $153,000 to provide the total amount of the data center's required pro rata payment.

The cost of central administrative services which are supported from the General Fund, such as the State Personnel Board and the Department of Finance, is recovered by assessing state agencies a pro rata share of the cost. In this manner, special and federally-funded programs pay their "fair share" of the cost of administrative services. The Department of Finance annually determines each agency's pro rata share of central administrative costs, and the amount is transferred from agency budgets to the General Fund by the State Controller.

The data center's proposed budget allocates $529,000 for central administrative cost. A listing of all pro-rata assessments provided to our office by the Department of Finance in January 1983, however, identifies the data center's 1983–84 share of cental administrative cost as $682,000. The Department of Finance has advised us that the *higher* amount is the payment that *will be* collected from the data center for the budget year. As the data center's budget does not provide for this payment, it will have to make up the difference—$153,000—by redirecting funds budgeted for other purposes. To avoid this redirection, we recommend that the amount

budgeted for central administrative cost be augmented by $153,000.

Reports Submitted

In approving the data center's budget for 1982–83, the Legislature adopted supplemental report language requiring the data center to (1) determine the feasibility of installing "mass storage" equipment to reduce data storage costs, (2) evaluate alternative methods of charging for services to determine the method which would result in the most cost-effective use of available computing capacity, and (3) report its findings to the Legislature by December 1, 1982 and November 1, 1982, respectively. Both reports have been submitted by the data center in accordance with these reporting requirements.

The Legislature requested these reports as a result of (1) continued significant increases in the data center's storage and handling costs (estimated at approximately $380,000 per month for 1983–84) and (2) the fact the data center's method of charging for services appeared to have the effect of encouraging a more rapid expansion of the data center's equipment capacity than was necessary.

The report on data storage systems indicates that continued advances in magnetic rotating disk technology will, from the data center's perspective, offer a more cost-effective storage alternative than mass storage systems. Consequently, the data center is focusing its efforts on replacing its current inventory of disk storage devices with the newer disk technology. Our review of the data center's report on alternative data storage systems indicates that it is responsive to the Legislature's concerns.

The report on alternative methods of charging for services does not appear to be fully responsive to the Legislature's request. Our review of this report indicates that conclusions reached in the report are not substantiated. The shortcomings of this report will be discussed in a report on the state's uses of information technology that we will submit to the Legislature in February or March.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Item 4140 from the General Fund — Budget p. HW 7

Requested 1983–84	$9,218,000
Estimated 1982–83	9,257,000
Actual 1981–82	7,516,000
Requested decrease (excluding amount for salary increases) $39,000 (−0.4 percent)	
Total recommended reduction	None

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4140-001-001—Support		General	$967,000
4140-001-121—Support		Hospital Building Account, Architecture Public Building	4,349,000
4140-001-518—Support		Health Facilities Construction Loan Insurance	722,000
4140-001-890—Support		Federal Trust	(1,705,000)
4140-101-001—Local Assistance		General	2,880,000
Total			$8,918,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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:

1. The *Health Planning Division* has overall responsibility for carrying out health planning activities and developing statewide health policy. The division works with the state's 12 Health Systems Agencies to develop a State Health Plan, which establishes priorities for financing and delivery 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 the Song-Brown Family Physician Training program, the Health Professions Career Opportunity program, and the National Health Service Corps program.
4. The *Facilities Development Division* conducts plan reviews and site inspections of health facilities construction projects for conformance with federal, state, and local building requirements, and reviews health facility applications for construction loan insurance.

The office has 178.4 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $4,147,000 from the General Fund to support the Office of Statewide Health Planning and Development in 1983–84. This is a decrease of $643,000, or 13 percent, below estimated current-year General Fund expenditures. Expenditures from all funds are proposed at $14,369,000, which is an increase of $81,000, or 0.6

percent, above estimated current-year expenditures. This amount will increase by the amount of any salary and staff benefit increases approved by the Legislature for the budget year. Table 1 and Chart 1 display the office's program expenditures and funding sources.

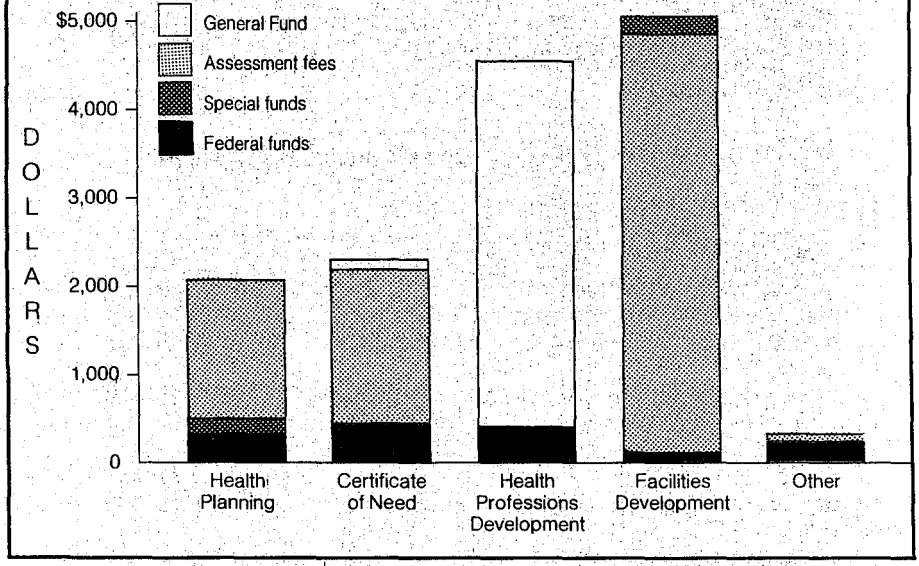
Table 1

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

Program	Actual 1981–82	Estimated 1982–83	Proposed 1983–84	Change Amount	Change Percent
Health Planning	$2,083	$1,966	$2,081	$115	5.8%
Certificate of Need	2,662	2,387	2,347	−40	−1.7
Health Professions Development	4,451	4,715	4,542	−173	−3.7
Facilities Development	3,309	4,659	5,045	386	8.3
Other	616	561	354	−207	−36.9
Totals	$13,121	$14,288	$14,369	$81	0.6%
General Fund	*$5,028*	*$4,790*	*$4,147*	*−$643*	*−13.4%*
Hospital Building Account, Architecture Public Building Fund	*1,904*	*3,817*	*4,349*	*532*	*13.9*
Health Facilities Construction Loan Insurance Fund	*584*	*650*	*722*	*72*	*11.1*
Federal Trust Fund	*2,595*	*1,706*	*1,705*	*−1*	*0.1*
Health Facilities Assessment Fees	*3,010*	*3,325*	*3,446*	*121*	*3.6*

Chart 1

Office of Statewide Health Planning and Development
Program Expenditures and Funding Sources
1983–84 (in thousands)



The budget proposes a total of 177.1 positions in 1983–84. The total number of positions requested reflects a decrease of 16.3 limited-term positions and 15 proposed new positions.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Budget Changes

The budget proposes the following significant changes for 1983–84:

- Reduce 3 legal staff positions and $142,000 in reimbursements in the Certificate-of-Need Division.
- Add 4 positions, at a cost of $192,000 in federal funds, to continue the National Health Service Corps program.
- Add 14 positions and $1,325,000 from the Hospital Building Account to conduct health facilities construction plan review and site inspection activities required by Ch 303/82 (SB 961).
- Transfer funds ($217,000) for legislative mandates to Item 9680.

Table 2 displays adjustments to the current-year budget proposed for 1983–84.

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

	General Fund	*All Funds*
Adjusted base budget, 1982–83	$4,790	$10,963
A. Changes to maintain existing program		
1. Carry-over appropriation	−258	−258
2. Price increase	31	201
3. Merit salary adjustment	9	61
4. Restore 1982–83 retirement reduction	29	83
5. Pro rata assessment	—	318
6. Transfer funding for legislative mandates	−217	−217
7. Funding shift for Ch 303/82 (SB 961)	−237	—
8. One-time costs	—	−69
B. Budget change proposals		
1. Legal staff reductions	—	−142
2. National Health Service Corps program	—	22
3. Implementation of Ch 303/82 (SB 961)	—	−39
Proposed budget, 1983–84	$4,147	$10,923

Health Planning and Certificate of Need

Federal Appropriations for Health Planning

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 of 1974 (PL 93-641, as amended by PL 96-79). California's grant for federal fiscal year 1982 (FFY 82) amounted to $1,535,000, or 23 percent of the cost of the state's programs.

The latest continuing resolution passed by the Congress, House Joint Resolution 631, authorizes current funding levels for state and local health planning through September 30, 1983. This authorization will fund California's grant for 1983–84. Accordingly, the budget estimates that federal support for the office in 1983–84 will continue at approximately the 1982–83 level.

Proposed Reductions in Legal Staff

The budget proposes a reduction of two attorney positions, one clerical position, and related operating expenses from the Certificate-of-Need Division. This reduction amounts to $142,000 and cuts the office's legal staff by 33 percent. It is consistent with the reductions in legal staff proposed in other departments.

The budget does not provide adequate detail on the probable impact of the proposed reduction in legal staff on the office's performance. The legal staff's major program-specific responsibilities include representing the office in certificate-of-need (CON) hearings, including original determination and appeals hearings, and, in conjunction with other office staff, reviewing health systems plans and developing criteria for CON review. General legal activities include developing or reviewing regulations, advising the Director and program managers, and providing legal services under contract to other state agencies.

It is possible that some legal staff activities, such as advising the office management, may be referred to the Attorney General; and some activities, such as providing legal services to other agencies, may be eliminated altogether without adversely affecting the office's programs. On the other hand, program-specific legal activities related to CON review cannot be referred to the Attorney General and cannot be reduced without affecting programs.

The available information does not indicate what proportion of the legal staff workload is program-specific. Although there is no basis for measuring the effect of the proposed reduction in legal staff on the Certificate-of-Need program, our analysis indicates that some of the services currently provided by the legal staff may be provided by the Attorney General or may be eliminated without adverse effects.

Health Professions Development

National Health Service Corps

We recommend that four positions proposed to continue the National Health Service Corps program through 1983–84 be established on a limited-term basis, rather than permanently.

The National Health Service Corps (NHSC) is a federal program established by PL 94-484. This act provides scholarships to individuals training for the health professions. Upon completion of their training, these individuals are then obligated to serve for a specified period of time in designated medically underserved areas. The Omnibus Budget Reconciliation Act of 1981 eliminated funding for any new NHSC scholarships. There is, however, a sufficient number of scholarship recipients still in the program to require continued placement and related activities through federal fiscal year 1988.

California is one of 10 states selected to participate in a new federal-state pilot program intended to more effectively place the remaining NHSC scholarship recipients in designated underserved areas. The federal NHSC program has, in the past, encountered problems with high placement costs and with retaining NHSC obligees in medically underserved areas after their service obligation has been met. The pilot program operates pursuant to a cost-reimbursement contract negotiated annually by the state and the federal Department of Health and Human Services. In the current year, four positions at a cost of $171,000 were administratively established in the office to implement the program. The budget proposes to establish

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

permanently the four positions, at a cost of $192,000, to continue the program through 1983–84.

Because the pilot program's objectives are consistent with the state's policy of improving the mix and distribution of health professionals in California, and because participation in the program would give California some control over the placement of NHSC professionals, we recommend approval of the request for the four positions. Because it is not clear, however, that the federal government will continue the pilot program beyond federal fiscal year 1983, we recommend that the four positions be established on a limited-term basis for 1983–84 only.

Health Facilities Development

Implementation of Chapter 303, Statutes of 1982 (SB 961)

We recommend approval of 14 additional staff requested to continue implementing Chapter 303. In addition, we recommend adoption of supplemental report language requiring the office to report by December 15, 1983, on projected workload and estimated staffing required to fully implement Chapter 303.

Background. Following the San Fernando Valley earthquake of 1971, the Legislature adopted the Seismic Safety Act of 1972 (Ch 1130/72). Chapter 1130 authorized the then-Department of Health, through a contract with the Department of General Services, to review and approve or reject all plans for the construction or alteration of any hospital building, and to observe the construction or structural alteration of any hospital. The intent of the statute was to assure, insofar as practicable, that such structures would be able to resist earthquakes and provide all necessary services to the public following a disaster.

This law was patterned after the Field Act of 1933, which requires the Department of General Services to review plans for, and observe the construction or alteration of, school buildings. A central feature of the Field Act is the requirement that the state enforce all school construction standards, whether these are related to seismic safety or not. Currently, the Office of State Architect administers the Field Act, and conducts all aspects of plan review and inspection of school buildings.

Similarly, the Seismic Safety Act expresses legislative intent to preempt local building departments in enforcing hospital building standards published in the State Building Standards Code (Title 24, California Administrative Code). As the statute was administered, responsibility for enforcing these standards was fragmented among several state agencies and a multitude of local jurisdictions. The office reviewed hospital construction plans for compliance with architectural standards relating to seismic safety, conducted on-site inspections for compliance with these standards, and performed all administrative functions required by Chapter 1130. The Office of State Architect, through its contract with the Office of Statewide Health Planning and Development, conducted plan review and inspection duties to enforce structural seismic safety standards. The activities of local building departments varied but generally consisted of plan review and inspection for compliance with electrical, structural, mechanical, and plumbing codes, in most cases, and the issuance of building permits and certificates of occupancy and completion.

Legal opinions issued by the Legislative Counsel (dated June 4, 1977, and November 5, 1980) and the Attorney General (No. CV77/222) con-

cluded that the fragmentation of responsibility for enforcing hospital building standards violated the intent of Chapter 1130. These opinions maintained that since the statute was explicitly patterned after the Field Act, and since legislative intent to preempt enforcement of hospital construction standards from local jurisdiction was explicitly stated, the state must assume all plan review, inspection, and administrative duties then performed by local jurisdictions.

Chapter 303 Requirements. Chapter 303, Statutes of 1982, specifically designated the office as the state agency responsible for enforcing hospital building standards, and modified many of the administrative provisions of the Seismic Safety Act. The major provisions of Chapter 303 which affect the office's workload are as follows:

- Designates the office as the state agency responsible for reviewing hospital building plans and conducting on-site inspections of architectural, structural, mechanical, and electrical systems.
- Requires the office to contract with the Office of State Architect to analyze structural systems and related details.
- Requires the office to contract with the State Fire Marshal to analyze fire safety and related details.
- Authorizes the office to contract with other appropriate entities to ensure the timely performance of hospital building standards review and inspection.
- Requires the office to enforce local building code requirements if they are more restrictive than state requirements.
- Authorizes the office to increase fees charged to hospitals to cover the cost of plan review and site inspections from 0.7 percent to 2 percent of estimated construction costs.

Implementation of Chapter 303. In December 1982, the Department of Finance notified the Joint Legislative Budget Committee that it intended to authorize the office to spend an additional $1,364,000 from the Hospital Building Account in order to implement Chapter 303 in the current year. Of this amount (1) $585,000 was a one-time payment to the Office of State Architect (OSA) to accommodate a change in the OSA funding mechanism from cost-based reimbursement to a monthly apportionment, as required by Chapter 303, (2) $87,000 was allocated for the contract with

Table 3

Positions Requested to Implement Chapter 303, Statutes of 1982

	Number of Positions		
Classification	*1982–83 Administratively Authorized*	*1983–84 Proposed New*	*1983–84 Total*
Supervising architect	1	—	1
Staff services manager I	1	—	1
Associate architect	1	3	4
Supervising mechanical engineer	1	—	1
Senior mechanical engineer	1	—	1
Associate electrical engineer	1	1	2
Associate programmer analyst	1	—	1
Senior structural engineer	—	1	1
Senior electrical engineer	—	1	1
Office assistant II	—	1	1
Totals	7	7	14

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

the State Fire Marshal, and (3) $692,000 was allocated for support of seven additional positions in the Office of Statewide Health Planning and Development. Four of the positions are located in the Sacramento office and three are located in the Los Angeles office. Table 3 displays the positions established in the current year and those proposed for the budget year.

Budget Proposal. The budget proposes to continue 7 positions administratively established during the current year, and add 7 new positions at a total cost of $1,325,000, in order to cover Chapter 303 workload requirements in 1983–84. The number of positions requested for the budget year is greater than the number established in the current year because the office anticipates workload increases. The office anticipates significant workload increases each year until the program is fully implemented in 1986–87. The program will be phased in gradually because local agencies will continue to monitor existing construction projects until they are completed, while the state will have full responsibility for new projects. The office anticipates a three-year phase-in period because, on the average, health facility construction projects are completed within three years.

To estimate the number of staff required to implement Chapter 303, the office surveyed the staffing requirements of local agencies responsible for enforcing hospital building standards prior to the enactment of Chapter 303. Based on this review, the office estimates 50 additional staff will be required to cover the full operating workload in 1986–87.

The usefulness of this study as a basis for determining state staffing requirements, however, may be severely limited because the agencies surveyed are not comparable to the office, either on the basis of staff characteristics or facility resources. Moreover, the budget request is not strictly based on office estimates. Instead, the administration's implementation strategy is to establish the minimum number of staff estimated as necessary to initiate the project and to add additional staff as the workload materializes during the fiscal year.

Although our analysis indicates that the workload estimates may be faulty, at the time this analysis was prepared there was no alternative basis upon which to estimate an appropriate staffing level. Consequently, we recommend approval of the budget request for 14 additional staff to implement Chapter 303. We also recommend, however, adoption of supplemental language which requires the office to report to the Legislature by December 15, 1983, on its projected workload and the estimated staff needs to fully implement the requirements of Chapter 303.

Fee Revenue. Chapter 303 authorizes the office to assess fees of up to 2 percent of project valuations to cover the costs of its plan reviews and site inspections. A 1.5 percent assessment rate was determined to be necessary and was adopted in regulations effective January 1, 1983. Revenue estimates for the Hospital Building Account of the Architecture Public Building Fund are $5,550,000 in 1983–84 and each fiscal year thereafter, assuming a constant level of construction activity. The revenues are estimated to be sufficient to generate an average annual surplus in the account of $2.6 million annually through 1986–87. By 1986–87, the accumulated surplus will be $10.4 million. The office estimates that $10.4 million is the level of reserve necessary to allow the office to complete all projects in inventory, even if no further revenues were received.

Legislative Mandates

We recommend approval.

Funding for reimbursement of all state-mandated local programs is now included in Item 9680. The budget proposes $217,000 to reimburse local hospital districts for assessment and certificate-of-need fees paid to the office. In previous fiscal years, $212,000 was authorized annually for reimbursement. The Board of Control claims bill, Ch 1586/82, appropriated an additional $5,000 for reimbursement in 1982–83. Therefore, in accordance with Revenue and Taxation Code provisions, which require the budget to include funding in subsequent fiscal years for reimbursement of mandates funded by a claims bill and expected to be ongoing, the budget proposes a total of $217,000 for reimbursement in 1983–84.

Health and Welfare Agency

CALIFORNIA DEPARTMENT OF AGING

Item 4170 from the General Fund and Federal Trust Fund — Budget p. HW 14

Requested 1983–84	$8,092,000
Estimated 1982–83	5,346,000
Actual 1981–82	5,130,000
Requested increase (excluding amount for salary increases) $2,746,000 (+51.4 percent)	
Total recommended reduction	$3,089,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4170-001-001	Support	General	$1,780,000
4170-001-890	Support	Federal	(2,816,000)
4170-101-001	Local Assistance	General	6,312,000
4170-101-890	Local Assistance	Federal	(64,383,000)
Total			$8,092,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

CALIFORNIA DEPARTMENT OF AGING—Continued

department from transferring federal aging funds from local assistance to state operations until 30 days after written notification has been given to the fiscal committees and the Joint Legislative Budget Committee.

b. That the department develop criteria consistent with federal regulations for transferring federal funds from local assistance to state operations.

3. Brown Bag Program. Recommend that the department submit a proposal to continue the Brown Bag Program after December 31, 1983 that includes specified changes in program monitoring and proposed funding level. 736

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.

The CDA has 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 planning and service areas have been designated by the CDA pursuant to the OAA, as amended in 1978.

The 1982 Budget Act authorized 132.3 positions for the department.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $8,092,000 from the General Fund for support of the CDA in 1983–84. This is an increase of $2,746,000, or 51 percent, over estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

Total program expenditures by the CDA and AAAs, including expenditures from reimbursements, are proposed at $75,402,000 in 1983–84, a decrease of $450,000, or 0.6 percent, below estimated current-year expenditures.

Table 1 details the changes proposed in the department's budget for 1983–84. The major changes include:

- ***A 7 Percent Reduction in Federal Funds.*** The budget assumes that the amount of federal funds available will decline by $4,829,000, or 7 percent, from the current-year level. This reflects reductions of $100,000 for state adminstration (Title IIIA), $2,332,000 for nutrition services (Title IIIC), $1,616,000 for social services (Title IIIB), $275,000 for employment (Title V), $14,000 for special projects (Title IV), and $492,000 from the United States Department of Agriculture (USDA).
- ***Increase for Congregate Nutrition Programs.*** The budget proposes an increase of $4,737,000 for congregate nutrition programs, of which $3,089,000 would come from the General Fund and $1,648,000 would come from the USDA.

Table 1
California Department of Aging
Proposed 1983–84 Budget Changes
(in thousands)

	General Fund	*State Transportation Fund*	*Federal Funds*	*Nutrition Reserve Fund*	*Reimbursements*	*Total*
1982–83 Current Year Revised	$5,346	$13	$70,203	$272	$18	$75,852
1. Baseline Adjustments:						
A. Increase in existing personnel costs	91	—	160	—	—	251
1. Salary adjustments	(32)	—	(60)	—	—	(92)
2. Salary savings adjustment	(−2)	—	(−3)	—	—	(−5)
3. Staff benefits	(61)	—	(103)	—	—	(164)
B. Price increase	78	—	78	—	—	156
C. Funding source adjustment	−485	−13	—	−179	—	−677
1. Nonrecurring items:						
a. Senior Nutrition Volunteer Project	(−272)	(−13)	—	(−24)	—	(−309)
b. Brown Bag Project	—	—	—	(−155)	—	(−155)
2. State Match to Title III B/C federal funds	(−213)	—	—	—	—	(−213)
D. Reduction in available federal funds	—	—	−4,829	—	—	−4,829
Total Baseline Adjustments	−$316	−$13	−$4,591	−$179	—	−$5,099
2. Program Change Proposals						
A. Changes in Authorized Positions	−27	—	−61	—	—	−88
B. Increased Funding for the Nutrition Program	3,089	—	1,648	—	—	4,737
Total Program Change Proposals	$3,062	—	$1,587	—	—	$4,649
Total Budget Change	$2,746	−$13	−$3,004	−$179	—	−$450
1983–84 Proposed Expenditures	$8,092	—	$67,199	$93	$18	$75,402
Total Change:						
Amount	$2,746	−$13	−$3,004	−$179	—	−$450
Percent	51.4%	−100%	−4.3%	−65.8%	—	−0.6%

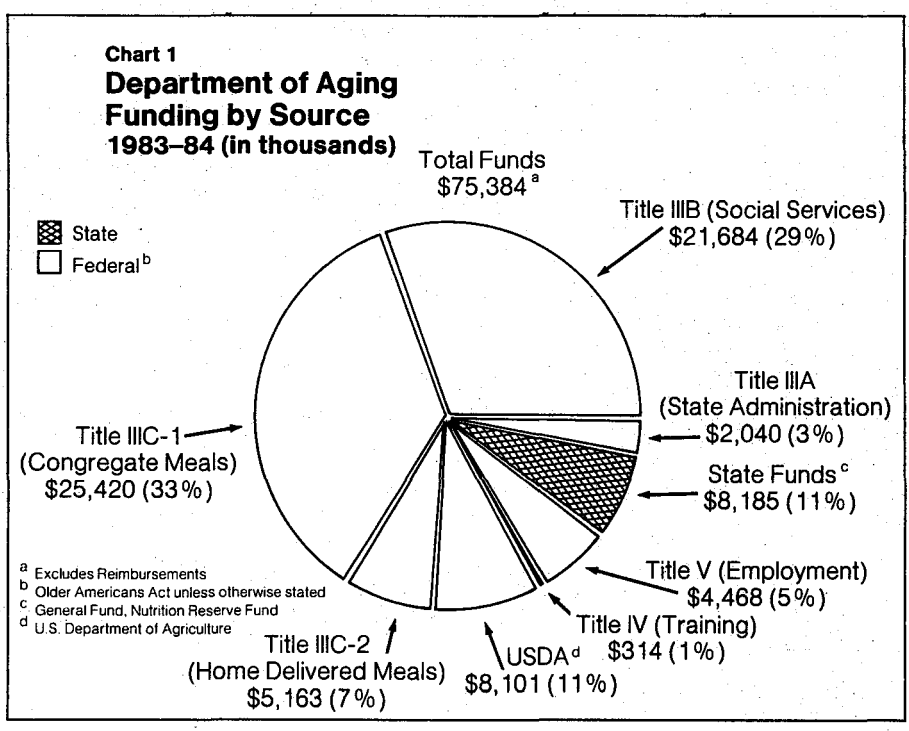
Program Expenditures by Funding Source

Chart 1 shows total proposed expenditures (other than expenditures from reimbursements) for the department in 1983–84. It indicates that of $75.3 million proposed for 1983–84, $67.2 million, or 89 percent, would be financed by the federal government, and the remaining $8.1 million, or 11 percent, would come from state sources.

Nutrition Program Legislation

In January 1983, the Legislature enacted Ch 1x/83 (SB 4x) which provided up to $2.9 million to the department to fund nutrition and social services programs funded under Title IIIB and Title IIIC of the OAA. Of this amount, $2.8 million was for support of nutrition and social services programs. The remaining $85,000 is available for a nutrition demonstration project to be administered in a county designated by the department, as specified in the statute.

CALIFORNIA DEPARTMENT OF AGING—Continued



Increased Funding for Congregate Nutrition Programs

We recommend:

1. A General Fund reduction of $3,089,000 requested for congregate nutrition services, because sufficient federal funds will be available to maintain the current level of services.

2. That the department revise its estimate of federal funds from the USDA to reflect more recent information.

3. That the department advise the fiscal committees prior to budget hearings on the amount of funds proposed for carryover into 1983–84, and its plan for distributing these funds, so that the Legislature can review and approve the use of these funds.

Background. The department, through the AAAs, provides congregate meals at over 800 sites statewide to persons 60 years of age and over. The department advises that in the current year, AAAs will contract for over 12 million meals and will serve more than 419,000 persons. The costs of the nutrition programs are funded 85 percent by the federal government, 5 percent by the General Fund, and 10 percent by local entities.

Budget Anticipates Reductions in Federal Funds for Congregate Nutrition. The budget proposes an augmentation of $4,737,000 for congregate nutrition (Title IIIC1) programs administered by the department in 1983–84. This amount includes $3,089,000 from the General Fund and $1,648,000 in federal funds from the USDA. The administration indicates that the augmentation is proposed in order to compensate for the loss of $4.7

million in federal support for congregate nutrition programs in 1983–84.

Since the budget was prepared, the assumptions upon which the augmentation is based have been revised.

More Recent Department Estimates Show that the Anticipated Reduction Will Not Occur. Table 2 shows the projected funding level for congregate nutrition services in the current year and in the budget year (1) as shown in the budget and (2) as currently estimated by the department. The table shows that in the current year, a total of $35.2 million is budgeted for congregate nutrition programs. This includes a base allocation under Title IIIC1 of $25.4 million and $9.8 million from other sources. Other funding sources include $5.4 million from the USDA, $2.9 million in federal funds carried over from prior years, and $1.5 million from the General Fund match for the federally required 5 percent match.

As submitted by the administration, the budget assumed that (1) the amount of Title IIIC funds available in 1983–84 would be equal to the amount available in 1982–83 and (2) AAAs would spend all available carryover funds ($2,931,000) in 1982–83. As a result, the administration assumed that there would be a drop in the amount of federal funds available from $33,705,000 in 1982–83 to $30,774,000 in 1983–84. On this basis, the budget proposes an increase in General Fund support.

The department now advises that it expects the amount of federal funds available for congregate nutrition services in 1983–84 to be $34,030,000, or $325,000, *more* than the amount available in the current year. This reflects an increase of $2.9 million, or 11 percent, in federal Title IIIC1 funds, and an increase of $322,000 in USDA funds. The increase in Title IIIC funds results from an increase in the amount appropriated by the Congress for the nutrition program, and an increase in California's share of the total amount available due to population increases. The two increases more than offset the reduction that would occur *if* carryover funds are fully spent in 1982–83.

Table 2
Estimate of Funds Available for Congregate Nutrition Programs
1982–83 and 1983–84
(in thousands)

Program Funds	*1982–83*[a]	*1983–84* *Governor's Budget*	*1983–84* *January 1983 Estimate*
Federal Funds:			
Title IIIC1	$25,420	$25,420	$28,354
USDA	5,354	5,354	5,676
Carryover Funds	2,931	—	—
Subtotal	$33,705	$30,774	$34,030
General Fund	$1,470	$1,470	$1,639
Proposed Increase:			
USDA	—	1,648	1,648
General Fund	—	3,089	3,089
Subtotal	—	$4,737	$4,737
Total	$35,175	$36,981	$40,406
Change from Current Year:			
Amount	—	$1,806	$3,425
Percent	—	5.1%	9.3%

[a] Revised planning estimate submitted to AAAs May 1982

CALIFORNIA DEPARTMENT OF AGING—Continued

USDA Funds Overbudgeted. The budget assumes that the state will receive $7.3 million for congregate nutrition programs from USDA in 1983–84. This is an increase of $1.6 million, or 31 percent, over the current-year amount. Our analysis, however, indicates that USDA funds will increase by 5 percent over the *amount available* in the current year, or only $322,000.

Carryover Funds Available. The budget assumes that all federal funds available in the current year will be spent, and consequently no federal funds will be carried over into 1983–84. Since the budget was prepared, however, the amount of federal funds available for congregate nutrition in the current year has increased by $2.6 million, or 7.3 percent. The increase consists of $2.4 million from Title IIIC1 and $140,000 from USDA. In addition, Ch 1x/83 made up to $2.8 million available to the department in the current year for nutrition and social services. (We cannot determine the amount of any funds from Ch 1x/83 which will be allocated specifically to congregate nutrition programs.)

These increases are likely to result in some funds being carried forward from 1982–83 to 1983–84. This is because AAAs have planned programs at a funding level which is lower than that which the amount of available funds can support. The department advises that it proposes to carry over $1.6 million of the total available from Ch 1x/83 into 1983–84. We cannot estimate the amount of federal funds that may be carried over or how much of these funds could be used for the congregate nutrition program in the budget year. Nevertheless, it seems likely that some amount of carryover funds will be available to support congregate nutrition programs in 1983–84.

Conclusion. Our analysis indicates that the department will not experience a reduction in the amount of federal funds available for congregate nutrition programs in 1983–84. In fact, increases in federal Title IIIC1 funds and USDA funds will more than offset reductions in carryover funds, despite the fact that proposed USDA funding will decline by $1.6 million. As a result, we conclude that no additional General Fund support is required to maintain the current level of services in 1983–84. On this basis, we recommend a General Fund reduction of $3,089,000 requested for the congregate nutrition programs. In addition, we recommend that the department revise its estimate of federal funds to be received from the USDA, in order to reflect more recent data. Finally, we recommend that the department advise the fiscal committees prior to budget hearings on (1) how much current-year funding will be carried over into 1983–84 and (2) how it plans to spend these funds. This will enable the Legislature to review and approve the use of these funds.

Transfer of Federal Local Assistance Funds to State Administration

We recommend that:

1. Budget Bill language be adopted prohibiting the department from transferring federal aging funds from local assistance to state operations until 30 days after written notification has been provided to the fiscal committees.

2. The department develop and submit to the fiscal committees prior to budget hearings criteria for transferring federal aging funds from local assistance to state operations.

Funds Budgeted for Local Assistance are Routinely Transferred to State

Operations. Federal regulations permit state departments of aging to transfer annually not more than three-quarters of one percent of their allotments under Title IIIB (social services) and Title IIIC (nutrition programs) to Title IIIA (state administration). According to federal regulations, the transfer is permitted in order to enable a state to "fully and effectively administer its state plan." Before transferring the funds, however, a state must receive approval from the Administration on Aging (AOA). Generally, AOA's approval is automatic, provided the state submits proof of the following with its applications: (1) The Governor has approved the proposed transfer and (2) the AAAs and the state advisory board (Commission on Aging) have been notified of the request. AOA officials in Region 9 have told us that while they can delete part of the requested transfer, they do not have the authority to deny a request in total.

Each year since 1980, CDA has requested and received approval from the AOA to transfer local assistance funds to state administrative activities. Table 3 shows the amounts transferred during Federal Fiscal Years (FFYs) 81 and 82, and the amount proposed for transfer in FFY 83. The table shows that if the department's request for FFY 83 is granted, a total of $1,085,997 will have been diverted from local assistance programs for the elderly to pay for state administration activities.

Table 3

Federal Funds Transferred from Local Assistance to State Administration

Federal Fiscal Year	*Amount*
1981	$380,194
1982	406,628
1983 [a]	299,175
Total	$1,085,997

[a] Application pending.

Analyst's Concerns Regarding these Transfers. We have the following concerns regarding the transfer of funds from local assistance to state operations:

- ***Transfer Reduces Funds Available for Services to the Elderly.*** The purpose of federal Title III funds is to provide direct social and nutrition services to the aged in California. By transferring these funds to state operations, the department reduces the amount of funds available to provide those services.
- ***Transfer Skirts Legislative Review.*** Each year's Budget Act appropriates that amount of federal and state funds which the Legislature deems appropriate for state administration. Because federal regulations do not require legislative review of the transfer, the department is able to increase funds for state operations above the level established by the Legislature without legislative review or approval.
- ***Department Has Not Established Criteria for Determining Appropriate Transfers.*** Federal regulations permit the transfer of funds when a state department determines that its federal allocation for state administration is "insufficient to effectively administer the state plan." The regulations, however, do not contain specific criteria for use in determining the appropriateness of such transfers.
- ***Some Transferred Funds May Have Been used for Inappropriate Purposes.*** In FFY 81, the department proposed to spend $24,379, or 6

CALIFORNIA DEPARTMENT OF AGING—Continued

percent, of funds transferred from local assistance to state operations to develop a nutrition bill. This expenditure would appear to be inappropriate, since the department has a legislative coordinator who is responsible for developing and tracking legislation.

Recommendation. In order to ensure that the Legislature has the opportunity to review future transfers of funds from local assistance to state operations, we recommend the adoption of the following Budget Bill language requiring the Director of the Department of Finance to notify the Legislature 30 days prior to approving such transfers:

"Provided that the Director of the Department of Finance may authorize the transfer of funds from Item 4170-101-890 to Item 4170-001-890 under provisions of CFR 45, No. 63, Section 1321.195 no sooner than 30 days after written notification to the Chairpersons of the fiscal committees of each house and the Chairperson of the Joint Legislative Budget Committee of: (1) The amount of the proposed transfer, (2) a summary of the purposes for which the funds will be used, and (3) documentation that the proposed activities must be carried out in the current year and that no other funds are available for their support."

We further recommend that the department develop criteria for transferring federal aging funds from local assistance to state operations, and that it provide the criteria to the fiscal committees prior to the budget hearings.

Brown Bag Program

We recommend that the administration submit to the Legislature a proposal for continuing the Brown Bag Program after December 1983.

Chapter 1345, Statutes of 1980, established a statewide network of "Brown Bag" programs which, with the aid of volunteers, collect, sort, and distribute surplus fresh produce and canned and frozen foods to low-income elderly persons. The act authorized the California Department of Aging to administer the program. In addition, the act:

1. Required the department to establish selection criteria for funding new and existing Brown Bag programs.
2. Provided for an annual audit of programs.
3. Established a Brown Bag Advisory Committee.
4. Limited the provisions of the statute until December 31, 1983.
5. Required the Legislative Analyst to report to the Legislature on the Brown Bag Program, and make a recommendation on whether it should be continued beyond December 31, 1983.

Program Design. The department provided funds to 11 organizations in 1981 and 13 organizations in 1982 to sponsor Brown Bag programs. Of the 13 organizations, 7 had received funds in 1981 and 6 were new program sponsors. While programs vary in size and organization, the basic components of Brown Bag programs throughout the state are as follows:

- ***Eligible Organizations.*** The statute provided that the following organizations could apply to CDA to sponsor new or existing Brown Bag programs: (1) senior gleaning programs, (2) food banks, and (3) community services and other organizations which have the capability to gather and redistribute foods. A total of 5 food banks, 7 senior gleaning programs, and 5 community services organizations have received grants. New programs are those which use state funds to begin a Brown Bag program. Existing programs sponsored surplus food

gleaning programs prior to the receipt of state funds. Of the 17 programs which have received funding, 5 were new and 12 were existing Brown Bag programs.

- ***Participants.*** Chapter 1345 provided that low-income persons 60 years of age and older may become members of local Brown Bag programs. Although "low income" is not defined by statute, the income ceiling for eligible members is typically $5,500 for an individual and $8,000 for a couple. Participants pay an annual membership fee of $2 to $5 to maintain eligibility. Fees partially offset program costs. Members receive a weekly "brown bag" of at least six items, including fresh produce, canned foods, bread, and other items.
- ***Matching Requirements.*** The statute requires that participating organizations provide a 25 percent match for state funds. This match may be in cash or in in-kind services. The act provides that when selecting organizations to sponsor Brown Bag programs, the department shall give priority to programs with a "larger local match." All selected programs have met the minimum match requirement.
- ***Program Location.*** Chapter 1345 specified that programs should be established in areas with large senior populations, large agricultural resources, or access to large agricultural resources. The department has selected programs located throughout the state. Of the 17 programs which received funds in 1981 and 1982, 3 are located in far northern counties (Lassen, Shasta, and Butte), 3 are located in southern counties (Los Angeles and Riverside), and the remaining 11 programs are located in bay area and central valley counties.
- ***Local Board of Directors.*** Chapter 1345 requires that each Brown Bag program be run by a board of directors whose membership should include farmers, frozen food packers, and low-income elderly persons. All programs have established boards of directors, as required.
- ***Senior Volunteers and Program Staff.*** Chapter 1345 emphasizes participation by senior volunteers and staff in program management. Senior volunteers typically gather food by gleaning or picking up surplus food from donors. Volunteers also sort donations at central warehouses and distribute brown bags at local sites. In general, the distribution sites are senior citizen centers, churches, and other community locations. Paid staff usually are responsible for soliciting donors and for daily management of the program. Most programs have at least one paid staff member. Two programs are managed exclusively by volunteers.
- ***Donors.*** Brown Bag programs receive surplus food from several sources, including the federal government, which supplies cheese through its surplus dairy program; a private, nonprofit network of national food banks called Second Harvest; local merchants; frozen food packing houses; and farms.

Two state laws and the federal tax law encourage potential donors to participate in the Brown Bag Program. Chapter 180, Statutes of 1982, protects farmers and packing houses that allow volunteers to harvest excess produce from their land from liability for damages. Chapter 157, Statutes of 1982, and the federal Tax Reform Act of 1975 exempted a part of the value of the donation from federal and state taxes. The provisions of Chapter 157 were effective only through December 1982. Assembly Bill 120 has been introduced to extend the provisions of current law through January 1, 1985.

CALIFORNIA DEPARTMENT OF AGING—Continued

Funding. Chapter 1345 appropriated a total of $745,000 to support Brown Bag programs for three years, beginning in 1981. The statute limited state administrative costs to $55,875, or 7.5 percent, of this amount.

Table 4 identifies all funds available to Brown Bag programs, by year. It shows that a total of $663,360, or 89 percent, of appropriated funds have been allocated to programs. The remaining $81,640, or 11 percent of the funds, have been allocated to state administration. This includes a total of $11,000 to cover travel and per diem expenses of state advisory board members who meet four times annually. The remaining $70,640 have been allocated for the department's administrative expenditures.

While Chapter 1345 permitted individual grants of up to $100,000, CDA lowered the maximum award to $25,250 in 1981 and $20,020 in 1982. The department advises that it did this in order to fund a greater number of programs. The department proposes to reduce the maximum allocation levels to $18,000 for 1983. The basis for the ceilings on individual grants is not clear.

Table 4
Funding for Brown Bag Programs
Calendar Years 1981, 1982, and 1983
(all funds)

Chapter 1345 Appropriation	*1981*	*1982*	*Estimated 1983*	*Total*
Brown Bag Grants	$220,000	$228,260	$215,100	$663,360
State Administration	25,828	28,333	27,479	81,640
Subtotals	$245,828	$256,593	$242,579	$745,000
Other Funds[a]				
Federal	$127,658	$223,580	N/A[b]	$351,238
Local Cash	257,316	592,566	N/A	849,882
Subtotals	$384,974	$816,146	$242,579	$1,201,120
Totals	$630,802	$1,072,739	$242,579	$1,946,120

[a] Cash only. Excludes in-kind resources, such as the dollar value of volunteer labor. Local cash includes county funds, private contributions, and funds raised by programs.
[b] Not available.

Other Resources. Chapter 1345 specified that state funds should not be used to replace other sources of funds and that state funds should be used as a "catalyst for charitable contributions." Table 4 shows that nonstate funds increased in 1982 by $431,172, or 112 percent, over the 1981 level. Other resources available to the program include federal funds, county revenue sharing or other local government resources, and private donations.

Use of Funds. Chapter 1345 did not specifically limit the purposes for which program funds could be spent. Based on our review of expenditure reports for 1981, we conclude that state funds have rarely been used for ongoing administrative expenditures. Administrative activities have been funded from other sources, including county revenue sharing, federal funds, and other private funds. State funds have been used to purchase capital equipment such as freezers, refrigeration trucks, and vans. In addition, the department advises that state funds have been used to pay for maintenance of capital equipment and fuel to transport volunteers and donated food.

State Administration Deficient. Chapter 1345 specified the state's role in administering the Brown Bag Program. Specifically, the statute required that the department: (1) Establish criteria for strengthening existing programs and establishing new ones, (2) provide funds to programs which meet the requirements of Chapter 1345, (3) audit programs annually, and (4) establish a state advisory board, as specified. The department allocated $28,333 and 0.7 personnel years in calendar year 1982 to administer the Brown Bag Program.

Our analysis indicates that the department has budgeted more for state administration than the authorizing legislation permits. Whereas the statute limits administrative expenses to $55,875, the department has budgeted $81,640 for administration during calendar years 1981, 1982, and 1983, or 46 percent, more than the amount authorized. The department advises that state administration expenditures will be reduced in 1983 in order to avoid exceeding the 7.5 percent cap on expenditures for state administration.

The department has fulfilled the other requirements of Chapter 1345. It has:

- Established the Brown Bag Advisory Board as specified by the statute.
- Required programs to submit quarterly expenditure reports and visited programs at least once annually.
- Audited programs which received funds in 1981 and 1982.

Our analysis indicates that in general, existing gleaning programs have been selected for participation in the Brown Bag Program in accordance with the provisions of Chapter 1345. The department, however, has not adopted measurable guidelines or criteria for use in selecting new programs. As a result, our analysis indicates the following deficiencies in the department's administration of the Brown Bag Program.

- ***Lack of Measurable Selection Criteria.*** The department has identified seven criteria for the selections and monitoring of programs. The selection criteria adopted by the department, however, are vague. Consequently, we are unable to determine how criteria such as "operational capabilities," "program administration," and "service activity" are used to monitor programs and assure that a minimum level of service is provided. One criterion, for example, is volunteer involvement. The department has awarded funds to programs with fewer than 10 volunteers and to programs with over 1,500 senior volunteers. Because the level of volunteer involvement in programs varies widely, we are unable to determine how this criterion is used to select or evaluate programs.
- ***No Allocation Methodology.*** Although Chapter 1345 permitted individual grants of up to $100,000, CDA lowered the maximum award to $25,000 in 1981 and lowered the maximum award by at least $2,000, or 10 percent, each year thereafter. The department has reduced the amount of the allocations in order to fund an increasing number of programs each year. Many of these new programs, however, have no previous food gleaning experience. We cannot determine on what basis the department has selected the number of new and existing programs to fund or the size of the maximum award.

Program Sponsors Have Complied With Legislative Intent. Chapter 1345 required Brown Bag Program sponsors to collect, sort, and distribute surplus food to low-income seniors in programs organized and operated by seniors, particularly senior volunteers. The statute further specified

CALIFORNIA DEPARTMENT OF AGING—Continued

that funds should be used as a "catalyst for charitable contributions" and to strengthen new and existing programs.

Table 5 compares program operations for 1981 and 1982. It shows that while the average budget per program has declined by $7,573, or 4 percent, the number of persons served has increased by 8,844, or 59 percent. In addition, the table shows that Brown Bag Program sponsors have fulfilled the requirements of Chapter 1345 regarding:

- ***Volunteer Involvement.*** The total number of volunteers increased by 2,876 persons, or 77 percent, in the second year of the project.
- ***Number of Persons Served.*** The total number of persons served increased by 8,844, or 59 percent, over the first year of the project. In addition, the average amount of food distributed per program participant increased by 2.5 pounds, or 29 percent.
- ***Increases in Other Available Funds.*** Chapter 1345 specified that state funds should be used as a "catalyst" to generate other sources of funds. Table 5 shows that average grants have declined by $2,441, or 12 percent. Of the seven programs which received second year grants, funds from private and other public funds increased by a total of $189,097, or 52 percent, during the second year.

Table 5
Brown Bag Operations
1981 and 1982

	1981	1982	Change Amount	Change Percent
Average Grant	$20,000	$17,558	$2,441	−12.2%
Average Budget [a]	$194,205	$186,632	−$7,573	−3.9
Average Pounds of Food Per Person	8.5	11.0	2.5	29%
Total Number of Persons Served	15,059	23,893	8,844	59%
Pounds of Food Distributed	367,467	518,213	150,746	41
Volunteers	3,746	6,622	2,876	77
Volunteer Hours	209,025	388,289	179,264	86

[a] Excludes Brown Bag grant and dollar value of volunteer labor.

Recommendation. Chapter 1345 required the Legislative Analyst to determine whether Brown Bag programs should continue after December 31, 1983. Our review of the programs indicates that they have satisfied the requirements of Chapter 1345 regarding the distribution of food to low-income seniors and the involvement of senior volunteers. In addition, our analysis indicates that the department is the appropriate state agency to administer the program because CDA is the state department charged with the responsibility for carrying out nutrition and social services programs for older persons. In sum, we conclude that the program warrants continuation.

We believe the Legislature's consideration whether to continue the Brown Bag Program would be facilitated if the department developed a plan for converting this demonstration project into an ongoing program. On this basis, we recommend that the administration present to the Legislature, a proposal for continuing the Brown Bag Program after December 1983, including measurable standards for the selection, monitoring, and evaluation of new programs, a plan for establishing new programs throughout the state, and a proposed funding level.

Report on Legislatively Mandated Publications

Chapter 1632, Statutes of 1982 (AB 2960), required each state agency to identify in its budget request each state publication produced by the agency which is legislatively mandated and requires 100 or more employee hours to produce. The act also requires each agency to recommend which of these publications, if any, should be discontinued.

The Department has identified two reports that fall into this category. They are:

1. The Annual Report to the Legislature required by Ch 912/80 (AB 2975).
2. The annual report on the federal Ombudsman Program required by Ch 1457/82.

The department recommends that each of these publications be continued. We concur with the department's recommendation.

COMMISSION ON AGING

Item 4180 from the General Fund and Federal Trust Fund — Budget p. HW 20

Requested 1983–84	$202,000
Estimated 1982–83	194,000
Actual 1981–82	96,000
Requested increase (excluding amount for salary increases) $8,000 (+4.1 percent)	
Total recommended reduction	$65,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4180-001-001—Support		General	$202,000
4180-001-890—Support		Federal	(168,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***California Senior Legislature. Reduce by $65,000.*** Recommend deletion of support for the California Senior Legislature (CSL) and one position-equivalent proposed to assist the CSL because the function of the CSL duplicates the function of the California Commission on Aging, for a savings of $86,000 ($65,000 General Fund and $21,000 federal funds). 742

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.

The 1982 Budget Act authorized 5.6 positions for the CCA.

COMMISSION ON AGING—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $202,000 from the General Fund to support the CCA in 1983–84. This is an increase of $8,000, or 4.1 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 $370,000 in 1983–84. This is an increase of $8,000, or 2.2 percent, over estimated current-year expenditures. This increase is due to: (1) a price increase for operating expenses and equipment ($5,000), and (2) an increase in existing personnel costs ($3,000).

California Senior Legislature

We recommend deletion of support for the California Senior Legislature (CSL) and one position-equivalent proposed to assist the CSL because its functions duplicate those of the California Commission on Aging, for a savings of $86,000 ($65,000 in General Fund and $21,000 in federal funds).

The commission proposes to convene a California Senior Legislature (CSL) in October 1983. The commission estimates that the total cost of the CSL will be $70,000. This is $12,000, or 15 percent, less than estimated current-year expenditures for the CSL. To support the 1983 CSL, the budget proposes a $41,000 appropriation from the General Fund. This appropriation would support 59 percent of the total cost of the CSL in 1983–84. The remaining 41 percent ($29,000) would come from private sources, primarily contributions from individuals. In addition, the budget allocates one position-equivalent from the commission to assist the CSL.

Background. In 1981 and 1982, the commission convened sessions of the CSL. The commission advises that the purpose of the CSL is to acquaint senior citizens with the legislative process and develop model legislation on issues of interest to older persons. The Legislature expressed approval of these activities in Resolution Ch 91/80 (ACR 129) and Resolution Ch 87/82 (SCR 44), and requested that the commission sponsor the CSL annually. However, no proposal outlining the scope and duties of the CSL has ever been provided to the Legislature by the administration, nor has the CSL been evaluated. Furthermore, there is no statutory authority or requirement to convene a CSL.

CSL Duplicates Role of CCA. Our analysis indicates that the CSL duplicates the functions of the CCA. Chapter 1055, Statutes of 1976 authorizes the commission to perform various activities as the state advisory committee to the California Department of Aging and the principal state advocate on behalf of older persons. The activities include: (1) holding hearings, (2) gathering information, and (3) advising the Legislature, the Governor, and others on issues which affect older persons and proposals for changes in statute and regulation. The CSL performs many of these same functions. For example, the CSL receives local input on issues, meets to develop legislative proposals, sets legislative priorities, and, through its Joint Rules Committee, advocates their passage during the legislative process. Our analysis indicates that the two groups have the same function with respect to senior advocacy and that the advocacy role of the CSL duplicates the statutory function of the commission.

Because the function of the CSL duplicates the statutory function of the CCA, we recommend deletion of General Fund support for the CSL and deletion of one position-equivalent allocated by the commission to assist the CSL, for a savings of $86,000 ($65,000 General Fund and $21,000 federal funds).

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 4200 from the General Fund and the Federal Trust Fund — Budget p. HW 22

Requested 1983–84	$67,351,000
Estimated 1982–83	68,598,000
Actual 1981–82	67,058,000
Requested decrease (excluding amount for salary increases) —$1,247,000 (—1.8 percent)	
Total recommended reduction	$413,000
Recommendation pending	$66,938,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4200-001-001	Support	General	$5,013,000
4200-001-890	Support	Federal	(2,066,000)
4200-101-001	Local assistance	General	62,338,000
4200-101-890	Local assistance	Federal	(30,683,000)
Totals			$67,351,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Alcohol and Drug Abuse Block Grant. Withhold recommendation on $102,583,000 ($66,938,000 from the General Fund, $32,749,000 in Federal Funds, and $2,896,000 in reimbursements) proposed for the state block grant, pending receipt of additional information. — 746
2. ***Quality Assurance. Reduce by $413,000.*** Recommend deletion of eight positions proposed for the Quality Assurance Project because the department has failed to provide documentation that it can carry out proposed activities, for a General Fund savings of $413,000. — 750

GENERAL PROGRAM STATEMENT

The Department of Alcohol and Drug Programs (DADP) is responsible for directing and coordinating the state's efforts 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 220 authorized positions in the current year.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

ANALYSIS AND RECOMMENDATIONS

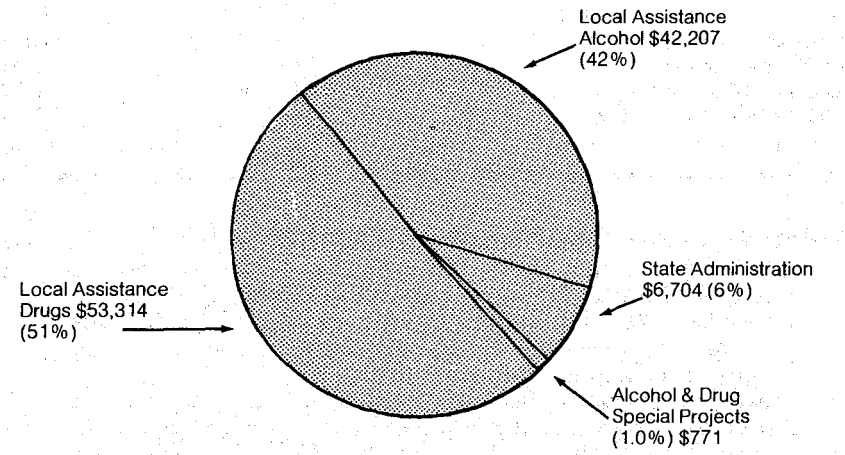
The budget proposes $102,996,000 from all funds for substance abuse programs. This includes $32,749,000 from federal funds and $2,896,000 from reimbursements.

The budget proposes two appropriations from the General Fund totaling $67,351,000 for support of department activities in 1983–84. This is a decrease of $1,247,000, or 1.8 percent, below estimated current-year expenditures. The decrease, however, makes no allowance for the cost of any salary or staff benit increase that may be approved for the budget year.

Chart 1 shows total proposed expenditures for alcohol and drug programs in 1983–84. It shows that $53,314,000, or 51 percent of the $102,996,000, is proposed for drug programs $42,207,000, or 42 percent, is proposed for alcohol programs, and $7,475,000, or 7 percent, is proposed for state administration and special projects.

Chart 1

Department of Alcohol and Drug Programs
Total Projected Expenditures: $102,996
All Funds 1983–84 (in thousands)



- ***Reduction in State Operations.*** State operations are budgeted to decline by $2,217,000 ($1,552,000 from the General Fund and $665,000 from federal funds), or 24 percent, as a result of the implementation of a state alcohol and drug block grant.
- ***Staffing for Quality Assurance Unit.*** The department proposes $413,000 from the General Fund to permanently establish a quality assurance unit. This unit will attempt to generate third party insurance payments by conducting alcohol program certifications (discussed below).
- ***Continuation of Contract with EDD.*** The budget proposes to continue funding for the contract with the Employment Development Department (EDD) to certify specified alcohol programs which serve clients who receive state disability insurance benefits ($125,000).

Table 1 shows the changes proposed in the department's budget for 1983–84, by funding source. The most important of these changes are:

Table 1
Department of Alcohol and Drug Programs
Proposed 1983–84 Budget Changes
All Funds
(in thousands)

	General Fund	*Federal Funds*	*Reimbursements*	*Total*
1982–83 Current Year Revised Baseline Adjustments	$68,598	$31,839	$2,737	$103,174
A. Personnel Costs				
1. Salaries	6	—	13	19
2. Restore Staff Benefits	179	43	5	227
B. Price Increase	100	1,526	—	1,626
C. Planning Estimates Adjustments				
1. CALSTARS	20	—	—	20
2. Other	—	6	16	22
D. Quality Assurance Demonstration Project..	−413	—	—	−413
Total Baseline Adjustments	−$108	$1,575	$34	$1,501
Program Change Proposals				
A. Block Grant Program	−1,552	−665	—	−2,217
B. Quality Assurance	413 [a]	—	—	413
C. Employment Development	—	—	125	125
Total Program Change Proposals	−$1,139	−$665	$125	−$1,679
Total Budget Changes	−$1,247	$910	$159	−$178
Total 1983–84 Proposed Expenditures	$67,351	$32,749	$2,896	$102,996
Change from Estimated Current Expenditures:				
Amount	−$1,247	$910	$159	−$178
Percent	−1.8%	2.9%	5.8%	−0.2%

[a] Reflects Continuation of Quality Assurance Unit.

Report on Legislatively Mandated Publications

Chapter 1632, Statutes of 1982 (AB 2960), requires each state agency to identify in its 1983–84 budget request every state publication produced by the agency which is legislatively mandated and requires 100 or more employee hours to produce. The act also requires each agency to recommend which of these publications, if any, should be discontinued.

The department has identified the following four reports as falling in this category: (1) Federal Block Grant Report, (2) Statewide Alcohol Plan and Annual Report, (3) Statewide Drug Plan and Annual Report, and (4) Annual Report on the School-Community Primary Prevention Program. The department recommends that each of these publications be continued. We concur with the department's recommendation.

Reports on Implementation of the Federal Substance Abuse Block Grant Have Been Delayed. Chapter 1343, Statutes of 1982 (AB 3295), along with the 1982 Budget Act, require the department to submit a series of reports to the Legislature regarding the implementation of the federal alcohol and drug block grant. The required reports are listed in Table 2. At the time this *Analysis* was written, the Legislature had not received the

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

required reports. The department advises that these reports will be submitted to the Legislature prior to budget hearings.

Table 2

1982–83 Federal Block Grant Information

Report/Content	*Statutory Authority*	*Due Date*
Standard definitions of service units and information on citizen participation.	Ch 1343/82	11/30/82 [a]
Current-year funding and impact on service population.	Ch 1343/82	1/10/83
Planned disbursements to local agencies.	Ch 1343/82	1/10/83
Limitation on state, county and provider administrative costs.	1982 Budget Act	1/30/83

[a] The department has advised that the due date for the report is March 1, since a November 30 deadline would have required submission of the report prior to the effective date of Chapter 1343 on January 1, 1983.

ALCOHOL AND DRUG STATE BLOCK GRANT

We withhold recommendation on $102,583,000 ($66,938,000 from the General Fund, $32,749,000 in Federal Funds, and $2,896,000 in reimbursements) proposed for the Alcohol and Drug State Block Grant, pending the receipt of additional information regarding the personnel, program, and statutory changes proposed to the block grant.

The budget proposes to establish a state block grant for alcohol and drug programs, effective July 1, 1983. The purpose of the block grant, according to the budget, is to allow local governments to exert "more control over activities which are more appropriately conducted at that level."

The budget does not contain any information regarding how the block grant will be administered, or which functions will be eliminated or restructured as a result of the proposal. The budget indicates that legislation will be introduced in the spring to make the necessary statutory changes to implement the block grant, effective July 1, 1983.

The following discusses (1) how alcohol and drug programs are now administered in California, (2) the number of persons receiving services, and (3) the potential fiscal and administrative impact of the proposed state block grant.

Current Program Administration

Role of Federal Government. The Omnibus Budget Reconciliation Act of 1981 consolidated funding for alcohol and drug abuse programs with funding for mental health programs to create the alcohol, drug abuse, and mental health (ADAMH) block grant. The effect of the Omnibus Budget Reconciliation Act was to remove the federal government from direct administration of state programs.

The act, however, restricted the state's use of federal block grant funds in the following manner:

- At least 35 percent must be spent for alcohol programs.
- At least 35 percent must be spent for drug programs.
- Thirty 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.
- Federal funds may not be used to replace nonfederal funds.

In addition, states are required to submit an annual report on the use of funds. The federal government proposes to audit annually a limited number of states to determine the extent to which states are complying with the federal requirements.

State Role. Chapter 679, Statutes of 1979, and Chapter 1089, Statutes of 1980, established a statewide system to deliver alcohol and drug program services. In addition, these acts specified the state and county roles in administering the programs and allocating funds.

The DADP is responsible for directing the state's efforts to reduce alcohol and drug abuse. Chapters 679 and 1089 authorized the department to allocate funds, to review and approve county plans, and to provide for program monitoring, auditing of county programs, and technical assistance to counties.

County Role. The counties are responsible for planning and administering alcohol and drug services at the local level. Each county establishes its program priorities based on state standards and regulations. Counties provide services either directly through county facilities or through contracts with private providers. In the current year, counties frequently provide out-patient and prevention services through county facilities. Counties typically contract with providers for residential and detoxification services. Program funds are subvened to counties on the basis of historical allocation levels.

Program Services Provided to Clients. Although Chapters 679 and 1089 do not require counties to provide alcohol or drug abuse services, all counties have chosen to provide such services individually or in cooperation with other counties. Because counties which choose to operate a substance abuse program are not required to provide a specified level of service, there are significant variations among counties in the type and levels of services provided.

The department advises that in 1981–82, the last year for which data are available, a total of 127,763 persons sought alcohol and drug abuse treatment services. Of these, 88,394, or 69 percent, received alcohol program services and 39,369, or 31 percent, received drug program services.

Fiscal Effects of Proposal. At the time this *Analysis* was written, only limited information was available on the fiscal impact of the administration's proposal to establish a state alcohol and drug block grant. Table 3 identifies the total amount of funds shown in the budget for alcohol and drug programs in 1982–83 and 1983–84.

The administration proposes a reduction of $2,217,000, or 24 percent, in the amount of funds allotted for state administration. Of this reduction, $1,552,000 would be in General Fund support and $665,000 would be in federal funds. These reductions reflect the elimination of 106 positions authorized for state administration in the current year. The budget assumes that it will take up to 6 months to achieve the entire reduction. The budget, however, does not identify the specific positions which will be eliminated. Until the administration has developed a plan for reducing administrative staff in the department, we will be unable to advise the Legislature on the accuracy of the savings anticipated by the budget in 1983–84.

The impact of the administration's proposal on local assistance remains unclear. For example, the administration has not indicated whether it intends to consolidate programs or funds beyond those consolidated in the

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

current year pursuant to the federal block grant. In addition, we are unable to determine whether the administration proposes changes in the distribution of funds between alcohol and drug programs or among counties.

Table 3
Substance Abuse Funds [a]
1982–83 and 1983–84
(in thousands)

	1982–83	1983–84	Difference Amount	Difference Percent
Federal Funds				
Local assistance—alcohol	$9,115	$9,571	$456	5.0%
Local assistance—drugs	20,107	21,112	1,005	5.0
Totals, Local Assistance	$29,222	$30,683	$1,461	5.0%
State Operations	$2,617	$2,066	−$551	−21.0%
General Fund				
Local assistance—alcohol	32,223	32,636	413	1.3
Local assistance—drugs	29,702	29,702	-	-
Totals, Local Assistance	$61,925	$62,338	$413	0.6%
State Operations	$6,673	$5,013	−$1,660	−24.9%
All Funds				
Local assistance—alcohol	41,338	42,207	869	2.1
Local assistance—drugs	49,809	50,814	1,005	2.0
Totals, Local Assistance	$91,147	$93,021	$1,874	2.1%
Totals, State Operations	$9,290	$7,079	−$2,211 [b]	−23.8%
Totals	$100,437	$100,100	−$337	−0.3%

[a] Excludes reimbursements.
[b] This amount differs from the proposed savings of $2,217,000 because of the manner in which the administration arrived at its estimate of savings.

The administration estimates that total funds for local assistance will increase by $1,874,000, or 2.1 percent, between 1982–83 and 1983–84. Of this amount, $1,461,000 would come from federal funds and $413,000 would come from the General Fund.

Our analysis indicates that these increases are unlikely to occur, for the following reasons.

First, alcohol programs would not receive a General Fund increase of $413,000 even if the budget were approved as submitted because funds for the state-administered Quality Assurance program were erroneously allocated to local assistance. If these funds are properly accounted for, the level of local assistance proposed for 1983–84 is identical to the level estimated for the current year.

Second, the budget assumes an increase in federal funds of $1,461,000, or 5 percent, to provide a cost-of-living adjustment for local assistance programs. We do not believe, however, that this assumption is reasonable. Federal allocations for the last three years have not included adjustments for inflation, and the information available to us at the time this *Analysis* was prepared indicated that the department can expect no increase in the level of total funding for substance abuse programs in federal fiscal year 1984.

Cost-of-Living Adjustments (COLAs). The budget proposes no General Fund COLA for local assistance programs. Instead, the administration

indicates that funds available for local *programs* can be expected to increase because of reduced county administrative costs made possible by the elimination of various state requirements. The proposal, however, does not identify which requirements will be eliminated.

Administrative Impact of the Block Grant. Because the budget contains no details on how the state block grant program will be administered in 1983–84, we are unable to evaluate its potential impact on program administration and service delivery. We believe, however, that there are a number of issues which the Legislature needs to consider during its deliberations on the proposal:

1. The department currently provides funds to counties, based on prior-year allocations. In order to receive its allocation, a county must submit to the state a plan and budget approved by the local advisory board and the County Board of Supervisors. The department currently has the authority to approve or disapprove county plans, and to delay or deny an allocation of alcohol and drug program funds to a county. It is unknown whether the department will continue to perform these activities under the state block grant.
2. As pointed out above, federal law places various restrictions on the allocation of federal ADAMH block grant funds. Currently, the state is able to ensure that those restrictions are met because the DADP controls the allocation of federal funds statewide. The budget does not indicate how the state will continue to meet these federal requirements under the state block grant.
3. The department and counties currently are developing statewide standards for alcohol and drug abuse programs, in order to ensure minimum standards of services throughout the state. The department now has the authority to monitor specified county programs in order to determine whether the programs are complying with these standards. We are unable to determine to what extent the state will be able to ensure minimum standards of services among counties if the state role in monitoring programs and counties is significantly reduced.
4. As noted above, the administration's proposal would reduce staffing for the DADP by 48 percent below the baseline estimate for the budget year. If the Legislature adopts the state block grant for substance abuse programs, it is possible that additional savings would be generated by consolidating state administration of substance abuse programs with administration of mental health programs. Because the federal government allocates funds to the state for substance abuse and community mental health services through the ADAMH block grant, one state department could administer these funds more efficiently than two such departments. Moreover, the programs managed by the DADP and the Department of Mental Health frequently are administered at the county level by the same department.
5. Under current state law, the state provides 90 percent of the substance abuse funds and the counties provide a 10 percent match. The budget does not indicate whether this matching requirement will change under the state block grant. In addition, there is no mention of how the block grant will treat revenues for alcohol programs which currently are controlled exclusively by the counties. Specifically, counties in 1981–82 budgeted for alcohol programs approximately $11.2 million in revenues generated by fines levied in connection with specified driving offenses. (These monies are frequently referred to as "Statham Revenues.")
6. The department currently allocates a minimum state grant of $110,-

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

286 ($46,686 for alcohol programs and $63,600 for drug programs) to each of 15 small counties. The department also provides monitoring, technical assistance, and auditing functions to these counties because they have fewer local resources to draw on in supporting administrative services. The budget does not indicate whether the small counties will continue to receive a minimum level of funds, and if so, the amount of that allocation. In addition, it is unclear whether the state will continue to provide technical assistance to these counties.

Conclusion. The administration proposes to make major changes in the administration of substance abuse programs in the budget year. The budget, however, does not contain sufficient information for the Legislature to evaluate and act on the proposal. Accordingly, we recommend that prior to budget hearings the Department of Finance provide the Legislature with the following information:

1. A list identifying the number, classification, and function of authorized positions proposed for elimination as a result of the block grant.
2. The timetable for implementing staff reductions.
3. An analysis of the fiscal impact of transferring the remaining staff and functions of DADP to the Department of Mental Health.
4. A proposal for administering the state block grant. This should describe state and county roles for administering, monitoring, auditing, and enforcing standards in the program, and for certifying programs under an agreement with EDD. In addition, the proposal should identify statutory reporting and planning requirements which will be retained and those which will be eliminated.
5. A description of how local assistance funds will be administered, including (a) any changes in the 10 percent county match requirement, (b) changes in the allocation of funds between alcohol and drug programs, (c) changes in the allocation among counties, and (d) the impact of the proposal on all funding sources, including $6.0 million in federal funds allocated to alcohol special projects which formerly were administered by the National Institute on Alcoholism and Alcohol Abuse, $2.5 million in funds administered by drug programs under Section 5701 of the Welfare and Institutions Code (Short-Doyle Act), and "Statham Revenues" collected by counties.
6. A proposal to ensure continued compliance with federal restrictions on the use of federal block grant funds.
7. An analysis of the potential impact on program recipients of the proposal, including the minimum standards of program services.
8. An analysis of the impact of the block grant on reimbursements for state operations from the state Disability Insurance fund.

Pending receipt of this information, we withhold recommendation on $102,583,000 ($66,938,000 from the General Fund, $32,749,000 in federal funds, and $2,896,000 in reimbursements) proposed for the alcohol and drug state block grant.

Quality Assurance Program

We recommend deletion of eight positions proposed for the Quality Assurance program because the department has failed to demonstrate that it can carry out the proposed activities, for a General Fund savings of $413,000.

The budget proposes to permanently establish 8.0 positions for the Qual-

ity Assurance program in 1983–84, at a General Fund cost of $413,000.

Background. Chapter 679, Statutes of 1979, authorized the department to certify that alcohol recovery homes meet minimum levels of program quality (referred to as "quality assurance"). The act did not require alcohol recovery homes to be certified, but simply authorized certification on a voluntary basis. The department established 2.5 positions to make certifications available to programs.

The 1981 Budget Act authorized the department to expand the quality assurance function to 8.0 positions for a two-year demonstration project. The purpose of the demonstration project was (1) to make certification available to all alcohol recovery facilities, not just recovery homes, and (2) to test the use of the certification process to generate third-party payments, by expanding services to private clients with insurance in alcohol recovery facilities. These facilities are often referred to as "social model" programs, because they rely on the use of peer counseling to provide services, rather than on drugs or medical personnel.

Current-Year Activities. The department has divided the activity of the quality assurance project into two units: the certification unit and the resource development unit. The certification unit is scheduled to certify 276 facilities in the current year. In addition, the unit is in the process of establishing minimum standards for alcohol programs. The resource development group attempts to increase the number of third-party payments to alcohol recovery facilities by: (1) promoting social model programs to insurers and private companies and (2) conducting training for alcohol program directors on how to upgrade and market service for the private sector. The activities of the resource development unit to increase third-party payments are limited to four counties. In addition, all staff collect data on the progress of the quality assurance effort.

To date, the department has conducted provider training and promoted social model programs to the private sector in each of the four demonstration counties. The department has certified, however, only 153 providers and has not yet finalized its minimum standards of quality for alcohol recovery facilities. The department expects to complete these standards by June 30.

Budget Proposal. The budget proposes to continue the program certifications at the rate of 276 annually, and to establish a mechanism for making the quality assurance effort self-supporting, beginning in 1985–86, by implementing a fee for state certification.

No Fee Revenue Anticipated. Pursuant to the *Supplemental Report of the 1981 Budget Act,* the department submitted an interim report to the Legislature on the Quality Assurance program on June 30, 1982. That report indicated that the department did not anticipate "significant dollar increases in third-party reimbursements in the near future." The report indicated, however, that evidence of the trend toward increased revenue from this source would be collected by conducting various studies. The department proposed to collect the following data: (1) the number of referrals of insured employees from private companies to publicly funded alcohol programs, (2) the number of insured clients in nonhospital programs, and (3) the number of service agreements between publicly funded programs and employers, labor unions, and others. The interim report indicated that the department would provide this information in a series of interim and final reports.

None of this information has been provided in support of the department's proposal to permanently establish positions for the Quality Assur-

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

ance program. The department could not advise us as to when the information will be available.

Insufficient Documentation. We do not question the desirability of assuring that alcohol program services at least meet minimum quality standards. Based on the performance of the project to date, however, we question whether the department can achieve the goals identified in its proposal. Our concerns can be summarized as follows:

- The department has not provided any data to indicate that its efforts have resulted in an increase in third-party payments.
- The department has not established its certification standards or certified as many providers as originally proposed.
- The department has not indicated to what extent providers, who now receive certification at no cost, would be willing to pay a fee for voluntary certification. In addition, there are no data to suggest that the absence of certification, under current conditions, reduces the extent to which a provider can collect third-party payments.

As a result of these deficiencies in the department's proposal, we are unable to determine whether the department can carry out the proposed activities or whether the successful completion of proposed activities will result in increased revenues from third-party reimbursements for publicly funded alcohol programs. We therefore recommend a General Fund reduction of $413,000 and the deletion of 8.0 positions proposed for continuation of the quality assurance program.

Health and Welfare Agency

ADVISORY COMMITTEE ON CHILD DEVELOPMENT PROGRAMS

Item 4220 from the General Fund and Federal Trust Fund — Budget p. HW 28

Requested 1983–84	$144,000
Estimated 1982–83	184,000
Actual 1981–82	120,000
Requested decrease (excluding amount for salary increases) —$40,000 (—21.7 percent)	
Total recommended reduction	None

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4220-001-001—Support		General	$130,000
4220-001-890—Support		Federal Trust	14,000
Total			$144,000

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 during the current year by an executive secretary, an analyst, and clerical support for a total of 3.5 positions.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes appropriations of $144,000 from the General Fund and the Federal Trust Fund for support of the committee during 1983–84. Of this amount, $130,000 would come from the General Fund—a $5,000, or 4 percent, increase from estimated 1982–83 expenditures. The other $14,000 would come from the Federal Trust Fund. The federal funds would finance the final year of a two-year pilot demonstration project designed to educate consumers and health professionals as to how to select quality infant and child day care programs. Table 1 displays the funding changes between 1982–83 and 1983–84.

Our analysis of the budget request indicates that the amount proposed is reasonable, and accordingly, we recommend approval.

Table 1

Advisory Committee on Child Development Programs
Summary of Changes from 1982–83 Budget

	Federal Funds	*General Fund*	*Total*
1982–83 Base Budget as Appropriated	—	$125,000	$125,000
Pilot Demonstration Project	$59,000	—	59,000
1982–83 Base Budget	$59,000	$125,000	$184,000
Changes to 1982–83 Base Budget:			
Population and Price Changes		$2,000 (1.6%)	$2,000
Restore employee compensation reduction		3,000 (2.4%)	3,000
Pilot Demonstration Project [1]	−$45,000 (76.3%)		−$45,000
Total 1983–84 Support	$14,000	$130,000	$144,000

[1] The Pilot Demonstration Project is a two-year federally-funded special project which will be completed during the budget year.

Health and Welfare Agency
DEPARTMENT OF HEALTH SERVICES

Item 4260 from the General Fund and various other funds — Budget p. HW 30

Requested 1983–84	$3,085,417,000
Estimated 1982–83	3,328,195,000
Actual 1981–82	3,196,583,000
Requested decrease (excluding amount for salary increases) $242,778,000 (−7.3 percent)	
Total recommended reduction	$112,010,000
Recommendation pending	$1,941,574,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4260-001-001	Department Support	General	$85,613,000
4260-001-014	Department Support	Hazardous Waste Control	5,957,000
4260-001-044	Department Support	State Transportation	310,000
4260-001-190	Department Support	Energy and Resources	347,000
4260-001-203	Department Support	Genetic Disease Testing	11,773,000
4260-001-455	Department Support	Hazardous Substances	10,000,000
4260-001-890	Department Support	Federal	(199,933,000)
4260-001-900	Department Support	Local Health Capital Expenditure	197,000
4260-101-001	Medi-Cal Local Assistance	General	2,007,754,000
4260-101-890	Medi-Cal Local Assistance	Federal	(1,877,591,000)
4260-106-001	Cost-of-Living Adjustment	General	57,161,000
4260-106-890	Cost-of-Living Adjustment	Federal	(30,474,000)
4260-111-001	Preventive Health Local Assistance	General	909,835,000
4260-111-890	Preventive Health Local Assistance	Federal	(19,198,000)
—	Reversion of special needs and priorities	General	−2,200,000
—	Prior-year balance available	Hazardous Substances	1,500,000
—	Repayment of General Fund loan to Genetic Disease Testing Fund	General	−2,350,000
—	Repayment of General Fund loan to Hazardous Substance Account	General	−480,000
	Total		$3,085,417,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Department Support

1. Reduction of 14 Attorneys. Recommend that the administration submit to the fiscal committees, by April 1, 1983, additional information on (a) how the proposed reduction of 14 department attorneys and 4 legal stenographers will be implemented and (b) the anticipated effect of the reduction on the department's programs. We withhold recommendation on the reduction, pending review of this information. — 765
2. ***Classification of Personnel. Reduce Item 4260-001-001 by $146,000 and Item 4260-001-890 by $125,000.*** Recommend reduction in amount budgeted for personal services to reflect savings resulting from reclassification of personnel in — 767

DEPARTMENT OF HEALTH SERVICES—Continued

partment advise the fiscal committees of its plans for implementing the Neural Tube Defects project in the current and budget years, and submit a revised fund condition statement for the Genetic Disease Testing Fund.

14. Newborn Screening. Recommend that three positions requested to resolve billing disputes with providers be established on a limited-term basis because the positions may not be needed on an ongoing basis. 800
15. Family Repayments. Recommend that the department submit to the fiscal committees by April 1, 1983, a proposal for an alternative family repayment system for the California Children's Services and the Genetically Handicapped Persons program, because the existing repayment system has major problems and deficiencies. 802
16. Cost Control under the California Children's Services Program. Recommend that the department provide to the fiscal committees by March 15, 1983, a copy of Los Angeles County's length-of-stay criteria, an analysis of how the county's criteria differs from statewide criteria, and a discussion of the effects on counties if they were required to (a) use the Los Angeles length-of-stay criteria and (b) conduct on-site visits of children requiring extended hospitalization every 30 days. 804
17. Legislative Reporting Requirements. Recommend adoption of Budget Bill language freezing the Toxic Substances Control Division's budget on September 1, 1983, and quarterly thereafter, if legislatively required reports are not submitted. Further recommend that by April 1, 1983, the department submit to the Legislature a plan of correction explaining why reports have been late and describing the steps being implemented to correct the problem. 813
18. Federal Funding for Hazardous Waste Management. Recommend adoption of supplemental report language requiring the department to negotiate an agreement with the Environmental Protection Agency providing for the state to receive federal funding on a state fiscal year basis, in order to simplify operation of the program and facilitate legislative review. 817
19. Comprehensive Work Plan for Hazardous Waste Management. Recommend that by April 1, 1983, the department submit a comprehensive work plan for the Hazardous Waste Management program. 819
20. Surveillance and Enforcement. Withhold recommendation on $430,000 from the Hazardous Waste Control Account (Item 4260-001-014) and 10 requested new positions until the department submits workload requirements and productivity measures for permitting, surveillance, and enforcement staff and provides workload justification for the new positions. 821
21. Site Closure and Maintenance Plans. Recommend that by April 1, 1983, the department and the State Water Resources Control Board develop a joint work plan regarding the site closure and maintenance plan review established 822

DEPARTMENT OF HEALTH SERVICES—Continued

held in federal fiscal year 1982 being paid to the state, as called for by current federal law.

33. ***Federal Matching Reduction—Technical Error. Reduce Item 4260-101-001 by $3,264,000 and increase Item 4260-101-890 by $3,264,000.*** Recommend General Fund reduction and federal fund increase to correct technical budgeting error. 854
34. Medi-Cal Lawsuits. Recommend adoption of Budget Bill language prohibiting expenditures from Medi-Cal health care services appropriations for court orders that either (a) are not specifically identified by the budget or (b) are not based on a final decision regarding the merits of the case. 872
35. Notification of Rule Changes. Recommend addition of language contained in the 1982 Budget Act requiring that the Legislature be notified of Medi-Cal rule changes expected to cost $100,000 or more. 873
36. Hospital Contracts Delay. Recommend Director of the Department of Health Services advise the Legislature, during hearings on the 1983 Budget Bill, of the reasons for delays in implementing contracts negotiated by the Governor's Office of Special Health Care Negotiations. 874
37. Hospital Contracts—May Revision. Recommend Department of Finance reflect the estimated fiscal effects of hospital contracts in the May revision of Medi-Cal expenditures. 875
38. ***Federal Refugee Funds. Reduce Item 4260-101-001 by $9,458,000 and increase Item 4260-101-890 by $9,458,000.*** Recommend General Fund reduction to reflect receipt of anticipated, but unbudgeted, federal funds. Further recommend that Budget Bill language be adopted allowing these funds to be spent for Medi-Cal program costs. 877
39. Beneficiary Cost-of-Living Adjustment. Recommend the department include in the May revision an estimate of Medi-Cal program costs and savings associated with granting no increase to SSI/SSP payments and a 5 percent increase to AFDC payments. 877
40. ***Provider Rate Increase. Reduce Item 4260-106-001 by $1,582,000 and Item 4260-106-890 by $2,033,000.*** Recommend reduction to correct technical error in calculation of 3 percent provider rate increase. 881
41. ***Special Income Deduction. Reduce Item 4260-101-001 by $12,610,000 and Item 4260-101-890 by $10,115,000.*** Recommend budget be revised to reflect additional savings from the elimination of the special income deduction, because the number of medically needy persons applying for SSI/SSP benefits has been significantly less than anticipated. 881
42. Dental Contract. Recommend the administration submit to the Legislature by April 1, 1983, the costs of and source of funds for the new dental contract. 883
43. Mandatory Prepaid Health Plan Enrollment. Recommend the administration submit by April 1, 1983, information on how it intends to implement the proposed mandatory prepaid health plan enrollment program. 883

DEPARTMENT OF HEALTH SERVICES—Continued

workload associated with county health services for medically indigent persons be supported by reimbursements from counties, for a savings of $184,000 ($104,000 General Fund).

56. County Recovery Contracts. Recommend enactment of legislation to increase from 10 to 25 percent the amount of Medi-Cal benefit recoveries in excess of costs that counties may retain. Further recommend legislation limiting maximum reimbursements for county costs of recovery effort to amount of General Fund recoveries. 909

57. ***Dual Choice. Reduce Item 4260-001-001 by $102,000 and Item 4260-001-890 by $102,000.*** Recommend deletion of two positions because a portion of the department's dual-choice functions will no longer be required with mandatory prepaid health plan enrollment. 910

Department of Health Services
Table of Contents

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) programs that complement and support the activities of local health agencies controlling environmental hazards, preventing and controlling disease, and providing health services to populations that have special needs and (b) state-operated programs such as licensure of health facilities and certain types of technical personnel.

The department has 4,687.7 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $5,275,130,000 from all funds for support of Department of Health Services programs in 1983–84. This is a decrease of $400,214,000, or 7.1 percent, below estimated current-year expenditures.

The budget proposes departmental expenditures of $3,055,333,000 from the General Fund in 1983–84, which is a decrease of $240,984,000, or 7.3 percent, below estimated current-year expenditures. The size of this reduction, however, will decrease to the extent any salary or staff benefit increases are approved for the budget year.

The budget proposes changes in expenditures in each of the four major budget categories, as follows (all funds):

- Support: up $5,987,000 (3.2 percent)
- Special projects: up $13,757,000 (11 percent)
- Preventive health local assistance: up $394,424,000 (71 percent)
- Medi-Cal local assistance: down $814,382,000 (17 percent)

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

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

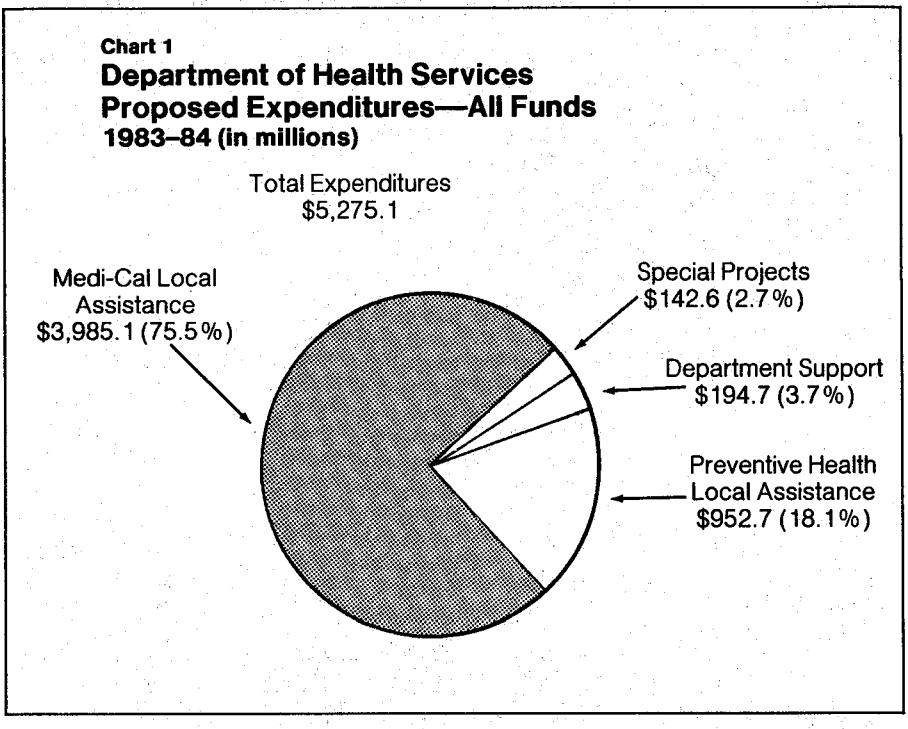
	Actual 1981–82	*Estimated 1982–83*[a]	*Proposed 1983–84*	*Change*	
				Amount	*Percent*
Department support	$175,822	$188,736	$194,723	$5,987	3.2%
Special projects	81,934	128,880	142,637	13,757	10.7
Preventive health local assistance	501,527	558,297	952,721	394,424	70.6
Medi-Cal local assistance	4,677,643	4,799,431	3,985,049	−814,382	−17.0
Totals	$5,436,926	$5,675,344	$5,275,130	−$400,214	−7.1%
General Fund	*$3,159,408*	*$3,296,317*	*$3,055,333*	*−$240,984*	*−7.3%*
Federal funds	*2,221,669*	*2,273,813*	*2,127,196*	*−146,617*	*−6.4*
Hazardous Substances Account	*−157*	*10,000*	*11,500*	*1,500*	*15.0*
Hazardous Waste Control Account	*2,785*	*6,179*	*5,957*	*−222*	*−3.6*
Genetic Disease Testing Fund	*8,802*	*9,652*	*11,773*	*2,121*	*22.0*
Local Health Capital Expenditure Account	*24,344*	*1,175*	*197*	*−978*	*−83.2*
Reimbursements	*17,669*	*71,661*	*61,329*	*−10,332*	*−14.4*
Other funds	*2,406*	*6,547*	*1,845*	*−4,702*	*−71.8*

[a] Support expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

The proposed $814,382,000 (17 percent) reduction in Medi-Cal local assistance expenditures (all funds) from the current-year level results primarily from full-year implementation of the 1982 Medi-Cal reform legislation. The decrease in Medi-Cal expenditures is offset in part by increased subventions to counties—which are funded through preventive health local assistance—for the provision of health care services to persons no longer eligible for Medi-Cal. The proposed increase of $394,424,000 (71 percent) in preventive health local assistance expenditures is entirely due to the increase in county subventions provided as a result of the Medi-Cal reform legislation.

DEPARTMENT OF HEALTH SERVICES—Continued

The distribution of the department's expenditures among the four major program categories is illustrated in Chart 1.



1. SUPPORT BUDGET

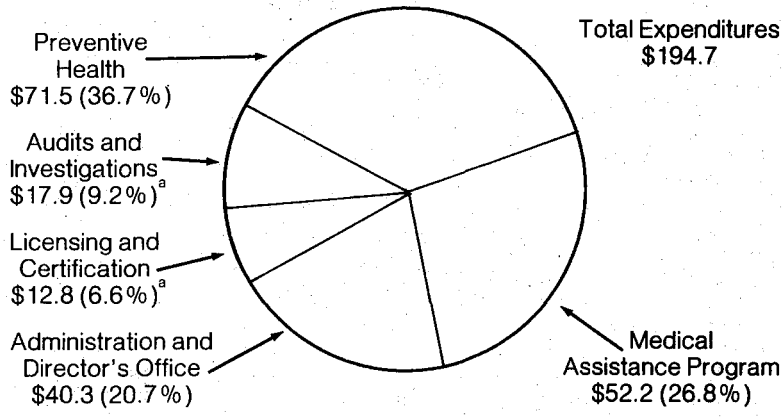
Department support is proposed at $194,723,000 (all funds) in 1983–84 and accounts for 3.7 percent of the department's budget.

The budget proposes support for 3,601.6 positions in the budget year (excluding those assigned to special projects), a decrease of 392.2, or 9.8 percent, below the number of authorized positions in the current year. This reduction results primarily from the proposed reduction of 320.8 positions that is made possible by the administration's proposal to consolidate a number of preventive health programs into a public health block grant, to be administered by the counties. Table 2 shows the number of positions and support expenditures proposed for the department in the budget year, by major organizational unit.

The distribution of the department's support funds among the five major organizational units is illustrated in Chart 2.

Chart 2

Department of Health Services
Proposed Department Support Expenditures—All Funds
1983–84 (in millions)



[a] Contains some Medical Assistance Program functions.

Table 2
Department of Health Services Support Positions and Expenditures (dollars in thousands)

Positions	*Actual 1981–82*	*Estimated 1982–83*[a]	*Proposed 1983–84*	*Change Number*	*Change Percent*
Preventive health services	1,381.6	1,476.0	1,135.8	−340.2[c]	−23.0%
Medical assistance	872.3	963.6	944.5	−19.1	−2.0
Licensing and certification	195.8	191.4	193.1	1.7	0.9
Audits and investigations	411.6	451.3	458.5	7.2	1.6
Administration and Director's office	870.4	911.5	869.7	−41.8	−4.6
Special projects	277.1	693.9	770.0	76.1	11.0
Totals	4,008.8	4,687.7	4,371.6	−316.1	−6.7%
Expenditures (all funds)[b]					
Preventive health services	N/A	$75,530	$71,539	−$3,991[c]	−5.3%
Medical assistance	N/A	44,303	52,254	7,951	17.9
Licensing and certification	N/A	12,212	12,784	572	4.7
Audits and investigations	N/A	16,775	17,878	1,103	6.6
Administration and Director's office	N/A	38,298	40,268	1,970	5.1
Technical budget error	—	1,618	—	−1,618	−100.0
Totals	$175,822	$188,736	$194,723	$5,987	3.2%

[a] Support expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.
[b] Data on 1981–82 department support expenditures are not available by department unit.
[c] Reflects a reduction of 320.8 positions and $9 million associated with the administration's proposal to establish a public health block grant.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 3 illustrates the main components of the increase proposed 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, 1982–83	$92,636	$190,408
Baseline adjustments for existing programs		
A. Increases in existing personnel costs		
1. Dental benefits	421	763
2. Merit salary adjustments	527	955
3. Retirement	−629	−1,140
4. Health benefits	557	1,008
5. Salary savings decrease	1,977	2,721
6. Shift differential	2	4
B. Increases in operating expenses and equipment		
1. Four percent price letter increase	1,356	2,907
2. Postage increase	72	206
C. One-time adjustments		
1. Travel reduction, Section 27.10	−263	−509
2. Limited-term positions	−1,299	−3,712
3. Office of Administrative Law support	−142	−266
4. Medi-Cal funding shifts and changes due to Medi-Cal reform	−631	-
5. Federal funds for expenditures in other departments	-	7,692
6. Other	−46	1,612
Budget change proposals		
1. Preventive health services	302	989
2. Medi-Cal	170	600
3. Public health block grant	−9,000	−9,000
4. Attorney reduction	−405	−1,023
Loan repayments		
1. Genetic Disease Testing Fund	−2,350	-
2. Hazardous Substances Account	−480	−480
Miscellaneous adjustments	8	988
Total adjustments	−$9,853	$4,314
Proposed budget, 1983–84	$82,783	$194,723

Salary Savings

The budget requests an increase of $2,721,000 ($1,977,000 General Fund) for personal services costs. This increase is based on the department's assumption that its salary savings will be 8 percent in 1983–84, rather than the 10.1 percent budgeted for 1982–83.

Definition of Salary Savings. The term "salary savings" describes *potential* personal services costs that will not be incurred due to vacancies in budgeted positions. Vacancies occur for various reasons, but primarily result from delays in filling vacated or new positions and delays in implementing new programs. Salary savings also result when positions are filled with personnel that are paid salaries lower than what their predecessors were paid.

Salary savings are expressed both in dollar terms and as a percentage of total personal services costs. For example, the department was budgeted for 3,433.4 positions in 1980–81. If each of these positions had been filled throughout the entire year, the department would have spent approximately $115.8 million for personal services. Due to vacancies and other factors, however, the department actually spent $103.2 million for person-

al services. Thus, salary savings in 1980–81 amounted to $12.6 million, or 10.9 percent of potential personal services costs.

Current-Year Salary Savings Problem. The 1982–83 budget anticipated salary savings of $10,444,000 ($5,776,000 General Fund), or 10.1 percent, of total authorized salaries and wages. This salary savings amount was based on the trend in actual salary savings for the department in recent years.

The Department of Finance indicates that the Department of Health Services cannot attain a 10.1 percent salary savings rate in the current year without deliberately holding positions vacant. Surveys conducted by the Department of Health Services indicate that vacancy rates had dropped from 13.5 percent on September 7, 1982, to 10.6 percent on December 15, 1982. The department indicates that vacancy rates dropped an additional 3.1 percent, to 7.5 percent, in the last two weeks of December, as program managers expedited hiring in anticipation of the hiring freeze.

As a result of lower-than-anticipated vacancy rates, the Department of Finance estimates that General Fund expenditures for personal services costs will be $937,000 more than the amount budgeted for 1982–83. On December 27, 1982, the Department of Finance notified the Legislature, in accordance with Section 28.50 of the 1982 Budget Act, that it had authorized the Department of Health Services to continue filling vacant positions, despite a potential deficiency in its personal services budget for the current year. The administration indicates that it will propose deficiency legislation allowing the department to use $937,000 in county health services special needs and priorities (SNAP) funding, in lieu of General Fund support, to cover the unbudgeted personal services costs.

Salary Savings Budgeted at 8 Percent for 1983–84. The budget requests $2,721,000 ($1,977,000 General Fund) for increased personal services costs in 1983–84. The increase is associated with the budget's proposal to reduce budgeted salary savings from 10.1 percent of personal services costs in 1982–83 to 8 percent in 1983–84.

Department data indicate that the vacancy rate in authorized department positions currently approximates 7.5 percent. The department also indicates that the rate at which personnel are vacating positions is lower than it has been in previous years. The department speculates that persons are more hesitant than usual to leave their jobs because of high unemployment rates in the private sector and fewer job openings in the public sector. For whatever reason, the salary savings that typically result from personnel turnover apparently are less than in previous years.

Based on our analysis, we believe that 8 percent is a prudent salary savings rate for the department, given current trends. We will, however, continue to monitor trends in the department's vacancy rate and advise the Legislature if any change in the salary savings rate is warranted.

Reduction of 14 Attorneys

We recommend that by April 1, 1983, the administration submit to the fiscal committees additional information on (1) how the proposed reduction of 14 department attorneys and 4 legal stenographers will be implemented and (2) the anticipated effect of the reduction on the department's programs. We withhold recommendation on this reduction, pending review of this information.

The budget proposes to reduce the department's in-house legal counsel staff by 14 attorneys and 4 legal stenographers for a savings of $773,000 ($405,000 General Fund). The reduction represents a 33 percent reduction in the number of attorneys and an 18 percent reduction in total staff of the Office of Legal Services. This reduction reflects the administration's policy decision to centralize the provision of legal services in the Depart-

DEPARTMENT OF HEALTH SERVICES—Continued

ment of Justice and is consistent with reductions in legal staff proposed in the budgets for other departments.

The department's Office of Legal Services is divided into four functional components: (1) administrative appeals, (2) appeals and suspensions, (3) Medi-Cal house counsel, and (4) preventive health house counsel.

1. ***Administrative Appeals Section.*** The Administrative Appeals Section, with 10 attorneys, conducts administrative hearings. Its primary function is hearing Medi-Cal provider audit appeals. It also conducts hearings involving disputes between prepaid health plans and emergency care hospital providers, provider suspensions from the Medi-Cal program, and audit appeals for the Department of Alcohol and Drug Programs. The section also coordinates the department's response to federal audits of Medi-Cal claims for federal financial participation (FFP) and assists the department's Medi-Cal Recoveries Branch on legal matters.

2. ***Appeals and Suspensions Section.*** The Appeals and Suspensions Section consists of 8 attorneys. In contrast to attorneys in the Administrative Appeals Section, who must act as objective hearing officers, the attorneys in this section represent the department as advocates in audit appeal hearings, negotiate settlements of cases before the cases are heard, and coordinate suspensions of Medi-Cal providers for fraudulent activity. The section also acts as counsel to the Audits and Investigations Division. Currently, $297 million in department audit exceptions to hospital Medi-Cal claims are being appealed. To date, the department has been successful in sustaining approximately 75–80 percent of its audit exceptions.

3. ***Medi-Cal House Counsel Section.*** The Medi-Cal House Counsel Section consists of 13 attorneys who advise and support the Medi-Cal program on legal matters. The section represents the department in disputes concerning contracts with the fiscal intermediary, prepaid health plan, dental, pilot project, and other contractors. The section reviews Medi-Cal regulations, interprets federal statute, and writes opinions in legal cases affecting the Medi-Cal program. The department received 4 of the 13 attorney positions and three related support positions to provide legal support on matters related to recent Medi-Cal reform legislation. The positions provide ongoing legal support in developing associated regulations, review and monitor negotiated hospital contracts, and provide support in litigation resulting from the Medi-Cal reforms. The department indicates that activities in this area to date have required the equivalent of six attorney positions.

Our analysis of workload associated with Medi-Cal reform measures indicates that the in-house counsel workload will be reduced as the reforms are more fully implemented. We estimate that a minimum of two attorneys in this section could be reduced without adversely affecting legal support for the department. Absent a detailed plan for reducing other positions, however, we have no basis for estimating the impact of other possible reductions in this section.

4. ***Preventive Health House Counsel Section.*** The Preventive Health House Counsel Section consists of 12 attorneys who review and draft legislation and regulations, provide written legal opinions and consultation to program staff, and support the Attorney General in suits against the department. The section's clients are the Toxic Substances Control program, other preventive health programs, and the Licensing and Certification program. This section also provides support to district attorneys in hazardous waste matters.

Detail on Proposed Reductions Needed. In the absence of a detailed proposal indicating how the reduction of 14 attorneys and 4 supporting positions will be implemented, we have no basis for predicting the impact of the proposed reduction on the department's program activities and the state's financial interest. Although many legal services currently performed by the department could be performed by the Attorney General, our analysis indicates that no additional funding is provided in the budget to support additional interdepartmental contracts for legal services.

Because a reduction in legal support available to the department could possibly result in additional costs to the state, we recommend that the administration submit additional information explaining how the proposed reductions will be accomplished and how department programs will be affected by the proposed reductions.

Adjustment for Improper Classification of Personnel

We recommend a reduction of $271,000 ($146,000 General Fund) in department support to reflect savings that will occur when the department complies with the State Personnel Board's requirements to correct improper classification of personnel.

The State Personnel Board (SPB) completed an audit of the department's personnel policies in November 1982. Of the department's 4,000 positions (excluding special projects), 314 (8 percent) were reviewed. The department was required to reclassify 27 percent of those reviewed. The majority of the adjustments involve cases in which incumbents are receiving higher salaries than their duties warrant.

The State Personnel Board indicates that most required classifications are completed within six months. Thus, by July 1983, the 80 misclassified positions should be reclassified, as required by the SPB. This will result in lower salary and staff benefit costs of $271,000 ($146,000 General Fund) in the budget year. Therefore, we recommend a reduction of $271,000 ($146,000 General Fund) in department support.

Legislatively Mandated Reports

We recommend that three reports proposed for termination by the department be continued because they provide information needed by the Legislature to monitor the department's programs.

Pursuant to Ch 1632/82, the department submitted its evaluation of 28 ongoing legislatively mandated reports that require 100 or more personnel-hours per year to produce. The department recommends that 22 of the 28 reports be continued and that 6 reports be discontinued.

Based on our analysis of the department's evaluations, we concur with the department's recommendation on the 22 reports recommended for continuation, and on 3 of the 6 reports recommended for termination. Our analysis indicates, however, that the other three reports recommended for termination should be continued. The 6 reports recommended for termination by the department, and our recommendations on each, are listed in Table 4.

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Table 4

Legislatively Mandated Reports Recommended for Termination by the Department of Health Services

Subject of Report	*Mandate*	*Department's Reason for Recommending Termination*	*Analyst's Recommendation*
Dental disease prevention	Ch 1134/79	Information available upon request	Terminate
Review of physician and dental reimbursement levels in Medi-Cal program	Ch 1207/76	Data presented annually to Legislature in other form	Terminate
Reports on family planning services	Ch 578/71	Data not used and inaccurate	Terminate
Prepaid health plans (PHPs)	Ch 1036/77	Concept of PHPs is proven	Continue: Reviews of cost-effectiveness remain important
Medi-Cal pilot projects	Ch 1036/77	Pilot projects have proven themselves	Continue: Projects require ongoing review by definition
Waivers of licensing regulations granted	Ch 1202/73	No waivers granted to date	Continue: Helps to ensure that equal treatment is given to all licensees

Equipment

We withhold recommendation on $994,000 in questionable equipment requests, pending further analysis.

The budget proposes $3,884,000 for equipment purchases, which is an increase of $652,000, or 20 percent, above estimated current-year expenditures for this purpose. The department maintains that this increase is needed to purchase additional laboratory equipment and because of changes in the toxic substances control program. The largest component of the request is $1,345,000 for the Toxic Substances Control program, which includes (1) $600,000 for prepositioned emergency response equipment, (2) $132,000 for protective and monitoring equipment for field staff, and (3) $359,000 for technical and scientific laboratory materials.

Our review of the proposed equipment expenditures identified $994,000 in equipment requests which do not appear justified or raise significant questions. Due to time constraints in the preparation of this analysis, we were not able to fully investigate these items. We therefore withhold recommendation on $994,000 in equipment requests, pending further analysis.

Technical Correction Needed to Reflect Receipt of Unexpected Federal Funds

We recommend a General Fund reduction of $635,000 and an increase in federal funds of the same amount because the budget does not reflect increased federal funds in the amount of $635,000 for the Licensing and Certification program.

The 1982 Budget Act appropriated $9,298,000 from the General Fund and $4,825,000 in federal funds for the Licensing and Certification program. Since enactment of the Budget Act, Congress increased funding for state certification of health facilities. As a result, California will receive $5,460,000 for this purpose in 1982–83, an increase of $635,000 over the amount budgeted.

In constructing its 1983–84 budget, the department neglected to reduce

the amount of General Fund support requirements in order to reflect the availability of the additional federal funds. Therefore, we recommend a General Fund reduction of $635,000 in department support and a corresponding increase in federal funds.

Overbudgeting for Postage

We recommend a reduction of $680,000 ($225,000 General Fund) from department support to eliminate funds for a one-time Medi-Cal information mailing during the current year that was budgeted erroneously for 1983–84.

The department received $680,000 ($225,000 General Fund) in the 1982 Budget Act to cover postage costs for special one-time mailings to Medi-Cal eligibles informing them of major changes in the Medi-Cal program. The budget proposes to continue funding the same level of mailings in 1983–84, even though the special one-time mailings will not be repeated. Therefore, we recommend a reduction of $680,000 ($225,000 General Fund) in department support.

2. LICENSING AND CERTIFICATION

The Licensing and Certification program develops, implements, and enforces state standards to promote quality health care in approximately 2,700 hospitals, clinics, long-term care facilities, home health agencies, and adult day health 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. Positions, expenditures, and funding for the program are summarized in Table 5.

Table 5
Licensing and Certification Expenditures
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change*	
				Amount	*Percent*
All funds	$13,607	$13,464	$14,212	$748	5.6%
General Fund	*$8,889*	*$8,004*	*$8,341*	*$337*	*4.2%*
Federal funds	*$4,718*	*$5,460*	*$5,871*	*$411*	*7.5%*
Positions	195.8	191.4	193.1	7.1	0.9%

Court Prohibits Collection of Licensing Fees

Chapter 327, Statutes of 1982 (SB 1326, the companion bill to the 1982 Budget Act), revised health facility licensing fees and established a mechanism for annually adjusting the fees through the budget process. At the time the measure was enacted, the fees were expected to produce approximately $7.1 million in General Fund revenue during 1982–83, as a partial offset to the $8.0 million in General Fund expenditures for the licensing program in 1982–83. To date, however, none of the additional funds anticipated by the Legislature have been collected by the department. This is because the Los Angeles County Superior Court has ruled that the department will be in contempt of the court's 1982 judgment in the CAREX case if it attempts to collect any fees.

In the CAREX case, the court ruled that the department (1) had not promulgated fee regulations on a timely basis in four previous years, thereby invalidating fee assessments, and (2) had promulgated fees at levels that were higher than authorized under the existing fee statute in four

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other years. The judge ruled that the department had overassessed facilities for licensing fees by approximately $22.3 million since 1974. The court enjoined the department from collecting any licensing fees under the Licensing and Certification program until it placed into a claimants' fund $18 million in fees already collected.

The department has appealed the court's decision in the CAREX case. Consequently, the order calling for the establishment of the claimants' fund will not become effective until the appeal is resolved.

Following passage of Chapter 327, the department concluded that the injunction in the CAREX case was not applicable to fee collections under the measure. It reached this conclusion on the basis that Chapter 327 establishes fees by statute rather than requiring that they be established annually via the regulatory process. The court, however, has ruled that *any* fee collections under the Licensing and Certification program, regardless of whether the fees are set by the Legislature itself or by the department pursuant to legislative authorization, would be in contempt of the injunction.

The Attorney General has filed a motion with the court requesting it to modify this ruling so that the state may begin to collect fees under the new licensing fee statute. If the judge does not modify his earlier ruling prohibiting fee collections under the new statute, the department will request the Court of Appeals to reverse this ruling. We have no basis for determining whether such an appeal would be successful, and thus whether $7.1 million in licensing fees can be collected in the current year, as the budget anticipates.

Licensing Fee Schedules for 1983–84 Have Not Been Submitted

We withhold recommendation on licensing and certification fees proposed for 1983–84, pending receipt of the two fee schedules that the department is required by existing law to submit for legislative review.

Chapter 327, Statutes of 1982, requires the department to submit a proposed health facility licensing fee schedule to the Legislature as part of its annual budget request. The act requires the department to set the licensing fees at a level sufficient to provide revenues in an amount equal to (1) the General Fund appropriation to the program as specified in the annual Budget Act, *plus* (2) the federal funds budgeted in the preceding fiscal year, *less* (3) the actual federal funds received in the preceding fiscal year.

Chapter 1597, Statutes of 1982 (AB 2841), requires the department to submit with its 1983–84 budget request, an additional fee schedule proposal that bases fees for each category of facility on the number of violations and the accumulated actual time spent by the department in licensing and monitoring facilities in that category.

At the time this *Analysis* was prepared, the department had not submitted to the Legislature either one of the two fee schedules required by existing law. Consequently, we have no basis at this time for evaluating the proposed level of fees under the Licensing and Certification program. Accordingly, we withhold recommendation on the level of fees proposed for 1983–84, pending receipt of the fee schedules that the department is required to submit.

3. PREVENTIVE HEALTH SERVICES

The Preventive Health Services program provides state support for California's public health programs. To administer these public health programs, the department maintains six divisions with the following responsibilities:

The Office of County Health Services and Local Public Health Assistance (a) distributes funds appropriated by AB 8 (Ch 282/79) to local health agencies, (b) distributes funds to counties for care of medically indigent persons, (c) administers state and federal subvention programs that provide funds for the support of local public health activities, (d) distributes funds for capital outlay projects to local health agencies, and (e) provides technical assistance in funding matters to local health departments.

The Community Health Services Division addresses the special needs of women and children through programs in Family Planning, Maternal and Child Health, Genetic Disease, 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 provisions of public health services in small rural counties and the funding of primary health care clinics.

The Toxic 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 infectious and chronic disease; (b) maintaining statistics on births, deaths, and other events; and (c) operating public health laboratories.

In addition, preventive health services staff administer a number of special projects. These projects, which are shown separately in the budget, are studies or demonstration projects which are 100 percent funded by the federal government, other state agencies, or other organizations.

Budget Proposal

Department Support. The budget proposes $87,207,000 (including overhead) for department support in connection with preventive health programs. (This amount excludes funding for special projects.) This is a decrease of $5,523,000, or 6.0 percent, below current-year expenditures. The decrease is due to the net effect of:

- A proposal to consolidate nine preventive health services categorical programs into a state public health block grant, to be administered by the counties. The budget proposes to eliminate $9 million from the General Fund and 320.8 of the 370.8 positions associated with the programs during the current year.
- An increase of $2,810,000, or 3.6 percent, to cover the added costs of benefits, merit adjustments, and operating expenses.
- An increase of $667,000, or 4.5 percent, in administrative overhead allocated to preventive health programs.

Table 6 displays staffing and operating support for each preventive health program in the current and budget years.

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Table 6
Preventive Health Services
Staffing and Operating Support

	Positions[b]			Operating Budget—All Funds (in thousands)		
	Estimated 1982–83	Proposed 1983–84	Percent Change	Estimated[c] 1982–83	Proposed 1983–84	Percent Change
County health services[a]	49.5	43.5	−12.1%	$1,725	$1,764	2.3%
Community health services[a]	284.9	285.1	0.1	10,857	11,052	1.8
Rural health[a]	122.4	119.9	−2.0	4,500	4,694	4.3
Toxic substances control[a]	351.0	323.0	−8.0	23,800	24,241	1.9
Environmental health[a]	306.7	307.7	0.3	12,171	12,536	3.0
Health protection[a]	544.1	549.2	0.9	24,810	26,386	6.4
Subtotals[a]	1,658.6	1,628.4	−1.8%	$77,863	$80,673	3.6%
Distributed overhead[a]	403.8	391.8	−3.0	14,867	15,534	4.5
Public health block grant	—	−320.8	N/A	—	−9,000	N/A
Subtotals	2,062.4	1,699.4	−17.6	$92,730	$87,207	−6.0%
Special projects	693.9	777.0	12.0	128,880	142,637	10.7
Totals	2,756.3	2,476.4	−10.2	$221,610	$229,844	3.7%

[a] Does not reflect reductions resulting from the proposed public health block grant.
[b] Position counts do not reflect salary savings.
[c] Estimated expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

Local Assistance. The budget proposes $954,921,000 in local assistance for preventive health services. This is an increase of $396,625,000, or 71 percent, above estimated current-year expenditures. The increase reflects the net effect of the following major changes:

- A $400.9 million increase in subventions to counties, representing the full-year effect of assisting counties to provide services to medically indigent persons formerly served by the Medi-Cal program. This program stems from the eligibility reductions included in Medi-Cal reform legislation.
- A $24,918,000 increase to provide 3 percent cost-of-living adjustments for county health services subventions under AB 8, county subventions for medically indigent services, and other local assistance programs not proposed for consolidation in the state public health block grant.
- A $25,000,000 reduction in fiscal relief for county health programs.

As we have noted above, the budget proposes to consolidate numerous preventive health categorical programs into a state public health block grant. The amount of local assistance proposed for the state block grant is approximately the same as the affected categorical programs are estimated to spend in the current year.

Table 7 summarizes proposed expenditures by program element. The table also shows, by program, the amount of each program included in the state block grant.

Table 7
Preventive Health Services
Local Assistance
All Funds
(in thousands)

Program	Actual 1981–82	Estimated 1982–83	Proposed 1983–84	Change Amount	Change Percent	Funds for Proposed Public Health Block Grant
County Health Services	$388,891	$431,218	$828,485	$397,267	92.1%	($705)
Community Health	98,899	113,495	1,493	−112,002	−98.7	(111,192)
Rural Health	8,001	7,795	—	−7,795	−100.0	(7,795)
Health Protection	5,634	5,765	1,815	−3,950	−68.5	(3,436)
State public health block grant	—	—	123,128	123,128	N/A	—
Legislative mandates	102	23	—	−23	−100.0	—
Totals	$501,527	$558,296	$954,921	$396,625	71.0%	($123,128)

Table 8 displays proposed budget changes in the preventive health local assistance programs.

Table 8
Preventive Health Programs Local Assistance
Proposed Budget Changes
(in thousands)

	General Fund	All Funds
Adjusted base budget, 1982–83	$538,583	$558,296
A. Baseline adjustments:		
1. One-time expenditures		
Special needs and priorities (SNAP) expenditures	−2,700	−2,700
Local health capital outlay (Ch 1351/81)	—	−1,000
Adult day health care (Ch 478/82)	−250	−250
Child health and disability prevention (CHDP) reappropriation	−2,113	−2,113
2. Other adjustments		
Full-year cost of county subventions for medically indigent services	400,900	400,900
Legislative mandates	−23	−23
Rural health opt-out	90	90
Subtotals	$395,904	$394,904
B. Caseload and cost adjustments		
1. Local government fiscal relief population increase	$786	$786
2. California Children's Services (CCS) utilization increase	98	1,883
3. CCS and Genetically Handicapped Persons' program (GHPP) family repayment decrease	—	−330
Subtotals	$884	$2,339
C. Cost-of-living adjustments (3 percent)	$24,918	$24,918
D. Program change proposals		
1. Public health block grant:		
Termination of existing programs	−103,863	−123,128
Funding for block grant	103,863	123,128
2. Reversion of special needs and priorities (SNAP) funds	(−2,200)	(−2,200)
3. Elimination of health education/risk reduction grants	−536	−536
4. Local government fiscal relief base reductions	−25,000	−25,000
Subtotals	−$25,536	−$25,536
Total budget changes	$396,170	$396,625
Proposed budget, 1983–84	$934,753	$954,921

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

The budget requests $24,918,000 for a 3 percent cost-of-living adjustment (COLA) for those preventive health local assistance programs that are *not* proposed for consolidation in the state public health block grant. Of the $24,918,000 included in the budget, $11,024,000 is proposed for AB 8 local government fiscal relief funds, $13,872,000 is proposed for county health programs serving medically indigent persons, and $22,000 is proposed for other preventive health programs. The budget document indicates that no COLA is proposed for the amount to be consolidated in the block grant, because "it is anticipated that the provision of direct services at the local level will be able to be increased due to the elimination of most of the administrative requirements imposed by the state." If the Legislature chooses to provide a 3 percent COLA for programs proposed for consolidation in the block grant, it will have to augment the General Fund budget by $3,116,000.

Assembly Bill 8 provided for automatic increases in the annual appropriation to the County Health Services Fund for local government fiscal relief, based on a formula that recognizes population increases and inflation. The measure bases that part of the increase intended to compensate for inflation on the December-to-December change in the average of the Los Angeles and San Francisco consumer price indices for all urban consumers. Under the provisions of AB 8, a 3.6 COLA is required for 1983–84. We estimate that the adjustments required to comply with the provisions of AB 8 result in a $14,029,000 increase in expenditures above the current-year level ($867,000 for population and $13,162,000 for a 3.6 percent inflation factor). The budget provides $11,810,000 ($786,000 for population and $11,024,000 for inflation). Thus, in order to provide a full population and cost-of-living adjustments, an augmentation to the budget of $2,219,000 would be required.

Existing law does not require cost-of-living adjustments for other preventive health programs. The amount requested to fund a COLA for county medically indigent services programs appears to be calculated correctly. Our analysis indicates, however, that the budget does not contain sufficient funds to provide a 3 percent COLA for the other preventive health local assistance programs that are not proposed for inclusion in the block grant. A total of $99,000 would be needed to provide a 3 percent COLA for these programs, rather than the $22,000 included in the budget for this purpose. Thus, an augmentation of $77,000 would be required to provide a full 3 percent COLA to these programs.

A. PUBLIC HEALTH BLOCK GRANT

The budget proposes to consolidate nine existing categorical programs into a block grant, called the Public Health Block Grant. The new block grant would be administered by the counties. The programs proposed for consolidation are Adult Health, Dental Health, Vector Biology and Control, Family Planning, California Children's Services (CCS), Genetically Handicapped Persons' Program (GHPP), Child Health and Disability Prevention (CHDP), Rural Health, and Maternal and Child Health (MCH).

The budget proposes the deletion of 320.8, or 87 percent, of the 370.8 positions currently associated with the nine categorical programs proposed for inclusion in the block grant. The budget also deletes $9

million, or 66 percent, of the $13.7 million in General Fund support for the categorical programs. The $9 million reduction amounts to 48 percent of the department's support costs for these programs in the current year (all funds).

The budget proposes $123,128,000 for block grant local assistance, including $103,863,000 from the General Fund, $18,295,000 in federal funds, and $970,000 in family repayments. The amount of local assistance funding is $560,000, or 0.5 percent, less than the sum of the current-year appropriations for the individual programs. The reduction is caused by the deletion of one-time funds provided in the current year for the Child Health and Disability Prevention program ($2.1 million), offset in part by an increase in the level of funds proposed for California Children's Services. The budget proposes no cost-of-living adjustment for the amounts consolidated in the block grant.

Budget Document and Budget Bill Are Not Consistent

The local assistance amounts requested in the Budget Bill differ from the amounts shown in the budget narrative. Table 9 shows (1) funding for state operations and local assistance for each program proposed for consolidation, as detailed in the budget narrative, and (2) funding for local assistance, as detailed in budget schedules supporting the Budget Bill.

Table 9
Public Health Block Grant Proposal
(in thousands)

	Budget Narrative		*Budget Bill*
Program	*State Operations*	*Local Assistance*	*Local Assistance*
County Health Services			
Public health subvention	—	—	$705
Community Health Services			
Family Planning	$1,832	$37,638	37,638
Maternal and Child Health	5,393	15,307	14,801
Primary Care Clinics	—	—	954
Genetically Handicapped Persons	376	4,972	4,972
California Children's Services	1,224	44,195	45,205
Child Health and Disability Prevention	1,297	9,100	7,010
Prenatal Counseling	—	—	612
Rural Health	5,742	7,702	7,795
Environmental Health			
Vector Biology and Control	1,438	—	—
Health Protection			
Adult Health	$1,067	$1,936	$1,936
Dental Health	444	1,500	1,500
Subtotals	$18,813	$122,350	$123,128
Personnel-years	370.8	—	—
Less: State administrative savings	−9,000	—	—
Personnel-years	−320.8	—	—
Totals	$9,813	$122,350	$123,128
Personnel-years	50	—	—
General Fund	*4,734*	*103,085*	*103,863*
Federal funds	*5,079*	*18,295*	*18,295*
Family repayments	—	*970*	*970*

Source: Budget document narrative and detailed budget schedules provided by the Department of Finance.

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Potential Effect of Block Grants

Our review indicates that consolidating categorical public health programs into a block grant administered by the counties would have a number of advantages and disadvantages. In this section, we discuss the potential advantages and disadvantages of establishing a state public health block grant. In subsequent sections of this analysis, we discuss the individual categorical programs proposed for consolidation into the block grant. For each of these programs, we (1) estimate the amount which would have been proposed for the program had it not been included in the block grant, based on the budget document and schedules provided to support the figures in the Budget Bill; (2) describe the program's current objectives and how the program is now administered; (3) describe current local funding requirements; and (4) discuss the potential effect of including the program in a block grant.

Advantages. The advantages of establishing a state public health block grant are as follows:

1. Responsibility for establishing funding levels for local health programs would be vested with that level of govenment most familiar with, and most responsive to, local needs.
2. Responsibility for administering local health programs would be assigned to that level of government best able to oversee program operations.
3. Administration of health programs at the local level could be centralized and streamlined, because counties would not need to comply with state program regulations and reporting and auditing requirements which apply to individual categorical programs.
4. The state would experience savings, because not as many state staff would be needed to administer local health programs.

Disadvantages. The disadvantages of establishing a state public health block grant are as follows:

1. The state would be unable to direct funds to programs having a high statewide priority.
2. Specialized public health programs that are provided most efficiently on a statewide or regional basis might be eliminated or made less efficient.
3. Counties would lose access to the specialized expertise of state staff, unless some technical assistance components (perhaps funded on a reimbursement basis) were maintained.
4. Services which are now uniform throughout the state would vary by county.
5. Programs with county matching requirements might be cut back if counties reduced or eliminated their contributions.
6. Some counties might have difficulty in providing those services now provided by state staff, because they lack the resources needed to perform certain administrative and programmatic functions effectively.
7. The state might experience difficulties in ensuring that federal Medi-Cal and maternal and child health block grant funds are used in accordance with federal requirements.

In addition, it is possible that during a transition phase, services may be disrupted while counties develop relationships with service providers or develop or expand county service delivery systems.

The Legislature Needs Considerably More Information Before It Can Act on the Block Grant Program

We recommend that the administration submit to the fiscal committees by March 15 (1) a detailed proposal for implementing the public health block grant and (2) information fully describing and justifying the proposal.

The budget indicates that, in implementing the block grant: (1) "most current state statutory and regulatory requirements will be eliminated" and (2) "local government will be given increased flexibility in the use of block grant funds." *No additional details on the block grant proposal were available* at the time this *Analysis* was prepared. Instead, the budget simply states that "the administration will be sponsoring legislation in conjunction with the Legislature early in 1983 to develop state and local responsibilities and requirements." The budget also states that details of the position reductions will be provided to the Legislature prior to budget hearings.

In order to facilitate legislative review of the block grant proposal, we recommend that the administration submit to the fiscal committees, by March 15, (1) a detailed proposal for implementing the block grant and (2) information fully describing and justifying the proposal. At a minimum, this information would include answers to the following specific questions:

1. Exactly which programs are included in the block grant? The budget narrative does not indicate that either the Public Health Subvention or the Prenatal Counseling program are included in the block grant. Backup detail on the proposal indicates, however, that these programs *are* included.
2. Why are some public health programs included in the block grant and other similar or related programs not included? For example, the following programs from the federal preventive health block grant could be logically included in the block grant: comprehensive public health services, health education/risk reduction, hypertension, urban rat control, and fluoridation.
3. What positions are proposed for elimination? The department should present a detailed list of proposed positions to be eliminated, identified by program and function. The department should identify the benefits and operating expenses to be reduced that are associated with each position. It should also identify the impact of the proposal on the salary savings budgeted by the department.
4. How will the block grant be administered? Specifically:
   a. What type of funding restrictions will be applied to the block grant?
   b. Will counties be required to spend the funds for public health?
   c. Will they be required to continue any of the services provided under the categorical programs?
   d. What provision, if any, would be made for the county matching requirements that now apply to some of the categorical programs?
   e. Will the counties have any reporting requirements?
   f. What auditing standards will the state apply?
   g. What will the state's responsibilities be once the block grant is operational?
   h. How will the funds be allocated among counties, particulary funds for programs such as lupus erythematosus, which, because they

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involve minor amounts, have been spent in only a few counties?

i. Will counties be required to continue existing eligibility standards?

j. Will the proposal provide for a transition period and continuity of care, particularly in the case of those programs currently operated by the state?

5. How will counties fund direct program services which now are provided by state staff, such as services provided by the contract counties program? (A review of the minimum information provided in the budget gives no indication how the program would be administered or what the impact would be on the counties. The positions proposed for elimination apparently include approximately 70 positions that currently provide *direct* services to rural counties.)

6. How will the state ensure that counties spend federal maternal and child health block grant and Medi-Cal funds in accordance with federal requirements?

B. COUNTY HEALTH SERVICES

The budget proposes $830,249,000 (all funds) for support of the Office of County Health Services and Local Public Health Assistance, excluding administrative overhead. This is an increase of $397,306,000, or 92 percent, above estimated current-year expenditures. Local assistance is proposed in the amount of $828,485,000, which is $397,267,000, or 92 percent, higher than estimated current-year expenditures. Department support is proposed in the amount of $1,764,000, which is $39,000, or 2.3 percent, above estimated curret-year expenditures. Table 10 displays proposed local assistance expenditures.

Table 10
County Health Services
Local Assistance Programs
(in thousands)

	Fund	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Percent*
Local govenment fiscal relief (AB 8)	General	$360,656	$364,728	$351,628	−$13,100	−3.6%
Special needs and priorities	General	2,430	2,700	—	−2,700	−100.0
Local health capital expenditures	SAFCO	24,000	1,000	—	−1,000	−100.0
Public health subvention	General	705	705	(705)[a]	−705	−100.0
	Federal	1,100	585	585	—	—
Subtotals	All	$388,891	$369,718	$352,213	−$17,505	−4.7%
Medically indigent services	General	—	$261,500	$476,272	$214,772	82.1%
Los Angeles County payment delay	General	—	−200,000	—	200,000	NA
Totals		$388,891	$431,218	$828,485	$397,267	92.1%
General		*363,791*	*429,633*	*827,900*	*398,267*	*92.7*
Federal		*1,100*	*585*	*585*	—	—
Special Account for Capital Outlay		*24,000*	*1,000*	—	*−1,000*	*−100.0*

[a] Proposed for consolidation in the Public Health Block Grant.

The local assistance increase is due to the net effect of four factors:

- An increase of $214,772,000 to provide full-year funding and a 3 percent cost-of-living adjustment for medically indigent services subventions authorized by the 1982 Medi-Cal reform legislation.
- The restoration of $200 million in subventions to Los Angeles County. The Medi-Cal reform legislation delayed payment of a portion of the county's current-year subventions until 1984–85.
- Various adjustments to AB 8 local govenment fiscal relief, which result in a net reduction of $13.1 million.
- Inclusion of the public health subvention ($705,000) in the Public Health Block Grant.

The budget proposes a staffing level of 43.5 positions for the Office of County Health Services and Local Public Health Assistance, a decrease of six positions from the current year. The reduction in staffing is the result of (1) reducing from five to three the number of staff monitoring county capital outlay projects, (2) eliminating two positions which have been administering "special needs and priorities" (SNAP) funds, and (3) reducing two limited-term positions used on the department's recodification project.

Effects of 1982 Medi-Cal Reform Legislation On County Health Services

Three measures enacted during 1982—AB 799, AB 3480, and SB 2012 (Chapters 328, 329, and 1594, Statutes of 1982)—significantly changed the structure of the Medi-Cal program. The major provisions of these acts affecting county health services programs are as follows:

1. ***Medically Indigent Services.*** The reform legislation discontinued Medi-Cal eligibility for most persons in the medically indigent adult category, effective January 1, 1983. The measures authorize subventions to counties so that they may provide health services to 250,000 persons whose health care needs formerly were met by the state. For the period January to June 1983, counties will receive approximately 70 percent of the funds that otherwise would have been expended on behalf of these persons. To achieve net funding reductions in the current year while (a) providing county subventions *and* (b) paying all remaining bills for services provided to medically indigent adults prior to December 31, 1982, the legislation delayed payment of $200 million in subventions to Los Angeles County until 1984–85. We discuss the county medically indigent services provisions in more detail below.

2. ***Related Changes to Local Government Fiscal Relief (AB 8).*** The reform legislation (a) changed provisions of prior law which specify the circumstances under which a county may reduce its AB 8 matching requirement and (b) established limits on the amount of unused funds which could be reallocated by the department's Director for "special needs and priorities." These changes are discussed in detail below.

3. ***Revision of "Beilenson Provisions."*** The reform legislation revised provisions of the Health and Safety Code that place restrictions on counties that propose to reduce the level of services provided to indigent persons. Specifically, the acts (a) make various changes in hearing notice and plan submission requirements and (b) allow counties to reduce services even if the board of supervisors finds that the proposed county action will have a detrimental impact on the health care of indigent persons. Under prior law, counties could not implement such proposals.

4. ***Administrative Cost Restrictions.*** The legislation requires the department to develop an administrative cost control plan, and expresses legislative intent that a county's administrative costs shall not exceed 5

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percent of county health services costs.

5. ***Audit Forgiveness.*** The reform legislation holds counties harmless for Medi-Cal audit disallowances occurring prior to July 1, 1982. The audit forgiveness applies only to the state share of Medi-Cal overpayments to counties. Thus, counties remain liable to repay the federal share of overpayments unless these overpayments are waived by the federal government.

Public Health Block Grant—Public Health Subvention

The budget proposes that funds for the public health subvention be included in the public health block grant. The budget, however, does not propose any staffing reductions. The amount requested for the block grant includes $705,000 from this program.

The budget also contains $585,000 in federal funds from the federal preventive health services block grant, which are allocated as a public health subvention and are not proposed for consolidation in the public health block grant. This subvention currently provides each independent county with at least $5,000 and may provide more depending on the county's past-year expenditures for public health programs.

Program Objectives. The program provides a subvention for county public health programs. The department does not have specific information on how local governments spend the subvention funds.

Administration. Rural counties whose public health programs are administered by the state are not eligible for these subventions. Other counties receive $16,000, or 60 cents per capita, whichever is less. Counties include these funds with their AB 8 allocation and report expenditures as part of their AB 8 plan and budget.

Local Funding Requirements. Counties are not required to match the subvention.

Block Grant Effect. There would be no effect if this program were consolidated in the block grant, because the subvention is already provided as a block grant.

Local Government Fiscal Relief (AB 8)

Assembly Bill 8 (Ch 282/79) provides fiscal relief to local agencies as a means of partially replacing property tax revenues lost by these agencies due to 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 annually 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 annually 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 to the county if it demonstrates in a hearing that it did not detrimentally reduce its health services. Counties, however, cannot receive matching funds which exceed 60 percent of budgeted county costs

above the per-capita allocation.

The Medi-Cal reform legislation (a) suspends for 1982–83 the availability of additional funds through the hearing procedure, except for counties which had received such funds in past years, and (b) allows counties experiencing severe financial hardship to receive additional funds.

4. Unspent funds may be allocated to counties "in accord with special needs and priorities established by the Director." The Medi-Cal reform legislation limits the amount of money available for special needs and priorities (SNAP) allocations to $2 million from the 1982–83 appropriation and 0.25 percent of future appropriations to the County Health Services Fund.

Chapter 1004 Funds Again Deleted from the Base

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 1981–82. Chapter 1004 expressed legislative intent that this augmentation for county health programs be continued in subsequent years, and specified that the augmentation shall be included as part of the 1981–82 expenditure base for the purpose of calculating the 1982–83 appropriation.

Notwithstanding the provisions of Chapter 1004, the budget proposed by the Governor for 1982–83 did not include the $25 million in the expenditure base. The Legislature, however, augmented the budget to provide these funds.

The proposed budget for 1983–84 again fails to include the $25 million in the expenditure base. This is not consistent with legislative intent, as expressed in Chapter 1004.

Assembly Bill 8 Population and Cost-of-Living Adjustments

The companion bills to the Budget Bill, AB 223 and SB 124, include provisions deleting the provisions of AB 8 that establish the appropriations level for county health services. In lieu of the statutory amount, the budget proposes an appropriation of $351,628,000. This is $13,100,000, or 3.6 percent, below estimated current-year expenditures. The amount of the proposed appropriation to the County Health Services Fund for 1983–84 reflects the following assumptions:

1. ***Base Reduction of $25 Million.*** As discussed above, the budget reduces funding $25 million below the current-year level to eliminate the Chapter 1004 augmentations.

2. ***Population Adjustment.*** The budget includes $786,000 for a projected 1.79 percent increase in population. (We estimate that $867,000 is required for the population adjustment).

3. ***County Opt-Out Adjustment.*** The budget shows an increase of $90,000 in the maximum allocation available to Calaveras and Tehama Counties under AB 8. These funds were transferred from the contract counties program, through which the state provides public health services directly for 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 $11,024,000 for a 3 percent COLA. Based on projected inflation, we estimate that a 3.6 percent increase would be provided if AB 8's provisions were to remain effective. The cost of providing a 1 percent increase in the base expenditure level assumed in the budget (that is, 1982–83 expenditures

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minus the $25 million augmentation) is $3,397,000. The cost of providing a 1 percent increase in the base 1982–83 expenditure level including the $25 million augmentation is $3,656,000.

We estimate that the cost of county fiscal relief under AB 8 would be $378,847,000 if (1) the $25 million Chapter 1004 augmentation was restored, (2) the full 3.6 percent statutory COLA was provided, and (3) full funding was provided for the 1.79 increase in population. This is $27,219,000 more than the amount proposed in the budget.

Reversion of Special Needs and Priorities Funds

We recommend enactment of legislation that would repeal the "special needs and priorities" provisions of AB 8 and require reversion of unused county health services funds to the General Fund. We further recommend that the legislation revert unused funds from current- and prior-year appropriations, for an additional savings of at least $2,724,000 above the amount assumed in the Budget Bill.

Existing law authorizes the Director to allocate unused funds in the County Health Services Fund to counties, on a 50 percent matching basis, for "special needs and priorities" (SNAP) as identified by the Director. Funds become available for SNAP either when counties (1) propose in their county plans and budgets to spend less than the total amount of funds allocated to them under the AB 8 formula (undermatching) or (2) underspend their budgets and must return matching funds to the state (recoupments). The amount of undermatched funds is known during the fiscal year for which the funds are appropriated. The amount of recoupments is known 6 to 18 months after the close of the fiscal year.

The 1982 Medi-Cal reform legislation limited the amount of unused funds which can be allocated for SNAP. Under these measures, no more than $2 million from the 1982–83 appropriation for county health services, and no more than 0.25 percent of the amount appropriated for years beginning with 1983–84, can be used for SNAP. Any additional savings will revert to the General Fund.

Funds Available for SNAP. Since the enactment of AB 8, the department has allocated a total of $8,657,000 in unused county health services funds, for the following purposes:

- $6,006,000 for county SNAP projects, including $876,000 in 1980–81, $2,430,000 in 1981–82, and $2,700,000 in the current year.
- $117,000 for departmental administration of the SNAP program, including $20,000 in 1981–82 and $97,000 in the current year.
- $937,000 to cover a current-year department support deficiency resulting from salary savings being less than anticipated. (The budget indicates that the administration intends to seek legislation to authorize this expenditure.)
- $1,597,000 was reverted to the General Fund, as required by Ch 238/82.

The budget indicates that there will be a reserve of $2,724,000 in unused county health services funds at the end of the current year, and that an additional $2.2 million will be identified as available for SNAP by the end of the budget year.

Budget Proposal. The budget proposes to revert to the General Fund the $2.2 million expected to be available in the County Health Services Fund at the end of 1983–84. The budget also proposes that the $2,724,000

available for expenditure in the current year remain as a reserve in the fund.

The budget companion bills, AB 223 and SB 124, contain provisions which would repeal the SNAP provisions of AB 8 and, instead, require that all unspent funds appropriated for county health services revert to the General Fund.

Analyst's Comments. The amount proposed in the budget for reversion to the General Fund is significantly less than what could be reverted in 1983–84, for two reasons:

1. There is no need to retain $2,724,000 in unused funds as a reserve to be carried into 1984–85. These funds could also be reverted to the General Fund if the SNAP provisions were repealed.

2. The additional amount estimated as becoming available in 1983–84, $2.2 million, is equal to 0.25 percent of the 1983–84 appropriation from the County Health Services Fund. (The calculation is incorrect—0.25 percent of $827,962,000 is actually $2,070,000, not $2.2 million.) The 0.25 percent limit established by the Medi-Cal reform legislation, however, applies only to use of funds from a given year's appropriation; it does not apply to the use of funds *identified* as becoming available for reallocation in any one year. Hence, existing law would not automatically revert amounts identified as becoming available in excess of 0.25 percent of the 1983–84 appropriation. This excess would be available for SNAP purposes in 1983–84.

The amount of funds that will be identified in 1983–84 as becoming available for SNAP consists of: (1) underbudgeting for 1983–84, (2) recoupments due to underspending in 1982–83, based on preliminary data from counties, and (3) recoupments and other adjustments due to underspending in 1981–82, based on final data from counties. The average amount of funds that has become available in each of the past three years is $3,502,000 ($7,781,000 allocated in the past three years plus the $2,724,000 reserve, divided by three), which is $1,302,000 greater than the amount identified in the budget.

Recommendation. In our view, expenditures for special county health projects should be subject to the same review process as other proposed expenditures of state funds—that is, they should be identified specifically in the budget, and reviewed and approved by the Legislature. This would permit the Legislature to weigh the priority of these special projects against other priorities that may warrant General Fund support. Further, it would seem that, given its proposal to use SNAP funds in the current year to pay department salaries, the department does not place a particularly high priority on special county health projects.

For these reasons, we recommend (1) that proposed expenditures for special county health projects be considered as part of the annual budget process and (2) the Legislature enact legislation repealing the SNAP provisions of AB 8 and reverting unused county health services funds to the General Fund. This legislation would result in additional funds exceeding $2,724,000 being made available to the General Fund.

Local Health Capital Outlay Projects

Reversion of Local Health Capital Expenditure Account Funds

We recommend adoption of legislation which requires that: (1) all interest which accrues to the Local Health Capital Expenditure Account beyond the $252,000 needed to support state monitoring of county contracts in 1983–84 and 1984–85 be deposited in the General Fund and (2)

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any funds allocated for projects which remain unspent when the projects are completed be reverted to the General Fund. This would result in a reversion of at least $924,000.

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. These funds were to be used for grants and loans to counties for capital expenditures at county health facilities. The second SAFCO appropriation was reverted to the General Fund by the 1981 Budget Act, leaving $25 million from the initial SAFCO appropriation in the LHCEA for distribution to counties. (The 1981 Budget Act appropriated $25 million from the General Fund to replace the reverted SAFCO appropriation, but these funds never became available for capital expenditures because they were transferred by Ch 1004/81 to the County Health Services Fund for distribution to counties through the AB 8 process.)

Due to delays in hiring staff, developing criteria, and selecting projects, no grants or loans were awarded until November 1981, when 79 projects were selected for funding. Of these projects, 46 will be completed in 1982–83, 26 will be completed during 1983–84, and 7 will be completed during 1984–85. The budget indicates that $24,000,000 of the $25,000,000 appropriation was allocated to counties in 1981–82, and that the remaining $1,000,000 will be allocated in the current year.

Additional Funds Available Due to Interest Earnings, Underspending, and Repayment of Loans. Chapter 1351 specifies that (1) no funds appropriated to the LHCEA shall be transferred to any other fund and (2) interest on appropriated funds shall be accrued to the LHCEA, not the General Fund. Thus, interest earnings, unspent funds remaining when the 79 projects are completed, and any loan repayments will remain in the fund and thus be available for funding future capital outlay projects.

Because of delays in selecting the projects for funding and the normal lags between selection and project completion, the LHCEA has earned a substantial amount of interest on the $25 million appropriation. Through June 30, 1982, the account earned $4,370,000 in interest, and the department estimates that an additional $1,545,000 will be earned during the current year. Thus, by June 30, 1983, interest earnings are expected to be $5,915,000.

Of the $5,915,000 in anticipated interest earnings, $4,819,000 is already committed. The department will have used $519,000 for administration and support by the end of the current year, and $4.3 million has been reverted to the General Fund by Ch 115/82. This leaves $1,096,000 available for expenditure at the beginning of the budget year. Any additional interest earned during the budget year, any unspent amounts remaining when projects are completed, and any loan repayments will increase the amount available.

Budget Proposal. The budget proposes the expenditure of $197,000 in accrued interest for three positions to continue monitoring existing projects until they are completed. In addition, the companion bills to the budget, AB 223 and SB 124, include provisions which would eliminate the existing restriction on transfer of funds from the LHCEA, and require interest earnings in the account to be deposited in the General Fund. Accordingly, the budget shows only $80,000 in interest income accruing to

the fund in the budget year. (Presumably the $80,000 will be earned prior to July 1, 1983.)

The budget does not propose any new expenditures on capital outlay projects. Instead, it proposes that available funds be held in reserve. The budget estimates that the amount available at the end of 1983–84 will be $979,000 ($1,096,000 plus $80,000 in income, less $197,000 in department support expenditures).

Analyst's Recommendation. In our view, expenditures for additional capital outlay projects at county health facilities should be subject to the same review process as other proposed expenditures—that is, they should be specifically identified in the budget, and reviewed and approved by the Legislature. This would allow the Legislature to weigh the priority of additional capital outlay projects at county hospitals against other legislative priorities. Consequently, we recommend enactment of legislation (1) eliminating the restriction on transfer of funds from the LHCEA, (2) requiring the interest earnings of the LHCEA to be deposited in the General Fund, and (3) requiring reversion to the General Fund of all uncommitted funds in the account, except for the amounts required for department support in the budget year ($197,000) and 1984–85 ($55,000). This would result in a reversion of at least $924,000 ($979,000 less $55,000).

Medically Indigent Services

The 1982 Medi-Cal reform legislation eliminated the medically indigent adult (MIA) category of Medi-Cal recipients, effective January 1, 1983. Eligibility for state-funded benefits, however, was continued for (1) refugees with up to 18 months of residency, (2) women with confirmed pregnancies, and (3) adults residing in skilled nursing or intermediate care facilities. Under Welfare and Institutions Code Section 17000, health care for persons previously classified as MIAs is now a county responsibility. In this section, we discuss the important provisions of the reform legislation concerning county services to medically indigent persons.

Financial Assistance for Counties. The reform legislation specifies that in the period January to June 1983, counties shall receive $261.5 million to assist them in providing health care services to medically indigent persons. The amount was based on 70 percent of projected state expenditures for health care services provided to MIAs, plus 100 percent of projected state expenditures for county MIA eligibility determinations. Beginning in July 1983, the amount of state assistance going to the counties to help them meet the health care needs of MIAs will be established annually in the Budget Act.

Each county's share of available state funds is determined by the county's percentage of total statewide MIA expenditures during 1979–80, 1980–81, and 1981–82. The funds are distributed to counties on a monthly basis, through the Medically Indigent Services Account, a special account of the County Health Services Fund. To receive MIA payments, a county must (a) expand its county health services plan (required under AB 8) to include information on the criteria and procedures it uses in determining a person's eligibility for services, and the types of services provided and (b) spend no less for county health services than the amount required to obtain the county's maximum AB 8 allocation.

Eligibility for Service. For the period January to June 1983, the reform legislation prohibits counties from denying health care services to persons who meet the income and resource criteria previously used to establish eligibility for the MIA component of Medi-Cal. Counties are required to

DEPARTMENT OF HEALTH SERVICES—Continued

provide services, however, only to the extent that state funds are available to finance these services; and counties may establish financial liability requirements as long as the requirements do not result in a denial of medically necessary services. The legislation did not establish eligibility requirements for future years.

Contract-Back Option for Small Counties. The reform legislation permits the 43 counties with a population under 300,000 to choose one of the following administrative arrangements for providing health services to persons formerly classified as MIAs:

1. Direct administration by the county.
2. Regionalized administration with other counties.
3. Indirect administration, whereby the county contracts with the Department of Health Services to administer the program.

Under the contract-back option, MIA payments to the participating counties will be credited directly to a special account in the County Health Services Fund. The legislation provides that the state shall be at risk for any costs above the amounts deposited in the account until June 30, 1983. As a condition for accepting the risk, the state may require that participating counties adopt uniform eligibility criteria and benefits. The participating counties themselves will be at risk for any costs in excess of the amount credited the special account beginning in 1983–84. The reform legislation authorized a loan to the department from the Medi-Cal item in the 1982 Budget Act to fund initial implementation costs of the county contract-back program.

Early Transfer. The reform legislation authorized counties to assume responsibility for MIAs prior to January 1, 1983, if the county agreed to (a) provide *all* Medi-Cal benefits other than dental services, (b) maintain data on persons served and the cost of service provided, and (c) fund any costs in excess of the amount that would otherwise have been spent by the state. The legislation provided that counties accepting responsibility for MIAs prior to January 1, 1983, would receive allocations equal to 100 percent of estimated MIA expenditures until January 1.

Los Angeles County Payment Delay. Because Medi-Cal reimbursement claims are often paid several months after service is provided, the department will continue to receive bills for services provided to MIAs during the second six months of 1982–83. To fund the cost of these claims, provide $261.5 million to the counties, and achieve savings of $110 million during the current year—the initial year of the new funding arrangement —the reform legislation delayed until June 1985 payment of $200 million in county health services subventions to Los Angeles County. These subventions would otherwise be paid to the county during the current year under AB 8 and services provided to medically indigent persons. The reform legislation authorized Los Angeles County to raise revenue to replace the state funds on an interim basis, and requires the state to advance its schedule for making AB 8 and medically indigent services payments to Los Angeles County during 1983–84 and 1984–85.

Support Staff. The 1982 Budget Act authorized $319,000 and 10 new positions for the Office of County Health Services to implement and administer the Medically Indigent Services program.

Medically Indigent Services—Implementation During the Current Year

Early Transfer. Three counties—Los Angeles, Merced, and Contra Costa—elected to assume responsibility for serving MIAs on November 1, 1982. The three counties implemented similar programs. Each determined that, with limited exceptions, services to MIAs would be provided in county facilities. They also conducted extensive public information campaigns to inform service providers and clients of the change in service delivery. To our knowledge, the counties did not experience any major problems during the transition period.

Contract-Back Counties. Thirty-four of the 43 counties with a population of 300,000 or less chose to contract with the state to administer their medically indigent services programs. The remaining nine counties have chosen to administer the program themselves. The 34 contract-back counties accounted for approximately 9.7 percent of statewide MIA expenditures.

The department, in consultation with the counties, decided to model the contract-back program, called the County Medical Services program (CMSP), on the Medi-Cal program. Specifically, the CMSP will (1) determine eligibility using an eligibility determination process similar to Medi-Cal's, (2) provide services through Medi-Cal providers, and (3) use the Medi-Cal claims processing system.

A total of $25,314,000 is available to the CMSP for the period January to June 1983, including $23,233,000 for health care services and $2,081,000 for eligibility determinations. The amount available for health care services is approximately 30 percent less than the amount that would have been spent for MIA services under the Medi-Cal program. To insure that the program will stay within its budget and have sufficient resources to pay for all state administrative costs, the department, in consultation with the counties, developed a package of service benefit and provider rate reductions designed to achieve a savings of 36 percent from the amount that would have been spent for MIA services under the Medi-Cal program. Table 11 details these reductions.

Table 11
County Medical Services Program
Savings from Amount that Would Have Been Spent
Under the Medi-Cal Program
January to June 1983

	Savings	
Savings Area	*Amount*	*Percent*
1. Implementation of Medi-Cal reductions mandated by Medi-Cal reform legislation	$2,987,100	9.0%
2. Eliminate benefits which are optional for Medi-Cal under federal law	2,489,200	7.5
3. Provider 15 percent rate reduction	4,978,400	15.0
4. Income and eligibility reporting changes	165,900	0.5
5. Interest revenue from county allocations	1,161,600	3.5
Totals	$11,782,200	35.5%

The amount of savings exceeds by 5.5 percent, or $1,825,000, the 30 percent reduction mandated by the Medi-Cal reform legislation. The department intends to use the $1,825,000 in additional savings to fund departmental administrative costs and to provide a safety reserve. The department presently is preparing an expenditure plan for administering the program. The Medi-Cal reform legislation limits administrative costs

DEPARTMENT OF HEALTH SERVICES—Continued

to 5 percent of county allocations, or $1,217,000 for the contract-back counties.

Independent Counties. The Medi-Cal reform legislation requires all counties to submit a budget and plan supplement to the state by March 1, 1983, which details how the counties have implemented the MIA transfer. The department will not have comprehensive information on how the 24 independent counties have managed the transfer until these reports are submitted.

Budget Proposal for Medically Indigent Services

We recommend that prior to budget hearings, the administration submit documentation on the assumptions made in determining the amount of the request for the county medically indigent services program.

The budget proposes an appropriation of $476,272,000 from the General Fund for the full-year cost of the county medically indigent services programs in 1983–84. The amount includes $462,400,000 for the base program and $13,872,000 for a 3 percent cost-of-living adjustment. The proposed appropriation represents an increase of $214,772,000, or 82 percent, above estimated half-year expenditures of $261.5 million during 1982–83.

The Medi-Cal reform legislation does not specify the funding level for county medically indigent services programs in 1983–84, nor does it indicate what method the administration should use in recommending a specific funding level to the Legislature.

We have been advised that the administration calculated the amount proposed for county medically indigent services in 1983–84 using the methodology used by the Legislature in August 1982 to determine the amount provided for county programs for the period January through June 1983 ($261.5 million). This methodology involves:

- Obtaining from the department projections of state expenditures for MIA services during the period January through June 1983, assuming the program had continued as it existed prior to enactment of the reform legislation.
- Reducing the projections to exclude services provided to persons still covered by the state (pregnant women, etc.).
- Calculating 70 percent of the adjusted expenditure projections.
- Adding 100 percent of projected county eligibility determination costs.

The administration, however, did not use the same *data* in projecting MIA expenditures for 1983–84. Instead, it used the trends in actual caseload data through November 1982 to form the basis for these projections.

The administration adjusted the amount resulting from these calculations to (1) provide for a full year of expenditures, instead of only six months and (2) include a cost-of-living adjustment of 3 percent for 1983–84.

Table 12 compares the calculations made by the Legislature in August 1982 to the calculations used by the administration in developing the proposed budget for 1983–84. To facilitate the comparisons, the table also includes an estimate of what full-year 1983–84 funding would have been, if the August 1982 data had been used to estimate 1982–83 full year expenditures, and then adjusted by the proposed 3 percent cost-of-living factor.

Table 12
Medically Indigent Services Program
1983–84 Funding Requirements
Comparison of Calculations Using August 1982 Data
To Calculations Using January 1983 Data
Assumed in the Budget
(in millions)

	1982–83 (January through June) August Data	*1983–84 (Full Year) August Data*	*January Data*	*Difference Amount*	*Percent*
Projected expenditures in 1982–83 for medically indigent adults	$383.6	$737.7	$757.8	$20.1	2.7%
Adjustments:					
Long-term care residents	−3.1	−6.0	−17.1	−11.1	−185.0
Pregnant women	−17.6	−33.8	−89.4	−55.6	−164.5
Disability pending	−20.0	−38.5	−50.7	−12.2	−31.7
Adjusted projections for 1982–83	$342.9	$659.4	$600.6	−$58.8	−8.9%
70 percent of adjusted projections	240.0	461.6	420.4	−41.2	−8.9
Projected eligibility determination expenditures	21.5	41.3	42.0	0.7	1.7
Totals, 1982–83	$261.5	$502.9	$462.4	−$40.5	−8.1%
Cost-of-living adjustment for 1983–84 (3 percent)	—	15.1	13.9	−1.2	−7.9
Totals, 1983–84	—	$518.0	$476.3	−$41.7	−8.1%

[a] Assumes that full-year expenditures will be 1.923077 times projected expenditures for January to June, based on department projections.

The table shows that the administration's current estimate of 1982–83 MIA program costs is $58.8 million less than the figures used in August 1982. The effect on the proposed appropriation is to reduce it by $41.7 million. Apparently, the reductions are due to revisions in the base expenditure level and the adjustments for long-term care residents, pregnant women, and disability pending applicants.

At the time this analysis was prepared, we have not received complete documentation on the assumptions used in determining the funding level for county medically indigent services programs proposed in 1983–84. We recommend that prior to budget hearings, the administration submit to the fiscal committees complete documentation on these assumptions in determining the funding level.

Support for Contract-Back Counties

We recommend (1) a reduction of $171,000 to correct for double-budgeting, and (2) that the department inform the fiscal committees prior to budget hearings how it intends to use the funds received from contract-back counties for administration in the budget year.

The 1982 Budget Act authorized 10 positions and $319,000 from the General Fund to implement and administer the Medically Indigent Services program. the cost of the positions in the budget year will be $342,000. The Office of County Health Services currently is using five of the new positions, at a cost of $171,000, to administer the contract-back program.

The Medi-Cal reform legislation provides that the department's costs for administering the contract-back program shall be paid from the medi-

DEPARTMENT OF HEALTH SERVICES—Continued

cally indigent services allocations to participating counties, and shall be no greater than 5 percent of these allocations. Accordingly, in designing the contract-back program, the Office of County Health Services set aside $1.2 million or 5 percent, of the participating counties' allocations to cover its administrative costs in the current year.

The department has not determined how much it will need for program administration in either the current year or in 1983–84. Some of the funds will be needed to pay for new costs associated with the contract-back program, such as data processing. Some of the funds may also be used to pay for functions currently supported by the General Fund.

We recommend that the department prepare expenditure plans for both the current and budget years, and submit these plans to the fiscal committees prior to budget hearings so that the committees can adequately review the office's proposed support budget.

In any event, the five positions working full time on the contract-back program should be funded from the counties' medically indigent services allocations, not from the General Fund. Consequently, we recommend a reduction of $171,000 in Item 4260-001-001.

Los Angeles County Payment Delay

Because Medi-Cal reimbursement claims are often paid several months after service is provided, the department will continue to receive bills for services provided to MIAs during the second six months of 1982–83. To fund the cost of these claims, provide $261.5 million to the counties, and achieve savings of $110 million during the initial year of the new funding arrangement (1982–83), the reform legislation delayed until June 1985 payment of $200 million in reimbursements to Los Angeles County.

To fund the $200 million payment in June 1985, the legislation requires the Controller to deposit $100 million in 1983–84 and $100 million in 1984–85 in a reserve account called the Los Angeles County Medical Assistance Grant Account. The legislation appropriates the $200 million from the account to a special account in the County Health Services Fund for expenditure in June 1985.

The $100 million deposit is not reflected in the department's budget schedules. Instead, it is cited as a liability against the $650 million General Fund reserve for economic uncertainties. Specifically, in identifying a $650 million reserve in the budget document (see pages A-1 and GG 197) the administration includes the following footnote:

> "The Reserve for Economic Uncertainties provides a source of funds to meet state General Fund obligations in the event of a decline in revenues, an unanticipated increase in expenditures, and $100 million for Los Angeles County Medical Assistance Grant Account pursuant to Ch 1594/82 (SB 2012)."

By failing to reflect the $100 million deposit required by Ch 1594/82 in the Department of Health Service's budget schedules, and instead showing it as a liability against the Reserve for Economic Uncertainties, *the administration overstates the size of the reserve by $100 million.* Under existing law, the $100 million cannot be used to achieve the purpose which the reserve is intended to achieve—that is, to protect the General Fund against shortfalls in revenues or unanticipated expenditures. While the General Fund could *borrow* these funds *during* 1983–84 to meet a cash-flow problem, it could not use these funds to *finance* expenditures and

thus avoid a *year-end* deficit.

This misrepresentation of the $100 million is discussed more fully in *The 1983–84 Budget: Perspectives and Issues,* which accompanies this *Analysis.*

C. COMMUNITY HEALTH SERVICES

The budget proposes expenditures of $5,717,000 for the Community Health Services program, a reduction of $121,114,000, or 95 percent, below current-year estimated expenditures of $126,831,000. The reduction is due to (1) the elimination of 215 of the 252.1 positions associated with the community health services programs (including administrative overhead) and (2) the proposed transer of $111,192,000, or 99 percent, of the local assistance funds associated with the programs to the state public health block grant.

The following community health services local assistance programs have been included in the block grant: family planning; four of five programs in the Maternal and Child Health Branch (specifically: perinatal access, high-risk infant follow-up, perinatal services, and a portion of the funds associated with maternal and child health grants); one of three programs in the Genetic Disease Branch (specifically: prenatal counseling); the Genetically Handicapped Persons' program; California Children's Services; Child Health and Disability Prevention; and Primary Care Clinics. The local assistance programs that would remain in community health services if the block grant is approved are the Infant Dispatch program and a portion of the maternal and child health grants, both managed by the Maternal and Child Health Branch, and the Sickle Cell and Tay-Sachs programs, administered by the Genetic Disease Branch.

Based on the worksheets used by the Department of Finance in preparing the budget, we estimate that in the absence of the block grant proposal, the budget would have included $11,052,000 for support of Community Health Services programs. This is $195,000, or 1.8 percent, more than estimated current-year expenditures. The increase reflects (1) deletion of 4 limited-term positions assigned to evaluate the Obstetrical Access project, (2) four new positions in the Genetic Disease Section for the Newborn Screening program, and (3) increases for merit salary adjustments and retirement benefits.

In the absence of the block grant proposal, we estimate that local assistance would have been proposed at $112,685,000, which is $810,000, or 0.7 percent, below current-year expenditures. The decrease in local assistance reflects the net effect of (1) an increase in the utilization of services by California Children's Services (CCS) clients ($1,883,000), (2) a $330,000 reduction in family repayments for CCS and the Genetically Handicapped Persons' program, (3) deletion of $2,113,000 in one-time expenditures for the Child Health and Disability Prevention program, and (4) the deletion of $250,000 in one-time expenditures for grants to adult day health centers.

Table 13 displays expenditures for community health services programs in the prior, current, and budget years. The table also shows, by program, the amounts transferred from the categorical programs to the block grant as detailed in budget worksheets.

Table 13
Community Health Services Local Assistance Expenditures and Funding Sources (in thousands)

	Fund	Actual 1981–82	Estimated 1982–83	Proposed 1983–84	Change Amount	Change Percent	Funds Included In Proposed Public Health Block Grant
A. Family planning	All	$37,591	$37,638	—	−37,638	−100	$37,638
	General	33,591	37,638	—	−37,638	−100	37,638
	Reimbursements	4,000	—	—	—	—	—
B. Maternal and child health (MCH)	All	12,817	15,336	535	−14,801	−96.5	14,801
Infant dispatch	General	217	217	217	—	—	—
Perinatal access	General	772	787	—	−787	−100	787
High-risk infant followup	All	956	956	—	−956	−100	956
	General	756	756	—	−756	−100	756
	Federal	200	200	—	−200	−100	200
Oakland perinatal	General	777	—	—	—	—	—
Perinatal services	General	—	1,452	—	−1,452	−100	1,452
Perinatal health clinics	General	442	—	—	—	—	—
MCH grants	Federal	8,333	11,924	318	−11,606	−97.3	11,606
Obstetrical access	Federal	1,320	—	—	—	—	—
C. Genetic disease	General	1,570	1,570	958	−612	−39.0	612
Sickle cell	General	503	503	503	—	—	—
Prenatal counseling	General	612	612	—	−612	100	612
Tay-Sachs	General	455	455	455	—	—	—

D. California children's services							
Genetically handicapped persons program	All	4,681	5,002	—	−5,002	−100.0	4,972
	General	4,581	4,902	—	−4,902	−100.0	4,902
	Repayments	100	100	—	−100	−100.0	70
California Children's Services	All	41,169	43,622	—	−43,622	−100.0	45,205
	General	36,049	37,718	—	−37,718	−100.0	37,816
	Federal	4,217	4,704	—	−4,704	−100.0	6,489
	Repayments	903	1,200	—	−1,200	−100.0	900
Immunization reaction	Special	2	—	—	—	—	—
E. Long-term care and aging	General	139	250	—	−250	−100.0	—
F. Child health and disability prevention	General	—	9,123[a]	—	−9,123	−100.0	7,010
G. Primary care clinics	General	930	954	—	—	—	954
Totals		$98,899	$113,495	$1,493	−112,002	−98.7	$111,192
General Fund		*79,824*	*95,367*	*1,175*	*−94,192*	*−98.8*	*91,927*
Federal funds		*14,070*	*16,828*	*318*	*−16,510*	*98.1*	*18,295*
Special		*2*	—	—	—	—	—
Family repayments		*1,003*	*1,300*	—	*−1,300*	*−100.0*	*970*
Reimbursements		*4,000*	—	—	—	—	—

[a] Includes a reappropriation of $2,113,000 to cover cash flow problems due to shift from cash to accrual accounting.

DEPARTMENT OF HEALTH SERVICES—Continued

Family Planning

Public Health Block Grant

The budget proposes to fold the entire Family Planning program into the new public health block grant. If this program had not been proposed for inclusion in the block grant, we estimate that the budget would have requested (1) $1,832,000 for department support (including administrative overhead), (2) $33,209,000 in local assistance for contraceptive and sterilization services, and (3) $4,429,000 in local assistance for information and education projects.

Program Objectives. The family planning program funds contraceptive, sterilization, information, and education services. The target population for the services is low-income persons whose incomes are higher than the Medi-Cal eligibility limit. In 1981–82, the Office of Family Planning provided funds under this program for 1,056,489 clinic visits. The information and education projects which have been funded in the past have included education programs intended to improve parent and child communication about sexuality, training programs for family planning providers, and educational programs promoting male involvement in contraceptive decision-making.

Administration. The Office of Family Planning contracts with counties and private nonprofit local agencies to provide services under this program. In the current year, counties received 34 percent of the local assistance funds. The remaining funds were awarded to private nonprofit agencies. Contractors bill the state on a per-visit basis for contraceptive and sterilization services provided to eligible persons. In addition, contractors bill the state for the actual cost of providing information and education services. State staff award and monitor contracts, and provide technical assistance to local agencies.

Local Funding Requirements. Counties are not required to provide matching funds to support the program. According to the Department of Health Services' September 1982 report, "Community Clinics and Free Clinics and Their Role in County Health Care Systems," state grants provided 39 percent of the funding for private nonprofit family planning clinics in 1980–81. The remainder came from direct patient payments (23 percent), Medi-Cal (12 percent), federal grants (12 percent), contributions (6 percent), and miscellaneous other sources (8 percent).

Block Grant Effect.

- *Effect of County Administration.* If counties choose to continue the program, they would be able to (1) integrate family planning services with their other maternal and child health programs, (2) reallocate funds spent in the past for information and educational projects to direct patient services, and (3) fund providers in geographic areas having a high local priority. If counties were to reduce support for family planning services under the block grant, the state might experience increased Medi-Cal, welfare and other costs associated with unwanted pregnancies.
- *Effect of Eliminating Statewide Program.* Because family planning services may be unpopular in certain areas, some counties might choose not to provide the services. In addition, counties might not continue to emphasize information and education projects. To the

extent they were to continue these projects, some efficiencies might be lost since information and education materials would no longer be produced centrally. Finally, there would be no statewide standards for providing contraceptive and sterilization services.

Maternal and Child Health

Public Health Block Grant Proposal

The budget proposes to include in the new public health block grant $14,801,000 of the $15,336,000 in local assistance funds and the full $5,393,000 available for support of the Maternal and Child Health (MCH) program. Of the $14,801,000 in local assistance funds, $11,806,000 is funded by federal MCH block grant and $2,995,000 is from the General Fund. The programs proposed for inclusion in the block grant are perinatal access, high-risk infant follow-up, obstetrical access, perinatal services, perinatal health clinics, and part of the MCH grants. The programs which would remain are the Infant Dispatch program and part of the MCH grants.

Program Objectives. The Maternal and Child Health program addresses the health care needs of women and children by: (1) subsidizing prenatal care for low-income women, (2) developing services for newborn infants in areas with high concentrations of high-risk patients, (3) supporting regional systems of maternity and newborn care, and (4) supporting outreach efforts to populations with a high percentage of high-risk pregnancies. The target population consists of all pregnant women and newborn children, particularly low-income women and women with high-risk pregnancies. The department is currently preparing a patient copayment system based on ability to pay.

Administration. The Maternal and Child Health Branch contracts directly with local agencies to provide services under the program. Of the funds allocated in the current year, 46 percent was allocated to the counties. The remaining funds were allocated to private contractors. Contractors bill the state for the actual cost of providing services. State staff perform numerous functions, including awarding and monitoring contracts, developing program standards, and providing technical assistance and educational materials to local agencies.

Local Funding Requirements. Counties are not required to provide matching funds for state-supported MCH programs.

Block Grant Effect.

- *Effect of County Administration.* If counties choose to continue the program, they would have the opportunity to (1) integrate their maternal and child health programs with their other county health services and (2) fund programs having a high local priority. If counties chose to reduce MCH services, women and children would have less access to care. This might result in increased costs to the state (Medi-Cal) and the counties for medical care for women and children. It might also increase costs to the Department of Developmental Services if a reduction in care resulted in more children being born with developmental disabilities. Counties might reduce or eliminate specialized services which benefit multiple counties.
- *Effect of Eliminating Statewide Program.* (1) The state would have no assurance that federal MCH block grant funds were being spent appropriately. (2) The state would lose the ability to direct funds to certain specialized services which are provided most efficiently on a regional basis.

DEPARTMENT OF HEALTH SERVICES—Continued

Federal Maternal and Child Health Block Grant

The budget proposes to fold $18,295,000 of the $18,613,000 in funds available from the federal maternal and child health block grant into the state public health block grant. It is not clear why the remaining $318,000 in local assistance funds were retained in the categorical program, instead of being included in the block grant.

In the event that the Legislature does not include federal maternal and child health block grant funds in the new state public health block grant, we estimate that the department will spend the federal funds available in 1983–84 as shown in Table 14. The table shows that the department would increase expenditures in two areas—support (7.4 percent) and local assistance for California Children's Services (37.9 percent). The local assistance increase would fund caseload and cost increases in the program. Table 14 also shows that the amount of carry-over funding available to fund expenditures in 1984–85 and beyond would decline by 32 percent.

Table 14
Federal Maternal and Child Health (MCH) Block Grant
Allocation of Funds [a]
(in thousands)

	Estimated 1982–83	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Funds available				
1. Carry-over from prior fiscal year	$8,121	$7,631	−$490	−6.0%
2. Block grant award	18,142 [b]	18,142	—	—
Total available	$26,263	$25,773	−$490	−1.9%
Expenditures				
1. Support—MCH Branch	1,804	1,937	133	7.4
2. Local assistance				
High-risk infant	200	200	—	—
MCH grants:	(11,239)	(11,239)	—	—
Maternal and infant	7,876	7,876	—	—
Program of projects	2,433	2,433	—	—
County allocations	930	930	—	—
Adolescent pregnancy	685	685	—	—
California Children's Services	4,704	6,489	1,785	37.9
Subtotals, local assistance	$16,828	$18,613	$1,785	10.6%
Total expenditures	$18,632	$20,550	$1,918	10.3%
Carry-over to next fiscal year	7,631	5,223	−2,408	−31.6

[a] Estimated by Legislative Analyst, based on budget worksheets.
[b] Includes $1,119,000 in funds from a supplemental appropriation provided by Congress in summer 1982.

Genetic Disease

The Genetic Disease Section administers programs that are designed to reduce or prevent genetic disease through early detection, consultation with professionals, and counseling. Programs which are administered by the Genetic Disease Section include the Newborn Screening program, which is supported by the Genetic Disease Testing Fund, and the Sickle Cell, Tay-Sachs, and Prenatal Counseling programs, which are supported by the General Fund.

The budget proposes total expenditures of $10,381,000 for the Genetic

Disease program, an amount that is $9,000 higher than current-year estimated expenditures. Department support is proposed at $9,423,000, an increase of $621,000, or 7.1 percent, over current-year expenditures. Local assistance is proposed at $958,000, a reduction of $612,000, or 39 percent, below current-year estimated expenditures.

The increase in support expenditures is due to the net effect of (1) a $523,000 increase in pro-rata charges for central administrative services, (2) a $94,000 increase to support four new positions in the Newborn Screening program, (3) a reduction of $90,000 in consultant services, and (4) an increase of $94,000 for various expenditures, including department overhead, merit salary adjustments, and increased retirement contributions. The decrease in local assistance results from the proposed inclusion of Prenatal Counseling local assistance funds in the state public health block grant.

Public Health Block Grant Proposal—Prenatal Counseling

Block Grant Proposal. The budget proposes to include in the block grant $612,000 that otherwise would be spent for prenatal counseling local assistance. The budget does not propose to include any department support funds from the Genetic Disease Section in the block grant.

Program Objectives. The prenatal counseling program subsidizes prenatal diagnostic centers which provide genetic counseling, ultra sonography, amniocentesis, laboratory studies, and referrals to women with a high risk of bearing a child with a genetic defect. In the current year, the department is funding 19 centers which will serve between 11,500 and 12,000 women.

Administration. The department contracts directly with 19 centers located in tertiary level hospitals to provide services under the program. State staff allocate the funds and monitor the contracts. Allocations are based on a formula which considers estimated need and the amount of services provided in the past year.

Local Funding Requirements. Neither counties nor the centers are required to provide a match for funds allocated for prenatal counseling.

Block Grant Effect.

- *Effect of County Administration.* If counties choose to continue the program, they would be required to develop an administrative structure to monitor center contracts. If counties were to reduce support for the program, centers probably would reduce outreach and counseling efforts. This reduction could result in some genetic disorders going undetected. Thus, state and local governments might experience increased costs associated with the care and treatment of children born with genetic defects.
- *Effect of Eliminating Statewide Program.* Currently, the state provides the prenatal counseling services regionally at facilities capable of providing tertiary care. Most counties do not need a center within their boundaries. It is uncertain whether counties would develop regional agreements to continue the centers.

Budget Proposal for Genetic Disease Testing Fund Needs to be Revised

We recommend that the department (1) advise the fiscal committees of its plans for implementing the Neural Tube Defects project in the budget year and (2) submit to the fiscal committees a revised fund condition statement for the Genetic Disease Testing Fund that (a) presents accurate revenue estimates, (b) reflects expenditures for the Neural Tube Defects

DEPARTMENT OF HEALTH SERVICES—Continued

project which reconcile with the department's expenditure plans for the project, (c) revises the amount shown for repayment of the General Fund loan, and (d) establishes separate accounts for the Newborn Screening and Neural Tube Defects projects.

Background. The Newborn Screening program was established in 1966 to test infants for phenylketonuria (PKU). Chapter 1037, Statutes of 1977, (1) required the department to operate the program on a self-supporting basis by charging patient fees, (2) created the Genetic Disease Testing Fund (GDTF), (3) authorized the department to test infants for additional genetic diseases, and (4) authorized General Fund loans to the GDTF for start-up costs to implement new tests. In 1979, the Legislature passed Chapter 657, which required the department to implement a testing program for galactosemia and hypothyroidism by January 1, 1980.

By the time the testing program had begun operations (January 1, 1980), the department had borrowed a total of $7,788,000 from the General Fund to finance the expanded program. The department began receiving revenue from fees in 1980–81, and began making loan repayments during 1981–82. At the end of the current year, the GDTF will owe $1,821,000 to the state's General Fund.

Loan Repayment Schedule. The budget for the current year includes $378,000 from the Genetic Disease Testing Fund (GDTF) for the initial costs of establishing a three-year demonstration project for prenatal testing for neural tube defects. In discussing its proposal during budget hearings, the department indicated that (1) the program would ultimately be self-supporting through fee revenue, and would repay its start-up costs to the GDTF, (2) total start-up costs could be as much as $2.5 million, and (3) the GDTF had enough revenue to support both the Neural Tube Defects program and repay the General Fund loan on a schedule of $850,000 per year until the final payment was made in 1985–86.

The Legislature authorized the department to proceed with implementation of the neural tube defects demonstration project, and adopted Budget Act language which (1) prohibited the department from spending any more than the $378,000 authorized in the Budget Act until it submitted a Section 28 letter which fully outlined the program and demonstrated that the expenditure would not delay the $850,000 loan repayment in the current year and (2) required that separate accounts be established in the Genetic Disease Testing Fund for the Newborn Screening and Neural Tube Defects programs. The language further specified that both loans—the General Fund loan to the GDTF and the GDTF loan to the Neural Tube Defects program—must be repaid by June 30, 1986.

As of January 24, 1983, one of the six positions authorized for the Neural Tube Defects program by the 1982 Budget Act had been filled. The department, however, had not submitted the required Section 28 letter. The department indicates that if it decides to expand the program in the current year, it will prepare a Section 28 letter for submission to the Legislature in April.

Proposed Budget for 1983–84. The budget proposes expenditures of $9,423,000 from the Genetic Disease Testing Fund for genetic disease programs in 1983–84. This is $621,000 more than estimated current-year expenditures. The budget also proposes to make an accelerated repayment of the General Fund loan, budgeting $2,350,000 for this purpose, rather than the $850,000 which the department agreed to pay during

budget hearings last spring. The budget does not display separate accounts in the Genetic Disease Testing Fund for the Newborn Screening and Neural Tube Defects programs, as the Legislature directed in the 1982 Budget Act.

Table 15 displays proposed expenditures and revenues for the GDTF, as presented in the budget.

Table 15
Genetic Disease Testing Fund
Fund Condition
(in thousands)

	1981–82	*1982–83*	*1983–84*
Beginning reserves	−$655	$6	$618
Fee revenue	9,809	10,530	11,320
Interest on General Fund loan	−346	−266	−165
Total resources	$8,808	$10,270	$11,773
Program expenditures	$7,358	$8,802	$9,423
General Fund loan	−3,672	—	—
General Fund loan repayment	5,116	850	2,350
Total expenditures	$8,802	$9,652	$11,773
Reserve	$6	$618	—

We have identified the following inconsistencies and problems with the department's budget proposal:

1. ***The budget overestimates revenue for 1983–84.*** Revenue to the GDTF should be calculated by (a) estimating the number of newborns in the budget year, (b) multiplying the estimated number by the fee, and (c) adjusting for a 1 percent non-collection-of-fee factor. Using this methodology, we estimate that revenue to the GDTF in 1983–84 will be $10,793,000, not $11,320,000, as shown in the budget.

2. ***The amount identified for repayment of the General Fund loan exceeds the outstanding balance of the loan.*** As we have noted above, at the end of the current year the GDTF will owe $1,821,000 to the General Fund. The budget shows a payment of $2,350,000, which is $529,000 higher than the amount owed.

3. ***The expenditure level assumed in the budget does not provide sufficient funds to fully implement the Neural Tube Defects project.*** The budget includes sufficient funds to continue the six positions authorized for the Neural Tube Defects project in the current year. The budget does not, however, include any funds which could be used to finance additional start-up costs. Based on recent information from the department, these additional costs could amount to between $1.5 and $1.9 million in 1983–84. Thus, the project can be fully implemented in the budget year only if the administration reduces the size of its planned loan repayment.

In view of these problems, we recommend that the department advise the fiscal committees of its plans for implementing the Neural Tube Defects project in the current and budget years and submit to the fiscal committees a revised fund condition statement for the Genetic Disease Testing Fund that (a) presents accurate revenues estimates, (b) reflects expenditures for the Neural Tube Defects project which reconcile with the department's expenditure plans for the project, (c) revises the amount shown for payment of the General Fund loan, and (d) establishes separate accounts for the Newborn Screening and Neural Tube Defects projects.

DEPARTMENT OF HEALTH SERVICES—Continued

Provider Billing

We recommend that three positions requested to resolve provider billing disputes be established on a limited-term basis.

The budget proposes $60,000 for three positions (two accounting technicians and one data processing technician) to resolve billing disputes with providers.

Currently, the department bills approximately 600 providers per month for newborn screening services. Billings are based on data compiled by the testing labs which show the number of samples each provider has submitted for testing. Some providers dispute the bills received from the department. Because the department lacks the staff to resolve these disputed claims, it has not rebilled these providers. *Presently, the department has over $1,000,000 in unpaid bills.*

We recommend that the three positions proposed for the budget year be established on a limited-term basis, for the following reasons:

1. The department has made numerous assumptions regarding the workload for these positions which may not prove to be accurate.
2. The backlog of unpaid bills has diminished significantly since the department prepared its staffing request. When the request was prepared, providers owed $3.1 million. The amount has since fallen to $1,000,000.
3. The department is examining an alternative method for collecting fees from providers. This method, which is used by the state of Ohio, involves charging providers for services in advance, by requiring them to buy stamps to be attached to the testing forms. Staff are reviewing the system to determine whether it is feasible for California. Implementation of the alternative method probably would reduce staffing requirements.

Our review of the department's workload information indicates that three staff are needed to reduce the existing backlog. Therefore, we recommend approval of the positions. Because the ongoing workload for these positions is uncertain, however, we recommend that the positions be approved on a limited-term basis.

California Children's Services

Public Health Block Grant Proposal

The budget proposes to fold the entire California Children's Services program (CCS) into the new public health block grant. If this program had not been proposed for inclusion in the block grant, we estimate that the budget would have requested $1,224,000 for department support (including overhead) and $45,205,000 for local assistance. The $45,205,000 includes an additional $1,583,000 to fund caseload and cost increases for the CCS program and a reduction of $300,000 in family repayments. The increase would be financed with (1) $1,785,000 in additional federal maternal and child health block grant funds and (2) an additional $98,000 from the General Fund.

Program Objectives. The CCS program manages and funds specialized care and rehabilitation services for physically handicapped children whose families are unable to pay the full cost of these services. The target population for services is persons under 21 years of age with specific catastrophic or severely handicapping conditions whose disabilities may be arrested, improved, or corrected. Services provided are diagnostic

evaluations, treatment services, physical and occupational therapy, orthopedic and pediatric clinic services, and medical case management. A family's need for financial assistance is based on the total cost of recommended treatment, the ability of the family to pay the cost, and the availability of program funds. Families with an annual income of $40,000 or more are ineligible for services.

The department estimates that CCS case managers will follow 83,670 patients in the current year, and that the program will provide medical services to 26,980 children. Of the children receiving medical services, 7,810 will be funded by the Medi-Cal program and 19,170 will be funded by CCS.

Administration. The CCS program is administered jointly by the state and the counties. The state is responsible for overall administration, and for establishing program and financial eligibility guidelines. All counties with a population over 200,000 are required to administer their own CCS programs. These counties, called the "independent counties," are responsible for case management, claims payment, case finding, and financial eligibility determination. Counties with populations of less than 200,000 may administer the program as an independent county, or may contract with the state for case management and payment of provider claims. The "dependent" counties retain responsibility for case finding and financial eligibility determination. There are 25 independent and 33 dependent counties.

State staff have three functions: (1) to approve providers used by the program, (2) to allocate funds to counties and process county claims for services funded by CCS, and (3) to perform case management and provider payment functions for the dependent counties. Funds are allocated to counties based on the level of funding provided by the county, caseload estimates, and the amount of funds available.

Local Funding Requirements. Counties are required to appropriate an amount for CCS which is no less than one-tenth mill for each dollar of the county's assessed valuation. The state matches the county appropriations on a three-part-state-and-federal-to-one-part-county basis. Administrative services are partially funded by the state according to a formula established in statute.

Block Grant Effect.

- ***Effect of County Administration.*** If counties choose to continue the program, they would be able to (1) integrate therapy programs provided in the schools with other special education programs, (2) integrate medical services with the county's health services delivery system, and (3) establish financial eligibility and service eligibility requirements that are more consistent with county priorities. If counties reduce CCS services, (1) some families will experience higher medical care costs, (2) health care providers may experience an increase in bad debts, and (3) children with physical handicaps may not receive medical care and physical therapy services.
- ***Effect of Eliminating Statewide Program.*** (1) Dependent counties would have to hire and train staff to manage cases and process claims because the state would no longer be staffed to perform this function. (2) Program standards, provider requirements, and reimbursement rates would not be uniform. (3) The state would have no assurances that expenditures of the MCH block grant (which funds a portion of the program) are consistent with federal requirements.

DEPARTMENT OF HEALTH SERVICES—Continued

Mandatory Application for Medi-Cal

The Budget Bill contains language which would require CCS applicants who are potentially eligible for cash grant public assistance to apply for Medi-Cal eligibility prior to being designated as eligible for CCS-funded services. Existing law permits, but does not require, the department to implement mandatory applications for Medi-Cal. The department indicates that it intends to implement a mandatory Medi-Cal application policy in February 1983. The department estimates that the policy will result in General Fund savings of $972,000 in the current year and $1,900,000 in the budget year, due to reduced CCS caseload.

Screening for Deafness

Chapter 1460, Statutes of 1982 (AB 1022), requires the department to establish a system to screen newborn infants at high risk of deafness, and to create and maintain a system of follow-up and assessment for infants who (1) are determined to be at risk of deafness, (2) are being treated in a neonatal intensive care unit, and (3) receive services under the California Children's Services program. The budget indicates that, because the legislation did not include an appropriation, the department will comply with its requirements within existing resources.

Family Repayment System Should be Changed

We recommend that the department submit to the fiscal subcommittees by April 1, 1983, a proposal for an alternative family repayment system.

Under CCS and the Genetically Handicapped Persons' Program (GHPP), families must repay the state for part or all of the costs of medical services they receive. The budget anticipates family repayments of $900,000 for CCS services and $70,000 for GHPP services.

Current Repayment System. In 1980–81, CCS and GHPP implemented a new system for determining financial eligibility and the amount of repayments which service recipients are required to make. Prior to 1980–81, CCS determined the amount of repayment due from a family by (1) assessing the family's income and resources, (2) adjusting the amount for family size, (3) comparing the adjusted amount to an income standards table, and (4) requiring the family to pay one-half of the cost of services above the amount specified in the table. The system frequently was criticized for being ineffective and complicated. Prior to 1980–81, GHPP did not have a repayment system.

The new system, called the Simplified Repayment System (SRS), uses state income tax information to determine financial eligibility and establish maximum repayment obligations. Individuals or families with incomes of $40,000 or less are eligible for services. Under SRS, an individual or family's maximum payment for services equals 200 percent of the family's state income tax liability in the prior year. For example, if a family paid $450 in state income tax for 1981, the family's maximum repayment obligation would be $900 ($450 times 2). If the cost of care received by a family member in 1982 was $1,000, and the family's medical insurance paid $300 of this amount, the family's actual repayment obligation would be $700 (total costs of $1,000 minus the insurance payment of $300). The programs permit individuals or families to reduce their repayment obligations in special circumstances, upon appeal.

The department exempts from repayment obligations (1) families with adjusted gross incomes less than 200 percent of the poverty level (plus an allowance for the cost of maintaining a disabled person in the household), and (2) families that have adopted a handicapped child. Families are not required to repay the state for diagnostic or therapy services.

Report Suggests System Revisions. The 1980 Budget Act required the department to report to the Legislature on the amounts collected from families under the new repayment system. The report, which was sent to the Legislature in January 1982, found that, based on a 2.5 percent sample, the new system resulted in a higher average liability ($413 versus $268) for families required to make repayments, and a larger amount collected ($187 versus $177 average payment), but a lower rate of collection (45 percent versus 66 percent) than under the old system. The report recommended that (1) the income eligibility level be reduced to $40,000 (this recommendation was implemented in Ch 327/82), (2) assets be considered in determining eligibility and repayment obligations, (3) the counties be given an incentive to collect repayment obligations, and (4) the department consider replacing SRS with a yearly registration fee.

Analyst's Comments. Our analysis indicates that the repayment system should be revised. Specifically, we have identified the following problems with the current system:

1. ***System Results in Lower Payment Rate.*** In 1979–80, CCS collected $951,000, or 3 percent, of the $31,279,000 spent by the state on treatment. In 1982–83, the department expects to collect $900,000, or 2.2 percent, of the $40,525,000 in anticipated treatment expenditures.

2. ***Tax Liability is a Poor Indicator of Ability to Pay.*** We see no clear relationship between a family's tax liability and its ability to pay for medical care. Some families with high incomes successfully shelter their incomes, resulting in very low tax payments.

3. ***Assets Should Be Considered When Determining Eligibility and Ability to Pay.*** By excluding assets from these determinations families in comparable economic circumstances may be treated differently, and vice versa. A family with $500,000 in property, $25,000 in the bank, and an annual income of $35,000 would have the same repayment obligation as a family with no property, $100 in the bank, and the same income.

4. ***Counties Do Not Do an Effective Job of Collecting Repayments.*** The department's report indicated that counties are not effective in collecting repayments. The report recommended establishing incentives for counties to do a better job collecting these funds. Our analysis indicates that the department should consider turning responsibility for collecting family repayments over to providers. The CCS and GHPP could determine each family's repayment obligation, deduct the repayment amount from the amount the program owes the provider, and inform the provider of the amount owed by the family. The provider, which already has extensive resources allocated for collections, could then bill the family.

We recommend that the department submit to the fiscal committees by April 1 a proposal for an alternative repayment system which (1) will result in higher rates of repayment, (2) considers assets in determining financial eligibility and repayment obligations, (3) uses a method other than tax liability for determining ability to pay, and (4) examines the feasibility of requiring service providers, rather than counties, to collect family repayments.

DEPARTMENT OF HEALTH SERVICES—Continued

Los Angeles County Expenditure Reductions

We recommend that the department provide to the fiscal committees by March 15, 1983, (1) a copy of Los Angeles County's length-of-stay criteria, an analysis of how it differs from statewide criteria, and (2) a discussion of the effects on other counties if they were required to use the Los Angeles length-of-stay criteria and conduct on-site visits of children requiring extended hospitalization every 30 days.

Background. Existing law requires counties to appropriate an amount for CCS which is greater than or equal to one-tenth 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 statutory level. In January 1981, however, Los Angeles County adopted a policy limiting CCS expenditures to the statutory level. As a result of the policy, 1981–82 expenditures by the county from all funds were $6 million less than 1980–81 expenditures. The state realized 75 percent of these savings, or $4.5 million. In the current year, the county again provided the minimum amount required to receive state funds.

During our review of the 1982–83 budget, Los Angeles County staff informed us that it had reduced CCS expenditures during 1981–82 by tightening utilization controls and instituting other cost control measures. The county's approach consisted 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.
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 and ***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.
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."

In our *Analysis of the 1982 Budget Bill,* we recommended that the department inform the fiscal committees what savings would be possible if Los Angeles County's cost control methods were applied statewide. In response to our recommendation, the Legislature adopted supplemental report language which required the department to report to the Legislature on: (1) how the state monitors CCS programs in independent counties to ensure that the counties follow program guidelines and exercise adequate cost control, (2) how the Los Angeles County cost containment plan had affected services to children, (3) the savings attributable to each of the elements of the county's cost control plan, and (4) the effect of implementing the county's cost control plan statewide. The language re-

quired the department to submit a preliminary report by December 1, 1982, and a final report by March 1, 1983.

Preliminary Report. The department's preliminary report was submitted in the last week of December. The preliminary report does not discuss how the state monitors the CCS program in independent counties, nor the amount of savings attributable to each element in the Los Angeles County cost containment plan. It does discuss the possible effects of the cost containment program on children needing service, and presents the results of a survey intended to measure compliance with CCS guidelines. It also presents data on utilization and caseload trends in Los Angeles and statewide.

The report's findings are as follows:

- Most of the cost reductions achieved by Los Angeles County were achieved during a five-month period when the county CCS program did not authorize any nonemergency services. The report concluded that this method of reducing costs deprives children of needed services and delays costs, rather than reducing them.
- Other cost reductions were due to elimination of a claims backlog, providers' decisions not to refer all medically eligible cases to CCS, and increased restrictions on length of stay.
- The application of the six cost control elements on a statewide basis would not produce significant savings because all of the guidelines are being applied in other counties to a varying degree.

Analyst's Comments on the Department's Report. We identified the following problems with the department's report:

1. The report contains inconsistent data. In the section analyzing hospital length-of-stay, by county, the report states that the cost control program in Los Angeles County resulted in a significant reduction (three days) in the average hospital length of stay nine months after the cost containment program was implemented. In the section analyzing length-of-stay, by hospital, however, the report says that the county's cost containment program affected hospitals' length of stay immediately, causing reduced caseloads but increased length-of-stay because only the most serious cases were hospitalized. We are unable to understand, and staff have been unable to explain, why one analysis shows a delayed effect of the cost containment program on length of stay and another shows an immediate effect.

2. The report fails to substantiate many of its conclusions. For example:

- The report concluded that statewide application of the cost containment principles would not result in significant savings because counties already have implemented them. The basis for this conclusion was county responses to a state survey. The survey, however, had two deficiencies: (1) it relied on county self-reports and (2) it did not question counties in detail about specific elements of the Los Angeles County cost containment program. Instead, it asked counties to report whether they complied with certain CCS guidelines.
- The report claims that most of the savings in Los Angeles County resulted from restriction of services to emergency services only. The report does not explain the department's methodology for determining the level of savings attributable to this action, nor does it contain any figures verifying the report's conclusion.

The cost containment program in Los Angeles resulted in significant savings to the state and the county. While we do not believe that the CCS

DEPARTMENT OF HEALTH SERVICES—Continued

program should limit services only to emergency situations, we conclude that other aspects of the cost containment plan may be effective in achieving long-term savings without reducing the services that children need. Two particularly promising elements of the cost control plan are (1) the county's restrictions on hospital length-of-stay and (2) the county's policy of conducting on-site visits every 30 days for children requiring extended hospitalization.

We asked the department to submit a copy of Los Angeles County's length-of-stay criteria so that we could compare it to the criteria established in CCS guidelines. The department has refused to do so. For this reason, we recommend that the department provide to the fiscal committees by March 15, 1983, a copy of Los Angeles County's length-of-stay criteria, and an analysis of how it differs from statewide criteria. In addition, we recommend that the department submit to the fiscal committees a discussion of what the effects would be of requiring counties to apply the Los Angeles County length-of-stay criteria and to conduct on-site visits of children requiring extended hospitalization every 30 days.

Genetically Handicapped Persons' Program

Block Grant Proposal

The budget proposes to fold the entire Genetically Handicapped Persons' program (GHPP) into the new public health block grant. If this program had not been proposed for inclusion, we estimate that the budget would have requested $367,000 for state operations (including overhead) and $4,972,000 for local assistance in 1983–84. The local assistance amount consists of $4,902,000 from the General Fund and $70,000 from family repayments, and does not provide funding for caseload or cost increases above the current-year level. For 1980–81 and 1981–82, caseload growth was 14 percent and 0.9 percent, respectively, above the previous year's level, while cost increases were 19 percent and 11 percent, respectively.

Program Objectives. The GHPP funds specialized medical care and rehabilitation services for adults with certain genetic diseases who are partially unable to pay the full cost of these services. The specific services provided under the GHPP are the same as those provided under the CCS program. An individual's need for financial assistance is determined using the same method as that used under CCS. The department estimates that GHPP case managers will follow 1,462 patients in the current year, of whom 570 will be Medi-Cal funded and 892 will be funded by the GHPP program.

Administration. The GHPP is administered solely by the state. State staff perform three basic functions: (1) approve providers used by the program, (2) process provider claims for services funded by the GHPP, and (3) provide case management for eligible clients.

Local Funding Requirements. Counties do not have a matching requirement for GHPP.

Block Grant Effect.

- *Effect of County Administration.* If counties choose to continue the program, they would be able to (1) integrate services with their other county health services and (2) establish financial and service eligibility requirements that are more consistent with county priorities. Counties would have to establish an administrative structure for the

program, which includes claims payment and case management. If counties reduce GHPP services, (1) adults with certain genetic diseases will experience higher health care costs, (2) health care providers will experience an increase in bad debt, and (3) adults with certain genetic diseases may receive less medical care.

- ***Effect of Eliminating Statewide Program.*** Program standards, provider requirements, and reimbursement rates would not be uniform and standardized.

Child Health and Disability Prevention

Public Health Block Grant Proposal

The budget proposes to fold the Child Health and Disability Prevention program (CHDP) into the new public health block grant. If this program had not been proposed for inclusion in the block grant, we estimate that the budget would have requested $1,297,000 for state operations (including overhead) and $7,010,000 from the General Fund for local assistance. The local assistance funds consist of $6,050,000 for health assessments for low birth weight infants and children entering school, $344,000 to reimburse schools for administrative costs associated with screening children entering school, and $616,000 to reimburse counties for administrative costs associated with providing health assessments for low birth weight infants and children entering school.

Funds for health assessments for Medi-Cal-eligible children and funds to reimburse counties for the administrative costs of providing health assessments to Medi-Cal-eligible children are not proposed for consolidation. These funds are included in the Medi-Cal program budget.

The budget does not include funds for caseload growth or cost increases associated with the state-funded program in 1983–84. In 1980–81 and 1981–82, caseload grew by 18 percent and 7 percent, respectively, and the average fee increased 16 percent and 5 percent, respectively.

Program Objectives. The CHDP program funds comprehensive health assessments for the early detection and prevention of disease and disabilities in children. The target population for services is (1) Medi-Cal-eligible children up to age 21 and (2) low birth weight infants and children entering school whose family incomes fall below 200 percent of the Aid to Families with Dependent Children income standard. Health assessments for Medi-Cal eligible children are mandated under the federal Early Periodic Screening, Diagnostic, and Treatment (EPSDT) program. The department estimates that 672,520 health assessments will be provided in the current year, of which 554,854 will be provided to Medi-Cal-eligible children and 117,666 will be provided to children paid for with state funds.

Administration. The CHDP program is administered by the state and the counties. Forty-eight counties operate their own CHDP programs. These counties recruit and certify providers; provide case management, health education, and outreach services; and implement state and federal regulations. The department, through the Rural Health Division, provides CHDP services in the 10 remaining counties. State staff are responsible for overall program administration, monitoring county programs, and reimbursing providers. The state CHDP program processes provider claims for both Medi-Cal-funded and state-funded health assessments. Funds are allocated to counties based on estimates of the numbers of children in the county eligible for health assessments and the percent receiving assessments.

DEPARTMENT OF HEALTH SERVICES—Continued

Local Funding Requirements. Counties do not contribute toward the cost of the CHDP program.

Block Grant Effect.

- *Effect of County Administration.* If counties continue the program, they would be able to incorporate screening of school age children with other school programs. If counties reduce CHDP programs, however, the health problems which would have been identified during the state-funded screens would not be treated or not be treated as quickly. The state and counties might experience increased health care costs if this led to an increase in the number of children with more severe health problems requiring treatment.
- *Effect of Eliminating Statewide Program.*
  1. The state would have a more difficult time assuring the federal government that EPSDT funds were being spent appropriately, for two reasons: (a) CHDP claims for Medi-Cal children would have to be paid through the Medi-Cal fiscal intermediary, because staffing for the CHDP claims system would not be continued. The Medi-Cal fiscal intermediary does not provide the specific information required for EPSDT reports. (b) Existing Medi-Cal staff would have to assume responsibility for monitoring county administrative expenses and submitting reports to the federal government on EPSDT. Because staff would have to absorb the increased workload, monitoring might be less extensive and EPSDT reports might not meet federal requirements. The federal government might take action against the state Medi-Cal program if the state does not monitor expenditures and comply with reporting requirements.
  2. Program standards, provider requirements, and reimbursement rates would no longer be uniform.

Primary Care Clinics Program

Public Health Block Grant

The budget proposes to fold the primary care clinic program into the new public health block grant. If this program had not been proposed for inclusion in the block grant, we estimate that the budget would have requested $42,000 for state operations and $1,378,000 for local assistance. The local assistance funds include $424,000 for rural health programs and $954,000 in community health services.

Program Objectives. The primary care clinics program provides grants to nonprofit primary care clinics in order to stabilize the clinics' financial condition or fund innovative clinic programs. Grant amounts are limited to $60,000 per year. In the current year, the department has funded 33 community clinics and 7 clinic associations.

Administration. The department contracts directly with private nonprofit agencies under the program. State staff develop RFPs, and award and monitor contracts.

Local Funding Requirements. Clinics receiving funds are required to finance at least 20 percent of project costs.

Block Grant Effect.

- *Effect of County Administration.* If counties choose to continue the program, they would be able to integrate the program with their other county health programs and reallocate funds within the county.

If counties choose to reduce grants to primary care clinics and associations, (1) clinics would either have to obtain replacement funding or reduce services, and some of them might close, and (2) associations would have to seek support from other sources. Reductions in clinic services might result in increased costs to the state and counties for higher-cost treatment in hospitals.

- ***Effect of Eliminating Statewide Program.*** Currently, the state awards funds annually to clinics which are experiencing financial problems. Under county administration, the flexibility to respond annually to changing financial conditions would be eliminated.

State Administrative Costs

Chapter 1316, Statutes of 1982 (AB 636), authorized the department to increase its administrative costs for the clinics program from 3 percent of the local assistance appropriation to 5 percent. In addition, the legislation requires the Legislative Analyst's office to review and comment on the 5 percent limit during the 1983–84 budget process. This analysis is intended to satisfy our reporting obligations under Chapter 1316.

Administrative costs for the clinics program have been budgeted at the 3 percent level since the program started in 1979. The 3 percent level has provided sufficient funds to support one staff position. The position is responsible for many aspects of the program's administration, including drafting requests for proposals, screening proposals, coordinating proposal reviews, awarding contracts, analyzing quarterly reports from contractors, reimbursing contractors monthly, and maintaining accounting records. Staff from the Rural Health Division and the Maternal and Child Health Branch review the RFPs and monitor contracts. The staff person is unable to complete some activities in a timely fashion. For example, although contracts should be awarded by July 1 if contractors are to be paid on time, contracts were not awarded until mid August. In addition, some contractors have had to wait up to eight months for reimbursement.

These contract and reimbursement delays are unacceptable for a program whose major purpose is to provide fiscal relief for clinics. Our review of the workload associated with the clinics program indicates that raising the percent of total program costs authorized for administration from 3 percent to 5 percent, an increase of $28,000, is justified. Such an increase would be sufficient to fund one-half of a professional position and one-half of a clerical position. This staffing increase would permit the department to fulfill its administrative duties in a timely fashion.

D. RURAL HEALTH SERVICES

Public Health Block Grant Proposal

The budget proposes to fold the entire Rural Health program into the new public health block grant. If this program had not been proposed for inclusion in the block grant, we estimate that the budget would request (1) $5,742,000 from the General Fund for 90.6 positions and related support costs (including administrative overhead) and (2) $7,795,000 in local assistance funds, including $3,605,000 for rural health programs, $424,000 for primary care clinics, $969,000 for farmworker health programs, and $2,797,000 for Indian health programs.

Program Objectives. The Rural Health program (1) provides public health services in those counties with populations of 40,000 or less that choose to contract with the state, (2) funds health clinics and other health

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services for migrant and seasonal farmworkers and rural and urban Indians, and (3) provides technical assistance to rural hospitals and clinics. The target population for these services is California residents living in rural, medically underserved areas, particularly Indians and farmworkers. In 1981–82 clinics funded through the rural health program received 316,414 visits from patients. Of the total, 123,772 were Indians, 80,005 were farmworkers, and 112,637 were other persons residing in rural areas.

Administration. Local assistance funds under the program are awarded through direct contracts with local agencies. All of the local assistance funds available in the current year have been allocated for contracts with private contractors. Approximately 56 percent of the support budget is spent on the contract county program. The remaining funds are used to support staff who administer the local assistance program and provide technical assistance.

Local Funding Requirements. Neither local contractors nor counties are required to match rural health local assistance funds. We do not have current information on the funding sources for rural health clinics. According to the department's September 1982 report, private community clinics in 1980–81 derived their funding from federal grants (31 percent), state funds (16 percent), Medi-Cal (14 percent), patient payment (14 percent), county funds (8 percent), contributions (8 percent), and miscellaneous sources (9 percent).

Block Grant Effect.

- *Effect of County Administration.* If counties choose to continue these programs, they would be able to integrate them with their other county health services and reallocate funds within the county. If counties reduce support existing for rural health clinics, persons living in certain rural communities, farmworkers, and Indians might have less access to primary care. As a result, the state and counties might have to pay for the medical treatment of more seriously ill persons.
- *Effect of Eliminating Statewide Program.*
  1. Public health services in contract counties might be severely reduced or eliminated, due to the reduction in department support.
  2. Rural hospitals and clinics would have to seek other sources of technical assistance.

E. TOXIC SUBSTANCES CONTROL

The budget proposes expenditures of $26,149,000 (all funds) for support of the Toxic Substances Control Division, including administrative overhead, in 1983–84. This is an increase of $466,000, or 1.8 percent, above estimated current-year expenditures. Programs administered by the division regulate hazardous waste management, clean up sites that have been contaminated by toxic substances, encourage the development of treatment and disposal facilities as alternatives to waste disposal onto land, and study the effects of environmental toxic substances on human health. The budget proposes 323 positions for this program in 1983–84, which is a decrease of 39 positions below the current-year authorized staffing level.

The 1.8 percent increase in expenditures proposed by the budget year follows an increase of over 100 percent in the current year. In the current year, the department implemented the $10 million Superfund program, a major expansion of the Hazardous Waste Management program, and new research and information programs costing over $1 million annually.

Table 16 displays the expenditures and funding sources for programs in the Toxic Substances Control Division, as presented in the budget. Our analysis indicates, however, that the estimates of expenditures and revenues shown in the budget for the current year are overstated, and the estimate of federal funds is understated. We discuss these inaccuracies in more detail later in this analysis.

Table 16

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

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Hazardous Substances Account (HSA)	−$157	$9,480	$11,020	$1,540	16.2%
Repayment of General Fund loan	—	520	480	−40	−7.7
Hazardous Waste Control Account	2,785	6,179	5,957	−222	−3.6
General Fund	3,156	2,732	2,387	−345	−12.6
Federal Resource Conservation and Recovery Act (RCRA)	3,021	2,781	2,696	−85	−3.1
Energy and Resources Fund	1,359	845	347	−498	−58.9
Reimbursements	2,883	3,146	3,262	116	3.7
Federal Superfund	—	unknown	unknown	—	—
Totals	$13,047	$25,683	$26,149	$466	1.8%
Less administrative overhead	−2,598	−2,709	−2,709	—	—
Net totals	$10,449	$22,974	$23,440	$466	2.0%

Source: Governor's Budget.

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 taxes paid by generators of hazardous substances. The budget proposes to use the account to fund (a) cleanup of hazardous waste sites, (b) emergency response to releases of hazardous substances, (c) health effect studies, and (d) associated administrative costs. The tax was 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's Hazardous Waste Control program. The federal program supports many activities that are also funded by the HWCA.
4. ***The Federal Superfund*** (Comprehensive Environmental Response, Compensation, and Liability Act) will finance the costs of cleaning up major uncontrolled hazardous waste sites on a 90 percent federal, 10 per-

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cent state basis. The federal government has not yet allocated any of the available funds to California. The EPA has designated 11 sites in California as eligible for this program.

5. ***The General Fund*** provides partial support for laboratory services and supports studies of the health effects of toxic materials, the 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.

Current-Year Funding Problems

Current-year expenditures, as displayed in the budget, do not reflect major expenditure reductions that are being made because of revenue shortfalls in both the Hazardous Waste Control Account and the Hazardous Substances Account.

At the time this *Analysis* was prepared, the department had not developed a revised current-year expenditure plan to reflect these revenue shortfalls, even though over one-half of the fiscal year had already passed. The department plans to complete a revised expenditure plan in February for programs funded by the two special funds. The department's decisions with respect to revenues and expenditures in the current year will probably result in changes to the proposed budget for 1983–84. The narrative in the budget states that:

> "Toxic Substances Control Division management will be reviewing all programs within the division to evaluate current activities in hazardous waste management, remedial site cleanup, emergency response, the development of alternative technologies, and current program fund sources to develop a constant revenue base acceptable to the Legislature and industry which bears the current taxes and fees. As a result of this review, the administration may be adjusting the budget in this area prior to legislative deliberations on the budget."

Budget-Year Proposals

The budget proposes relatively minor changes in the Toxic Substances Control program during the budget year. Specifically, the budget proposes to (1) eliminate funding and staffing that had been established on a one-time or limited-term basis, (2) discontinue the Birth Defects Monitoring program expansion, which was funded by Ch 204/82 in the current year, (3) eliminate funding for policy and program development staff, and (4) augment surveillance and enforcement staff. Table 17 displays the components of the budget changes.

Table 17
Toxic Substances Control Program
Proposed Budget Changes

	Positions	*Amount*	*Fund*
Adjusted base budget, 1982–83	362.0	$25,683,000	Various
Baseline adjustments:			
1. Cost increases (price letter, merit salary adjustment, etc.)	—	507,538	Various
2. Deletion of limited-term positions and one-time programs			
a. Abandoned site program	−23.0	−524,615	ERF and HWCA
b. Regulation development for rewards program (Ch 93/82) and facilities standards (Ch 89/82)	−6.5	−181,381	HWCA
c. Birth defects research projects (Ch 204/82)	—	−509,000	General
3. Discontinue expansion of Birth Defects Monitoring program (Ch 204/82)	−8.0	−366,000	General
4. Cal-OSHA lab workload reduction	−3.0	−77,542	Reimbursements
Carry-over from current year (McColl site, Superfund program)	—	1,500,000	HSA
Program change proposals:			
1. Eliminate 11 positions in the Office of Program and Policy Development (formerly OAT/OPR contracts)	−11.0	−558,000	HWCA
2. Increased surveillance	10.0	430,000	HWCA
3. Laboratory certification	1.5	81,000	HWCA
4. Resource Conservation and Recovery Act coordination	1.0	36,000	RCRA
5. Medical examinations for field staff	—	19,000	HWCA
6. Board of Equalization contract	—	109,000	HWCA
Total changes	−39.0	$466,000	Various
Proposed budget, 1983–84	323.0	$26,149,000	Various

ERF: Energy and Resources Fund.
HWCA: Hazardous Waste Control Account.
RCRA: Resource Conservation and Recovery Act.
HSA: Hazardous Substances Account

Inadequate Response to Reporting Requirements Imposed by the Legislature

We recommend that by April 1, 1983, the Department of Health Services prepare a plan of correction that (1) explains why the Toxic Substances Control Division has been unable to submit legislatively required reports and (2) outlines the steps the department will take to correct the problem. We also recommend the adoption of Budget Bill language that would freeze the appropriations for division support, beginning September 1, 1983, if the department has not submitted overdue reports, then quarterly thereafter if required quarterly reports are not submitted.

In recent years, the Legislature has imposed, through the Budget Act, Supplemental Reports of the Budget Acts, and individual statutes, a number of reporting requirements on the department. At the time this *Analysis* was prepared, the following five reports were overdue:

- Quarterly progress report, required by the *Supplemental Report to the 1981 Budget Act;* due July 31, 1982.
- Workload standards for monitoring and enforcement staff, required by the *Supplemental Report of the 1982 Budget Act;* due October 15, 1982.
- Quarterly progress report, required by the *Supplemental Report of the 1982 Budget Act;* due October 31, 1982.

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- Comprehensive annual report required by Ch 89/82 (AB 1543); due January 1, 1983.
- Priority ranking of superfund sites for remedial action in 1983–84, required by Ch 327/82 (SB 1326); due January 10, 1983.

A sixth report on the transfer of OAT/OPR staff, which was due on November 1, 1982, was submitted two months late, on December 30, 1982.

If the Legislature does not receive on a timely basis the information called for in these reports, it will not be able to make informed decisions about the department's budget requirements. The department's failure to submit these reports has also hindered our analysis, making it impossible for us to identify options for the Legislature or develop recommendations on the budget proposals.

Our review indicates that the department's problem in submitting reports on a timely basis is not caused by staff shortages. Instead, the problem lies in the division's failure to anticipate information needs and arrange for information collection in advance of a report's due date. For example, although the department agreed in April 1982 to develop detailed workload standards for monitoring and enforcement staff, it was unable to provide us with basic vacancy rate and monthly productivity information in December, two months *after* the report was due.

We recommend that prior to budget hearings, the department present to the Legislature (1) an explanation of the delays in complying with legislative reporting requirements and (2) a plan of correction that will insure timely submission of required reports in the future. We also recommend that the Legislature continue the existing quarterly reporting requirements. Because the department has not complied with the requirements of supplemental report language, however, we recommend that the requirement be strengthened. This can be done by adding language to the Budget Bill freezing the division's appropriations from the Hazardous Waste Control Account (1) after September 1, 1983, unless all overdue reports have been submitted, and (2) quarterly thereafter if the quarterly reports have not been submitted. Accordingly, we recommend that the following Budget Bill language be adopted in Item 4260-001-014:

"The funds appropriated in this item shall not be available for encumbrance on or after September 1, 1983, if the department has not submitted overdue reports related to the Toxic Substances Control program required by the Legislature in the 1982 Budget Act, Supplemental Reports of the 1981 and 1982 Budget Acts, and various statutes.

"The department shall submit, due on the final day of the month following the end of each quarter, to the fiscal subcommittees and the Joint Legislative Budget Committee, reports on the status of Toxic Substances Control Division activities. The reports shall include, but not be limited to, (1) information on allocation of staff and funding resources by function, (2) justification for any changes in the allocation of resources, including redirections, and (3) description of specific accomplishments in each functional area during the period covered by the report.

"If these quarterly reports are not submitted within one month of the above due dates, the funds appropriated by this item shall not be available for further encumbrance until such reports are submitted."

Office of Program and Policy Development

The budget proposes to eliminate 11 positions in the Office of Policy and Program Development. These positions formerly were employed by the Office of Planning and Research (OPR) and the Office of Appropriate

Technology (OAT) and were funded by a contract with the department. The budget proposes to redirect the $588,000 used to support these positions in the current year to other programs in the division.

Beginning in 1980, the department contracted with OPR and OAT for assistance in (1) developing alternatives to land disposal of hazardous waste, (2) coordinating permitting and enforcement actions that involve a number of state departments, (3) evaluating new hazardous waste management technologies, and (4) developing new policy initiatives. During the first half of 1982–83, the OAT/OPR programs employed 11 persons in connection with these contracts. In the past, the OAT/OPR staff was primarily responsible for developing and ensuring the adoption of regulations that ban the land disposal of selected highly hazardous waste.

The Legislature continued to provide funding for these positions in the 1982 Budget Act but directed that the positions funded by these contracts be transferred to the department by December 31, 1982. Eight of the 11 staff members were transferred as temporary consultants on December 27, 1982, and will have to compete for permanent positions by taking civil service examinations in the spring. State civil service procedures, however, prevented the transfer of 3 clerical staff members.

In August 1982, these positions were combined with the existing Office of Public Education and Liaison to form a new Office of Program and Policy Development. The new office reports directly to the deputy director and has been charged with (1) evaluating the effectiveness of existing programs; (2) assisting the two branches in implementing new programs, with an emphasis on alternative technologies; (3) coordinating the division's activities with federal, local, and other state agencies; and (4) ensuring public participation in the division's programs.

Our analysis indicates that the elimination of these staff positions will reduce the division's ability to (1) evaluate and manage its existing programs and (2) respond to newly identified problems. These positions, however, are not directly responsible for the core activities in the hazardous waste management program—permits, surveillance, and enforcement.

Hazardous Waste Management

The Hazardous Waste Management Branch includes the following sections (1) permits, surveillance, and enforcement; (2) technical services; and (3) site cleanup and emergency response. The core of the branch's program is enforcement of state and federal regulations governing the transportation, treatment, storage, and disposal of hazardous wastes through permitting, surveillance, and legal actions. The Permits, Surveillance, and Enforcement program is funded by the Hazardous Waste Control Account (HWCA) and the federal Resource Conservation and Recovery Act (RCRA).

Additional activities undertaken by this branch include administering the abandoned site program, conducting hazardous waste property evaluation, promoting resource recovery through the California Waste Exchange, encouraging high-technology treatment and disposal facilities as an alternative to land disposal, and hazardous waste hauler registration and monitoring. The branch has also been developing a computerized management information system, which started operating on a trial basis in the late fall.

A large part of the branch's current workload consists of developing regulations to implement recent legislation and to make the state program

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conform to federal RCRA requirements. The department is developing regulations to (1) revise the fee schedule that supports the HWCA; (2) provide for rewards to informants who report illegal hazardous waste management practices; (3) set standards for (a) site owners' financial responsibility and liability, (b) treatment, storage, and disposal facilities, (c) hazardous waste elements of county solid waste management plans, (d) transportation containers and driver's training, (e) site closure procedures, (f) hazardous waste and border zone property, and (g) infectious waste control.

Infectious Waste Program. Chapter 1062, Statutes of 1982 (SB 1482), requires the department to regulate producers, transporters, and disposers of infectious waste. Funding to implement the program was not included in Chapter 1062 and is not included in the budget. The department estimates that it would require $109,000 and three positions to implement this legislation. We were unable to determine if the department plans to delay implementation of this program or fund it by redirection of staff from existing programs.

Revenue Shortfalls in the Hazardous Waste Control Account

The Hazardous Waste Control Account (HWCA) was established in 1973 to support the department's hazardous waste control program. It receives fees paid by operators of hazardous waste disposal facilities. Under current regulations, the fees are assessed on each ton of waste disposed, up to 2,500 tons per month per disposer. After reaching the 2,500-ton limit, waste disposers are not required to pay additional fees.

In 1981–82 the HWCA incurred a revenue shortfall of $572,000, which was caused by delays on the department's part in adopting regulations to increase the fee from the $1 per ton level established in 1977. These delays would have also affected current-year revenues if the Legislature had not acted to increase the fee level to $4 per ton in Ch 327/82 (SB 1326).

Current-Year Shortfall. In June 1982, the department estimated that the $4 fee would generate $8,736,000 in 1982–83, based on an estimate of 180,000 tons of hazardous waste disposed per month. Actual revenue collections, however, have been significantly lower than expected, due to (1) a 33 percent reduction in the amount of waste disposed and (2) a one-month lag in collecting fees at the higher level.

The department now estimates that it will collect fee revenues of only $5,297,000 in 1982–83, not the $8,736,000 projected when the budget was enacted. The department needs fee revenues of $6,751,000 to fund its current-year expenditure program and cover the deficit carried forward from 1981–82. Thus, if it does not curtail expenditures, it will experience a deficit of $1.5 million in the current year.

To avoid a deficit, the department is attempting to curtail current-year expenditures by deferring contracts and hiring. The department has also requested $1 million in additional federal RCRA funds from the Environmental Protection Agency. The department was not able to provide us with a revised expenditure plan, even though less than half of the fiscal year remains.

The budget takes no account of the revenue shortfall in the current year and, as a result, presents an inaccurate estimate of current-year revenues. It shows HWCA revenue in 1982–83 of $6,751,000, which is $1,454,000 above the department's current estimate.

The department has identified three reasons for the sharp reduction in

the amount of waste subject to fees: (1) the current recession has resulted in the closure of a number of major waste producers, including manufacturing plants and auto plants, (2) the amount of waste disposed in the time period used as the basis for the earlier forecast was artificially high because large quantities of waste were being generated by a site cleanup action, and (3) the fee increase from $1 to $4 per ton may have increased illegal dumping or reduced reporting of waste disposed properly. The Board of Equalization, which collects the fees, hired auditors in December to investigate the shortfall.

Potential Budget-Year Shortfall. The fee increase established by Ch 327/82 terminates on June 30, 1983. At the time Ch 327/82 was enacted, it was expected that the department would be able to place revised fee regulations conforming to the requirements of Ch 89/82 (AB 1543) into effect by the June 30, 1983, expiration date. Chapter 89 requires the department to revise the flat fee rate and establish a variable fee rate, based on the degree of hazard presented by different types of waste.

At the time this *Analysis* was written, however, the department had not proposed revised fee regulations, nor had the department proposed legislation to continue or increase the $4 per ton fee level. In the absence of regulations or new legislation, the fee level will revert to $1 per ton on July 1, 1983. The $1 fee level would generate only $1.4 million in revenue—significantly less than the $6.3 million required to support the proposed level of expenditures.

The department indicates that it currently is developing regulations to increase the fee level, in order to fund 1983–84 expenditures and any deficit carried forward from the current fiscal year. The department's regulatory process normally requires 284 days from the development of the regulations through department review and public notice and hearing to approval by the Office of Administrative Law. At the time this analysis was prepared, however, less than 150 days remained before the current fee level authorization expires. As a consequence, we are unable to assure the Legislature that adequate revenues will be available to support the expenditure level proposed in the budget.

Changes Needed in the Fee Mechanism. The existing fee mechanism will need more extensive changes in the future. First, the fees currently are assessed only on wastes that are disposed on land. The department's hazardous waste control program, however, also regulates treatment facilities which recycle, incinerate, or condense hazardous wastes. Under current law, these facilities are subject to minor requirements to pay fees to the HWCA. As the recent regulations to ban land disposal of selected highly hazardous waste take effect during the next two years, the quantity of tonnage upon which the fee is assessed will decline. This will place a larger burden on those companies who continue to dispose on land.

Second, existing law requires monthly fee collections, which places an unnecessary administrative burden on both the state and the feepayers. The Legislature may wish to consider adopting a quarterly or annual payment mechanism, and expanding the tax base so that all types of hazardous waste facilities contribute to the cost of the regulatory program.

Federal Funding for Hazardous Waste Management

We recommend that the Legislature adopt supplemental report language directing the department to negotiate with the federal Environmental Protection Agency in order to obtain federal funding on a state fiscal year basis, in order to facilitate legislative review of the use of these funds

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and simplify operation of the program.

The federal Environmental Protection Agency (EPA) provides funds to states in order that they can operate state hazardous waste programs under the Resource Conservation and Recovery Act of 1976 (RCRA). We have identified three problems in the department's management of federal RCRA funds:

Budget Underestimates Available Federal Funds. The budget estimates that the department will receive $2,781,000 in the current year and $2,696,000 in the budget year from RCRA. These amounts are based on the assumption that the amount of federal funds available for these activities is declining. In fact, the amounts available have increased. The department anticipates receiving $3.4 million in federal fiscal year 1983 (FFY 83—October 1982 to September 1983), an increase of $619,000 above the amount assumed in the budget. The $3,021,000 received in state fiscal year 1981–82 was $453,000 more than the midyear estimate contained in last year's budget.

Delays in Negotiating Annual Contract. The department should attempt to negotiate the RCRA awards in a more timely manner. In 1981–82 the final RCRA award was not approved until February 1982, or four months after the beginning of the grant period. In the current year, a final agreement had not been reached by late January, when this *Analysis* was prepared. Until final agreement is reached and a contract is signed, the ongoing personnel and program costs funded by this grant are charged to the General Fund, which weakens the General Fund's cash flow. The department should be able to reduce these delays by more timely development of the grant application.

Change Timing of Federal Award. The RCRA funds currently are awarded on a federal fiscal year basis—from October to September. As part of the application process, the department prepares a work plan and budget on a federal fiscal year basis. Due to the different fiscal periods used for federal and state budgeting, data on positions and funding contained in the RCRA work plan and budget are inconsistent with data contained in state budget documents. Further, the department has delayed preparing its RCRA work plan and budget each year until July or August, which denies the Legislature the opportunity to take available RCRA funds into account when completing budget deliberations in June.

In order to allow the Legislature to participate more directly in the RCRA budget process, and to simplify budget, planning, and reporting requirements, we recommend that the Legislature adopt supplemental report language directing the department to negotiate with the EPA in order to obtain RCRA funds on a *state* fiscal year basis. The department indicates that the EPA is willing to consider the change if it is a state priority and if it would improve program operations. Accordingly, we recommend adoption of the following language:

"The department shall negotiate with the federal Environmental Protection Agency to change the contract period for the Resource Conservation and Recovery Act (RCRA) program to correspond to the state fiscal year (July to June) rather than to the federal fiscal year (October to September)."

Management Deficiencies Continue

We recommend that by April 1, 1983, the department submit to the Legislature a comprehensive work plan for all Hazardous Waste Management program activities to be undertaken in 1983–84.

Our analysis indicates that the Hazardous Waste Management program has not produced results commensurate with the funding and staff resources made available by the Legislature. Rapid growth apparently has overwhelmed the ability of the program's management to focus on the fundamental program functions of permitting, surveillance, and enforcement.

The department has made a number of commitments to both the Legislature and the EPA in the past two years regarding specific program accomplishments to be achieved. These commitments were made in the November 1981 Plan of Correction submitted to the Assembly Committee on Consumer Protection and Toxic Materials in response to the Auditor General's report, the 1981–82 Work Plan submitted to the EPA, and various documents submitted to the Legislature in support of current-year budget proposals. Many of these commitments have not been met. Specifically, we find:

1. ***Permitting is Significantly Behind Schedule.*** The issuance of operating permits to hazardous waste treatment, storage, and disposal facilities is one of the fundamental elements of the state's regulatory program. Permits are issued by the Permit, Surveillance, and Enforcement Section, with technical assistance provided by the Technical Support Section.

In November 1981, the Auditor General found that the department had issued final operating permits to 18 facilities, or fewer than 2 percent of the approximately 1,200 facilities subject to state regulations. The department responded with a plan of correction, indicating that the existing 16-person permit staff would issue at least 24 additional permits by June 30, 1982, and 50 permits per year annually thereafter.

Our review indicates that as of December 31, 1982, the department had issued only six additional permits, or approximately 12 percent of the planned amount. Five of the permits were for research and demonstration projects involving new waste treatment technologies and had been developed primarily outside of the section, in the Office of Appropriate Technology. The department has been unable to satisfactorily explain its failure to issue the agreed-upon number of permits or to explain exactly what the 16-person permit staff has been doing during the last year. The federal Environmental Protection Agency (EPA), which provides more than one-half the funding for the permitting program, has also noted the state's lack of progress in this area. The EPA has established permit issuance as its top priority and may withdraw current federal funding if the state is unable to improve its performance in issuing permits.

We conclude that (1) the department has not corrected the deficiencies in the permit program that were identified over one year ago by the Auditor General, (2) program managers have not placed a high priority on the permitting activity, and (3) the program is unlikely to meet the commitment it recently made to EPA to issue 110 permits by October 1, 1983.

The department has repeatedly stated that it intends to complete issuing permits by 1990. At the current rate of six permits per year, *it will take 200 years to complete the permitting process.*

The department has issued interim status documents (ISDs) to all 893 facilities subject to federal RCRA standards. The IDSs were issued without

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the department conducting detailed site inspections and testing and without public hearings. These steps are required before the final operating permit can be issued. Until the final permits are issued, many facilities throughout the state are handling hazardous wastes without any on-site inspection by the state to determine compliance with state and federal laws. Continued delays in issuing final permits may result in a significant public health hazard.

2. ***Delays in Raising HWCA Fees.*** As discussed above, the department has repeatedly failed to develop regulations in a timely fashion to increase HWCA fees. To insure adequate revenue for programs supported from this funding source in 1982–83, the Legislature increased the fee in Ch 327/82 (SB 1326). Further, the department has not acted aggressively to identify disposers, especially on-site disposers, who did not pay fees before the Board of Equalization started collecting the fees in October 1981.

3. ***Suspension of Cradle-to-Grave Manifest System.*** Both the state and the federal government require the reporting of all transportation of hazardous waste in order to insure that all wastes produced are appropriately disposed. The transportation manifests are the basic tool to insure "cradle-to-grave" surveillance of hazardous waste disposal. The department suspended tracking manifests during the last year, while the automated manifest tracking system was being developed. Therefore, the department was unable to confirm that wastes being transported from a waste generator actually arrived at an authorized disposal site, and thus were properly disposed.

4. ***Delays in Adopting the California Assessment Manual (CAM).*** The CAM is a detailed set of guidelines for the identification of hazardous and extremely hazardous wastes. These guidelines will clarify what waste elements are subject to the department's regulatory requirements. In the 1981–82 EPA work plan, the department committed to holding public hearings in February 1982 and adopting the manual in regulations in May 1982. The CAM has not been adopted, and the Technical Support Section is in the process of rewriting it. The department now estimates that the new draft will be completed by June 1983.

5. ***Adoption of Transportation Regulations Delayed.*** The November 1981 Plan of Correction indicated that the department would adopt regulations for driver's training and container standards by May 1982. Neither of these regulations have been adopted. In fact, the department has not even issued draft regulations for public comment.

6. ***Other Deficiencies.*** The department was six months late in adopting a time accounting system and has not yet developed guidelines for the hazardous waste elements of county solid waste management plans. The hazardous waste property program (AB 2370) held one public hearing in 1981–82, although the EPA work plan commitment was to hold 15 hearings. Further, as discussed earlier, all legislatively required reports are either overdue or were submitted late.

Auditor General's Report. Our review is not the first one to conclude that the department's management of the Hazardous Waste Management program is not adequate. In a November 1981 report, the Auditor General found that the program does not fully protect the public from the harmful effects of hazardous waste and made five recommendations to improve the program's operations. These recommendations were to:

1. Develop and implement comprehensive plans to guide program implementation by establishing quantitative goals and objectives, as well as

performance effectiveness measures for each program.

2. Develop and implement written program procedures and systems for managing workload, guiding program activities, and monitoring staff performance.

3. Develop workload standards for its programs in order to establish staffing levels and justify staffing requests.

4. Streamline procedures for reviewing and approving regulations.

5. Develop and adopt a comprehensive management information system.

Our review found that the department has not followed those recommendations.

Comprehensive Work Plan Needed Prior to Legislative Review of the Budget. Because the department has failed to meet its commitments regarding program performance, we recommend that the Legislature delay its review of this budget and require the department to submit a comprehensive work plan by April 1, 1983. A comprehensive work plan would represent a commitment to the Legislature by the department to achieve concrete objectives in 1983–84. It would also allow the Legislature to review the program's priorities and make changes if necessary.

The 1983–84 work plan should include the following:

1. Quantitative goals and objectives for all sections, subunits, and regional offices of the Toxic Substances Control Division.

2. Identification of all program funding sources and positions by function.

3. Workload standards for staff assigned to the program.

4. A schedule for issuing program regulations.

5. A timetable of quarterly milestones, so that progress in meeting the goals set forth in the plan can be evaluated during the year.

6. Specific changes in management practices or organizational structure that will be needed to achieve the goals of the plan.

7. Clear priorities between various work goals and functions.

Surveillance and Enforcement

We withhold recommendation on the department's request for 10 additional surveillance positions and $430,000 from the Hazardous Waste Control Account until the department (1) submits its report on workload requirements and productivity measures for permitting, surveillance, and enforcement staff, which was due on October 15, 1982, and (2) provides detailed workload justification for the new positions.

The Legislature, through the *Supplemental Report of the 1982 Budget Act,* directed the department to submit a report on staffing and workload standards in its surveillance and enforcement program by October 15, 1982. The Legislature imposed this reporting requirement because the department's justification for the eight inspector positions that were added in the current year contained numerous errors and inconsistencies.

At the time this *Analysis* was prepared, the department had not submitted the report and was unable to provide workload standards or basic data on the level of output, such as the number and type of inspections and enforcement actions contemplated.

The budget proposes 10 new positions and $430,000 from the Hazardous Waste Control Account to increase inspections of hazardous waste facilities. Three positions would be used to provide daily surveillance at the four major Class I off-site disposal facilities, 5 positions would augment the 20 existing field inspectors, and 2 positions would inspect hazardous waste

DEPARTMENT OF HEALTH SERVICES—Continued

hauler terminals. We are unable to comment on the need for the proposed staff increase because the department has been unable to provide any data with which we could evaluate the effectiveness or the workload of the inspection and enforcement program.

We therefore withhold recommendation on this request until the department provides the information on inspection workload standards and productivity that was due on October 15, 1982. The department should also include with that report the expected increase in inspections and enforcement actions that would result in the budget year if the 10 proposed positions are approved.

Cooperation with Local Governments

The department has been exploring cooperative arrangements with county governments in the areas of inspection and enforcement. The Los Angeles County Health Services Department has imposed local fees on industry to fund a generator inspection program, which will significantly reduce the number of facilities state staff need to inspect. The department indicates that other counties are also interested in developing the capacity to enforce state hazardous waste control laws. In developing plans for inspection and enforcement, the department should analyze the cost-effectiveness of increased county involvement before proposing further increases in state surveillance and enforcement staff.

Site Closure and Maintenance Plans

We recommend that by April 1, 1983, the department and the State Water Resources Control Board develop a joint work plan regarding the site closure and maintenance plan review established by Ch 90/82 (SB 95).

Chapter 90, Statutes of 1982 (SB 95), requires hazardous waste facilities to develop closure and maintenance plans and to provide financial assurance of their ability to pay damage claims. The act assigns primary administrative and policy responsibility for developing and reviewing the plans to the Department of Health Services. It also requires the State Water Resources Control Board (SWRCB) and regional water quality control boards to assist the department in developing regulations and reviewing site closure and maintenance plans.

The 1982 Budget Act contained $275,000 from the Hazardous Waste Control Account for the first year of this program, including $50,000 for the SWRCB and $225,000 for five positions in the department.

The budget proposes $225,000 in 1983–84 to fund the five positions established in the current year. The SWRCB requests $338,000 as a direct appropriation from the Hazardous Waste Control Account in Item 3940-001-014 for staff to review the water quality aspects of site closure plans.

When the five positions were authorized, the department's workload justification indicated that after regulations were issued, these positions would review site closure plans, as well as evidence of financial responsibility and liability insurance submitted by facility operators. The department now indicates that it will not review these plans separately but will review them as part of the permit issuance process, which is scheduled to take seven years to complete. With this change in schedule, the department may not have sufficient workload to justify the five positions. The SWRCB request of $338,000 is based on a work plan that anticipates more rapid implementation.

Due to these inconsistencies, we recommend that by April 1, 1983, the department and the SWRCB develop a joint work plan or memorandum of agreement regarding the site closure and maintenance plan review required by Ch 90/82 (SB 95). This report should include (1) an implementation schedule, (2) the number and type of plans expected to be reviewed, (3) the scope of work to be performed in each agency, and (4) justification for the expenditures and staffing levels proposed in the budget.

Reward Program for Tips About Hazardous Waste Law Violations

We recommend that by April 1, 1983, the department report on (1) the current-year progress in developing the reward program for tips about hazardous waste law violations, (2) its plan for implementing the program in the budget year, and (3) the funding required to support this plan.

Chapter 93, Statutes of 1982 (AB 2075), provides for rewards to any person offering information leading to the conviction or penalty assessment against violators of hazardous waste control laws. The 1982 Budget Act contained funding for a one-year limited-term position to develop (1) regulations, (2) procedures for handling informant claims and paying rewards, (3) a public information program, and (4) an evaluation mechanism. The regulations originally were scheduled to take effect in May 1983, but the department now indicates that the effective date will be delayed to February 1984.

The budget reflects the reduction of $34,000 and the one limited-term position established for regulation development, as of June 30, 1983. It does not propose funding for either the rewards authorized by the legislation or staff to operate the reward system.

We were unable to determine how the department intends to implement the reward system authorized by Ch 93/82. We recommend, therefore, that the department report by April 1, 1983, on (1) its progress in developing the program in the current year, (2) its plans for implementing the program in the budget year, and (3) the financial resources the department plans to redirect to this activity in 1983–84.

Hazardous Waste Management Council

We recommend a reduction of $112,000 from the Hazardous Waste Control Account because the Hazardous Waste Management Council is budgeted for the full fiscal year, even though the council's statutory authority expires on December 31, 1983.

Chapter 89, Statutes of 1982 (AB 1543), created the Hazardous Waste Management Council to examine the process for siting hazardous waste facilities. The act required the council to develop a specified plan by July 1, 1983. Chapter 1244, Statutes of 1982 (AB 69), extended the submission date for the plan by three months. The statutory authority for the council expires on December 31, 1983.

The 1982 Budget Act appropriated $275,000 for support of the council, including (1) $50,000 for a one-year limited-term scientific position in the department and (2) $225,000 for direct council staff that were hired through a contract by the Office of Planning and Research (OPR).

The budget deletes the department staff position but requests $225,000 for full-year funding of the contract with OPR for the council's staff. We know of no reason why the council staff should be funded for the full year when the council itself terminates on December 31, 1983. We therefore recommend the reduction of $112,000.

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Superfund

The budget proposes $11.5 million in funding for the second full year of the Superfund program. This amount consists of an appropriation of $10 million in the Budget Bill and a carry-forward reserve of $1.5 million from the current year for cleanup of the McColl hazardous waste disposal site in Orange County.

Chapter 756, Statutes of 1981 (SB 618), established a funding mechanism to (1) clean up hazardous waste sites that pose a threat to public health, (2) meet the state's obligation for a 10 percent match under the federal Superfund program, (3) support emergency response to the release of hazardous substances, and (4) compensate persons injured by exposure to releases of hazardous substances. The state Superfund program is supported by the Hazardous Substances Account (HSA), which receives revenues from the taxes paid by generators of hazardous waste. The Board of Equalization is authorized to collect up to $10 million in taxes per year for 10 years. The amount of taxes collected in any one year is adjusted downward by any unobligated funds remaining from the prior year.

The act authorized a loan of $2 million from the General Fund to the HSA to support start-up costs in 1981–82. The act required that the loan be repaid at a rate of $400,000 per year, plus interest.

In 1981–82 the department received a loan of $1 million and spent $843,000. The 1982 Budget Act authorized $10 million in expenditures for the first full year of program implementation. Table 18 summarizes (1) budgeted current-year and proposed expenditures, (2) unbudgeted costs, and (3) available revenues for the Superfund program.

Current-Year Revenue Shortfall

The Hazardous Substances Account is supported by a complex revenue mechanism administered by the Board of Equalization. Chapter 756, Statutes of 1981 (SB 618) established four categories of waste, based on the degree of hazard, and specified a base tax rate for each type of waste. The act requires waste generators to report annually to the board by March 1 on the amount of wastes produced in each of the four waste categories. The board then adjusts the base tax rates to generate enough revenues so that revenues plus any unobligated funds expected to be available at the start of the budget year equal $10 million. The act does not permit the board to revise the annual tax rate until the next year. The taxes are due on July 1.

In 1982, the first year in which the new tax was implemented, a number of oil companies withheld tax payments and challenged the board's guidelines for calculating tax assessments. The specific issues raised by these firms were (1) which tax rate should apply to injection-well disposal, (2) whether the measurement of the amount of waste should be based on dry or wet weight, and (3) whether certain types of wastes, which were reported as hazardous, should be reclassified as nonhazardous.

In order to avoid litigation and generate as much revenue as possible, the administration negotiated a settlement with the affected companies. Chapter 1244, Statutes of 1982 (AB 69), implemented the terms of the settlement. Specifically, the act established a special one-year rate for disposal into injection wells, clarified the procedures for determining weight, and established procedures to have wastes reclassified as nonhaz-

Table 18
Superfund Budget Summary
Hazardous Substances Account
1982–83 and 1983–84
(in thousands)

	1982 Budget Act	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Remedial actions and response				
Cleanup contracts	$4,531	$4,384 [a]	−$147	−3.2%
Department of Health Services support	1,929	1,846	−82	−4.3
Attorney General costs	100	100	—	—
Subtotals	$6,560	$6,330	−$230	−3.5%
Emergency response				
Emergency Reserve Fund	$1,000	$1,000	—	—
Equipment	800	600	−$200	−25.0%
California Highway Patrol training	292	292	—	—
Department of Industrial Relations study	157	157	—	—
Office of Emergency Services notification planning	53	53	—	—
Subtotals	$2,302	$2,102	−$200	−8.7%
Department of Health Services health effect studies	$500	$423	−$77	−15.4%
Victim compensation				
Board of Control administration	$95	$95	—	—
Claims fund	300	300	—	—
Subtotals	$395	$395	—	—
Board of Equalization tax collection	$243	$270	$27	11.1%
General Fund loan repayment	—	480	480	N/A
Total budgeted	$10,000	$10,000 [a]	—	—
Unbudgeted costs				
Administrative overhead	284	383	99	34.9%
General Fund loan repayment	520	—	−520	−100.0
Revised totals	$10,804	$10,383	−$421	−3.9%
Available revenues	9,314	10,100	786	8.4
Funding shortfall	$1,490	$283	$1,207	−81.0%

[a] The budget does not reflect an additional $1.5 million that will be carried over for a remedial action contract at the McColl site, resulting in a total proposal of $5,884,000 for remedial action.

ardous. The act also provided for refunds if more than $10 million is collected.

By January 1983, $9 million in taxes had been collected, which is $1 million less than the revenue needed to support budgeted expenditures. The revenue shortfall of $1 million is partially offset by $157,000 in reserves remaining from 1981–82 and $157,000 in interest earned on unspent funds through the surplus money investment program. Thus, current-year resources are $9,314,000, which is $686,000 below the original estimate. In addition, requests for refunds totaling approximately $319,000 have been filed. Payment of any refunds would further reduce available resources.

The department does not anticipate that these problems will reoccur in the budget year.

Chapter 1244, Statutes of 1982, states that the Legislature intends to revise the tax rates by statute during 1983 to ensure an equitable distribution of the tax burden. The department had not proposed alternative tax rates at the time this *Analysis* was prepared.

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Current-Year Expenditures

The problems created by the revenue shortfall are exacerbated by unbudgeted costs totaling $804,000. As we pointed out in our analysis of last year's budget proposal, the 1982–83 Superfund budget did not include funds to (1) make the first loan repayment of $520,000 or (2) fund administrative overhead costs of $284,000.

These costs, plus the revenue shortfall of $686,000, result in a reduction of $1,490,000 in the amount available to fund the program. The reduction in amounts available to fund the program could be as high as $1,809,000 if the tax appeals are successful. The department was unable to provide us with a revised expenditure plan for the current year. The department plans to complete its revised expenditure plan in February.

Budget-Year Proposal is Inaccurate and Incomplete

We withhold recommendation on the Superfund program until the department submits (1) a revised budget proposal that corrects errors in the budget as submitted and (2) a listing of the priority sites for remedial action with proposed site-specific costs.

The budget proposes $11.5 million in expenditures from the Hazardous Substances Account (HSA) in 1983–84. This includes $1.5 million for remedial action at the McColl site in Orange County. These funds were appropriated in the current year but will be expended in the budget year.

Errors in the Budget. We have identified numerous computational errors and inaccuracies in the Superfund budget as submitted to the Legislature. The department and the Department of Finance acknowledge these problems. For example: (1) all department staff is shown as part of remedial action, even though some positions conduct emergency response activities and health effect studies; (2) the amount shown for health effects studies includes a $117,000 adjustment to provide a 10 percent cost-of-living adjustment for interagency emergency response contracts, whereas the budget states that such increases are not included in the budget; (3) funds for the McColl site cleanup are carried over into the budget year, but current-year expenditures have not been reduced to recognize the delay in spending these funds; and (4) as was true of last year's budget proposal, $383,000 in department overhead costs are not funded in the budget.

No Proposal for Remedial Response. The budget proposes $6,330,000 for remedial actions to clean up hazardous substances and mitigate the environmental and health effects of those substances. This amount includes (1) $4,384,000 for contracts with private firms to design and implement site cleanups, (2) $100,000 for legal services from the Attorney General, and (3) $1,846,000 to support department remedial action staff.

At the time this *Analysis* was prepared, the department had not (1) issued its list of priority sites for remedial action in 1983–84 (which was due on January 10), with cost estimates by site, or (2) provided updated plans for remedial actions it intends to complete in the current year at 1982–83 priority sites. It appears that the department may not complete as many activities in the current year as had been planned because of (1) the reduction in funds available to operate the Superfund program and (2) hiring and contracting freezes.

The department intends to submit a revised budget-year proposal prior

to budget hearings. We withhold our recommendation on the $10 million request in the Budget Bill pending receipt of the revised proposal.

Federal Superfund Support to California

The Environmental Protection Agency (EPA) included 11 California sites on its national priority list for federal Superfund support. This list was published in December 1982. The EPA has initiated a policy of exhausting all legal remedies for requiring the parties responsible for contamination of the sites to pay for cleanup, prior to awarding Superfund cleanup funds for these sites. Consistent with this policy, the EPA has provided the state support in developing enforcement cases, initial investigation and data gathering, and training in hazardous waste site investigation. The EPA has not yet awarded any funds to California for site cleanup.

McColl Site in Orange County

The 1982 Budget Act appropriated $1.5 million for clean-up activities at the McColl site. The Budget Act permitted use of these funds for other activities in the event all of the funds could not be used at McColl in the current year.

Chapter 1302, Statutes of 1982 (AB 26), reappropriated $1.5 million from the unencumbered balance of the 1982 Budget Act appropriation for the Superfund program to initiate remedial action at the McColl hazardous waste disposal site in Orange County. It prohibited the use of these funds for studies and required the department to submit annual progress reports on work involving this site. The reappropriation had the effect of (1) prohibiting use of the budgeted funds for purposes other than remedial action at the McColl site and (2) allowing the $1.5 million to be carried over into 1983–84.

The budget indicates that all of the $1.5 million will be carried over to the budget year. The department does not intend to spend any of the funds in the current year because the funds may only be used for remedial action. Before the department can initiate remedial action to clean up McColl, it must fully identify the wastes and study options for cleanup.

Our analysis indicates that limiting appropriations to specific sites cannot ensure rapid action at that site if (1) adequate information is not available on the wastes involved and the geological nature of the site or (2) the engineering and design work is incomplete.

Emergency Response

The budget proposes $2,102,000 for emergency response programs administered by the Department of Health Services, various local jurisdictions, and three other state agencies: the Office of Emergency Services (OES), the California Highway Patrol (CHP), and the Department of Industrial Relations (DIR). This is a decrease of $200,000, or 8.7 percent, from current-year budgeted expenditures. The decrease is explained by a reduction in the level of spending for prepositioned emergency response equipment from $800,000 to $600,000. The budget does not propose any changes in the level of funding for other elements of the emergency response program.

In our analysis of this program last year, we identified a number of problems regarding potential overlap in the responsibilities of the four state agencies and various local agencies. In response to the problems, the Legislature adopted language in the *Supplemental Report of the 1982 Budget Act* directing the department to report by February 10, 1983, on

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the appropriate roles and responsibilities of the various agencies. We will comment further about the coordination issue, once we have received this report.

The emergency response program includes the following activities:

- ***Department of Health Services.*** The budget includes $1 million as a reserve fund for emergency response, as required by Chapter 756/81. The fund is administered by an existing position budgeted in the remedial action program. The position (1) supervises contractors hired for specific spill cleanups, (2) administers the $600,000 prepositioned emergency response equipment purchase program, (3) works with local emergency response units that respond to hazardous waste releases, and (4) coordinates with other state agencies.
- ***Office of Emergency Services (OES).*** The budget continues $58,000 and 1.5 positions to (1) coordinate county emergency response plans and (2) develop training exercises to test the state plans. These activities complement OES responsibilities under Ch 805/82 to develop a Hazardous Material Incidence Contingency Plan and establish a spill notification and reporting system.
- ***California Highway Patrol (CHP).*** The budget proposes to continue $292,000 and 2.5 positions for the second year of a two-year training program on hazardous material spills for state and local emergency response personnel. The three-module course includes (1) basic awareness training, (2) scene management, and (3) interagency agreements and planning.
- ***Department of Industrial Relations (DIR).*** The budget proposes to continue $157,000 and four positions for the second part of a two-year study of health hazards encountered by state and local emergency personnel responding to toxic spills and releases. Based on the study, the department intends to set exposure and safety standards for emergency personnel.

Prepositioned Emergency Response Equipment

We recommend deletion of $600,000 requested from the Hazardous Substances Account for prepositioned emergency response equipment because the department has not (1) analyzed need for the equipment, (2) established criteria to make funding allocations, or (3) provided a list of the specific items to be purchased.

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 that "all equipment shall be purchased in a cost-effective manner after consideration of the adequacy of existing equipment owned by the state or local agency" and consideration of the availability of equipment owned by private contractors.

The budget requests $600,000 for the purchase of emergency response equipment. This is a reduction of $200,000, or 25 percent, from the $800,000 appropriated for this purpose in the current year. In the 1982 Budget Act, the Legislature adopted language requiring the department to notify the Legislature 30 days prior to spending the $800,000. The act provides that the notification shall include "(1) the specific equipment items to be purchased, (2) an analysis of need for the equipment, and (3) criteria used to make the funding allocations."

At the time this analysis was prepared, the department had not notified the Legislature how it intended to spend the $800,000 appropriated for the current year. Further, the department has not submitted a list of specific items, a needs analysis, or allocation criteria for the $600,000 proposed for the budget year. In the absence of any justification for the proposed expenditures, we recommend deletion of $600,000 proposed for emergency response equipment.

Victim Compensation and the Board of Control

We recommend the reduction of $56,000 requested to support two positions for the Board of Control because the board's workload is less than anticipated and does not justify the existing level of support.

The budget proposes $95,000 from the Hazardous Substances Account for administration of the victim compensation portion of the Superfund program by the Board of Control. This is the same amount that was appropriated for this activity in the current year. Because of the lack of program activity, all three authorized positions were vacant for the first half of the current year. One position was filled on January 1, 1983, to develop claim forms and brochures and initiate a public information program.

Our analysis of the board's budget, Item 8710, indicates that the two vacant positions are not justified on the basis of program activity or workload. We therefore recommend the reduction of $56,000 requested for these positions.

The budget also appropriates $300,000 to pay claims filed by victims of exposure to hazardous substances. At the time this *Analysis* was prepared, no claims had been filed in the current year. It may be appropriate to reduce this amount and use the savings to increase the funding available for remedial action in the budget year. We will report further on this option at budget hearings.

Laboratory and Epidemiological Studies

The budget proposes $7,498,000 (all funds) for the Laboratory and Epidemiological Studies Branch, which is a decrease of $761,000, or 9.2 percent, below estimated current-year expenditures. The branch includes the hazardous materials laboratory, the air and industrial hygiene laboratory, the epidemiological studies section, and the Hazard Evaluation System and Information Service (HESIS). The budget proposes 158.5 positions for these activities.

The primary reason for the reduction is the deletion of one-time funds available in the current year from Ch 204/82 (SB 834) for expansion of the birth defects monitoring program and two specific research projects. Although Chapter 204 expands the Birth Defects Monitoring program on an ongoing basis, the budget does not propose to continue it.

The budget proposes to eliminate six limited-term positions in the hazardous materials laboratory, including four in the abandoned site program and two in regulation development. The budget proposes to add $81,000 and 1.5 positions to implement a new program to certify laboratories performing hazardous materials tests, which was established by Ch 1209/82 (AB 3449). The budget also reflects reductions of three positions in the air and industrial hygiene laboratory and $78,000 in reimbursements from the Department of Industrial Relations due to workload reductions.

DEPARTMENT OF HEALTH SERVICES—Continued

Birth Defects Monitoring—Unfunded Legislation

We recommend that by April 1, 1983, the department report to the Legislature on how it intends to expend carry-over funds appropriated for the Birth Defects Monitoring program by Ch 204/82.

Chapter 204, Statutes of 1982 (SB 834), appropriates a total of $875,000 from the General Fund, including (1) $150,000 to the Hazard Evaluation System and Information Service to study the effects of Ethylene di Bromide (EDB), (2) $275,000 to study the effects of malathion spraying on birth outcomes in Santa Clara County, and (3) $450,000 for eight positions to expand the existing birth defects monitoring program, which currently operates in Alameda and Contra Costa Counties, to three additional counties—San Francisco, Santa Clara, and San Mateo. The monitoring program collects information on birth defects, stillbirths, and low birth weight infants in order to determine if they have resulted from environmental and occupational exposures to toxic substances. The staff also investigates apparent clusters of similar birth defects. The act states legislative intent that ongoing funding for birth defects monitoring shall be provided through the budget process.

The budget does not include funding to continue the program expansion in 1983–84. The program is one of 15 programs established by recent legislation that is not funded in the budget. These programs are listed on page GG 195 in the budget document.

The department indicates that part of the $450,000 appropriation in the current year may be carried over into the budget year. We were unable to determine, however, if the carry-over funds would be adequate to maintain the current five-county program without additional new funding. We recommend that the department report to the Legislature, by April 1, 1983, on the amount of carry-over funds that will be available and the scope of program services that could be maintained with that amount.

F. ENVIRONMENTAL HEALTH

The budget proposes $11,338,000 (all funds) for support of the Environmental Health Division, excluding administrative overhead. This is a decrease of $833,000, or 6.8 percent, below estimated current-year expenditures. The budget proposes 281.5 positions for this program. The division currently contains six branches: sanitary engineering, vector biology and control, radiological health, food and drug, noise control, and local environmental health.

The reduction in proposed expenditures is due to the administration's proposal that the Vector Biology and Control program be folded in to the new public health block grant. The effect of including this program in the block grant is to delete 26.2 positions and $1,198,000 from the Environmental Health Division budget.

The budget also proposes to add $142,000 and three positions in sanitary engineering for workload increases in the Safe Drinking Water Bond Law program. The positions were administratively established in the current year and are funded by reimbursements from the Department of Water Resources.

Public Health Block Grant Proposal—Vector Biology and Control

The budget proposes to fold the Vector Biology and Control program into the new public health block grant. *The Vector Biology and Control program is the only program proposed for inclusion in the block grant that currently provides no local assistance funding.* If this program had not been proposed for inclusion in the block grant, we estimate that the budget would have requested $1,438,000 from the General Fund for the Vector Biology and Control program (including $240,000 in administrative overhead).

Program Objectives. The program controls disease-carrying insects and rodents, through (1) regular surveillance, (2) emergency response to vector-transmitted disease outbreaks, (3) technical assistance to local vector control districts and health departments, and (4) prevention of vector problems through environmental planning. This program administers the urban rat control component of the federal preventive health services block grant. The budget does not propose to include this activity as part of the state block grant.

Administration. The Vector Biology and Control program operates eight field offices that provide assistance to local agencies who perform ongoing vector control functions. The state currently does not provide local assistance funds for vector control. The state focuses its attention on vector control problems without extensive local involvement.

Other Information. The state program has been reduced significantly in recent years. In 1978–79 the program consisted of 46.7 personnel-years. The current-year staffing level of 24 personnel-years represents a 48 percent reduction from the 1978–79 level.

Block Grant Effect.

- ***Effect of County Administration.*** Local agencies that have relied on state staff for backup would have to acquire backup staff through other means. If local agencies did not use block grants to initiate local efforts aimed at vector control, it is possible that the incidence of vector-transmitted diseases would increase.
- ***Effect of Eliminating Statewide Program.*** Loss of state surveillance staff could result in increased occurrence of vector-transmitted diseases. Local agencies would have to seek other sources of assistance and advice on specialized vector control problems—for example, from the University of California's Agricultural Extension program, which also has expertise in vector control.

G. HEALTH PROTECTION

The budget proposes $27,058,000 (all funds) for support of the Health Protection Division, excluding administrative overhead. This is a decrease of $3,517,000, or 11.5 percent, below current-year estimated expenditures. Department support is requested in the amount of $25,243,000, an increase of $433,000, or 1.7 percent, above estimated current-year expenditures. Local assistance is proposed in the amount of $1,815,000, a decrease of $3,950,000, or 69 percent, below estimated current-year expenditures. The budget proposes 525.2 positions for this program. The division's functions include laboratory services, vital statistics, infectious and chronic disease control, and preventive medical services.

These amounts do not include $4,773,000 in federal funds from the preventive health services block grant, which are administered by the division. These funds are budgeted in the special projects item.

DEPARTMENT OF HEALTH SERVICES—Continued

The reduction in proposed expenditures is due to the proposed inclusion of the Adult Health and Dental Health programs in the new public health block grant. The effect of including these programs in the block grant is to delete 24 positions, $1,143,000 for department support (excluding administrative overhead) and $3,972,000 for local assistance from the Health Protection Division budget.

Other Department Support Changes. The budget proposes to reduce $561,000 and 13 positions and to add $441,000 and 18 positions. Specifically, the budget proposes to eliminate (1) $122,000 from the General Fund and 2 limited-term positions for diethylstilbestrol (DES) education, (2) $121,000 from the General Fund and 3 limited-term positions for nosocomial (hospital-acquired) infection control, (3) $186,000 in reimbursements from the State Water Resources Control Board and 5 positions in the Sanitation and Radiation Laboratory, due to workload decreases, (4) $102,000 in reimbursements from the Department of Industrial Relations and 3 positions in the Southern California Laboratory caused by workload reductions, and (5) $29,000 from the General Fund for maintaining vital statistics. The budget proposes to add (1) $160,000 from the General Fund and 9 limited-term positions to process vital statistics information requests and (2) $281,000 from the General Fund and 9 positions for medical laboratory licensing. Both augmentations are offset by increases in fee revenues, which are deposited into the General Fund.

Chapter 1122, Statutes of 1982 (AB 3198), requires the department to develop a statewide cancer reporting system. Neither the act nor the budget include funding for this activity.

Other Local Assistance Changes. The budget proposes to eliminate $536,000 in General Fund support for health education/risk reduction projects. The budget also proposes $22,000 for a 3 percent cost-of-living adjustment (COLA) for the $1,793,000 remaining for local assistance programs. The budgeted COLA of $22,000 is $32,000 below the amount that we estimate is necessary to fund a full 3 percent adjustment of $54,000. Proposed local assistance expenditures are shown in Table 19.

Table 19
Health Protection Program
Local Assistance Expenditures
General Fund
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Adult health					
Renal dialysis	$216	—	—	—	—
Preventive health services to the aging	1,174	$1,216	($1,216)[a]	−$1,216	−100%
Health education/risk reduction	476	536	—	−536	−100%
Lupus erythematosus research	645	720	(720)[a]	−720	−100%
Dental health	1,352	1,500	(1,500)[a]	−1,500	−100%
Immunization assistance	1,371	1,371	1,371	—	—
Tuberculosis control	400	422	422	—	—
Cost-of-living adjustment	—	—	22	22	N/A
Totals	$5,634	$5,765	$1,815	−$3,950	−68.5%

[a] The budget proposes to include these programs in a new public health block grant.

Health Education/Risk Reduction

The budget proposes to eliminate General Fund support for the Health Education/Risk Reduction (HE/RR) program, for a savings of $536,000. The budget proposes to use $1,684,000 in federal preventive health services block grant funds to support this program. Federal funds were first received for this program in 1979, and state funding was added in July 1980. The elimination of General Fund support will result in a 24 percent reduction in total program effort.

The goals of the HE/RR program are to reduce preventable diseases and improve health by changing personal behavior to avoid known health hazards and risks. The department is supporting 23 local projects in 1982–83, 12 from federal funds and 11 from the General Fund allocation. Counties and nonprofit organizations receive funds to educate targeted groups regarding health-promoting habits, including exercise, nutrition, stress reduction, smoking cessation, and reduction of alcohol consumption. The program funds projects on a one- to three-year basis.

Public Health Block Grant Proposal—Adult Health

The budget proposes to fold General Fund-supported activities under the Adult Health program into the new public health block grant. If this program had not been proposed for inclusion in the block grant, we estimate that the budget would have requested (1) $3,003,000 from the General Fund for 16 positions and related support expenditures, (2) $720,000 from the General Fund for lupus erythematosus research, and (3) $1,216,000 from the General Fund for preventive health services for the aging. The budget does not propose to include in the block grant the federally funded programs operated by this section, such as health education/risk reduction, hypertension control, the human population laboratory (a longitudinal research project), and diabetes control.

Program Objectives. The Adult Health program prevents and controls chronic disease in adults through (1) gathering information on specific conditions such as cancer and hypertension; (2) technical assistance to counties, providers, and health organizations; and (3) local assistance programs. The Preventive Health Services for the Aging program awarded funds to 25 county health departments in 1980–81 and served 46,160 clients at 125,845 visits.

Administration. The state staff awards local assistance funds, conducts evaluations, provides technical assistance, and develops educational materials. The staff also develops requests for additional funding from the federal government and oversees special projects. The Preventive Health Services for the Aging program grants are awarded to county health departments. The lupus erythematosus research grants are awarded to university-based medical research teams. California is the only state that funds an independent research program. The federal government annually supports $8 million in basic research related to lupus erythematosus.

Local Funding Requirements. The Preventive Health Services for the Aging program requires counties to provide 50 percent of the funding for supported projects. The lupus erythematosus research grants have not required matching funds.

Block Grant Effect.

- *Effect of County Administration.*
  1. If counties choose to continue the program, they could integrate and consolidate preventive health services for the aging with their

DEPARTMENT OF HEALTH SERVICES—Continued

ongoing public health nursing programs. If counties reduce health screening for the aged, early diagnosis of chronic conditions might be delayed, which could result in more serious conditions later.

2. The existing lupus erythematosus program supports university medical research and does not involve county health programs. Counties currently do not operate basic medical research programs, and they would be likely to spend block grant funds on direct services, rather than to continue support for lupus erythematosus research. This might postpone improved treatment or cure for this condition.

- ***Effect of Eliminating Statewide Program.*** The Adult Health Section operates programs that are not proposed for inclusion in the block grant. The programs have their own staff, which are funded through the special projects item. We have no basis for determining if these programs would operate effectively without the complementary programs currently funded by the General Fund.

Public Health Block Grant Proposal—Dental Health

The budget proposes to fold the Dental Health program into the new public health block grant. If this program had not been proposed for inclusion in the new public health block grant, we estimate that the budget would have requested (1) $444,000 from the General Fund for eight positions and related support costs (excluding administrative overhead) and (2) $1.5 million from the General Fund for the school-based Dental Disease Prevention program.

Program Objectives. The Dental Health program promotes the development of dental disease prevention programs, provides consultation on dental disease, and administers the school-based Dental Disease Prevention program established by Ch 1134/79 (SB 111). In 1981–82, 231,000 children participated in this program, which includes daily in-class brushing and flossing, weekly fluoride rinsing, and dental health and nutrition education.

Local Funding Requirements. Local matching funding is not required under this program.

Administration. The Dental Health section contracts with school districts, county offices of education, county health departments, and community organizations to operate the school-based program in 38 counties. The state staff develops program standards and educational materials, insures that local programs are meeting program requirements, allocates funds, and evaluates program performance. Local programs are paid at a reimbursement rate of $4.50 per participating child.

Block Grant Effect.

- ***Effect of County Administration.*** If counties choose to continue the school-based Dental Disease Prevention program, they would have to develop new relationships with school districts that currently contract directly with the state. Counties might choose to redesign the program to spread the funds to more students. Counties should be able to realize savings by avoiding the administrative costs associated with reporting to the state and developing proposals for funding. If counties reduce the program, children might not develop improved dental hygiene habits and might experience increased cavities.
- ***Effect of Eliminating Statewide Program.*** The department would

not have the staff expertise needed to participate in dental health planning activities. Local programs would not have access to technical assistance provided by state staff in the past and would have to develop different sources of technical assistance.

Federal Preventive Health Services Block Grant

We recommend that by April 1, 1983, the department submit to the fiscal committees (1) revised fiscal estimates of the amount of federal block grant funds available and (2) a revised budget proposal reflecting the revised estimates. We further recommend that the department base its revised fiscal estimates on the amounts appropriated in the continuing resolution, rather than assuming that the lower funding level in the previous year will continue.

The federal Omnibus Budget Reconciliation Act of 1981 consolidated a number of federal categorical grant programs into block grants to be administered by the states. The preventive health services block grant includes the following programs: comprehensive public health services (314(d) incentive grants), health education/risk reduction, hypertension, urban rat control, fluoridation, rape prevention, and emergency medical services. The reconciliation act restricted the use of the funds by requiring states to (1) fund existing emergency medical services grantees in federal fiscal year 1982 (FFY 82), (2) maintain specified hypertension program expenditure levels, (3) fund rape prevention services with the funds allocated for that purpose, and (4) limit administrative costs to 10 percent of the total block grant allocation.

California assumed administrative responsibility for the preventive health services block grant in July 1982. The Preventive Medical Services Branch of the Health Protection Division has been designated as the lead administrative unit for this block grant, although some program elements are directly administered by two other state agencies and two other divisions within the Department of Health Services.

Table 20

Preventive Health Services Block Grant Expenditures
Federal Funds
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change*	
				Amount	*Percent*
Department of Health Services:					
Comprehensive public health services (314d)	$1,100	$585	$585	—	—
Health education/risk reduction	1,559	1,684	1,684	—	—
Hypertension	1,558	1,654	1,314	−$340	−20.6%
Urban rat control	727	744	744	—	—
Fluoridation	66	60	60	—	—
Rape prevention [a]	—	386	386	—	—
Subtotals, DHS	$5,010	$5,113	$4,773	−$340	−6.6%
Emergency Medical Services Authority	1,905	3,214 [b]	1,617	−1,597	−49.7
Total	$6,915	$8,327	$6,390	−$1,937	−23.3%
One-time funds	*N/A*	*$2,713*	*$776*	*−$1,937*	*−71.4%*
Ongoing funds	*N/A*	*5,614*	*5,614*	—	—

[a] This program is administered by the Office of Criminal Justice Planning, but the appropriation is contained in the DHS budget.

[b] The 1982–83 appropriation contains sufficient funds for two fiscal years.

DEPARTMENT OF HEALTH SERVICES—Continued

The budget proposes $6,390,000 in total expenditures from the block grant for 1983–84, of which $4,773,000 is proposed for expenditure in the department's budget. Proposed departmental expenditures are $340,000, or 6.6 percent, *below* estimated current-year expenditures. The decrease is due to the fact that one-time funds provided in support of the programs in the current year will not be available during 1983–84.

Table 20 shows proposed expenditures from the preventive health services block grant.

Our analysis has turned up two problems with the department's budget proposal:

1. ***The Amount of Federal Funds is Underestimated.*** The budget assumes that the federal fiscal year 1983 (FFY 83) and FFY 84 federal allocations will be $5,614,000 in each year, which is the same as the FFY 82 allocation. The FFY 83 continuing resolution, however, includes a 5.6 percent increase for the preventive health services block grant. The increase should result in increased funding to California of $243,000 in the current year and $323,000 in 1983–84.

2. ***The Proposed Allocation of Funds is Not Consistent with the Department's Priorities.*** The allocations proposed in the budget differ from the funding recommendations made in a report submitted by the department in September 1982 in response to language in the *Supplemental Report of the 1982 Budget Act.* Table 21 displays a comparison of the budget proposal and the department's funding recommendations. The budget allocates $390,000 more in federal support for health education/risk reduction than the department recommends.The budget also reduces funding for hypertension by $340,000, although the department's report recommended that hypertension be given top funding priority.

Table 21

Comparison of Proposed 1983–84
Preventive Health Services Block Grant Expenditures
Federal Funds
(in thousands)

	Budget	*Department Recommendations*	*Difference*
Comprehensive public health services (314d)	$585	$585	—
Health education/risk reduction	1,684	1,294	$390
Hypertension	1,314	1,654	−340
Urban rat control	744	531	213
Fluoridation	60	60	—
Rape prevention	386	386	—
Totals	$4,773	$4,510	$263
One-time funds	*$776*	*$513*	*$263*
Ongoing funds	*3,997*	*3,997*	—

We recommend that by April 1, 1983, the department submit to the fiscal committees (1) revised estimates of the amount of federal funds that will be available in 1982–83 and 1983–84 and (2) a revised budget proposal that reflects the revised estimates of the funds available. We further recommend that the department base its revised estimates on the FFY 83 appropriations contained in the continuing resolution.

Federal Preventive Health Services Block Grant Funds Excluded from Proposed State Public Health Block Grant

The budget proposes to consolidate many state-funded preventive health programs and the federal maternal and child health block grant into a state public health block grant. The state block grant would be administered by the counties. None of the federal preventive health services block grant funds are proposed for inclusion in the state block grant, although closely related General Fund-supported programs are included. If the Legislature decides to establish the proposed state block grant, we know of no reason why the federal funds should not be included as well. The specific programs that warrant consideration for inclusion in the state block grant are:

1. ***Comprehensive Public Health Services.*** The $585,000 in federal funds complements $705,000 in General Fund support that is distributed to counties *through the same formula.* The General Fund support is included in the proposed state public health block grant, whereas the federal funds would remain as a separate subvention.
2. ***Health Education/Risk Reduction and Hypertension.*** Both of these programs are administered by the Adult Health Section, which is included in the proposed state public health block grant.
3. ***Urban Rat Control.*** This program is administered by the Vector Biology and Control Branch, which is included in the proposed state public health block grant.
4. ***Fluoridation.*** The $60,000 in proposed support for water districts to fluoridate their water supplies is administered by the Dental Health Section, which is included in the proposed state public health block grant.

Automated Vital Statistics System

We recommend that prior to budget hearings, the department identify the source for the $108,000 redirection proposed in the budget.

The budget proposes to allow the Vital Statistics Branch to develop a feasibility study of implementing statewide the Automated Vital Statistics System (AVSS). This system has recently been implemented in Santa Barbara County. The budget proposes to fund this program with $79,000 redirected from data processing. The budget also proposes to delete $29,000 in the base data processing budget that is no longer needed, bringing the total reduction in data processing activities to $108,000.

The existing birth registration system consists of the following steps: (1) the original birth certificate is prepared by the hospital and sent to the county registrar; (2) the county registrar copies the certificate, enters data from the certificate into a computer system for county statistical purposes, and sends the certificate to the state vital statistics office; and (3) the state office enters data from the certificate into the state computer system for state statistical purposes, then sends the data to the federal government for federal statistical purposes. The proposed system allows the hospital to enter directly the birth certificate record into a data system for electronic transfer to county, state, and federal records. This system has recently been implemented in Santa Barbara County and is expected to result in faster processing of birth records and a reduction in county data entry costs.

Our review of this proposal indicates that the system may be able to reduce ongoing data entry costs at both the state and county level. We therefore recommend approval of the project. The administration, however, has not identified which specific data processing projects will no

DEPARTMENT OF HEALTH SERVICES—Continued

longer be funded as a result of redirecting funds to this program. We therefore recommend that prior to budget hearings, the administration advise the fiscal committees what activities in the current budget will be reduced by a total of $108,000.

Vital Statistics Temporary Staff Increase

The budget proposes $160,000 from the General Fund and nine temporary help positions for a one-year project to handle a temporary increase in clerical workload generated by the January 1, 1984, increase in fees for certified copies of birth and death certificates and other services. The proposed staff will process requests that do not contain the proper fee. Without the additional staff, the department would experience a significant backlog in issuing certified copies. The fee increase will generate approximately $282,000 in additional revenue in 1983–84, which is sufficient to offset the General Fund cost of the proposed one-year staff augmentation.

Laboratory Licensing and Surveillance

We recommend the deletion of $12,000 for equipment associated with the reestablishment of nine laboratory surveillance staff, because the positions are proposed to be established and equipment purchased in the current year.

The Laboratory Field Services Section licenses medical laboratories, blood banks, and laboratory personnel. The department annually inspects 3,000 laboratories and conducts 20,000 performance evaluations for laboratory personnel.

The budget requests $281,000 from the General Fund to reestablish nine positions that were eliminated in 1981–82, when the federal Medicare program reduced its funding for state licensing and certification programs. Chapter 327, Statutes of 1982, established licensing fees to generate sufficient revenue to fully fund the program.

We recommend that the reestablishment of the nine positions be approved, but in the reduced amount of $269,000. We recommend deletion of $12,000 in requested equipment, because the administration plans to administratively establish these positions and purchase the equipment in the current year.

Public Health Fees

We recommend approval.

Chapter 1012, Statutes of 1980, provides for automatic annual adjustments of certain fees assessed by the department, including laboratory licenses and vital statistics. The amount of the annual increase is set based on language in the Budget Act. The 1983 Budget Bill proposes a 2.05 percent increase, effective January 1, 1984, which is based on anticipated increases in program costs. Our review of the methodology used to calculate the increase indicates that it is reasonable; therefore, we recommend approval.

Legislative Mandates

The budget proposes a General Fund appropriation of $11,000 in Item 9680-101-001 for state-mandated local programs. This amount is $12,000, or 52 percent, below estimated current-year expenditures. The entire reduc-

tion reflects reduced payments to cover the cost of tuberculosis examinations for school bus drivers.

The mandating legislation and the estimated costs contained in the Governor's Budget for the budget year are:

1. Chapter 453, Statutes of 1971 (Sudden Infant Death Syndrome)	$6,000
2. Chapter 842, Statutes of 1978 (TB exams for school bus drivers)	5,000
Total	$11,000

The proposed expenditures are reasonable and consistent with amounts claimed by local governments in the past. We recommend approval.

H. SPECIAL PROJECTS

The special projects budget item contains 165 public health services, demonstration, research, and training projects. The projects typically are of short duration and are administered in various sections of the department. Most of the projects are federally funded.

The budget proposes expenditures of $142,637,000 for these projects in 1983–84, including $126,348,000 in federal funds and $16,289,000 in reimbursements from other agencies. This is an increase of 10.7 percent over estimated current-year expenditures.

The budget proposes 777 positions for support of the projects (519 federal and 258 state). This is an increase of 83 positions, or 12 percent, over the estimated current-year levels of 694 positions.

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 it is budgeted to use $84,024,000, or 59 percent, of the special projects funds in 1983–84. Since the budget was prepared, the Congress has made final appropriations for the federal fiscal year. The appropriation for WIC was significantly higher than the amount proposed by the President. Department staff indicate that under the revised appropriation level, California will receive a total of $94,311,000 in 1983–84. Table 22 shows revised expenditures for the WIC program.

Table 22

Women, Infants, and Children Program Expenditures [a]
(in thousands)

	1982–83	*1983–84*
Food vouchers	$70,573	$78,400
Personal services	1,463	1,648
Other	13,318	14,262
Totals	$85,354	$94,310

[a] Based on expenditure levels established by PL 97-370 (HR 7072), signed December 18, 1982.

2. ***New Projects.*** Of the 165 projects included in the proposed budget, 17 are new. The majority of the new projects are research and administration projects in the Toxic Substances Control Division.

DEPARTMENT OF HEALTH SERVICES—Continued

4. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

Summary of Legislative Analyst's Recommended Fiscal Changes in Medi-Cal Program (in thousands)

Issue	*General Fund*	*Federal Funds*	*All Funds*
Withhold final action until May revision	($1,928,158)	($1,891,913)	($3,820,071)
Budget fails to anticipate return of withheld federal funds	−81,564	81,564	—
Technical error in calculating federal fund reduction	−3,264	3,264	—
Budget does not include federal refugee funds	−9,458	9,458	—
Technical error in calculating provider rate increase	−1,582	−2,033	−3,615
Underestimated savings from eliminating special income deduction	−12,610	−10,115	−22,725
Withhold on funds for procedural changes	(1,727)	(1,727)	(3,454)
Workload not required—maintenance need levels	−1,097	−1,097	−2,194
Dual choice—county administration	−215	−215	−430
Controller checkwrite workload reduction	−57	−169	−226
Withhold on funds for Medi-Cal Intermediary Operations contract	(265)	(796)	(1,061)
Fund county contract workload with reimbursements	−104	−80	−184
Dual choice—state operations	−102	−102	−204
Total recommended changes	−$110,053	$80,475	−$29,578
Total amount on which recommendation withheld	$1,930,150	$1,894,436	$3,824,586

These recommended changes reflect our analysis of where the budget contains funds that are in excess of the amount needed to fund the Medi-Cal program. Any funds released by these recommendations would be available for redirection by the Legislature to other high-priority health care needs or to other state-funded programs.

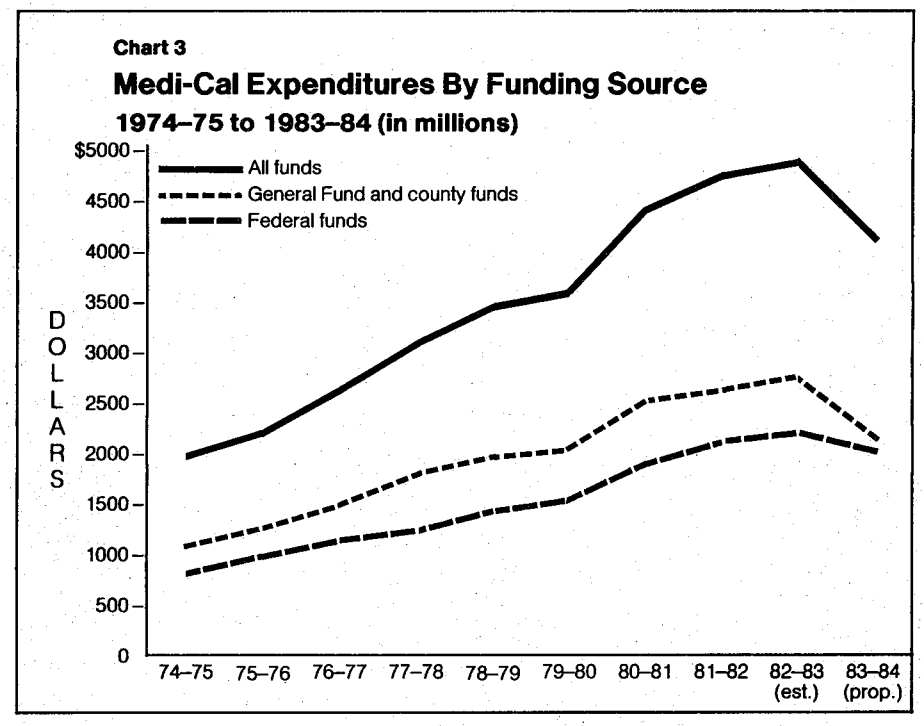
Program Summary

The California Medical Assistance program (Medi-Cal) is a joint federal-state program initially authorized in 1966 under Title XIX of the federal Social Security Act. The purpose of Medi-Cal is to assure the provision of necessary health care services to public assistance recipients and other individuals who cannot afford their health care costs.

Public expenditures for the Medi-Cal program have increased steadily and rapidly for many years. Due largely to the enactment of Ch 328/82 (AB 799), however, projected 1983–84 Medi-Cal costs are expected to drop sharply. Chart 3 displays federal, state, and county expenditures for Medi-Cal from 1974–75 to 1983–84.

Projected Medi-Cal Deficiency in 1982–83

The budget identifies a 1982–83 deficiency in Medi-Cal local assistance of $519 million ($300 million General Fund). This deficiency, which is discussed in more detail later in this analysis, would be funded by a proposed deficiency appropriation.



Overview of the Medi-Cal Budget Request for 1983–84

The budget proposes Medi-Cal expenditures of $4,092 million ($2,081 million General Fund) in 1983–84, including $3,985 million ($2,040 million General Fund) for local assistance and $107 million ($41 million General Fund) for state administration. The total proposed level of General Fund expenditures for Medi-Cal in the budget year is $632 million, or 23 percent, *less* than estimated current-year expenditures.

Proposed General Fund local assistance expenditures in 1983–84 are $631 million, or 24 percent, below estimated current-year expenditures. Medi-Cal local assistance expenditures are budgeted in Items 4260-101-001 and 4260-106-001 and include support for health care benefits, county eligibility determination activities, and claims processing.

Proposed General Fund state administration expenditures are $1 million, or 3 percent, below estimated current-year expenditures. Medi-Cal state administration expenditures are included in the Department of Health Services' main support item (Item 4260-001-001).

Table 23 shows Medi-Cal expenditures estimated for 1982–83 and proposed for 1983–84. The proposed funding levels for Medi-Cal are discussed more fully in our analysis of the individual Medi-Cal program components.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 23

Medi-Cal Expenditures and Funding Sources (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*[a]	*Percent Change*
A. Health care services				
General Fund	$2,482,907	$2,569,166	$1,966,853	−23.4%
All funds[b]	4,463,574	4,597,475	3,824,830	−17.0
B. County administration				
General Fund	107,859	84,865	61,957	−27.0
All funds	165,845	148,823	122,115	−17.9
C. Claims processing				
General Fund	19,452	16,615	11,187	−32.7
All funds	48,224	53,133	38,104	−28.3
D. Subtotals—local assistance				
General Fund	$2,610,218	$2,670,646	$2,039,997	−23.6%
All funds	4,677,643	4,799,431	3,985,049	−17.0
E. State administration[c]				
General Fund	$38,351	$41,628	$40,509	−2.7%
All funds	89,990	96,589	106,965	10.7
F. Totals				
General Fund	$2,648,569	$2,712,274	$2,080,506	−23.3%
All funds	4,767,633	4,896,020	4,092,014	−16.4

[a] Includes the following proposed cost-of-living adjustments: $59,158,000 ($30,437,000 General Fund) for health care services and $3,559,000 ($1,806,000 General Fund) for county administration.

[b] Includes county funds for health care services to county jail inmates and reimbursements from the Department of Social Services for refugee health care services.

[c] General Fund state administration amounts include funds for Medi-Cal-related activities in state agencies other than the Department of Health Services. Federal fund support for activities in other agencies is included in local assistance in 1981–82 and 1982–83, and in state administration in 1983–84. The budget proposes $12,167,000 ($4,475,000 General Fund) for other state agencies in 1983–84.

Program Description

Federal, State, and County Responsibilities Under the Medi-Cal Program

The administration and funding of Medi-Cal are shared by the federal and state governments. Counties perform certain tasks on behalf of the state.

The state Department of Health Services (DHS) develops regulations, establishes rates of payment to health care providers, reviews requests for authorization of certain types of treatment prior to delivery, audits provider costs, recovers payments due from private insurance companies and other sources, reviews county eligibility determinations, and manages various contracts with private vendors for processing of provider claims. Other state agencies perform Medi-Cal-related functions under agreements with DHS.

County welfare departments, and in Los Angeles County the county health department, determine the eligibility of applicants for Medi-Cal. In addition, many counties receive Medi-Cal reimbursements for services delivered to Medi-Cal-eligible individuals treated in county hospitals and outpatient facilities.

The federal Department of Health and Human Services, through its Health Care Financing Administration, provides policy guidance and financial support for the Medi-Cal program.

Eligibility

The DHS estimates that approximately 2.8 million persons, or about 11 percent of California's population, will be eligible for Medi-Cal benefits in each month during 1983–84. These eligibles fall into three major categories: categorically needy, medically needy, and medically indigent. The *categorically needy* (cash grant recipients) consist of families or individuals who receive cash assistance under the Aid to Families with Dependent Children (AFDC) or Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs. The categorically needy automatically receive Medi-Cal cards. They pay no part of their medical expenses.

The *medically needy* include families with dependent children and aged, blind, or disabled persons who are ineligible for cash assistance because their income exceeds cash grant standards. These individuals can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133 percent of the AFDC payment level.

The *medically indigent* 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) but who meet income and share-of-cost criteria that apply to the medically needy category. Effective January 1, 1983, coverage under the medically indigent program is limited to (a) persons who are under the age of 21, (b) pregnant women, and (c) persons residing in long-term care facilities. Table 24 summarizes the Medi-Cal eligibility criteria.

Scope of Benefits

Medi-Cal recipients are entitled to a wide range of health services, including physician, inpatient and outpatient hospital, laboratory, nursing home care, and various other health-related services. Many Medi-Cal services, however, require prior state authorization and may not be paid for unless the service is medically necessary. Not all services allowed in California are required by federal law.

Federal law *requires* states participating in the Medicaid program 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. California provides 30 of the 32 benefits—more than any other state except Minnesota.

Despite the wide range of health services covered by the Medi-Cal program, three service categories comprise 80 percent of projected state and federal Medi-Cal expenditures in 1983–84. These services are (1) professional (physician, dental, and other medical), (2) hospital, and (3) nursing homes (skilled nursing and intermediate care facilities, including state hospitals).

Medi-Cal Reform Legislation of 1982

Assembly Bill 799 (Ch 328/82) and AB 3480 (Ch 329/82), as amended by SB 2012 (Ch 1594/82), significantly changed the structure of the Medi-Cal program.

Following enactment of AB 799 and AB 3480, the Legislature reduced the General Fund appropriation for Medi-Cal in the 1982 Budget Act by $395 million to reflect savings anticipated from the bill's provisions. The administration currently estimates that savings in 1982–83 will be $315 million or $80 million less than the amount assumed in the Budget Act. The reduction is due to two factors: (1) the enactment of SB 2012, which

Table 24
Medi-Cal Program
Selected Eligibility Criteria
1982–83

	Categorically Needy					*Medically Needy and Medically Indigent*	
	AFDC			*SSI/SSP*			
Non-income-related	Families with at least one child under 18 (including unborn children) and absent, deceased, or unemployed parent			Over 65, blind, or disabled		Medically needy: meets non-income-related criteria of either AFDC or SSI/SSP Medically indigent: under 21, pregnant, or residing in long-term care facility	
				Maximum Aid Payment/Net Income			
Maximum monthly income [a]	*Family Size*	*Maximum Net Income*	*Maximum Gross Income*	*Category*	*Maximum Net Income*	*Family Size*	*Income Allowed After Spend-Down* [b]
	1	$248	$372	Aged and Disabled		1	$331
	2	408	612	Individual	$451	2	545
	3	506	759	Couple	838	3	674
	4	601	902	Blind		4	801
	5	686	1,029	Individual	$506	5	914
				Couple	985		
						Family Size	*Property Limit*
Personal property limits	$600 per family plus $1,000 for nonliquid assets			$1,500 for individuals $2,250 for couples		1	$1,500
						2	2,250
						3	2,300
						4	2,400
						5	2,500
Real property	$5,000 net assets including home			$6,000—Home exempt		$6,000—Home exempt unless counted as "other real property"	
Motor vehicle	Exempt if (a) needed for work *and* (b) value less than $1,500			Exempt if (a) needed for work or medical care or (b) value less than $4,500		1 car exempt—no maximum value	

[a] Maximum income and payment levels for SSI/SSP and AFDC may be increased in 1983–84, depending upon legislative action on cost-of-living adjustments.

[b] Current law requires income allowed after spend-down to be 133 percent of the AFDC payment level for aged, blind, or disabled persons and 100 percent of the AFDC payment level for AFDC-linked persons. In an out-of-court settlement, effective January 1, 1983, the Department of Health Services agreed to increase the maintenance need levels for AFDC-linked medically needy and medically indigent individuals from 100 percent to 133 percent of the AFDC payment.

reduced the estimated savings by $36 million and (2) implementation delays and revised estimation methods, which added $44 million to estimated costs in the current year. This reduction of estimated savings contributes to the projected current-year deficiency, which is discussed in our analysis of health care services funding.

The major provisions of these two measures are summarized below.

1. Transfer of Responsibility for Medically Indigent Adult Category to Counties

The reform legislation discontinued, effective January 1, 1983, Medi-Cal eligibility for approximately 250,000 medically indigent adults (MIAs). Medically indigent pregnant women and residents of long-term care facilities, however, remain eligible for Medi-Cal. The measures authorize subventions to counties so that they may provide health services to persons formerly classified as MIAs. For the period January to June 1983, the legislation provided $261.5 million for counties—an amount equal to 70 percent of the estimated cost of providing Medi-Cal-reimbursed benefits to these individuals plus 100 percent of the estimated cost of county eligibility determinations.

Because claims for Medi-Cal reimbursement are often paid several months after the service is provided, the department expects to continue receiving bills for services provided to MIAs through the second six months of 1982–83. In order to fund the cost of these claims already in the "payment pipeline," provide $261.5 million to counties, and also achieve net current-year funding reductions of $110 million, the reform measures authorized a delay until June 1985 of $200 million in payments to Los Angeles County that otherwise would be due during 1982–83. A detailed discussion of the MIA transfer is contained in our analysis of the proposed budget for county health services.

2. Hospital Reimbursement and Private Provider Agreements

Hospital Contracts. The reform legislation requires hospitals wishing to participate in the Medi-Cal program to contract with the state. Noncontracting hospitals may continue to receive reimbursement under the program only for services provided to emergency patients. The measures require the Governor to designate a person in his office to negotiate rates, terms, and conditions for Medi-Cal hospital inpatient contracts during 1982–83. Effective July 1, 1983, the California Medical Assistance Commission, established by the reform legislation, will direct the negotiation of hospital contracts. As of January 1, 1983, the special negotiator had concluded contract negotiations with 75 hospitals in 6 separate metropolitan areas of the state.

Peer Group Reimbursement. The new statutes also replace the "reasonable cost" hospital reimbursement method with a reimbursement method that bases payments to individual hospitals on the costs experienced by groups of similar hospitals. The peer group methodology will be applied (a) to all hospitals in the period prior to full implementation of hospital contracting and (b) to noncontract hospitals after the implementation of contracting in a given geographic area. Implementation of peer grouping has been delayed by delays in obtaining federal approval for a waiver of existing regulations. This provision will take effect with respect to reimbursements provided to hospitals in February 1983.

Provider Contracts with Private Insurance Carriers. The measures authorize health insurance carriers to negotiate and enter into contracts with hospitals, physicians, and other providers under specified conditions.

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3. Benefits, Reimbursement Rates, and Utilization Controls

Drug Formulary. The measures eliminate some drugs from coverage under Medi-Cal and require prior authorization for certain drug products. The Legislature reduced the 1982 Budget Act by $32.3 million ($16.0 million General Fund) to reflect these changes. Due to court-ordered delays in implementing these provisions of law, however, General Fund savings from drug-related reductions is now estimated at $7.7 million in 1982–83.

Nonemergency Medical Transportation. The reform legislation eliminates most nonemergency medical transportation. Implementation of this provision, however, has been delayed indefinitely by a court order.

Rate Reductions. The measures reduced provider reimbursement rates during 1982–83 by 9.6 percent (drug dispensing fees), 10 percent (physicians, podiatrists, psychological, hospital outpatient, dispensing of hearing aids, acupuncture, portable X-ray, and chiropractic services), and 25 percent (laboratory and pathology).

Other Benefit and Reimbursement Reductions. The measures also eliminated replacement hearing aids from coverage under Medi-Cal, limited coverage of eye examinations and other vision care services, and reduced dental expenditures by 10 percent.

Mandatory Drug Copayment. The reform legislation requires pharmacists to collect a $1 copayment from Medi-Cal recipients as a condition of receiving reimbursement. Revenue from these copayments will offset the cost of Medi-Cal to the taxpayers. Prior law allowed, but did not require, pharmacists to collect and retain the $1 drug copayments. Prior law also exempted certain classes of Medi-Cal recipients from drug copayments. As of January 1, 1983, federal approval of this copayment had not been received.

Increased Utilization Controls. The measures restrict the utilization of health care services by (a) restricting health care services to those which are medically necessary to protect life or prevent disability; (b) requiring the Director of Health Services to assure that surgical and medical procedures that do not require inpatient care are provided on an outpatient basis; and (c) requiring increased utilization controls over durable medical equipment, podiatry, and various therapy services during 1982–83.

Addition of In-Home Medical Care and Home- and Community-Based Services. The measures add in-home medical care and home- and community-based services to the list of Medi-Cal-supported services. As of January 1, 1983, one of the state's three pending waiver requests for home- and community-based services—the one submitted by the Department of Developmental Services—had been approved by the federal government.

4. Changes in Eligibility Standards

Reduced Income Standards. The measures reduce the maximum allowable income limit from 115 percent to 100 percent of the AFDC grant level for medically needy applicants who are not aged, blind, or disabled. The maximum allowable income for aged, blind, or disabled applicants remains unchanged at 133 percent of the AFDC grant level. In addition, the measures eliminate an $85 special income deduction previously allowed for aged, blind, or disabled applicants. Both of these changes increase recipients' share-of-cost obligations by reducing the amount of

income that is reserved for food, shelter, and other daily living expenses.

The Department of Finance has advised us that the state has reached a settlement with the plaintiffs in a lawsuit challenging the reduced income limit for applicants who are not aged, blind, or disabled. Under the terms of the settlement, the maximum allowable income limit is increased from 100 percent to 133 percent of the AFDC grant level. This settlement is discussed in our analysis of health care services.

Other Real Property. The reform legislation (a) reduces from $25,000 to $6,000 the equity a Medi-Cal beneficiary may have in real property other than an occupied home and (b) allows persons whose homes are considered "other" real property (primarily nursing home residents) to continue receiving Medi-Cal benefits prior to selling the home only if the home is listed for sale and a lien is placed against the property for the cost of the benefits.

Nonfederal AFDC-U Adults. Effective January 1, 1983, the measures discontinued Medi-Cal eligibility for adult members of families who receive payments under the state- and county-supported AFDC-U program.

MIA Retroactive Eligibility. The reform legislation eliminates retroactive eligibility for MIAs from July 1982 to January 1983, when the MIA category is eliminated. Previously, MIAs could apply for Medi-Cal coverage of services received three months prior to the date of application.

Retroactive Spend-Down. The measures provide that no person may establish retroactive Medi-Cal eligibility by "spending down" to Medi-Cal property limits. Previously, applicants could spend down to property limits and qualify retroactively for Medi-Cal.

Verification of Income and Resources. The reform legislation provides that Medi-Cal eligibility shall not be granted until the applicant or his representative furnishes documents supporting statements regarding income, property, and other matters that affect eligibility or share-of-cost obligations. The measures further provide that a county welfare department may require verification and conduct investigations of other statements made by applicants.

Parental Fiscal Responsibility. The reform legislation establishes parental responsibility for the medical expenses of children over the age of 18 if the parent claims the child as a dependent for state or federal income tax purposes.

5. Audit, Recovery, Fraud, and Abuse

"Payor of Last Resort." The measures state that it is the intent of the Legislature that health care providers "look to" payors with contractual liability for health care costs (such as insurance carriers) before billing the Medi-Cal program.

Information from Insurance Companies. The reform legislation requires insurance companies to provide information on health insurance coverage of Medi-Cal applicants. The measures require the department to reimburse the insurance companies for the information at the same rates insurance companies pay the Department of Motor Vehicles for information.

Quality Control Sanctions for County Eligibility Determination. The reform legislation authorizes the Department of Health Services to (a) impose fiscal sanctions against counties for errors which local welfare departments make in determining Medi-Cal eligibility and (b) recoup Medi-Cal costs that result when a county fails to follow state regulations. Beginning on January 1, 1984, sanctions will be imposed for errors that

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exceed standards established by the department. In addition, if the federal government imposes quality control sanctions in California, the measures require the department to pass on to counties that portion of the statewide federal sanction which results from an individual county's failure to apply Medi-Cal eligibility laws and regulations properly.

Penalties for Fraud. The reform legislation (a) streamlines procedures for suspending health care providers from the Medi-Cal program if the providers have been convicted of Medi-Cal fraud and (b) establishes civil penalties for submitting false or improper Medi-Cal claims.

Interest and Penalties on Hospital Overpayments. The reform legislation requires hospitals to pay interest (equal to Pooled Money Investment Fund earnings) and penalties (10 percent or 25 percent) when they repay the state for Medi-Cal interim payment reimbursements that exceed the amount due to the hospital.

Immediate Collection of Hospital Overpayments. The measures (a) authorize the Medi-Cal program to collect overpayments 60 days after issuing an audit report when part or all of the overpayment is in dispute and (b) require the department to return the overpayment plus interest if the appeals process determines no overpayment was made. Previous law prevented the Medi-Cal program from collecting hospital overpayments until the end of the audit appeals process, that may take two years or longer to complete.

Provider Liens. The reform legislation allows the Medi-Cal program to (a) file liens against unincorporated individual health care providers who have received overpayments and who no longer participate in the program and (b) file liens on the property of health care providers who have received overpayments.

6. Alternative Health Delivery Systems

Special Negotiator Contracts with Alternative Health Delivery Systems. The measures permit the special negotiator (established primarily to negotiate hospital contracts) to contract with counties and health care plans to provide health services in specific geographic areas.

Noninstitutional Provider Contracts. Beginning in July 1983, the reform legislation permits DHS to contract with individual physicians, physicians' groups, or other providers in order to promote case management, encourage organized health systems, encourage group practices that admit patients to hospitals with low unit costs, and correct irregular or abusive billing practices.

Primary Care Case Management Contracts. The reform legislation permits DHS and county-organized health systems to enter into "case management" contracts with primary care providers. Under such contracts, the Medi-Cal program would reimburse providers only for services approved and ordered by the case managing physician.

Volume Purchasing. The measures authorize the DHS to purchase drugs, medical equipment, appliances, medical supplies, and laboratory services on a volume basis to assure the most favorable prices and assure adequate quality.

Incentives for Organized Health Systems. The reform legislation allows contracts with organized health systems to provide (a) rate increases for plans with rates that are less than 90 percent of fee-for-service costs, (b) a guaranteed enrollment period for beneficiaries of up to six months,

and (c) a broader scope of benefits than is provided under fee-for-service Medi-Cal.

7. Other Provisions

University of California Budget Reduction. Pursuant to legislative intent expressed in the reform legislation, General Fund support for the University of California was reduced by $2 million in the 1982 Budget Act. This reduction was allocated among the five university medical schools, based on each school's proportion of total nonprimary care (specialized) resident physicians. The 1983 Budget Bill does not propose to restore this reduction in 1983–84.

Delivery and Reimbursement of Mental Health Services. The reform legislation makes three major changes in the delivery and reimbursement of mental health services. It (a) consolidates Medi-Cal fee-for-service mental health services with local mental health programs established under the Short-Doyle Act, effective July 1, 1983, if approved in the 1983 Budget Act; (b) specifies that, except under certain limited circumstances, provider reimbursement rates shall be the lower of actual cost or 125 percent of the statewide average cost per unit of service in 1980–81, adjusted by the amount of any cost-of-living increases granted by the Legislature; and (c) requires the Department of Mental Health to develop and implement a utilization review procedure for inpatient mental health services. The implementation of these changes is discussed in our analysis of the budget for the Department of Mental Health (Item 4440).

General Medi-Cal Budget Issues

The May Estimates

We withhold recommendation on $3,820,071,000 ($1,928,158,000 General Fund) and recommend that the fiscal subcommittees defer final action on Medi-Cal funding until revised Medi-Cal expenditure estimates are submitted in May.

The $2,039,997,000 (General Fund) proposed for Medi-Cal local assistance in 1983–84 is based on expenditure estimates prepared by the department during November and December 1982. The estimates reflect "base program" costs and the cost of policy changes. The base program estimates are based on analyses of trends in the number of users, number of eligibles, cost per unit of service, and service mix. The most recent information used in the December estimate of base program costs are from Medi-Cal claims paid in September 1982.

Most of the effects of AB 799 are not reflected in September claims data. Therefore, the department found it necessary to consider the fiscal effects of AB 799 as policy changes from the base estimate. Estimates of policy changes, including those attributable to AB 799, are based on assumptions that reflect the best information available at the time the estimates were prepared. Without actual data on the effect of these policy changes, however, there is considerable uncertainty associated with projecting the effect of such changes on Medi-Cal expenditures.

The Department of Health Services advises that actual Medi-Cal expenditures in 1983–84 may vary from the amount estimated in December 1982 by as much as $173 million ($91 million General Fund). Thus, estimated General Fund costs in 1983–84 may range from $1,949 million to $2,131 million.

The Department of Finance will transmit revised expenditure estimates

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to the Legislature in May 1983. These estimates will be based on actual data through February 1983. Because more recent data will be available, the range of the estimate should be narrower than the range surrounding the December estimate.

In our analysis of proposed Medi-Cal local assistance expenditures, we recommend reductions of $109,847,000 from the General Fund and an increase of $80,657,000 in federal funds. The Legislature could properly take action on these recommendations prior to the May revision of expenditure estimates.

We withhold recommendation on $4,515,000 ($1,992,000 General Fund) in proposed expenditures for Medi-Cal local assistance because adequate justification for the requests is lacking. The specific requests in this category are discussed later in this analysis. We also withhold recommendation on the remaining $3,820,071,000 ($1,928,158,000 General Fund) proposed for Medi-Cal local assistance until the May revision has been prepared, because the May estimates will include more accurate information on projected Medi-Cal expenditures.

Federal Funding for Health Care Services and Administration

The federal government matches state payments for the cost of Medi-Cal administration and health care services that are provided in accordance with federal law. The federal share of costs for qualified components of California's Medi-Cal program ranges from 50 percent for health care services to 100 percent for certain licensing activities and health services provided to refugees. The state does not receive federal payments for the cost of health care services provided to individuals who are not eligible for subsidized services under federal law—notably, medically indigent adults.

The federal Omnibus Budget Reconciliation Act of 1981 (PL 97-35) reduced federal sharing rates for Medicaid (Medi-Cal in California) expenditures by specified percentages for federal fiscal year 1982 (FFY 82), FFY 83 and FFY 84. Table 25 shows the effects of this reduction on the federal sharing ratios during each of the three federal fiscal years.

Table 25

Federal Sharing Ratios Under the Provisions of The Omnibus Budget Reconciliation Act of 1981 (PL 97-35) Federal Fiscal Years 1982, 1983, and 1984 [a]

Program Component	*Normal Federal Share of Costs*	*Federal Sharing Ratios Under PL 97-35*		
		FFY 82 (3% reduction)	*FFY 83 (4% reduction)*	*FFY 84 (4.5% reduction)*
1. Health care services to nonrefugees and most administrative costs	50.0% [b]	48.5%	48.0%	47.75%
2. Family planning, design of qualified claims processing systems, and fraud elimination	90.0	87.3	86.4	85.95
3. Operation of approved claims processing systems, specified administrative costs	75.0	72.75	72.0	71.63
4. Inspections of long-term care facilities	100.0	97.0	96.0	95.5
5. Health care services provided to refugees	100.0	100.0	100.0	100.0

[a] Federal fiscal years overlap state fiscal years. The three years included in this table begin October 1, 1981, and end September 30, 1984.

[b] Federal sharing for health care services in various states ranges from 50 percent to 83 percent, based on a formula that considers the relationship of per capita income in each state with national per capita income.

The reductions in federal sharing ratios are expected to result in increased state costs in California of $79,893,000 in 1982–83 and $88,632,000 in 1983–84. Table 26 shows the fiscal effect of the federal reductions related to each state and federal fiscal year.

Table 26

General Fund Costs Due to Reduced Federal Sharing Ratios
1981–82, 1982–83, and 1983–84 [a]
(in thousands)

	Federal Fiscal Year			
State Fiscal Year	*1982 (3 percent reduction)*	*1983 (4 percent reduction)*	*1984 (4.5 percent reduction)*	*Total*
1981–82				
Health care services	$39,733	—	—	$39,733
Administration				
State	1,199	—	—	1,199
Local	3,839	—	—	3,839
Totals	$44,771			$44,771
1982–83 (estimated)				
Health care services	$16,955	$56,401	—	$73,356
Administration				
State	425	1,718	—	2,143
Local	1,280	3,114	—	4,394
Totals	$18,660	$61,233	—	$79,893
1983–84 (proposed)				
Health care services	—	$18,706	$62,805	$81,511
Administration				
State	—	689	2,336	3,025
Local	—	936	3,160	4,096
Totals	—	$20,331	$68,301	$88,632
Totals				
Health care services	$56,688	$75,107	$62,805	$194,600
Administration				
State	1,624	2,407	2,336	6,367
Local	5,119	4,050	3,160	12,329
Totals	$63,431	$81,564	$68,301	$213,296

[a] These amounts will change in the May revision of expenditure estimates. General Fund costs of approximately $23 million due to FFY 84 funding reductions will be incurred during 1984–85.

Federal Fund Sharing Losses Can be Recouped. The provisions of PL 97-35 require the federal government to reimburse states for funds withheld due to the reduced sharing ratios if certain conditions are met. The reduction will be lowered by 1 percent (from 3 percent to 2 percent in FFY 82, for example) if the state (a) operates a qualified hospital cost review program, (b) has an unemployment rate that exceeds 150 percent of the national average, or (c) recovers at least 1 percent of total federal payments through a fraud and abuse elimination program. According to the Department of Health Services and federal officials, California's recovery program qualifies for the 1 percent offset.

More significantly, the reduction in federal sharing during any year will be reduced by the amount by which federal payments in the state are less than specified expenditure targets. The target for FFY 82 (October 1,

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1981, to September 30, 1982) is 109 percent of federal expenditures during FFY 81. For FFY 83 and FFY 84, each state's target will be derived by applying the percentage increase in the nationwide Consumer Price Index for medical care expenditures to the state's FFY 82 target. In other words, if a state is able to contain the federal share of medical care costs in FFY 82 to an increase of 9 percent or less, the state could receive reimbursement for some or all of the amount of federal support withheld. Similarly, states may receive reimbursement for some or all of the amount of federal support withheld in FFY 83 and FFY 84. Under PL 97-35, these reimbursements will be made as supplemental grants during the first quarter of the federal fiscal year following the reduction.

California Qualifies for Refund of $63 Million in Federal Funds Withheld During FFY 82

The Department of Health Services (DHS) estimates that the reduction to federal Medi-Cal sharing ratios during FFY 82 resulted in increased General Fund costs of $63,431,000. The DHS also estimates that federal expenditures in California during FFY 82 ($2,065 million) were $153 million less than the target of 109 percent of FFY 81 expenditures ($2,218 million). Because the unexpended balance of $153 million exceeds the amount of the federal funding reductions during FFY 82 ($63 million), *California stands to receive the full $63 million withheld from the state during FFY 82.*

This amount is not reflected in the budget for either the current or budget years. Federal officials advise, however, that the state will receive reimbursement for this amount during the January-March 1983 quarter. Therefore, the current-year deficiency will be $63 million less than the $300 million estimated in the budget.

Another Refund Can Be Anticipated in 1983–84

We recommend reduction in General Fund support of $81,564,000 and an increase in federal funds of the same amount to reflect the anticipated return in 1983–84 of federal funds withheld from the state during FFY 83. We further recommend that the Legislature adopt Budget Bill language allowing the expenditure of these federal funds for Medi-Cal during 1983–84.

The Department of Health Services estimates that reduced federal payments during FFY 83 will result in General Fund costs of $81,564,000. Of this amount, $61,233,000 will be expended in 1982–83 and $20,331,000 will be expended in 1983–84. Our analysis indicates, however, that federal expenditures for Medi-Cal during FFY 83 will be less than the target. Thus, California will again qualify for return of federal funds. The amount withheld during FFY 83 will be returned to the state prior to June 30, 1984. Table 27 shows the target levels and estimated expenditures for FFY 82 and FFY 83.

Based on estimated expenditures of federal funds for Medi-Cal during FFY 83 ($2,019 million) and assuming a moderate increase in the Consumer Price Index (CPI) for medical services (8 percent), federal expenditures in California will be $376 million less than the FFY 83 expenditure target. This amount will change, depending on actual expenditures and CPI changes. Even if the CPI for medical services does not increase at *all*, federal expenditures in California would be $199 million less than FFY 83 target expenditures.

Table 27
Comparison of Target Expenditure Levels With Estimated Expenditures Federal Fiscal Years 1982 and 1983 (in millions)

	Target Expenditure Level	*Estimated Actual Expenditures*	*Difference*
FFY 81	—	$2,035	—
FFY 82	$2,218 [a]	2,065	−$153
FFY 83	2,395 [b]	2,019 [c]	−376

[a] The FFY 82 target expenditure level is 109 percent of FFY 81 expenditures.
[b] The FFY 83 target expenditure level is the FFY 82 target plus a percentage increase equal to the percentage increase in the nationwide consumer price index (CPI) for medical services. To calculate the FFY 83 target level, we have assumed an increase of 8 percent in the CPI for medical services.
[c] Based on three quarters of estimated 1982–83 expenditures and one quarter of 1983–84 proposed expenditures, as identified in the 1983 budget.

Moreover, it is extremely unlikely that actual federal expenditures will be enough higher than estimated expenditures to jeopardize the return of the funds to be withheld during FFY 83. The department advises that as a result of normal estimating errors, actual federal expenditures in FFY 83 may exceed the estimate ($2,019 million) by as much as $54 million. Therefore, if the CPI for medical services does not increase at all *and* federal expenditures are at the high point of the range anticipated by the department, California's expenditures of federal funds for Medi-Cal would still be less than the FFY 83 target by $145 million.

Thus, it is evident that the amount that the department expects to be withheld in FFY 83 is significantly less than the amount by which federal expenditures will fall short of the FFY 83 target. Thus, between January and June 1984, the state will receive the entire $81,564,000 withheld by the federal government during FFY 83.

The proposed budget does not reflect the federal government's return of $81,564,000 to the state in 1983–84. Therefore, we recommend a General Fund reduction of $81,564,000 and an increase in federal funds of the same amount in anticipation of these additional federal funds.

Because $61,233,000 of the federal funds expected to be returned during 1983–84 will be reimbursements for expenditures actually made during 1983–84, we further recommend a technical change in the provisions of the Budget Bill to allow these funds to be used in 1983–84 to pay the cost of the Medi-Cal program. This authority would be granted only in connection with funds received by the state which represent the return of federal sharing funds withheld in FFY 83 and would not apply to any other amounts received from prior-year appropriations. The language we recommend is as follows:

"Notwithstanding other provisions of this act or other state law, up to $61,233,000 in federal funds received as payments during 1983–84 for reduced federal sharing ratios related to prior-year expenditures under Section 14157 of the Welfare and Institutions Code for expenditures for health care services pursuant to Chapter 7 (commencing with Section 14000) of Part 3 of Division 9 of the Welfare and Institutions Code are hereby appropriated and shall be expended as soon as practicable for

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the state's share of payments for medical care services."

Technical Error in Federal Fund Reduction Calculation

We recommend a General Fund reduction of $3,264,000 and an increase in federal funds of the same amount to correct a technical budgeting error.

Amounts included in the budget for Medi-Cal health care services and county administration contain technical errors related to the calculation of the federal fund reduction.

The budget proposes $84,683,000 from the General Fund to replace the loss of federal funds for Medi-Cal health care services anticipated as a result of the reduction in federal matching ratios for federal fiscal years 1983 and 1984. Calculation of the $85 million reduction was based on the assumption that total expenditures from federal funds would be $1,929 million in 1983–84.

Due to subsequent budget adjustments, these expenditures now are estimated at $1,858 million. As a result, the department advises that the amount necessary to replace the lost federal funds is $81,511,000, causing the proposed budget for health care services to be overstated by $3,172,000.

In addition, the budget proposes $2,856,000 from the General Fund to replace anticipated reductions in federal funds for Medi-Cal county administration. This amount also is incorrect. Our analysis indicates that the correct amount needed is $2,773,000, or $92,000 less than proposed.

Accordingly, we recommend a General Fund reduction of $3,264,000 and a federal funds augmentation of the same amount to correct these technical budgeting errors. This recommended reduction is distinct from, and in addition to, our recommendation to reduce the General Fund appropriation in anticipation of the additional federal funds that the state will receive when funds withheld by the federal government during FFY 83 are refunded.

A. MEDI-CAL HEALTH CARE SERVICES

The budget identifies a 1982–83 General Fund deficiency of $310 million for health care services, partially offset by estimated expenditure shortfalls in county eligibility determination and fiscal intermediary claims processing totaling $10 million. The major factors causing the current-year deficiency are (1) a court ruling which disallows a 6 percent cap on the increase in hospital inpatient reimbursement rates ($175.6 million), (2) the previous administration's decision to delay payments to Medi-Cal providers from 1981–82 to 1982–83 ($54.4 million), and (3) lower-than-anticipated current-year savings from the provisions of the 1982 Medi-Cal reform legislation ($84.5 million).

For 1983–84, the budget proposes $1,967 million from the General Fund for Medi-Cal health care services. This is a decrease of $602 million, or 23 percent, below estimated current-year expenditures. The proposed spending reduction is primarily due to (1) full-year implementation of the Medi-Cal reform legislation of 1982 and (2) several additional savings measures proposed by the Governor.

The budget proposes a total of $3,825 million (all funds) for Medi-Cal health care services in 1983–84. This is $773 million, or 17 percent, less than estimated total 1982–83 expenditures. Table 28 summarizes the major adjustments to current-year and proposed budget-year expenditure levels.

Table 28
Medi-Cal Health Care Services
1982–83 and 1983–84
(in millions)

	General Fund	*All Funds*
A. 1982 Budget Act		
1. Appropriation	$2,320.3	$4,050.1
2. Refugee reimbursements	—	73.6
3. MIA adjustments		
a. Transfer to County Health Services Fund	−261.5	−261.5
b. Transfer from County Health Services Fund	200.0	200.0
4. County funds	—	0.4
B. Federal funds received for prior-year expenditures	—	12.0
C. Total funds available, 1982–83	$2,258.8	$4,074.6
D. Unanticipated current-year expenditure changes:		
1. Hospital inpatient—loss of 6 percent cost containment suit	$175.6	$276.4
2. Delayed checkwrite—carry-over of 1981–82 payments into 1982–83	54.4	94.6
3. Reduced savings for AB 799/SB 2012	84.5	188.2
4. Lower than anticipated refugee health care costs	−8.6	−34.2
5. Net of all other changes	−4.5	2.1
E. Estimated 1982–83 expenditures	$2,569.2	$4,597.5
F. Current-year deficiency	$310.4	$522.9
G. Proposed 1983–84 expenditure changes		
1. Full-year impact of AB 799/SB 2012		
a. MIA program termination	−$510.3	−$510.3
b. Other provisions	−176.1	−267.2
2. Governor's proposed budget changes	−23.1	−28.0
3. Provider rate increases—3 percent	30.4	59.2
4. Hospital inpatient—cost per discharge	−23.8	−34.9
5. Reduced federal sharing ratio	11.4	—
6. Changes in caseload, units of service per user, and cost per unit of service	69.2	78.6
7. Transfer of federal share of other state agency costs to state operations item	—	−7.7
8. One-time adjustments	−85.4	−142.7
9. County funds	—	−0.2
10. Other expenditure adjustments	105.4	80.5
Subtotals	−$602.3	−$772.7
H. Proposed 1983–84 expenditures	$1,966.9	$3,824.8

1. Current-Year Deficiency

The Department of Finance projects a current-year General Fund deficiency in Medi-Cal health care services of $310 million, or 14 percent more than the amount appropriated. This deficiency is attributed primarily to (a) court-ordered repayment of funds withheld from hospitals as a result of the 6 percent ceiling on the increase in hospital inpatient reimbursement rates that was required by Ch 102/81 (AB 251) and (b) lower than anticipated savings from the provisions of the 1982 Medi-Cal reform legislation. The deficiency in health care services is partially offset by an expenditure shortfall of $10 million in the other Medi-Cal local assistance programs: county administration and claims processing. This section discusses the major factors leading to the estimated deficiency.

Loss of 6 Percent Cost Containment Suit—$176 Million. In June 1982, a federal district court ruled that a provision of state law that limited the growth in 1981–82 Medi-Cal hospital inpatient reimbursement rates to 6 percent of the hospitals' reimbursement rates in 1980–81 to be unlawful. The basis of the court's decision, that currently is being appealed, was that

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the state law violated federal guidelines which require the level of reimbursements to be reasonable and adequate to meet the costs of efficiently and economically operated hospitals. Subsequent to this court ruling, 23 hospitals sued successfully for immediate payment of all funds withheld from them during 1981–82. Based on these two court decisions, the Director of Finance authorized payments estimated at $48 million ($31 million General Fund) to all hospitals from which funds were withheld during 1981–82.

In addition to the payment of funds withheld during 1981–82, the court rulings require the state to reimburse hospitals during 1982–83 at rates based on hospitals' "reasonable costs." This requirement increases payments to hospitals for services provided during the current year because the amount appropriated by the 1982 Budget Act for inpatient reimbursements assumed that (a) Medi-Cal hospital reimbursement rate increases would be limited to 6 percent in 1981–82 and (b) the rates would not increase at all during 1982–83. The cost of increasing the current-year *base* rates to reflect actual 1981–82 cost increases is estimated at $154 million ($96 million General Fund). Assuming an estimated 14 percent increase in the average cost per discharge during the current year, an additional $74 million ($49 million General Fund) will be needed to provide additional increases to hospitals in 1982–83.

Delayed Checkwrite—$54 Million. In order to reduce an anticipated deficiency during 1981–82, the previous administration delayed from June 1982 to July 1982 provider payments totaling $95 million ($54 million General Fund). Because no additional funds were appropriated to cover the cost of this rollover, the budget for the current year is underfunded by this amount.

Reduced AB 799/SB 2012 Savings—$84 Million. The 1982 Budget Act assumed that the provisions of AB 799 would result in current-year General Fund savings of $357 million in the cost of Medi-Cal health care services. The midyear estimate of these savings, however, is $273 million, or $84 million less than anticipated. The reduction is attributable to (a) passage of SB 2012 ($36 million), (b) court-ordered delays in the implementation of some provisions ($14 million), (c) uncertainty regarding potential savings from hospital contracting ($60 million), and (d) various offsetting implementation delays and revised estimating methodologies (−$26 million). The implementation of the 1982 Medi-Cal reform legislation is discussed more fully below.

Reliability of Midyear Estimates of Current-Year Expenditures. Our analysis indicates the current-year deficiency may be less than the amount proposed by the Department of Finance. The Department of Health Services advises that actual 1982–83 General Fund expenditures may be as much as $82 million higher or lower than the current estimate. Based on recent experience, we believe it is more likely that actual expenditures will be lower.

In each of the past five years, the Department of Finance has overestimated the current-year cost of Medi-Cal health care services in preparing its midyear (December) estimates. While the margin of this overestimate has been decreasing over the past four years, and in any case is relatively small (ranging from 0.2 percent in 1981–82 to 6.2 percent in 1978–79), even a 1 percent overestimate of Medi-Cal expenditures could result in actual expenditures being $25 million less than the amount projected. Table 29 compares the December estimate with actual costs during the last five years.

Table 29
Reliability of Medi-Cal December Estimates
General Fund Expenditures for Health Care Services
1977–1982
(in millions)

	December Estimate	*Actual Expenditures*	*Difference*	
			Amount	*Percent*
1977–78	$1,718.4	$1,676.5 [a]	$41.9	2.4%
1978–79	1,907.4	1,796.0	111.4	6.2
1979–80	1,958.5	1,888.0	70.5	3.6
1980–81	2,353.1	2,300.8 [b]	52.3	2.3
1981–82	2,636.5	2,630.1 [c]	6.4	0.2

[a] Includes an estimated $50 million of bills that could not be paid because sufficient funds were not available. These bills were paid in 1978–79.
[b] Includes $7.3 million of bills that could not be paid because sufficient funds were not available. These bills were paid in 1981–82.
[c] Includes $54.4 million of bills that were not paid in 1981–82. These costs are included in the estimated current-year deficiency.

If the relationship between actual and estimated expenditures for 1982–83 is consistent with what it was during the previous five years (actual expenditures 2.9 percent less than estimated expenditures), the current-year deficiency would be $235 million, rather than $310 million.

In addition to the consistent pattern of overestimating Medi-Cal expenditures in recent years, there are a number of factors that may cause General Fund expenditures in the current year to be less than the amount shown in the budget:

- ***Federal Sharing Ratios—$63 Million.*** Under the provisions of the federal Omnibus Budget Reconciliation Act of 1981, federal matching funds for state-administered Medicaid programs were reduced. Because California limited the growth in federal Medicaid costs during FFY 82 to less than 9 percent, however, the state will receive $63 million in additional federal funds during the current year.
- ***Potential Additional Federal Funds for Refugees—$8 Million.*** The December estimate indicates that $8.1 million in federal funds will be received during 1982–83 for health care services provided to refugees during 1981–82 and billed to the federal government prior to June 1982. The Department of Health Services advises, however, that an additional $8 million claimed after June 1982 for services rendered during 1981–82 is expected during the current year as well.
- ***Special Income Deduction—$6 Million to $8 Million.*** The estimate of current-year expenditures assumes that 26,300 medically needy Medi-Cal recipients affected by the AB 799 deletion of a special income deduction will apply for SSI/SSP in order to avoid paying a share of the cost of their health care. Because actual caseload data indicate that these individuals are not entering the SSI/SSP program to the extent anticipated, an additional $6 million to $8 million in General Fund savings is likely to result during the current year.
- ***Retroactive Sterilization Claims—$7 Million.*** The Department of Health Services advises that it intends to submit claims to the federal government, beginning in January 1983, for sterilization procedures conducted in prior years. If approved, these claims will increase revenue to the Health Care Deposit Fund by $7 million in 1982–83, hence reducing General Fund expenditures.
- ***Savings in County Eligibility Determination and Claims Processing—Uncertain.*** The December estimate anticipates that $10 million in

DEPARTMENT OF HEALTH SERVICES—Continued

General Fund savings will be available for transfer to health care services from funds budgeted for county eligibility determination and claims processing. Our analysis indicates that there may be additional savings in these areas.

- ***Hospital Contracts—Uncertain.*** The estimates of current-year and budget-year expenditures do not reflect the fiscal effect of negotiated hospital contracts.

While these factors may reduce current-year expenditures, other factors such as adverse court decisions, federal actions, and administrative delays in implementing the remaining provisions of AB 799, may increase General Fund expenditures during 1982–83. For example, an out-of-court settlement agreed to by the previous administration regarding the maintenance need levels established by AB 799 will result in a current-year General Fund cost of $5 million. This amount is not included in the December estimate of Medi-Cal expenditures in 1982–83. In addition, current-year General Fund expenditures may be about $5 million more than the amount estimated, due to a higher-than-anticipated unemployment rate in California.

Conclusion. Based on these factors, our analysis indicates that General Fund expenditures for Medi-Cal health care services in 1982–83 will exceed funds available for this purpose by $220 million to $235 million, rather than the $300 million projected by the Department of Finance.

2. Proposed 1983–84 Budget Adjustments

The budget proposes $3,788 million ($1,967 million General Fund) for Medi-Cal health care services in 1983–84. The General Fund request is $602 million, or 23 percent, below estimated current-year expenditures. Table 28 on page 855 summarizes the major funding changes reflected in the proposed level of expenditures. This section discusses the major factors accounting for the proposed reduction in Medi-Cal expenditures.

Full-Year Impact of AB 799/SB 2012—$686 Million Savings. The major factor responsible for the reduction in budget-year expenditures is the full-year effect of AB 799 and SB 2012. Several important provisions of these measures did not take effect on July 1, 1982; and, consequently, the effect of these provisions is not fully reflected in the current-year expenditures.

The primary feature of AB 799 and SB 2012 contributing to the reduction in expenditures during 1983–84 is the full-year effect of removing most medically indigent adults (MIAs) from the Medi-Cal rolls. The budget proposes a reduction of $630 million to reflect the full-year effect of this change, consisting of $588 million for health care services and $42 million for county eligibility determinations. This health care services reduction is $510 million more than the net savings to the Medi-Cal program in the current year. This $510 million increase in savings includes (a) reduced health care services expenditures ($448 million) and (b) budgeting county health services payments directly rather than as a part of the Medi-Cal appropriation ($62 million).

The budget proposes $476 million in the preventive health local assistance item for payments to counties for delivery of health care services to persons formerly eligible for Medi-Cal as medically indigent adults. The county payments are discussed in our analysis of the County Health Services program. Thus, the *net* savings in 1983–84 resulting from the shift in

responsibility for the MIAs is $154 million.

In addition, the budget reflects General Fund savings of $370 million from the full-year effects of anticipated provisions in AB 799 and SB 2012 other than those resulting in the MIA transfer. This is an increase of $176 million over the current-year savings from these provisions. The most significant changes accounting for these increased savings are those that (a) base the rate of hospital reimbursements on the average costs incurred by groups of similar hospitals ($56 million), (b) apply more stringent medical necessity criteria in authorizing Medi-Cal services and implement utilization controls ($34 million), and (c) reduce from $25,000 to $6,000 the value of "other real property" beneficiaries may have ($49 million). The implementation of the 1982 Medi-Cal reform legislation is discussed more fully below.

Proposed Budget Changes—$23 Million Savings. The budget proposes changes in benefits, reimbursement, and program administration, which are projected to result in net General Fund savings of $45 million. Some of these changes are consistent with past legislative actions. Table 30 summarizes the fiscal effects of these budget changes.

Table 30
Projected Savings from Proposed Budget Changes
1983–84
(in millions)

	General Fund	*All Funds*
A. Limit abortion coverage	$17.3	$17.3
B. Mandatory enrollment in cost-effective prepaid health plans (PHPs)[a]	0.8	1.6
C. Eliminate Los Angeles County hospitals waiver	5.0	9.1
Totals	$23.1	$28.0

[a]Due to a technical estimating error, the budget assumes savings of $800,000 from this change. Revised estimates indicate this change may actually *cost* the General Fund $4,545,000 in 1983–84.

- ***Limit Abortion Coverage.*** The budget includes $14 million (all General Fund) for Medi-Cal-reimbursed abortions. This is $17 million less than the current-year amount, and reflects a policy of limiting abortions to cases of rape or incest, where the woman's life or health is endangered by the pregnancy, or where prenatal studies indicate a severe genetic or congenital abnormality. In addition, the budget proposes that all provider claims for abortions include documentation that one of these specified conditions has been met. The $14 million remaining in the budget for abortions includes (a) $3 million for 8,100 abortions that are expected to meet the conditions required for funding in 1983–84, and (b) $11 million to pay for 23,400 abortions performed but not billed in the current year, and 12,300 abortions expected to be performed in 1983–84 before the proposed policy is implemented.

  The conditions under which funding for abortions *would* be allowed are virtually identical to those specified in the Budget Acts for 1981–82 and 1982–83, and subsequently overturned by the courts. Given the court's refusal to allow the Legislature to restrict state-funded abortions in this manner, we believe it is doubtful that any savings will be realized if this policy is adopted for 1983–84.
- ***Mandatory PHP Enrollment.*** Under current law, Medi-Cal clients may choose to enroll in prepaid health plans (PHPs) or receive medi-

DEPARTMENT OF HEALTH SERVICES—Continued

cal care on a fee-for-service basis. The budget assumes that legislation will be enacted to require beneficiaries to enroll in PHPs if the PHP is cost-effective and has not reached maximum enrollment. The budget estimates a General Fund savings of $800,000 in 1983–84 as a result of 69,586 more Medi-Cal eligibles being required to enroll in seven of the most cost-effective PHPs. This estimate allows for a nine-month period before mandatory PHP enrollment can be fully effected. Due to a methodological error, however, the amount of fee-for-service claims that would be paid after the effective date of the change is underestimated. Consequently, rather than resulting in an $800,000 savings in 1983–84, we estimate that mandatory PHP enrollment would result in increased General Fund *costs* of $4,545,000 in 1983–84. The mandatory PHP enrollment policy would result in savings beginning in 1984–85.

Under current law, counties operate programs to inform beneficiaries that they may choose to enroll in PHPs. Under the mandatory PHP program, dual-choice programs will not be needed in four counties. Accordingly, later in this analysis we recommend reduction of $430,000 ($215,000 General Fund) in county administration and $204,000 ($102,000 General Fund) in state administration to reflect the termination of funding for these programs.

- ***Los Angeles County Waiver.*** Currently, hospitals operated by Los Angeles County are not required to submit prior authorization requests for inpatient treatment and are not required to submit the detailed claims required of other hospitals. The budget proposes to terminate these special waivers for Los Angeles County. This is expected to save $5 million for the General Fund. We are unable to assess the validity of this savings estimate or the extent to which it would result in additional county and state field office administrative costs.

In addition to these changes, the budget proposes to (a) continue several one-time rate reductions and utilization controls established by AB 799 and (b) deny provider and beneficiary increases required by statute. The savings anticipated from the AB 799 rate reductions and utilization controls are attributable to lower base rates established during the *current* year. Therefore, this savings is discussed in connection with overall implementation of AB 799.

The proposal to deny statutory increases to provider reimbursement rates and beneficiary maintenance need levels results in cost avoidance ($32 million General Fund), rather than actual savings from current-year expenditure levels. This is the reason why the fiscal effects of these proposed changes are not shown in Table 28. The denial of statutory increases is discussed with other Medi-Cal health care services budget issues.

Provider Rate Increases—$30 Million Cost. The budget proposes a 3 percent rate increase for all services except hospital inpatient. This increase is anticipated to cost $59 million ($30 million General Fund).

Hospital Cost Per Discharge Reimbursement—$24 Million Savings. The budget proposes increased savings from cost-per-discharge limits on hospital reimbursement. The department currently establishes an all-inclusive rate per discharge for each hospital. Reimbursements to hospitals are limited to the lowest of Medicare-defined reasonable cost, charges, or

the rate per discharge. Higher savings are anticipated during 1983–84, due to (a) expected increases in the amounts hospitals would have been paid without this limitation and (b) full-year implementation of the provision.

Reduced Federal Matching Ratio—$11 Million Cost. The federal Omnibus Budget Reconciliation Act of 1981 reduces the federal share of Medi-Cal costs by 3 percent in federal fiscal year 1981 (FFY 81), 4 percent in FFY 82, and 4.5 percent in FFY 83. Estimated 1982–83 expenditures reflect a total General Fund cost of $72.7 million due to the federal fund reductions. The projected 1983–84 General Fund costs due to this provision are $84.1 million—an increase of $11.4 million over current-year expenditures.

Caseload, Utilization, and Cost Per Patient—$69 Million Cost. The budget includes $79 million ($69 million General Fund) to cover the net increase in the costs associated with caseload, utilization, and cost per beneficiary in 1983–84. The budget assumes a 0.5 percent reduction in the number of beneficiaries and a 6 percent reduction in the number of beneficiaries who actually use services. (The deletion of MIA eligibility is not reflected in these adjustments to basic Medi-Cal program costs.) The reduction in the number of beneficiaries who actually use Medi-Cal services during the budget year is expected to reduce General Fund Medi-Cal costs by $59 million.

Increased General Fund costs are expected, however, due to more intensive utilization of services by those who need health care ($33 million) and a higher cost per unit of service ($95 million). During 1983–84, Medi-Cal beneficiaries who require hospitalization are expected to remain in the hospital longer, and those who need drugs will have more prescriptions filled than in 1982–83. The utilization of most other services is expected to remain relatively stable. The average cost per unit for all Medi-Cal services except long-term care and home health services is expected to be higher in 1983–84 than in the current year. Average costs would be even higher, however, if provider rates and beneficiary income standards were increased as required by current law.

One-time Adjustments—$85 Million Savings. One-time expenditures in 1982–83 will not be required in 1983–84. These one-time expenditures consist of (a) provider payments rolled into 1982–83 from 1981–82 ($54 million General Fund, $95 million all funds) and (b) court-ordered payments for 1981–82 hospital inpatient cost increases exceeding the 6 percent reimbursement limit ($31 million General Fund, $48 million all funds).

Budget Potentially Underfunded in Two Areas. Our analysis indicates that the budget request may fall short of expenditure requirements in at least two areas. First, the budget does not include funds to support the cost of a recent court settlement regarding maintenance need levels. The department estimates this settlement will result in additional costs of $35 million ($17 million General Fund) in 1983–84. The settlement is discussed more fully below.

Second, the projected number of unemployed persons on which the department relied in estimating AFDC and medically needy eligible and user populations in early November was more optimistic than what is now being projected. As a result, the budget underestimates the number of Medi-Cal eligibles by 35,000 in 1982–83 and 56,000 in 1983–84. The department advises that this underestimate of eligibles understates General Fund costs by $5 million in 1982–83 and $9 million in 1983–84.

To the extent that these unbudgeted expenditures exceed unanticipated savings in other areas, the Medi-Cal budget for 1983–84 will have a built-in deficiency.

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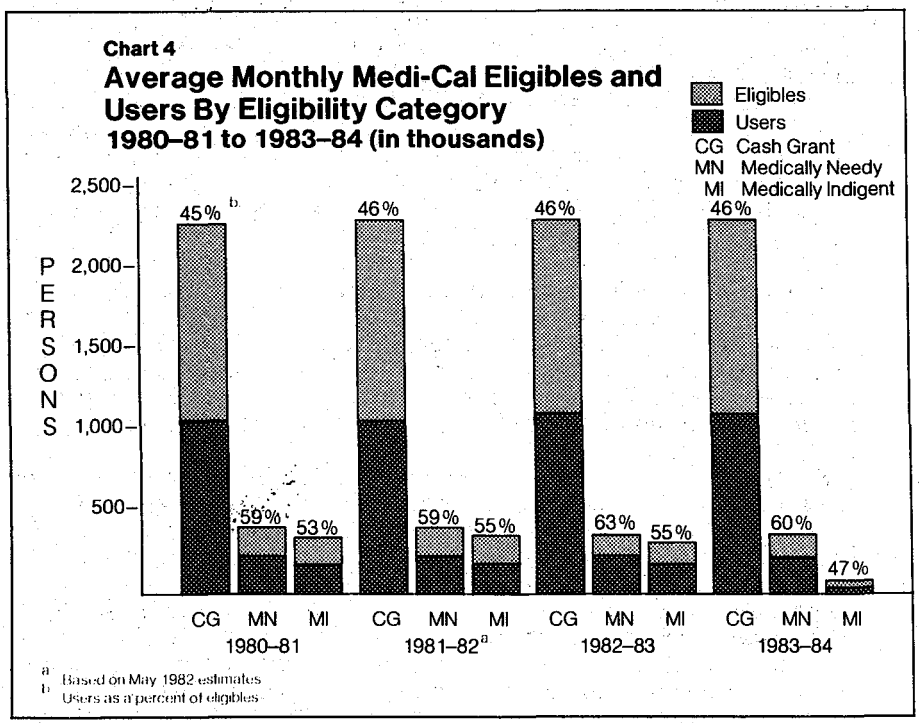
3. 1983–84 Medi-Cal Health Care Services Expenditures in Perspective

The budget proposes few major changes to eligibility rules or the range of benefits available to Medi-Cal recipients. This section describes the components of proposed 1983–84 Medi-Cal health care services program expenditures, and compares this expenditure level with earlier years.

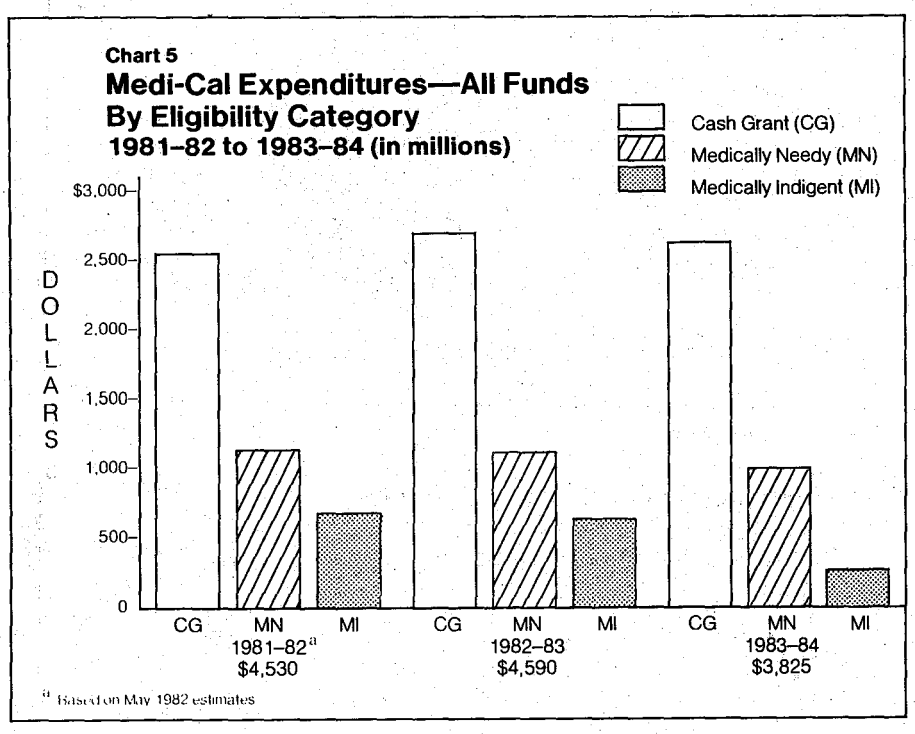
Eligibles and Users. The budget projects that an average of 2.8 million persons will be eligible for Medi-Cal benefits each month during 1983–84. This is a decrease of 135,000 below estimated monthly caseloads in the current year. The largest change in the number of eligibles is expected in the medically indigent category, due to the full-year effect of terminating eligibility for most medically indigent adults (250,000 average persons per month for six months). About 91,000 medically indigent children (82,000) and adults (9,000) remain eligible under this aid category. In addition, the budget projects a reduction of 21,000 categorically eligible persons, and an increase of 6,000 medically needy persons.

Of the eligible population, 48 percent, or 1.3 million persons, are expected to use Medi-Cal benefits each month during 1983-84. This is a reduction of 91,000 persons, or 6.5 percent, below the number of monthly users in 1982–83. Again, the largest reduction in users is in the medically indigent category. Small reductions in the number of users are also expected in the other two aid categories.

The percentage of eligibles who actually use Medi-Cal services varies among the eligibility categories. In 1983–84, for example, 46 percent of the categorically eligible and 60 percent of the medically needy will use services each month. Chart 4 displays the number of Medi-Cal eligibles and users, by aid category, from 1980–81 to 1983–84.



Expenditures by Eligibility Category. Proposed 1983–84 expenditures are lower for all eligibility categories than the levels of expenditures estimated for 1982–83. The major reduction, $510 million, is expected in the medically indigent category. Chart 5 compares proposed expenditures, by aid category, with estimated 1982–83 and actual 1981–82 expenditures. Chart 5 also shows that expenditures for medically needy persons account for 27 percent of total proposed Medi-Cal expenditures in 1983–84. As illustrated in Chart 4, medically needy persons account for only 334,000 of 2,274,000 eligibles, or 12 percent of the total eligible population. The disproportionate expenditures for the medically needy are accounted for by higher-than-average use of services, especially of high-cost services such as hospital and nursing home care, by these persons.



Expenditures by Service Type. Subject to various utilization controls, Medi-Cal beneficiaries may receive a wide range of health care services. The largest share of proposed Medi-Cal expenditures is for hospital care (37 percent). Inpatient care provided in community hospitals accounts for 25 percent of all proposed Medi-Cal expenditures. Chart 6 shows the proposed 1983–84 expenditures for major services.

All provider groups will experience reductions in income as a result of the proposed $773 million reduction (all funds) in 1983–84 Medi-Cal expenditures. Hospitals, however, will experience 66 percent of the total reduction. This reflects a number of different factors: (a) the implementation of new reimbursement methodologies, including peer group-based rates, occupancy standards, cost per discharge, and negotiated contracts; (b) elimination of eligibility for most medically indigent adults; and (c) other non-hospital-specific changes. Chart 7 displays the changes in expenditures for the three Medi-Cal service types with highest total cost, from 1981–82 to 1983–84.

DEPARTMENT OF HEALTH SERVICES—Continued

Chart 6

Medi-Cal Expenditures—All Funds by Service Type
1983–84 (in millions)

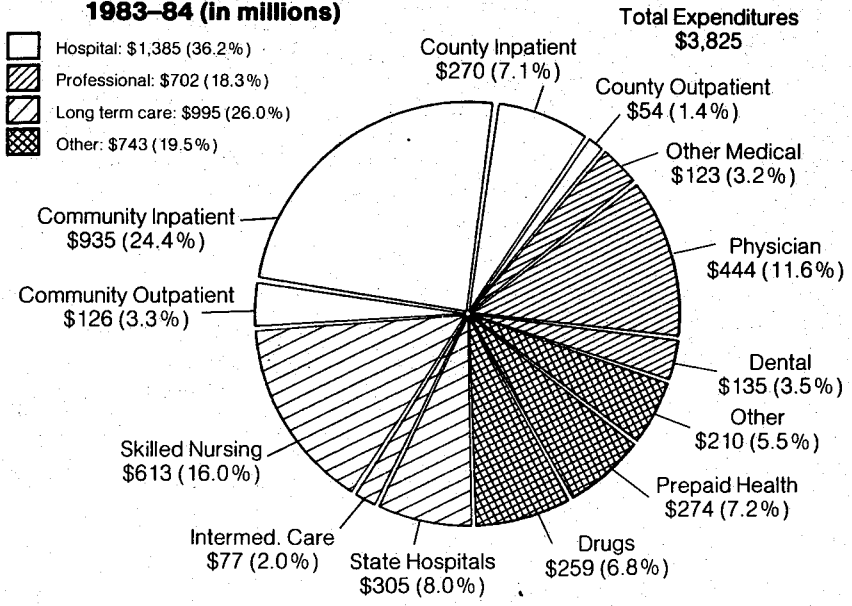
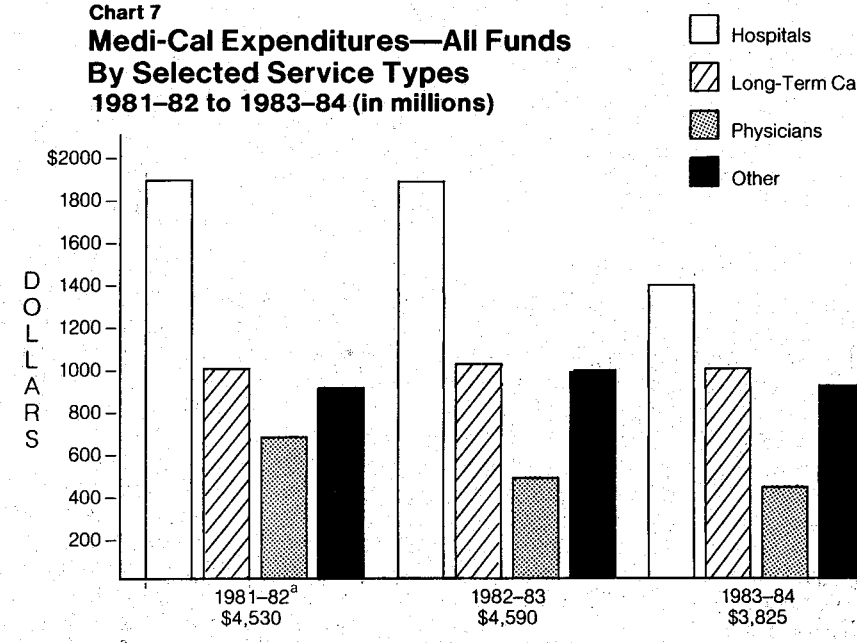


Chart 7

Medi-Cal Expenditures—All Funds
By Selected Service Types
1981–82 to 1983–84 (in millions)



[a] Based on May 1982 estimates

4. Implementation of 1982 Medi-Cal Reform Measures

The Legislature reduced the 1982–83 General Fund appropriation by $395 million, including $357 million for Medi-Cal health care services, to reflect the savings anticipated from the provisions of AB 799 and AB 3480. Due to the enactment of SB 2012 and various implementation delays, the current estimate of General Fund savings resulting from these measures is $315 million, including $273 million in health care services expenditures. The $84 million reduction in the savings anticipated for health care services is a major factor causing the current-year deficiency.

The budget projects that the *net* General Fund savings in all programs due to these two measures will be $555 million in 1983–84. This is an increase of $240 million, or 76 percent, over estimated current-year savings, and reflects *total* General Fund savings of $1,031 million, partially offset by $476 million requested for payments to counties in support of the health care services they provide to medically indigent persons. Table 31 compares the General Fund savings assumed in the 1982 Budget Act for major provisions of the reform measures with (a) revised estimates of current-year savings and (b) the fiscal effects of these provisions projected for 1983–84.

Eligibility.

- ***Other Real Property.*** Assembly Bill 799 reduced from $25,000 to $6,000 the equity a Medi-Cal beneficiary may have in real property other than an occupied home. This provision, which primarily affects homes owned by nursing home residents, was modified by SB 2012. Senate Bill 2012 allows persons whose homes are considered other real property to continue receiving Medi-Cal benefits prior to selling the home, provided the home is listed for sale and a lien is placed against the property for the cost of the benefits. This modification is expected to delay savings due to the revised treatment of other real property until after the homes are sold. Therefore, no savings is anticipated during the current year from this provision.
- ***AFDC Nonfederal Adults.*** Assembly Bill 799 discontinued automatic Medi-Cal eligibility on January 1, 1983, for adults who receive cash grants under the nonfederal AFDC-Unemployed Parent program. Chapter 327, Statutes of 1982, reduced the scope of the AFDC-Unemployed Parent program. Due to the lower number of persons receiving nonfederal AFDC-Unemployed Parent payments, the savings attributable to AB 799 have been reduced.
- ***Other Eligibility Changes.*** The current estimates make only minor adjustments in 1982–83 savings due to other eligibility-related changes in the reform measures. The budget projects increased General Fund savings of $22 million in 1983–84, due to the full-year effect of changes in income standards. The December estimates, however, do not reflect anticipated General Fund costs of $5 million in 1982–83 and $17 million in 1983–84, due to the settlement in the *Minor v. Myers* case involving the income standard for medically needy Medi-Cal beneficiaries.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 31
General Fund Fiscal Effects of Medi-Cal Program Changes Contained in AB 799, AB 3480, and SB 2012 1982–83 and 1983–84 As Estimated in 1983 Governor's Budget (in millions)

Provision	1982–83 Assumed in 1982 Budget Act[a]	1982–83 Effects of SB 2012	1982–83 Other Changes	1982–83 Revised Estimate	1983–84	1983–84 Compared With 1982–83
1. Eligibility changes						
a. Other real property	−$24.2	$24.2	—	—	−$49.3	−$49.3
b. AFDC nonfederal adults	−5.4	—	4.8	−0.6	−1.7	−1.1
c. Other	−28.4	—	2.3	−26.1	−47.8	−21.7
Subtotals	(−58.0)	(24.2)	(7.1)	(−26.7)	(−98.8)	(−72.1)
2. Benefits, reimbursement rates, and utilization controls						
a. Drug formulary	−22.3	4.0	10.6	−7.7	−1.9	5.8
b. Nonemergency medical transportation	−3.7	—	3.7	—	—	—
c. Utilization controls	−20.5	−0.4	−28.1	−49.0	−83.4	−34.4
d. Other	−70.2	2.3	1.9	−66.0	−82.1	−16.1
Subtotals	(−116.7)	(5.9)	(−11.9)	(−122.7)	(−167.4)	(−44.7)
3. Audit, recovery, fraud and abuse	−16.5	5.6	5.8	−5.1	−8.0	−2.9
4. Hospital reimbursement						
a. Special negotiator	−100.0	—	100.0	—	—	—
b. Peer group	—	—	−39.9[b]	−39.9	−96.3	−56.4
Subtotals	(−100.0)	—	(60.1)	(−39.9)	(−96.3)	(−56.4)
5. Medically indigent adult (MIA) transfer						
a. Program termination	−65.9[c]	—	−16.4	−82.3	−584.4	−502.1
b. Early transfer	—	—	4.1	4.1	−4.1	−8.2
Subtotals	(−65.9)	—	(−12.3)	(−78.2)	(−588.5)	(−510.3)
6. Total health care services	−$357.1	$35.7	$48.8	−$272.6	−$959.0	−$686.4
7. Other Medi-Cal[d]						
a. County eligibility determination						
(1) MIA transfer	−$21.5[c]	—	$0.4	−$21.1	−$41.6	−$20.5
(2) Other changes	1.3	—	−0.8	0.5	0.1	−0.4
b. Fiscal intermediary	−0.1	—	0.2	0.1[e]	−2.2	−2.3
c. Department of Health Services support	0.4	—	0.2	0.6	−0.7	−1.3
d. Special negotiator	0.8	—	—	0.8	0.9	0.1
e. Change in federal sharing ratio	−1.3	—	—	−1.3	−1.3	—
Subtotals	(−20.4)	—	—	(−20.4)	(−44.8)	(−24.4)

8. Other programs						
a. Mental health	−15.2	—	−4.9	−20.1	−26.8	−6.7
b. University of California	−2.0	—	—	−2.0	—	2.0
Subtotals	(−17.2)	—	(−4.9)	(−22.1)	(−26.8)	(−4.7)
9. Totals	$394.7	$35.7	$43.9	−$315.1	−$1,030.6	−$715.5
10. Payments to counties for medically indigent persons[f]						
a. Payments to counties	(277.6)	—	(−16.1)	(261.5)	476.0	476.0
b. Transfer from County Health Services Fund	(−200.0)	—	—	(−200.0)	—	—
Totals	−$394.7	$35.7	$43.9	−$315.1	−$554.6	−$239.5

[a] The estimates for individual program changes include $22.6 million for the effect of the changes on medically indigent adults.

[b] The budget anticipates $39.9 million General Fund savings in 1982–83 due to the implementation of "peer group" reimbursement, effective February 1, 1983. Due to a court-ordered temporary restraining order, however, implementation has been delayed. For this reason, the fiscal effect of this provision is uncertain.

[c] The budget assumed a total savings of $110 million from deleting eligibility for most medically indigent adults (MIAs). This amount is included in this table in three places: (1) $65.9 million for health care services savings resulting from termination of MIA eligibility, (2) $21.5 million savings in county administration, and (3) $22.6 million in savings included in estimates of other provisions.

[d] Although the provisions of SB 2012 may have changed the potential savings from AB 799, no estimate of these changes is available.

[e] This figure reflects only the changes in fiscal intermediary operations. Reduced volume due to the MIA transfer and other AB 799 caseload changes is not reflected in estimated current-year expenditures for claims processing.

[f] The effect of payments to counties and the transfer from the County Health Services Fund is included in estimates of Medi-Cal health care services expenditures during 1982–83.

Benefits, Reimbursement Rates, and Utilization Controls.

- ***Drug Formulary.*** Due to enactment of SB 2012 and court-ordered delays in implementation, the AB 799 savings expected from utilization controls on prescription drugs have been reduced. The department advises that the changes to the list of drugs Medi-Cal will pay for (formulary) were fully implemented as of December 31, 1982.
- ***Nonemergency Medical Transportation.*** The department has been enjoined by the courts from restricting Medi-Cal reimbursements for nonemergency medical transportation.
- ***Other Utilization Controls and Rate Reductions.*** The December estimates reflect increased savings due to more complete estimates of the effects of (a) limiting most medical and surgical procedures to instances where the service is medically necessary to protect life or prevent disability, (b) requiring some procedures to be performed on an outpatient rather than an inpatient basis, and (c) reducing various provider rates. Estimated 1983–84 savings from these controls and rate reductions are $51 million higher because the changes will be in effect throughout the year.

Audit, Recovery, Fraud, and Abuse Provisions. Senate Bill 2012 eliminated county liability for some audit findings. As a result, the department estimates that $5.6 million less will be realized from accelerated collection of audit disallowances. The department estimates an additional reduction of $5.8 million in General Fund savings during 1982–83, due to the department's delay in implementing these provisions.

Hospital Reimbursement. Assembly Bill 799 established a special negotiator to negotiate provider agreements with selected hospitals and required the department to implement a revised reimbursement method

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under which an individual hospital's reimbursement rates are based on costs incurred by a group of similar hospitals. The 1982 Budget Act was reduced by $200 million ($100 million General Fund) to reflect anticipated savings from hospital contracts. *The December estimates, however, do not attribute any savings to these contracts.* Instead, the department estimates that implementation of peer group-based reimbursement will result in General Fund savings of $40 million in 1982–83 and $96 million in 1983–84. The department advises that any savings from negotiated hospital contracts will come at the expense of peer group savings and will not reduce costs further. We discuss the implementation of these changes to hospital reimbursement below.

MIA Transfer. The 1982 Budget Act was reduced by $110 million to reflect the January 1, 1983, termination of Medi-Cal eligibility for medically indigent adults (MIAs). This reduction included $22 million from support for county eligibility determination activities, and $88 million in savings for health care services, net of funds transferred to counties ($166 million anticipated savings less a $78 million projected net transfer to counties). The $88 million in health care services savings includes $22 million attributable to the effect of individual rate, eligibility, or benefit changes on the MIA population. Because the December estimates attribute this $22 million to individual changes, rather than the MIA termination, Table 31 shows the budgeted health care services General Fund savings due to MIA transfer as $66 million.

Current-year savings due to the MIA transfer have been revised in two additional ways. First, three counties elected to assume responsibility for MIAs in November and December 1982, and receive 10 percent of the projected Medi-Cal costs of providing health care to these persons during this two-month period. The 1982–83 cost of this early transfer is $4.1 million, reflecting the payment of claims during 1982–83 that would otherwise have been delayed in the payment pipeline until 1983–84. Second, estimated savings are expected to exceed the amount budgeted due to the fact that the net cost of the payments to counties will be $16 million lower than what was anticipated by the budget ($78 million less $62 million).

Projected 1983–84 health care services and county eligibility determination savings resulting from the termination of MIAs' Medi-Cal eligibility are based on the estimated full-year costs of providing Medi-Cal services to these persons. As shown by Table 31, the 1983–84 Medi-Cal savings from the MIA transfer are partially offset by $476 million in payments to counties proposed for 1983–84. The payments to counties are budgeted in the preventive health services local assistance item.

Other Fiscal Effects. In addition to the effects on funding for Medi-Cal health care services and county health services, the reform measures are expected to result in General Fund savings of $42 million in 1982–83 and $72 million in 1983–84. Of these amounts, $22 million in 1982–83 and $27 million in 1983–84 are reflected in expenditures by the Department of Mental Health and the University of California. The remaining $20 million in 1982–83 and $45 million in 1983–84 is expected in other parts of the Medi-Cal program. These portions of the reform acts are discussed in our analysis of the individual program components and departments.

Health Care Services Budget Issues

Court Decisions Will Cost General Fund $178 Million in 1983–84

The budget proposes $161 million from the General Fund to cover the cost of court decisions issued in connection with six major and numerous minor lawsuits. The decision in a seventh case, which is expected to result in General Fund costs of $16 million ($17 million in health care services cost less $1 million in reduced expenditures for eligibility determination) during 1983–84, is not reflected in the budget projections.

Current-year General Fund health care services costs resulting from these decisions total $203 million, which is $195 million more than the amount anticipated by the 1982 Budget Act. The most significant of the seven major cases involves the 6 percent limit on the increase in hospital inpatient reimbursement rates established by AB 251. Of the remaining suits, three challenge provisions of AB 799, two relate to cash grant program income and eligibility rules, and one addresses Medi-Cal regulations that govern transfers of property. Table 32 shows the General Fund cost of these suits during 1982–83 and 1983–84.

Table 32
Fiscal Effect of Medi-Cal Court Decisions and Settlements
1982–83 and 1983–84
General Fund
(in thousands)

	1982–83				
	Budgeted	*Estimate*	*Difference*	*1983–84*	*Change*
A. Health care services					
1. *California Hospital Association v. Department of Health Services* and *Daniel Freeman Memorial Hospital v. Myers*—6 percent hospital reimbursement cap (AB 251)	—	$175,600	$175,600	$139,025	−$36,575 [a]
2. *Jeneski v. Myers*—drug formulary (AB 799)	—	6,417	6,417	—	−6,417
3. *Richardson v. Myers*—nonemergency medical transportation (AB 799)	—	3,737	3,737	3,737	—
4. *Minor v. Myers*—maintenance need levels (AB 799) [b]	—	4,988	4,988	17,440	12,452
5. *Turner v. Woods*—AFDC income deductions	—	3,221	3,221	6,187	2,966
6. *Beltran v. Myers*—property transfers	$5,885	6,393	508	10,858	4,465
7. *Ramos v. Myers*—beneficiary notification	977	1,125	148	1,125	—
8. *Other cases*	344	435	91	98	−337
Subtotals	$7,206	$201,916	$194,710	$178,470	−$23,446
B. County administration					
1. *Minor v. Myers*	—	$324	$324	−$1,097	−$1,421
2. *Beltran v. Myers*	$112	86	−26	138	52
3. *Ramos v. Myers*	40	300	260	279	−21
Subtotals	$152	$710	$558	−$680	−$1,390
Totals	$7,358	$202,626	$195,268	$177,790	−$24,836

[a] The reduction in costs for this case is due primarily to one-time payments of $31 million in 1982–83.

[b] Although settlement has been reached in this case, these costs are not included in the December estimate.

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Six Percent Limit on Hospital Cost Increases. Prior to the passage of AB 799, state law required the Medi-Cal program to reimburse hospitals for their charges or audited "reasonable cost," whichever was less. Chapter 102, Statutes of 1981 (AB 251), limited the growth in hospital reimbursement rates between 1980–81 and 1981–82 to 6 percent.

Based on federal law, which requires hospital reimbursements to be reasonable and adequate to meet the costs of efficiently operated hospitals, plaintiffs argued successfully in the Federal District Court in Los Angeles that the 6 percent cap was unlawful. Subsequently, in August 1982, 23 hospitals obtained a court order that required the state to pay back funds withheld from them during 1981–82. The Department of Health Services has decided to make refunds to all affected hospitals, rather than become involved in frivolous litigation with the other 385 hospitals.

The one-time General Fund cost of this 1981–82 pay-back is $31 million in 1982–83. In addition, the General Fund will incur additional costs in 1982–83 and 1983–84 because the court decisions require the state to (1) increase the base payment rates to the level they would have been at without the 6 percent cap and (2) provide subsequent price increases on the higher base.

Drug Formulary. Assembly Bill 799 establishes, for 1982–83 only, new utilization controls on some drugs, including codeine-based preparations, and deletes entirely some drugs from the list of Medi-Cal benefits. The budget proposes to continue these changes through 1983–84.

In the *Jeneski v. Myers* suit, a Los Angeles County Superior Court judge delayed the implementation of some formulary restrictions. Subsequently, the judge lifted the injunction, allowing the state to implement these changes by December 31, 1982. The department estimates that as a result of the court-imposed four-month delay in the implementation of the utilization controls adopted by the Legislature, the General Fund will incur additional costs of $6.4 million in 1982–83.

Nonemergency Medical Transportation. A Los Angeles County Superior Court has issued a preliminary injunction that prohibits the state from eliminating some Medi-Cal funded nonemergency medical transportation as the Legislature required in AB 799. The judge's ruling is based on a federal requirement that transportation be made available to beneficiaries. The department intends to appeal this injunction.

Assembly Bill 223 and SB 124, the companion bills to the 1983 Budget Bill, include provisions that reinstate nonemergency medical transportation as an available service under the Other County Social Services program administered by the Department of Social Services.

Maintenance Need Levels. To be eligible for the Medi-Cal program, a noncash grant recipient must have an income below the established maintenace need level or spend enough of his/her income on medical care so that the remainder is below the maintenance need level. Under the federal Omnibus Budget Reconciliation Act of 1981, states were allowed to establish separate maintenance need levels for medically needy persons who are (1) members of families or (2) aged, blind, or disabled. The reconciliation act required, however, that the maintenance need levels must be (1) "reasonable and comparable" to the maximum aid payment levels for cash grants to individuals with these characteristics and

(2) between 100 percent and 133 percent of the state's AFDC payment level.

Assembly Bill 799 stipulates that California's maintenance need levels shall be the lowest allowed by federal law. In the case of AFDC-linked medically needy persons, this lowest level was assumed by the department and the Legislature in hearings on AB 799 to be 100 percent of the AFDC grant. Because the SSI/SSP grant levels paid to aged, blind, and disabled individuals in California exceed 133 percent of AFDC payment levels, the lowest allowable maintenance need level for SSI/SSP-linked medically needy individuals was assumed to be 133 percent of the AFDC payment. In effect, AB 799 reduced the maintenance need level for AFDC-linked medically needy persons from 115 percent to 100 percent of the AFDC payment standard. (Assembly Bill 799 also eliminated an $85 special income deduction allowed to aged, blind, and disabled individuals.)

After the passage of AB 799, the Congress enacted legislation that requires states to establish a single maintenance need level for the two categories of medically needy persons. Subsequently, a suit was brought against the state asking the Federal District Court in Sacramento to raise the state's maintenance need level for AFDC-linked persons to 133 percent. Before a hearing on a preliminary injunction was held on this issue, the previous administration authorized the department to settle this case out of court. At the time this *Analysis* was prepared, the department had submitted regulations to the Office of Administrative Law to increase the maintenance need level to 133 percent for all medically needy and medically indigent persons. The Legislature, however, had not received official notification of this new regulation, which is expected to result in General Fund costs of $5 million in 1982–83 and $17 million in 1983–84.

AFDC Income Deductions. The San Francisco Federal District Court's decision in the *Turner v. Woods* case requires the state to exclude mandatory payroll deductions in calculating income for purposes of determining AFDC grants. This decision results in Medi-Cal costs due to (1) an increase in the number of AFDC recipients and, therefore, an increase in the number of categorically eligible Medi-Cal beneficiaries and (2) application of the revised income deduction rules to the medically needy program.

Property Transfers. In *Beltran v. Myers,* the Federal District Court in Los Angeles has ruled that the state may not penalize Medi-Cal recipients by counting as income exempt property transferred to others, and increasing the amount of resources attributed to the recipient. This ruling is primarily applicable to individuals who transfer ownership of their homes to a friend or relative prior to entering long-term care. So long as beneficiaries reside in their homes, the home is exempt from property limits. If the home is not occupied by the beneficiary or a spouse, however, it may be counted as "other" real property. The judge's decision in this case is being appealed based on recent federal legislation allowing consideration of such property as available resources.

Beneficiary Notification. A settlement in *Ramos v. Myers* has resulted in the provision of Medi-Cal-reimbursed health care services to 1,100 persons who have been dropped from the SSI/SSP program, pending a reassessment of their continued eligibility for Medi-Cal.

Other Cases. Estimated current-year expenditures also include funding for the cost of court rulings and settlements in 13 minor lawsuits. The budget proposes $98,000 from the General Fund for these minor cases.

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Court Order Language

We recommend that the Legislature adopt Budget Bill language prohibiting the expenditure of sums appropriated for Medi-Cal health care services to comply with court orders that are either (1) not specifically identifed by the budget or (2) not based on a final decision as to the merits of the case.

In the current year, court decisions or settlements in connection with suits involving Medi-Cal benefits, eligibility, and reimbursements will result in General Fund costs of $195 million more than the amount budgeted. Costs associated with only two of seven major cases were reflected in the 1982 Budget Act.

We believe the Legislature faces three major problems as a result of rulings by the courts and out-of-court settlements involving the Medi-Cal program.

- ***The Legislature's ability to control expenditures, and thereby avoid a deficit, is reduced,*** to the extent the courts impose substantial, unanticipated costs on the Medi-Cal program.
- ***Court orders can result in unnecessary costs to the taxpayers.*** Courts often order temporary restraining orders and preliminary injunctions, which result in increased costs, even though the state eventually prevails on the merits. These costs cannot be recovered once a final decision is rendered. For example, regulations implementing the drug formulary changes of AB 799 were delayed four months by the courts, resulting in a General Fund cost of $6.4 million. The regulations, however, ultimately were allowed to take effect without any substantive changes.
- ***Settlements reached out of court may not be consistent with legislative policy.*** In the *Minor v. Myers* case, for example, it is not clear that the minimum maintenance need level agreed to by the previous administration for medically needy persons is required by the federal government. It is possible that federal approval *could* have been received for maintenance need levels set at 115 percent (rather than 133 percent) of the AFDC payment standard. At the time the administration reached a settlement with the plaintiff, it had not explored this alternative with the federal government. To the extent that federal law allows a lower maintenance need level, the settlement agreed to by the administration contravenes a decision made by the Legislature in AB 799.

For these reasons, and to encourage the department to pursue all legal means available prior to allowing increased Medi-Cal expenditures above the levels approved by the Legislature, we recommend the adoption of Budget Bill language prohibiting expenditures for unbudgeted court orders before a final court decision on the merits of a case has been issued. Specifically, we recommend the adoption of the following language, which is similar to language contained in the 1983 Budget Bill that applies to the AFDC program.

"Funds appropriated in this item are for Medi-Cal health care services, county administration, and fiscal intermediary claims processing activities as they exist on July 1, 1983, consisting of state and federal statutory law, regulations, and court decisions that are final on the merits, if funds necessary to carry out such decisions are specifically appropriated in this

act. However, no funds are appropriated or available in this item, and no funds appropriated in prior years are available for implementation of court orders, for which funds are not specifically appropriated in this act, until a final court decision on the merits is issued."

Legislative Notification of Changes in Rules or Regulations

We recommend the adoption of Budget Bill language included in the 1982 Budget Act requiring legislative notification of any rule change expected to cost $100,000 or more.

The 1983 Budget Bill does not include language that was placed in the 1982 Budget Act by the Legislature, as a means for assuring legislative oversight of proposed expenditure changes. The 1982 Budget Act requires the Department of Finance to notify the Joint Legislative Budget Committee of any change in Medi-Cal rules or regulations that is expected to result in annual General Fund costs of $100,000 or more. Because the Legislature should be informed of rule changes that contribute to General Fund expenditures, we recommend the 1982 Budget Act language be added to the 1983 Budget Bill. We further recommend that the language be modified to also require notification to the two fiscal committees. Specifically, we recommend adoption of the following language:

"Provided, that when a date for public hearing has been established for a change in any program, rule, or regulation, or the Department of Finance has approved any communication revising any department program, the two fiscal committees and the Joint Legislative Budget Committee shall be notified if the annual General Fund cost of the proposed change is $100,000 or more."

Hospital Reimbursement Changes

Assembly Bill 799 requires hospitals wishing to participate in the Medi-Cal program to contract with the state. Charitable research hospitals, children's hospitals, health maintenance organizations, and state hospitals, however, are exempt from this requirement.

A nonexempt hospital may continue to provide a full range of Medi-Cal services until the special negotiator established by AB 799 has signed enough contracts to assure needed bed capacity for Medi-Cal patients in the hospital's geographic area. When sufficient contracts have been signed in an area, the act requires notification to all noncontracting hospitals that they will no longer be reimbursed for serving Medi-Cal patients unless (1) they provide emergency services needed to prevent loss of life or permanent impairment, (2) the beneficiary is covered by the federal Medicare program, or (3) the beneficiary resides farther than established community travel time standards from a contract hospital.

Assembly Bill 799 allows the special negotiator to determine the method of payment for contracting hospitals. Senate Bill 2012 requires the department to develop and implement a backup method for reimbursing noncontracting hospitals, based on costs incurred by similar types of hospitals. Prior to implementation of this "peer group" reimbursement method, noncontracting hospitals will continue to be reimbursed on the basis of interim rates and final cost settlements.

Implementation of Contracting. Assembly Bill 799 established a special negotiator located in the Governor's office to negotiate hospital contracts. The negotiator has chosen to negotiate fixed *price per day* contracts. In addition, the negotiator has elected to negotiate contracts during 1982–83 in Health Facilities Planning Areas (HFPAs) where the

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largest Medi-Cal expenditures for hospital inpatient expenditures historically have been incurred.

At the time this *Analysis* was prepared, the negotiator advised us that his office had been negotiating with hospitals in 41 of the 137 HFPAs in California. These 41 HFPAs account for 72 percent of total Medi-Cal hospital inpatient expenditures. All 343 hospitals in the 41 HFPAs were invited to participate. Of this number, 283, or 87 percent, have indicated an interest in contracting with the state, 12 have declined the opportunity to submit a proposal, 29 are exempt, and 19 failed to respond.

The negotiator's office held or will hold at least two meetings with interested hospitals in an HFPA. The first meeting has involved an overview of the model contract drawn up by the negotiator and a general discussion of the contracting process. The second meeting has involved terms and conditions of the contract, including price. The hospitals are allowed to offer any price, service mix, or special conditions they desire. The negotiator determines which, if any, hospitals in a given HFPA should receive Medi-Cal contracts, based on (1) criteria established by AB 799, (2) the amount of capacity needed, (3) the prices proposed by competing hospitals, and (4) any other terms offered by these hospitals. When all decisions have been made regarding an HFPA, the negotiator informs the hospitals which have been selected that they will receive a contract.

This process will be continued until contracts are arranged in all 41 of the targeted HFPAs. During 1983–84, the California Medical Assistance Commission, which was established by the reform legislation, will expand hospital contracting to additional HFPAs.

Hospital Contracts Delayed

We recommend that during hearings on the 1983 Budget Bill, the Director of the Department of Health Services advise the Legislature of the reasons for delays in implementation of hospital contracts negotiated by the special negotiator.

After the negotiator completes decisions on contracts within a geographic area, the contracts are transmitted to the Department of Health Services for review and signature. The negotiator advises that, as of February 4, 1983, 75 contracts in six major metropolitan areas (Los Angeles, San Jose, Oakland, Sacramento, San Francisco, and San Diego) have been completed and transmitted to the department for final approval. At least 9 of these contracts were submitted to DHS prior to December 1, 1982. None of the contracts, however, were signed until January 26, 1983. Although DHS staff advised us that the contracts were to be effective February 1, 1983, our analysis indicates that further delays are likely to occur.

We are unable to determine why delays in implementing the contracts negotiated by the special negotiator have occurred.

According to the department, the delays in implementing these contracts are due to several factors:

- Each contract submitted by the negotiator must be carefully reviewed by appropriate units of the department to assure that the contract can be implemented.
- The department has questioned the level of potential cost avoidance included in the contracts. The department has been unable or unwilling, however, to respond to specific questions regarding the fiscal effect of the contracts.

- Some delay was caused in an attempt to obtain procedure code numbers from hospitals for services they wished to exclude from Medi-Cal coverage. These codes are now being supplied by the department, thus reducing the time required for contract review.
- A change order must be implemented by the fiscal intermediary before the contracts can be implemented. A request for such a change was submitted to the fiscal intermediary on December 21, 1982, and modified on January 14, 1983. The fiscal intermediary, Computer Sciences Corporation, transmitted a cost proposal to the department on January 14, 1983. The department advises that additional negotiations on this change order may delay full implementation to March or April 1983.

It is not clear, however, that these factors fully explain the delays. In this regard, we note that Assembly Bill 799 requires that "the department shall enter into contracts with hospitals and shall be bound by the rates, terms, and conditions negotiated by the negotiator." This language would seem to require that the department act quickly to approve negotiated contracts, and avoid second-guessing the negotiator.

Delays in implementation of negotiated contracts (1) reduce any savings that the contracts will produce in the current year (a year in which the General Fund faces a $1.5 billion deficit) and (2) damage the credibility of the new contracting process. Accordingly, we recommend that during hearings on the 1983 Budget Bill, the Director of the Department of Health Services advise the Legislature of the reasons for the delays in implementing the negotiated contracts.

Fiscal Effect of Hospital Contracts Not Reflected in Budget

We recommend the Department of Finance include in its May revision of Medi-Cal expenditures an estimate of the 1982–83 and 1983–84 fiscal effect of hospital contracting.

The 1982 Budget Act reflected anticipated savings in hospital inpatient costs of $200 million ($100 million General Fund) resulting from negotiated contracts. The December estimates, however, do not include any savings from these contracts, either for 1982–83 or 1983–84. The proposed 1983–84 budget, however, does anticipate that approximately $19 million in General Fund costs required for a 7 percent hospital inpatient price increase will be avoided as a result of negotiated contracts.

According to the department, the reasons why the budget does not reflect a specific estimate of the savings from hospital contracting are as follows:

- Because no contracts had been implemented, data needed to estimate the change in costs related to contract rates were not available when the December estimates were prepared.
- Negotiating hospital contracts will not produce any additional savings above the estimated savings resulting from the new peer group reimbursement method. Therefore, the department did not develop specific estimates of contract savings.
- The department had been unable to resolve a number of methodological issues involved in estimating savings from hospital contracts. These issues include assumptions on the number of emergency admissions to noncontract hospitals, the cost of transporting patients from noncontract hospitals to contract hospitals, and special pricing schemes included in some of the contract agreements. (The depart-

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ment indicated that these issues had been resolved as of January 15, 1983.)

Our analysis indicates that savings from contract and peer group reimbursement strategies operating in tandem should exceed that of either of the two systems operating in isolation. Therefore, in our analysis of proposed funding for the California Medical Assistance Commission, we recommend the commission report on its recommendations for achieving the greatest possible savings using these two strategies.

Because noncontracting hospitals will continue to receive peer group-based reimbursement rates and contract hospital rates may be less than peer group rates, we believe that aggregate savings may be higher than estimated peer group savings alone. Our analysis indicates, for example, that General Fund savings from contracts during 1983–84 may range from $50 million to $80 million, assuming that 72 percent of hospital expenditures are under contract in the budget year.

While the department was unable to include an estimate of the fiscal effect of hospital contracts in the December estimates, data should be available to permit including an estimate of the savings in the May revision. Accordingly, we recommend the Department of Finance include estimates of the 1982–83 and 1983–84 fiscal effects of hospital contracting in the May 1983 revision of Medi-Cal expenditure estimates.

Peer Group Reimbursements Face Legal Challenge

The department advises that federal approval has been received for peer group rates, and that these rates became effective on December 1, 1982. Due to an average estimated 60-day payment lag, peer group rates will not affect the level of payments until after February 1, 1983. The budget estimates that the implementation of peer group reimbursement rates will result in savings of $64 million ($40 million General Fund) in 1982–83 and $154 million ($96 million General Fund) in 1983–84.

Under peer grouping, the department assigns hospitals to groups with certain common characteristics. Hospitals with average costs per discharge above the median for their peer group will have their reimbursement reduced to the median level for that group. Hospitals with disproportionately large numbers of Medi-Cal patients are allowed higher reimbursement rates, based on the percentage of such patients.

The method used by the department for hospital grouping was developed by the California Health Facilities Commission, and includes 11 major groups and several miscellaneous hospital categories. For example, university teaching hospitals are clustered together, and rural hospitals are in a separate group.

The department advises that a suit was filed in early January 1983 challenging implementation of peer group reimbursements. On January 25, 1983, a federal district court in Los Angeles issued a temporary restraining order that prohibits the implementation of peer group rates in 100 of the state's 600 hospitals. The department advises that implementation of peer group reimbursement in the remaining 500 hospitals would also be subject to legal challenge. Therefore, implementation of peer group reimbursement has been postponed for an indeterminable period of time. Using the estimates of savings from peer grouping contained in the budget, we estimate that this delay will result in lost savings of $13 million ($8 million General Fund) each month until the restraining order is lifted.

Anticipated Federal Funds for Health Care Services to Refugees Not Budgeted

We recommend that $9,458,000 in anticipated, but unbudgeted, federal funds be used in lieu of General Fund monies to finance health care services, for a General Fund reduction of $9,458,000. We further recommend adoption of Budget Bill language allowing the expenditure of these federal funds for Medi-Cal.

The budget proposes to expend $78,837,000 for health care services provided to refugees. The federal government pays 100 percent of the cost of such services when provided to eligible refugees. The federal payments, however, are received on an average of 60 days after the state submits bills to the federal government. As a result, each year some federal payments are delayed beyond the close of the state's fiscal year.

The department anticipates that in 1983–84, the state will receive only $70,343,000 of the $78,837,000 in federal payments for health care services to refugees provided during the budget year. The remaining $8,494,000 in federal payments will be received during 1984–85. The budget proposes $8,494,000 from the General Fund to finance the cost of refugee services until federal reimbursement is received. We believe it makes sense to specifically budget General Fund expenditures for this purpose.

During 1983–84, the state will also receive $9,458,000 in federal payments for health care services provided to refugees during 1982–83. These payments will be delayed from 1982–83 to 1983–84 due to the 60-day federal payment lag. The $9,485,000 in federal funds is not reflected in the budget because reimbursements for prior-year expenditures normally are deposited in the General Fund, and are not available for expenditure by the Medi-Cal program, unless there is a projected deficiency.

Failure to recognize these anticipated federal funds in Medi-Cal expenditure plans overstates the requirement for General Fund support of the program. Accordingly, we recommend a General Fund reduction of $9,458,000 and an increase in federal funds of the same amount. We further recommend that the following language be added to the Budget Bill allowing these funds to be spent for Medi-Cal in 1983–84:

"Notwithstanding other provisions of this act or other state law, up to $9,458,000 in federal funds received as payments during 1983–84 for health care services provided to refugees related to prior-year expenditures under Section 14157 of the Welfare and Institutions Code for expenditures for health care services pursuant to Chapter 7 (commencing with Section 14000) of Part 3 of Division 9 of the Welfare and Institutions Code are hereby appropriated and shall be expended as soon as practicable for the state's share of payments for medical care and services."

Beneficiary Cost-of-Living Adjustment

We recommend the department include in the May revision an estimate of Medi-Cal program costs and savings associated with granting no increase to SSI/SSP payments and a 5 percent increase to AFDC payments.

Income standards for categorically eligible Medi-Cal beneficiaries and maintenance need levels for medically needy and medically indigent beneficiaries are based on AFDC and SSI/SSP cash grant payment levels. Thus, increases in cash grant payments affect Medi-Cal costs.

The budget proposes no cost-of-living adjustment (COLA) to AFDC payments and a 2.1 percent increase to SSI/SSP payments. Current statute requires these payment levels to be increased on July 1, based on the

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percentage change in the California Necessities Index (CNI) during the 12-month period ending the previous January 1. The Commission on State Finance estimates that the CNI increase was 6.8 percent for 1982. The budget assumes that legislation will be enacted allowing the Legislature to determine the size of any increase in cash assistance payments in the Budget Act.

Income Standards for Categorically Eligible Persons. The projection of categorically eligible Medi-Cal recipients contained in the budget assumes that maximum AFDC and SSI/SSP payments will increase by 6.8 percent on July 1, 1983. As a result, the budget projects that some persons currently receiving Medi-Cal benefits as medically needy will become eligible for cash assistance payments and no longer pay a share of the cost of their medical care. Thus, Medi-Cal costs are projected to increase due to reductions in aggregate beneficiary payments for medical care.

This projection is not consistent with the budget proposal for AFDC and SSI/SSP. If the Legislature provides less than a 6.8 percent cost-of-living adjustment to AFDC and/or SSI/SSP payments, the department's projections of the number of categorically eligible beneficiaries results in an overestimate of General Fund costs.

Maintenance Need Levels for Medically Indigent and Medically Needy Persons. The budget assumes that no cost-of-living adjustment will be provided to maintenance need levels for medically needy and medically indigent persons. This is consistent with the budget proposal that no cost-of-living increase be granted to AFDC payments. Based on an estimated 6.8 percent increase in the CNI, the department estimates that the statutory increase to Medi-Cal maintenance need levels for medically needy and medically indigent persons would cost $19,489,000 ($9,745,000 General Fund) in 1983–84.

Legislative Analyst's Recommended Public Assistance Payments. In our analysis of proposed cost-of-living adjustments to public assistance payment levels, we recommend that $72 million proposed for increases to SSI/SSP payments be used instead to provide a 5 percent increase to payment levels in the Aid to Families with Dependent Children (AFDC) program. This recommendation would have two effects on the Medi-Cal budget. First, it would increase Medi-Cal costs by $14,330,000 ($7,164,000 General Fund), because Medi-Cal maintenance need levels for medically indigent and medically needy persons are based on AFDC payment levels. This increased cost, however, will be offset to an unknown extent by savings of funds included in the proposed Medi-Cal budget for 6.8 percent increases in income standards for categorically eligible persons. The Department of Health Services is unable to identify the amount of this savings. Therefore, the fiscal effect of this recommended change to AFDC payments in the Medi-Cal program is uncertain. In order to budget accurately for Medi-Cal program needs, we recommend the department include in its May estimates a specific estimate of the fiscal effect on the Medi-Cal program of granting no increase to SSI/SSP payment levels and a 5 percent increase to AFDC payment levels.

Provider Rate Increases

During the current year, rate increases were provided for drug ingredients, hospitals, prepaid health plans, and nursing homes. The rates paid to most other providers, however, were reduced.

The budget proposes $59,158,000 ($30,437,000 General Fund) for a 3

percent rate increase for all Medi-Cal provider groups except hospital inpatient services. The budget proposes to apply this 3 percent increase to the 1982–83 reimbursement rates paid to each group of providers. In other words, the budget does not propose to return provider rates to their pre-AB 799 level. Continuing through 1983–84 the base rate reductions and various one-year utilization controls enacted as part of AB 799 is expected to result in cost avoidance totaling $126 million ($62 million General Fund).

Our analysis indicates that inflation in health care costs between 1982–83 and 1983–84 will exceed 3 percent. Thus, in real terms, the rate increases proposed by the administration actually represent a decrease in rates, relative to those paid by other purchasers of health care. The ability and willingness of providers to continue to provide health care services to Medi-Cal recipients when the state's reimbursement rates are reduced relative to the rates paid by others varies. At this time, we are unable to assess the extent to which providers may choose not to provide services to Medi-Cal patients if the state's reimbursement rates continue to decline relative to rates paid by others.

Table 33 summarizes the changes in reimbursement rates for various types of Medi-Cal providers during 1982–83 and 1983–84.

Table 33

Medi-Cal Provider Reimbursement Rate Changes
1982–83 [a] and 1983–84

	Actual 1982–83	*Proposed 1983–84*	*1983–84 Statutorily Required Rate Increase*
Physicians	−10.0%	3%	—
Dental	−10.0 [b]	3	—
Drug dispensing	— [c]	3	—
Drug ingredient	8.4	3	6.6%
Psychological, acupuncture portable X-ray, chiropractic, hospital outpatient	−10.0	3	—
Hospital inpatient	13.9	—	7.0
Laboratory and pathology	−25.0	3	—
Nursing homes	7.9	3	— [d]
Prepaid health plans, Redwood Health Foundation	9.6	3	— [d]
Other providers	—	3	—

[a] A number of utilization controls were added during 1982–83 which have the effect of reducing total income to Medi-Cal providers but do not actually reduce rates.

[b] Assembly Bill 799 reduced the appropriation for dental services by 10 percent. The negotiated contract for dental services, however, exceeded the appropriated amount by $11.1 million (General Fund).

[c] A 9.6 percent reduction to drug dispensing rates will be effective upon implementation of mandatory $1 beneficiary copayments for prescriptions. This change had not been implemented as of January 15, 1983.

[d] Current statute requires annual cost-of-living adjustments based on actuarial rate studies. These studies have not yet been completed.

Budget Assumes Denial of Statutory Increases. The budget assumes that current law will be amended to delete statutory requirements for price increases for drug ingredients, nursing homes, prepaid health plans, and hospital inpatient services. Instead, the budget proposes (1) 3 percent increases for drug ingredients, nursing homes, and prepaid health plans and (2) no cost-of-living increase for hospital inpatient services. According to the department, failure to provide these statutory increases will result

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in cost avoidance of $43 million ($22 million General Fund). The $22 million General Fund cost avoidance consists of $3 million for drug ingredients and $19 million for hospital inpatient services. Because nursing home and prepaid health plan rates are set by actuarial studies, no estimate is available of the savings that would be realized by failing to provide the statutory increases for these services.

The budget assumes that no cost-of-living increase will be necessary for hospital inpatient reimbursement due to hospital contracting and peer group rate setting. The budget also assumes that in 1983–84 peer group reimbursements will result in General Fund savings of $96 million. The $96 million savings, however, is calculated on a base cost that includes a $19 million rate increase. Thus, the budget proposal reflects the same $19 million savings *twice*—once in the $96 million for peer grouping and once in the cost avoidance due to denial of statutory rate increases. This error has the effect of requiring contract negotiations and peer group reimbursements, together, to yield $115 million in General Fund savings, rather than the $96 million cited in the budget.

We believe contract negotiations should yield some savings in excess of the $96 million attributed to peer group reimbursements. Based on available information, however, we are unable to determine whether the assumption that savings from hospital contracting and peer group rate setting will total $115 million is reasonable.

Table 34
Cost of 3 Percent Provider Rate Increase
1983–84
(in thousands)

	Budget Proposal	*With Proposed Base* [a]	*Difference From Budget Proposal*
Drug ingredients			
All funds	$2,245	$2,508	$263
General Fund	1,155	1,343	188
Prepaid health plans, dental, Redwood			
All funds	7,825	7,767	−58
General Fund	4,026	3,928	−98
Nursing homes			
All funds	24,501	23,867	−634
General Fund	12,606	12,070	−536
Other providers			
All funds	24,587	21,401	−3,186
General Fund	12,650	10,304	−2,346
Federal fund reduction			
All funds	— [b]	—	—
General Fund	—	1,210	1,210
Totals			
All funds	$59,158	$55,543	−$3,615
General Fund	$30,437	$28,855	−$1,582

[a] Based on Department of Health Services estimates.
[b] Federal fund reduction is included in individual items.

Provider Rate Increase Overbudgeted

We recommend a reduction of $3,615,000 ($1,582,000 General Fund) to correct a technical budgeting error made in calculating the cost of a 3 percent provider rate increase.

The $59,158,000 ($30,437,000 General Fund) proposed in the budget for a 3 percent provider rate increase was calculated using a preliminary estimated base expenditure level of $4,031 million. The budget proposes, however, only $3,893 million for the Medi-Cal program during 1983–84 (not including adjustments for audits, lawsuits, and projected recoveries). Because the cost of the 3 percent rate increase was calculated on an inflated base expenditure level, the rate increase is overbudgeted. In addition, the department made minor technical errors in the calculation of the cost of the provider rate increase. Table 34 compares the cost of the 3 percent cost-of-living adjustment reflected in the budget with the estimated cost after adjusting for these technical errors.

We estimate that, given the level of Medi-Cal expenditures proposed by the administration in the budget year, the cost of a 3 percent provider rate increase would be $55,543,000 ($28,855,000 General Fund). Therefore, we recommend a reduction of $3,615,000 ($1,582,000 General Fund) to correct this technical budgeting error.

Savings from Deletion of Special Income Deduction Underestimated

We recommend a reduction of $22,725,000 ($12,610,000 General Fund) to reflect actual savings related to the elimination of a special income deduction.

Assembly Bill 799 eliminated an $85 special income deduction to which aged, blind, and disabled beneficiaries in the medically needy (MN) category were entitled. Elimination of this deduction increases these recipients' out-of-pocket medical expenses by reducing the maximum amount of income they are allowed to retain for living expenses. Because beneficaries will now have to pay a higher share of the cost of their medical care, Medi-Cal program costs will be reduced.

The budget estimates savings of $35,237,000 ($19,555,000 General Fund) due to the elimination of the special income deduction. This savings is anticipated to result from (1) 12,000 beneficaries having to pay a *larger* share of cost, and (2) 18,600 beneficiaries who previously did not pay for any portion of their medical care having to pay some of these costs.

The estimate of proposed savings in the budget, however, assumes that no savings will be realized from 26,300 aged and disabled beneficiaries who qualify for payments under the SSI/SSP program but have not applied for cash assistance. The budget assumes that rather than pay a share of the cost of their medical care, as AB 799 requires them to, these 26,300 individuals will apply for and receive SSI/SSP payments, effective October 1, 1982. As SSI/SSP recipients, the beneficiaries will be eligible for Medi-Cal without having to contribute toward the cost of their care.

Our analysis indicates, however, that only 3,000 to 5,100 persons actually applied for SSI/SSP after the special income deduction was eliminated. The department indicates that during September 1982 this change was implemented in counties that include 70 percent of the Medi-Cal caseload. It was implemented in the remaining counties during October. Federal officials advise that the SSI/SSP application approval process averages four to six weeks. Therefore, if the department's assumption was accurate, the number of categorically eligible aged and disabled Medi-Cal beneficiaries

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would have increased between October and December 1982. The department's data for October, November, and December, however, show no such dramatic increase in the SSI/SSP population. In fact, in October and November, the number of Medi-Cal cards issued to aged and disabled SSI/SSP recipients continued a downward trend that began in 1980. Preliminary data for December indicate that the SSI/SSP population increased by 2,500 over the November caseload, bringing the total to 657,000.

Based on the trend in the SSI/SSP caseload from January to November 1982, we project that if the special income deduction had *not* been deleted, the December aged and disabled caseload would have been 2,600 persons lower than November. Therefore, we estimate that 5,100 persons, or 19 percent of the total identified eligible population, actually applied for SSI/SSP, rather than pay a share of their medical costs. This conclusion is supported by a federal Social Security Administration official who advises that only 3,000 to 4,000 additional SSI/SSP applications were filed during the October-to-December period.

Additional persons may apply for SSI/SSP in future months, in response to high medical costs. The department advises, however, that the major effect of such a change should occur during the first three months of implementation.

Given the relatively small number of people applying for SSI/SSP prior to January 1, 1983, we believe it is unreasonable to assume that an additional 21,300 persons will apply for SSI/SSP as a result of the special income deduction being deleted. Therefore, we recommend that savings related to the deletion of the special income deduction be increased to reflect actual experience to date. Based on the department's estimate of increased shares of cost, approval of this recommendation would result in a $22,725,000 ($12,610,000 General fund) reduction in Medi-Cal expenditures in 1983–84.

Budgeting for Federal Audit Exceptions

The budget requests $10 million from the General Fund to cover costs resulting from federal audits of the state's claims for federal financial participation (FFP) in Medi-Cal costs.

The budget has not proposed funds for audit exceptions in previous years. The department indicates that it did not do so before because (1) the cost of audit exceptions depends on the outcome of numerous legal appeals and (2) budgeting for the loss of appeals might weaken the Department's case in appeal hearings.

The department indicates that the 1983–84 budget includes funds for federal audit exceptions because such costs are virtually certain to occur. It believes that $10 million is a prudent estimate of the costs that will result in 1983–84 from lost appeals, based on historical trends and the current volume of outstanding appeals. Lost audit appeals in past years cost the General Fund $25.2 million in 1979–80, $13.5 million in 1980–81, and $21.3 million in the 1981–82. During the first six months of the current year, lost audit appeals have resulted in General Fund costs of $9.8 million. The department believes that by budgeting for lost audit appeals generically, rather than by specific case, it will not prejudice appeal hearings.

Background. The Health Care Financing Administration (HCFA) periodically audits the state's claims for federal financial participation (FFP) to determine whether the amounts of FFP are calculated in conformance with federal law. The department routinely appeals these fed-

eral audit exceptions. It does not adjust its accounts until the federal grant appeals board has made a final judgment as to the appropriate rate and amount of FFP for a particular department claim.

When a judgment results in a rate and amount of FFP below that originally claimed by the department, the department must adjust its accounts to reflect (1) a reduction in federal funds received and (2) a corresponding increase in General Fund monies expended. The adjustment is always made in the year in which the final judgment is issued. Consequently, when the state loses an appeal, regardless of how old the case is, the General Fund incurs the cost of reduced FFP in the year in which the appeal is decided. When the state wins an appeal, no adjustment to the accounts or funding shift need be made.

Given the likelihood that some of the state's audit appeals will be denied, we believe it is prudent to budget for the costs of potential audit appeal losses. Based on our analysis of the costs of lost appeals in the past, we believe that the $10 million budgeted for potential audit appeals losses is the appropriate amount.

Dental Contract Transition Costs

We recommend that by April 1, 1983, the administration submit to the Legislature information regarding the additional costs and source of funding for reprocuring the Medi-Cal dental contract, because the budget contains no information on or appropriation for these costs.

The budget proposes funds to support anticipated Medi-Cal dental service and claims processing costs during 1983–84. No funds are proposed, however, to support the costs of changing from the current dental contract structure to a new one.

The current dental contract with California Dental Services (CDS) will expire on June 30, 1983. The department indicates that this contract will be extended for successive six-month periods until a new contract, to be let under competitive bid, can be fully implemented. According to the dental contract procurement timetable, the next contract will be effective January 15, 1984, with full assumption of claims processing and payment occurring in February 1985.

During this transition period, no reduction in normal claims processing and payments is anticipated. If the next contractor is not CDS, significant transition costs may be incurred during 1983–84, in addition to normal claims processing costs, depending on how and when payment is made for transition costs. If CDS is awarded the new contract, there may still be some costs to CDS in addition to normal claims processing costs.

Our analysis indicates that despite potential overall reductions in the dental capitation and total contract costs as a result of competitively procuring a dental service contract, additional costs might be incurred in 1983–84. If this happens, the Medi-Cal budget will be underfunded.

We recommend that the administration submit to the Legislature by April 1, 1983, information on the costs of and source of funds for the dental contract procurement.

Mandatory Prepaid Health Plan Enrollment

We recommend that by April 1, 1983, the administration submit to the fiscal committees information on how it intends to implement the proposed mandatory prepaid health plan enrollment program.

The budget reflects net Medi-Cal savings of $1.6 million ($800,000 General Fund) made possible by an increase of 69,586 in prepaid health plan

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(PHP) enrollments in 1983–84. Existing law allows beneficiaries to choose between enrolling in a PHP or receiving medical services from fee-for-service providers. The budget assumes passage of legislation (proposed in AB 223 and SB 124, the companion bills to the 1983 Budget Bill) that would *require* PHP enrollment.

Program Will Cost, Not Save, Money in the Budget Year. The state pays PHPs for Medi-Cal services *prior* to each month of service delivery. In contrast, fee-for-service providers are paid after claims are received and processed by the fiscal intermediary. Whenever a Medi-Cal beneficiary switches from the fee-for-service system to PHP enrollment, the state must pay *both* the PHP capitation and any outstanding fee-for-service claims until all fee-for-service claims are processed. Consequently, new PHP enrollments result in temporary cost *increases.*

We estimate that mandatory PHP enrollment, as proposed in the budget, would result in *increased* General Fund costs of approximately $4,545,000 in 1983–84, not the savings of $800,000 reflected in the budget. There would, however, be net savings to the state beginning in 1984–85, if the administration's proposal is approved.

Budget Proposal. Under the budget proposal, counties would be required to assign eligible Medi-Cal applicants to a PHP if (1) the PHP has not reached its contractual capacity for Medi-Cal beneficiaries and (2) the PHP is "cost-effective"—that is, its capitation rate is not more than 95 percent of the cost of similar services in the Medi-Cal fee-for-service program. If no cost-effective PHP has available capacity, counties would be required to assign Medi-Cal applicants to other available PHPs. In this case, however, applicants could choose fee-for-service medical care instead of the PHP assigned by the county.

Policy Questions. Mandatory PHP enrollment appears consistent with other Medi-Cal reforms that limit beneficiary access to specified health facilities. Nevertheless, it is a departure from current Medi-Cal policy with respect to PHP enrollment. Consequently, the Legislature may want to consider several issues concerning mandatory PHP enrollment. To facilitate legislative review of the proposal, we recommend that by April 1, 1983, the administration submit to the Legislature information on how mandatory PHP enrollment will be implemented. Specifically, we recommend that the administration provide answers to the following questions:

- What effect will mandatory PHP enrollment have on PHP costs and fee-for-service costs over time?
- How will the department determine which PHPs will be included in the mandatory enrollment program?
- What criteria will be used by counties to assign eligible applicants to PHPs? Will they be assigned on a first come, first assigned basis or on the basis of other criteria?
- Are there potential conflicts of interest in having counties assign applicants to PHPs? How would PHPs be assured that not just the potentially expensive Medi-Cal participants will be assigned to them?
- What waivers will be required from the federal government before mandatory PHP enrollment can be implemented?

B. MEDI-CAL COUNTY ADMINISTRATION

The budget proposes $122,115,000 ($61,957,000 General Fund) to support Medi-Cal county eligibility determination activities in 1983–84. This is a decrease of $27 million ($23 million General Fund), or 18 percent (27 percent General Fund) below estimated 1982–83 expenditures.

Funds proposed in this item support eligibility determination and quality control costs related to medically needy and medically indigent Medi-Cal beneficiaries. The costs of eligibility determination for categorically eligible Medi-Cal beneficiaries are supported through Item 5180 in the Department of Social Services.

The major factor responsible for the proposed reduction in expenditures for this activity is the full-year effect of terminating Medi-Cal eligibility for most medically indigent adults, as provided by AB 799. This eligibility change will be effective for six months of the current year. Therefore, the 1983–84 expenditure reduction is approximately twice the current-year savings of $21 million.

Table 35

Medi-Cal County Administration
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
A. 1982 Budget Act appropriation	$94,779	$159,178
B. Unanticipated costs and savings in the current year		
1. Major reestimates that increase 1982–83 costs		
a. Federal matching share reductions	30	—
b. Court decisions	234	422
c. Refugee caseload increase	—	4,603
2. Major reestimates that reduce 1982–83 costs		
a. Los Angeles County status reporting sanction	−1,915	−3,142
b. Los Angeles County hospital costs	−1,876	−2,075
c. AFDC law changes	−3,258	−6,462
d. Assembly Bill 2361 maintenance need reduction	−1,573	−2,322
e. Implementation of AB 799	−65	310
f. Implementation of Ch 102/81 (AB 251)	−1,303	−1,640
3. All other changes	−188	−49
C. 1982–83 revised estimates	$84,865	$148,823
D. Projected current-year surplus	$9,914	$10,355
E. Budget-year changes		
1. Reduction in federal matching funds	395	—
2. Assembly Bill 799		
a. Full-year savings from MIA transfer	−20,529	−20,530
b. Other real property	−503	−1,005
c. Other	10	−89
3. Los Angeles County hospital caseload changes (includes MIA reduction)	−2,028	−2,794
4. Limitation of hospital eligibility determination costs	−1,914	−3,800
5. Deletion of unallocated reserve	−1,093	−1,613
6. Three percent cost-of-living increase	1,806	3,559
7. Other changes	948	−436
Subtotals	(−$22,908)	(−$26,708)
F. Proposed 1983–84 budget	$61,957	$122,115

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Current estimates of 1982–83 expenditures indicate that General Fund costs for county eligibility determination will be $10 million, or 10 percent, lower than the amount appropriated for these costs in the 1982 Budget Act. Factors accounting for the surplus include (1) lower-than-anticipated implementation costs for AB 799 and other legislation and (2) reductions in payments to Los Angeles County because of the county's failure to submit required status reports. Table 35 displays estimated and proposed expenditures for county administration in 1982–83 and 1983–84.

Fiscal Effect of AB 799

Assembly Bill 799 (1) requires several additional county eligibility functions and procedures and (2) reduces county workload by decreasing the number of persons eligible for Medi-Cal benefits. The budget reflects net savings of $44 million ($42 million General Fund) as a result of these changes. This is an increase of 109 percent (102 percent General Fund) over anticipated current-year savings from these changes. The major reason for increase in savings is the reduction of 250,000 MIA cases for a full 12 months, rather than for only 6 months as in the current year. Table 36 shows the estimated fiscal effects of AB 799 on Medi-Cal county administration.

Table 36
Medi-Cal County Administration
Fiscal Effects of AB 799
1982–83 and 1983–84
(in thousands)

	Estimated 1982–83		*Proposed 1983–84*		*Percent General Fund Change*
	General Fund	*All Funds*	*General Fund*	*All Funds*	
A. Additional procedures					
1. Maintenance need reduction	$615	$1,052	$551	$1,103	−10.4%
2. Special income deduction	381	668	408	815	7.1
3. MIA elimination notifications	15	16	—	—	−100.0
4. Other real property	251	502	−252	−503	−200.4
5. Parental responsibility	65	112	—	—	−100.0
6. Verification of facts	775	1,322	682	1,364	−12.0
Subtotals	$2,102	$3,672	$1,389	$2,779	−33.9%
B. Reduced caseload					
1. Special income deduction	−$1,034	−$1,820	−$1,120	−$2,241	−8.3%
2. MIA elimination	−21,087	−21,087	−41,616	−41,616	−97.4
3. Parental responsibility	−67	−160	−176	−352	−162.7
4. Verification of facts	−56	−94	−44	−88	21.4
5. MIA—three-month retroactive eligibility	−398	−394	5	11	101.3
Subtotals	−$22,642	−$23,555	−$42,951	−$44,286	−89.7%
Totals	−$20,540	−$19,883	−$41,562	−$41,507	−102.3%

Budget Does Not Contain Information Required By Law

We recommend that the Department of Finance include in its May revision of expenditures (1) past, actual, and projected workload and expenditure data for Medi-Cal county administration and (2) a detailed description of the base program estimate for 1983–84.

The budget proposes $62 million (General Fund) for county eligibility

determinations. This amount consists of (1) $89 million for "base" program costs and (2) net savings of $27 million due to implementation of various policy changes. Each individual policy change estimate is accompanied by a description of the assumptions and methodology employed to develop the estimate. The base program cost estimate, however, is not clearly explained in the budget. The narrative in the budget document describing the current-year base estimate, for example, indicates that the base cost estimate was developed using intake and continuing workload during the July–November 1981 period. The 1983–84 base is described as a "continuation of the 1982–83 estimate," excluding specified items. The estimates, however, do not include the actual and projected workload data or the methodology used to apply July to November *1981* data to the current and budget years. In addition, the department has been unable to provide us with a description of the base estimating process.

The 1982 Budget Act requires estimates of county administration costs to "compare past actual and projected workload expenditures in a format that will permit evaluation of forecasts." Without such information, the Legislature is unable to assess (1) the degree to which the fiscal effects of some policy changes resulting from legislation enacted in 1981 (AB 251) have been reflected in the base costs, (2) the validity of estimates extending 18 months into the future that are based on workload data which is more than one year old, and (3) the reasonableness of the estimate in general.

Therefore, we recommend the Department of Finance include in the May revision of expenditures past, actual, and projected workload and expenditure data for county administration, and a detailed description of the base estimate for 1983–84.

Cost Control Plan—Background

The department allocates funds to county welfare departments for Medi-Cal eligibility determinations, based on guidelines contained in the annual cost control plan. This plan was initiated in 1975–76.

Features. The major features of the cost control plan are as follows:

- Counties are assigned to one of four size groups.
- Separate caseload targets are established for existing or continuing eligibility determination cases and new intake cases. Counties are reimbursed based on the mean number of cases per worker in their size group.
- Overhead costs, such as administration, clerical, and operating expenses, are compared with direct eligibility determination costs to arrive at a support cost ratio. Counties are reimbursed for support costs at a support cost/eligibility cost ratio not to exceed the mean for their size group.
- The cost control plan allows counties to receive funds in excess of the amounts allowed under the cost control guidelines if they can justify additional expenditures. Each year, the Departments of Health Services and Social Services review a cost impact questionnaire from each county to determine if additional expenditures can be justified.

Objectives of the Cost Control Plan. The major objectives of the Medi-Cal cost control plan are (1) to reduce the rate of growth in total expenditures for county eligibility determinations and (2) to eliminate massive disparities in costs per application and per continuing case among the counties.

Effectiveness. Due to the large number of program and policy

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changes made in the Medi-Cal program since 1975–76, it is difficult to assess the degree to which the cost control mechanism has actually curtailed growth in total expenditures. Our analysis indicates, however, that the growth in county eligibility costs has been substantially reduced under the cost control plan. During the period immediately preceding the implementation of the plan (1971–72 through 1974–75), annual expenditures for county eligibility determinations increased at an average annual rate of 48 percent ($17 million). During the period 1976–77 through 1981–82, costs for these activities increased at an average annual rate of 9 percent ($11 million). While it is difficult to conclude that the cost control process is entirely responsible for curtailing the rapidly escalating costs, we believe it deserves much of the credit.

We also conclude that variation in unit cost and productivity among the counties has been reduced significantly as a result of the cost control program. Table 37 shows that from 1976–77 to 1981–82, the variations both in the number of applications and continuing cases processed per worker and in the total cost per workload unit among the 10 largest counties were reduced. For example, each eligibility worker in the 10 largest counties processed an average of 58.5 applications. In 1976–77, workers in Los Angeles County processed 18.6 fewer applications per worker (39.9) than the average for all 10 counties, and workers in Santa Clara County processed 43.1 more than the average (101.6). The average variation from the mean in 1976–77 was 16.1 applications, or 28 percent of the mean number of applications (58.5). In 1981–82, the percentage variation from the mean was only 12 percent. In all three measures shown in Table 37, the variation from the mean was lower in 1981–82 than in 1976–77. As a result, counties in 1981–82 were being reimbursed at rates that were considerably more comparable than they were in 1976–77.

Table 37

Selected Medi-Cal County Administration Workload and Cost Measures Variation from the Mean Ten Largest Counties [a] 1976–77 and 1981–82

	Applications Processed Per Eligibility Worker		*Continuing Cases Processed Per Eligibility Worker*		*Total Cost Per Workload Unit*	
	1976–77	*1981–82*	*1976–77*	*1981–82*	*1976–77*	*1981–82*
Mean for 10 largest counties	58.5	66.8	465.8	390.1	$7.06	$10.46
Difference in workload and cost from the mean						
Alameda	−19.6	−0.3	−83.6	47.3	2.21	−0.26
Contra Costa	1.0	22.3	−168.2	−52.0	2.63	0.20
Los Angeles	−18.6	−3.2	40.2	−0.1	3.39	3.12
Orange	−20.0	−21.9	133.3	3.0	−0.80	0.83
Riverside	15.2	5.7	187.6	−4.7	−2.96	−1.80
Sacramento	10.8	−3.7	17.5	41.5	−1.26	−1.30
San Bernardino	10.3	−3.4	57.6	−35.4	−2.35	−2.51
San Diego	−17.1	−4.0	−43.5	59.6	0.46	−1.14
San Francisco	−5.2	−3.1	−88.5	21.1	0.59	1.72
Santa Clara	43.1	11.6	−52.5	−80.7	−1.92	1.13
Average variation from mean	16.1	7.9	87.3	34.5	$1.86	$1.40
Average percent variation	28%	12%	19%	9%	26%	13%

[a] These counties were selected for display only. For cost contol allocations, the seven largest counties are treated as one group. The remaining three counties (Contra Costa, Riverside, and San Bernardino) are part of a second 14-county cost control group.

Special Cost Items. Despite the progress achieved so far by the cost control plan, significant cost variations among the counties still exist. A major issue between the state and the counties involving the cost control plan is the degree to which *individual* expenditure categories should be singled out for special cost controls. The state could reduce costs further by identifying specific cost *elements* (such as "overhead") that vary among counties and subjecting them to special controls. Counties, however, argue that as long as they are within the specified allocation limits, they should be allowed the flexibility to manage the program as they deem best.

The following expenditure categories have been identified for special treatment in recent years:

- ***Support Costs.*** County eligibility determination costs consist of (1) the salaries of eligibility workers and their supervisors and (2) support costs, such as administrative services, data processing, and buildings. The cost control plan provides that by 1983–84, the ratio of each county's support costs to direct eligibility-worker costs may not exceed the average of such ratios for all counties in the size group. In past years, counties received funds from an "unallocated reserve" for support costs in excess of their allowable target.
- ***Hospital-Based Eligibility Workers.*** In all counties except Los Angeles, eligibility workers stationed in hospitals are subject to cost control rules. Although little data have been collected on the cost per application processed by hospital eligibility workers, the department advises that these costs exceed the cost of eligibility workers stationed in county eligibility determination offices. The higher costs are due, in part, to the fact that hospital-based eligibility workers process fewer cases than other eligibility workers.

Procedural Changes. Workload standards used for county allocations are based on actual caseloads in a base year. To the extent that changes in law or regulations alter the amount of work required for each case, these standards may not reflect actual staff requirements. For example, AB 799 requires several procedural changes that will increase county workload. The 1982 Budget Act includes a total of $1.3 million from the General Fund for procedural changes associated with AB 799. During the current year, the department advises that funds will be allocated to counties to implement these changes in the following manner: (1) 75 percent of estimated costs will be allocated in advance and (2) the remaining 25 percent of estimated costs will be allocated to counties with documented costs at the end of the fiscal year. At the time this *Analysis* was prepared, the department was unable to state how $5,648,000 ($2,824,000 General Fund) provided to cover the cost of procedural changes will be allocated in 1983–84.

Issues Outside the Cost Control Plan. In addition to county costs that are within the purview of the cost control plan, the Legislature has taken actions to control county costs that are not subject to the plan. These actions have focused on:

- ***Salary Levels.*** The cost control plan does not restrict the salaries counties choose to pay their employees. In the 1981 and 1982 Budget

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Acts, however, the Legislature limited the amounts of cost-of-living increases for which the state would provide reimbursement to amounts consistent with the specific percentage increase established by the Legislature for that year. The budget would continue this limitation on state-funded cost-of-living increases in 1983–84.

Most counties decided (and in some cases were required by collective bargaining agreements) to provide greater salary increases in 1981–82 and 1982–83 than what the state would help finance. The effect of these decisions has been that counties have assumed a share of the cost of these salary increases. Normally, the counties do not share in the cost of Medi-Cal county administration.

Based on preliminary data from 40 counties, it appears that counties have provided salary and benefit increases averaging 4.3 percent during 1982–83. The department estimates that the cost of these increases to the counties will be $8 to $10 million in the current year.

- ***Quality Control.*** Assembly Bill 799 allows the Director of the Department of Health Services to levy fiscal sanctions against counties for errors in Medi-Cal eligibility determinations that are in excess of a specified tolerance level. In addition, the department is required to "pass on" to counties the portion of any federal sanction levied against the state that results from an individual county's failure to apply Medi-Cal eligibility laws and regulations. The Legislature authorized the establishment of 30 positions in the 1982 Budget Act to conduct county-specific reviews needed in order to apply such sanctions. These reviews had not been completed when this *Analysis* was prepared.
- ***Los Angeles Hospital Eligibility Determinations.*** Los Angeles County stations eligibility workers in county hospitals. Under the terms of a special waiver granted by the state, these workers are employees of the health department, which administers the county hospitals, rather than the county welfare department. The cost of eligibility determinations conducted by these workers is not subject to the cost control plan. The 1982 Budget Act limits reimbursement for these workers to $136 per application processed.

Hospital-Based Eligibility Workers

The budget proposes to limit reimbursements for hospital-based eligibility workers to the amounts allowed under county cost control productivity standards. The budget anticipates that this policy will result in savings of $3,800,000 ($1,914,000 General Fund) in 1983–84.

The budget proposal would have different effects in Los Angeles County and other counties.

Los Angeles County. Unlike the other 57 counties, Los Angeles County receives a special allocation from the state for hospital-based eligibility workers (called patient financial services workers) who are employees of the county health department. The salaries of the eligibility workers and their supervisors, plus associated support costs, are not subject to the provisions of the cost control plan.

The cost of each application processed by the Los Angeles County hospital-based workers exceeds the cost per application processed by employees of Los Angeles County welfare department as well as by hospital-based eligibility workers in other counties. In addition, applications processed by the health department workers are subjected to a certification

review by county welfare department workers. The department advises that actual *costs* per application processed in Los Angeles County hospitals are $257 during the current year. The 1982 Budget Act, however, limits reimbursements for processing these applications to $136. The $136 reimbursement per application exceeds the estimated $81 that would be allowed under the cost control plan. According to the Department of Finance, applying cost control standards to Los Angeles County's hospital-based eligibility determinations would reduce 1983–84 Medi-Cal expenditures by $1,391,000 ($696,000 General Fund).

Other Counties. The Department of Health Services advises that as many as 11 other counties have Medi-Cal eligibility workers stationed in hospitals. In other counties, however, these workers are county welfare department employees; and the costs of their activities are subject to cost control standards applied to the welfare department as a whole. As a result, counties can receive reimbursement for hospital-based eligibility determination costs that exceed the norm *if* costs for other workers are less than the mean for their size group. Under the new policy proposed in the budget, hospital-based eligibility costs would be separately identified and subject to the cost control plan. Counties could not receive reimbursement for excess hospital-based costs by reducing costs in other areas. Thus, a portion of a county's higher-than-average costs would be forced down to the average. The budget reflects savings of $2,409,000 ($1,218,000 General Fund) for these other counties.

Savings May Differ From Amount Identified by Budget. Our analysis indicates that actual savings to be realized by applying this policy may vary significantly from the amount reflected in the budget, for three major reasons:

- The language proposed in the Budget Bill to implement this policy does not appear to require counties other than Los Angeles to reduce expenditures for hospital eligibility determinations. The language requires only that these costs be contained within the cost control plan. The department advises that only Los Angeles County hospital-based workers are not already subject to the plan.
- Estimated savings are based on six counties (Los Angeles, Alameda, Fresno, Sacramento, Santa Clara, and Orange). The Department of Health Services advises that as many as 12 counties place eligibility workers in hospitals.
- Data used in the estimate were collected through an informal survey conducted in 1981. The Department of Health Services has been unable to advise us of the actual current-year or projected cost per application or number of applications processed for 8 of the 12 counties. None of the 4 counties for which such information is available are among the six counties used as the basis for projecting savings.

For these reasons, we are unable to assess the accuracy of the savings estimated in the budget.

Cost-of-Living Increase

The budget proposes $3,559,000 ($1,806,000 General Fund) for a 3 percent cost-of-living increase for Medi-Cal county administration. This amount would be allocated among the counties to support increases in employee salaries and benefits and operating expenses. The 1982 Budget Act did not appropriate any state or federal funds for cost-of-living increases for county administration in 1982–83. Based on preliminary data from 40 counties, however, it appears that the counties provided salary

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and benefit increases averaging 4.3 percent. Under the provisions of the 1982 Budget Act, the full costs resulting from these increases must be paid by the counties or offset by permanent productivity increases. The 1983 Budget Bill contains language continuing this requirement in 1983–84.

Procedural Change Funds

We withhold recommendation on $3,454,000 ($1,727,000 General Fund) requested to support increased costs related to procedural changes until the department can (1) document the extent of these costs and (2) advise how these funds will be allocated to support the actual costs of the changes.

The budget proposes $5,648,000 ($2,824,000 General Fund) to support the anticipated costs of changing county eligibility determination procedures. These procedural changes include increased share-of-cost calculations made necessary by the deletion of a special income deduction, and additional work associated with verification of income and property information supplied by beneficiaries. Of this amount, $2,778,000 ($1,389,000 General Fund) is associated with the implementation of AB 799, $2,168,000 ($1,084,000 General Fund) is for continued implementation of AB 251, and $702,000 ($351,000 General Fund) is for other procedural changes. These amounts are in addition to funds proposed for county administration of Medi-Cal on the basis of caseload and cost control workload standards.

Elsewhere in this analysis, we recommend a reduction of $2,194,000 ($1,097,000 General Fund) proposed for procedural workload changes that will not be required in 1983–84. Our analysis indicates three major problems with the request for the remaining $3,454,000:

- The amount proposed to cover the cost of these changes is based on assumptions that were made before the changes were implemented. The department now has data on actual county costs for implementing these changes. We see no reason why the department cannot develop a more up-to-date estimate for review by the Legislature.
- It is unclear that additional funds are required to finance the cost of procedural changes. Every year, procedures are altered by policy changes. Many procedures required to administer the Medi-Cal program in 1975–76 (when the cost control plan was initiated) are no longer required. Therefore, to some extent, the existing cost control standards may provide funding for procedural changes required by AB 799, AB 251, and the like. For example, the base-year productivity standards assumed that eligibility workers have to adjust share-of-cost calculations each year to reflect increases in maximum allowable income. In the current year, however, no calculations of this type had to be made. Nor does the budget propose to increase this income level in 1983–84. Therefore, the base cost control workload standard may allocate funds to counties in excess of the amount required by their workload.
- The department has not developed specific plans for allocating these funds to counties that incur costs.

To the extent that counties actually incur additional costs to implement these legislatively mandated changes, and these costs are not offset by workload reductions within the purview of the cost control plan, they should be reimbursed. It is not clear to us, however, that counties will incur additional costs in 1983–84 as a result of these changes. For this

reason, and because the department is unable to advise us how its allocation procedures will assure that funds are allocated to counties that do incur additional costs, we withhold recommendation on $3,454,000 ($1,727,000 General Fund) proposed to fund procedure changes, pending the receipt of further justification from the department. This amount is the difference between the amount requested and the amount that we recommend be deleted.

Court Settlement Reduces Workload

We recommend funds proposed for increased workload be deleted due to a court settlement which eliminates that workload, for a savings of $2,194,000 ($1,097,000 General Fund).

The budget proposes $2,194,000 ($1,097,000 General Fund) to finance the cost of an increased number of share-of-cost calculations due to reduced Medi-Cal income standards.

Assembly Bill 799 reduced, from 115 percent to 100 percent of the AFDC payment level, the maximum monthly income AFDC-linked medically needy Medi-Cal beneficiaries may retain for their living expenses. The budget anticipates that this reduction will increase by 278,000 the number of Medi-Cal cases for which a beneficiary share-of-cost calculation must be made in order to determine how much the beneficiary must pay toward his/her medical care.

As a result of a recent court settlement, the department has increased the maximum income level for these persons to 133 percent of the AFDC payment standard. Therefore, the workload anticipated from new share-of-cost cases will not materialize. Because the work will not be required, we recommend that funds proposed for this activity be deleted, for a reduction of $2,194,000 ($1,097,000 General Fund).

Potential Federal Error Rate Sanctions

We recommend that during budget hearings the Department of Health Services advise the Legislature on the status of federal error rate sanctions and the administration's efforts to avoid such sanctions.

Under current law, the federal and state governments conduct sample quality control reviews every six months to determine the amount of Medi-Cal expenditures made in error. Separate payment error rates are calculated for county eligibility determination, claims processing, and third-party liability cases.

Error rates are calculated by totaling all payments made on behalf of an ineligible person or in excess of the amounts to which eligible persons are entitled. The error rate is defined as total payments made in error as a percentage of total medical assistance payments.

The federal Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requires the Secretary of the federal Department of Health and Human Services to withhold state Medicaid payments, beginning April 1983, based on quality control reviews of eligibility determinations. (Claims processing and third-party liability errors are not subject to these sanctions.) The TEFRA established a performance standard of 3 percent. Therefore, any state with an error rate exceeding 3 percent may have its federal Medicaid payments reduced. Moreover, TEFRA allows the Secretary to reduce federal payments prospectively, based on estimated error rates.

During the two most recent federal quality control periods, California had eligibility error rates of 7.0 percent and 8.1 percent.

We are unable to estimate the amount of federal funds that California

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stands to lose due to the new federal law, for several reasons:

- The Secretary is authorized to exclude "technical errors" from the calculation of state error rates. These technical errors have not been defined.
- The Secretary may waive all or part of a state's sanction if a state exerts good faith efforts to reduce the error rate. No federal regulations have been published that explain what actions constitute a "good faith effort."
- The process to be used in estimating anticipated error rates has not been identified.

Despite the lack of clear federal policy regarding the implementation of these sanctions, the state Department of Health Services advises that federal officials may withhold funds from 25 states, including California, during April to June 1983. Although the magnitude of such a loss in federal funds is uncertain, the cost to the state's General Fund could range from $20 million to $80 million as a result of these sanctions.

We recommend that the Department of Health Services advise the Legislature during budget hearings on the status of any federally imposed sanctions under the Medi-Cal program, and the department's efforts to avoid such sanctions.

Mandatory Prepaid Health Plan Enrollment

We recommend the reduction of $430,000 ($215,000 General Fund) to eliminate county "dual-choice" activities that will no longer be necessary given the mandatory prepaid health plan enrollment policy proposed in the budget.

The budget assumes passage of legislation (proposed in AB 223 and SB 124, the budget companion bills) requiring mandatory enrollment of Medi-Cal applicants in specified prepaid health plans (PHPs). Under current law, beneficiaries may choose, but are not required, to enroll in PHPs. The state funds 12 counties to operate "dual-choice" programs, under which they notify eligible Medi-Cal applicants of the choices available to them for obtaining medical care (PHPs and fee-for-service).

The budget includes $1,771,000 ($886,000 General Fund) for county dual-choice programs in the 12 counties. In 4 of the 12 counties, however, all PHPs would qualify to receive *mandatory* PHP placements, based on the budget proposal. Consequently, if mandatory enrollment is implemented, as assumed by the budget, no dual-choice program would be necessary in these four counties. Accordingly, we recommend a reduction of $430,000 ($215,000 General Fund) from Medi-Cal county administration. If the Legislature does not adopt the proposed mandatory PHP enrollment policy, these funds should not be deleted from the budget.

C. MEDI-CAL CLAIMS PROCESSING

The Department of Health Services does not directly pay doctors, pharmacists, hospitals, nursing homes, and other providers for the services they render. Instead, the department contracts with fiscal intermediaries for Medi-Cal fee-for-service claims processing. Currently, the department has contracts with the Computer Sciences Corporation (CSC) and three other vendors. In addition, the department reimburses the State Controller's Office for writing and mailing payments to Medi-Cal fee-for-service providers. Payments to organized health systems and for mental health serv-

ices provided under the Short-Doyle Act are processed directly by the department, or by the health system itself in the case of the Redwood Health Foundation.

Table 38

Medi-Cal Fiscal Intermediary Services
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
A. 1982 Budget Act appropriation	$16,765	$47,161
B. Unanticipated changes in current-year expenditures		
1. Carry-over of 1981–82 deficiency into 1982–83	1,195	4,619
2. Computer Sciences Corporation contract		
a. Reduced cost for uniform physician claim coding	−468	−1,182
b. Crossover claims rate reductions	−132	−381
c. Assembly Bill 799 change orders	38	240
d. Other change orders	−177	186
e. Workload, sales tax, and operating costs (includes effects of enhanced federal support due to MIA transfer)	−740	2,622
Subtotals	(−$1,479)	($1,485)
3. Medi-Cal Intermediary Operations (MIO) record retention contract		
a. Los Angeles County audit	49	167
b. Enhanced federal funding	−70	—
4. Estimated changes in other fully reimbursable contract costs		
a. Crossover claims contracts	−75	−299
b. State Controller's Office—enhanced federal funding	−91	—
5. Reduced federal funding share due to 1981 Omnibus Budget Reconciliation Act	321	—
C. 1982–83 revised estimates	$16,615	$53,133
D. Projected surplus/shortfall (−) in 1982–83	$150	−$5,972
E. Budget-year changes		
1. CSC contract		
a. Assembly Bill 799 change orders	−21	−140
b. Medically indigent adult (MIA) workload reduction	−748	−2,822
c. Reduced cost for uniform physician claim coding	−138	−251
d. Crossover claim rate reductions	−32	−97
e. Reduction in required change orders	−360	−2,864
f. Revised sales tax billing	−413	−685
g. Deletion of design, development, and 10 percent withhold costs	−87	−865
h. Reductions in volume and operating costs (includes AB 799 effects)	−1,575	−1,003
Subtotals	(−$3,374)	(−$8,727)
2. Estimated changes in fully reimbursable contracts		
a. Medi-Cal Intermediary Operations (MIO) workload reductions	−542	−1,575
b. Crossover claims contracts	15	60
c. State Controller's Office—enhanced federal funding	−92	—
3. Adjustments for one-time 1982–83 costs	−1,244	−4,787
4. Federal matching reductions	−191	—
Subtotals	−5,428	−15,029
F. Proposed budget, 1983–84	$11,187	$38,104

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The budget anticipates that General Fund expenditures for claims processing in the current year will be $150,000, or 1 percent, lower than the amount included in the 1982 Budget Act. Federal expenditures for Medi-Cal claims processing in the current year, however, will be $6 million, or 13 percent, higher than anticipated by the 1982 Budget Act. The budget proposes to use the $150,000 General Fund savings to offset an anticipated deficiency in Medi-Cal health care services. The current-year funding changes result from various workload reductions, increased federal funding due to the termination of Medi-Cal eligibility for medically indigent adults (MIAs), and the delay of some claims processing costs from 1981–82 to 1982–83.

The budget proposes $38,104,000 ($11,187,000 General Fund) for fee-for-service claims processing in 1983–84. This is a reduction of $15 million ($5 million General Fund), or 28 percent (33 percent General Fund), below estimated current-year expenditures for this function. The primary causes of this decrease are reductions in CSC claims processing volumes related to AB 799, elimination of the one-time cost of paying certain 1981–82 claims in 1982–83, and reductions in requests for access to records of claims payments made prior to September 1980.

Table 38 summarizes estimated and proposed expenditures for claims processing in 1982–83 and 1983–84.

Current-Year Surplus May Exceed Estimate

The estimated $150,000 General Fund surplus reflects the following costs and savings:

- Payment of $1.2 million in claims processing costs deferred from 1981–82.
- Increased cost of $321,000 to recalculate effects of reductions in the federal sharing ratio.
- Reduced costs for some change orders and cancellation of others funded in the 1982 Budget Act.
- Anticipated costs of $38,000 for implementation of changes to the CSC processing system in order to implement AB 799.
- Reductions in workload related to various AB 799 provisions. The termination of Medi-Cal eligibility for medically indigent adults accounts for most of the reduction in claims volume.
- Increased federal aid based on certification of additional portions of the state's information system and termination of medically indigent adults from the Medi-Cal program.

Our analysis of the budget estimates for claims processing activities in the current year indicate that additional General Fund surpluses may occur. Specifically, the following factors may result in lower General Fund claims processing expenditures in the current year:

- ***Termination of the Medi-Cal Intermediary Operations Contract—$150,000.*** The Department of Health Services advises that the record retention contract with Medi-Cal Intermediary Operations (MIO) was cancelled at the request of the vendor, effective December 31, 1982. The department estimates this contract termination may result in savings of $600,000 ($150,000 General Fund) during the current year.
- ***CSC Cost Reimbursement Audit—$80,000.*** Under the terms of the CSC contract, most CSC activities are reimbursed based on a schedule of fixed fees. For some items, including postage and printing of provider bulletins and claims forms, CSC receives cost-based reimburse-

ments. As a result of a recent DHS audit of these cost-reimbursable items, the department notified CSC that $274,000 ($80,000 General Fund) was owed to the state for deficiencies in the cost reimbursement system. This amount is due during 1982–83 but is not reflected in the estimates for the current year.

- ***Delay in Change Order Implementation—Uncertain.*** The budget estimates that $1,093,000 from the General Fund will be expended in the current year on CSC change orders. Many of the change orders identified in the estimate are in the early stages of implementation and may not, in fact, result in costs during the current year. For example, two change orders estimated to cost $23,000 in the current year have been withdrawn since the time the 1983–84 budget was prepared. Twelve other change orders estimated to cost $86,000 are not even included on the department's status reports for change order implementation. In addition, $98,000 is estimated for unidentified "potential" change orders. Thus, it appears that current-year expenditures for fiscal intermediary services will be less than estimated, due to various delays in implementation of change orders.
- ***Other Potential Current-Year Costs and Savings.*** While various decreases in claims processing costs are accounted for in the budget, these savings may be offset by cost increases. For example, CSC workload estimates anticipate reduced claims volume due to anticipated reductions in the number of unemployed persons and the AB 799 reduction to the income standard for medically needy persons. As discussed in our analysis of health care services, these assumptions appear unrealistic. Consequently, the deficit in health care services may be further offset to the extent the claims payment surplus is understated.

Budget Request

The budget proposes $38 million ($11 million General Fund) for Medi-Cal claims processing activities in 1983–84. The General Fund budget request is $5 million, or 33 percent, less than estimated 1982–83 expenditures. The factors contributing to this decrease are as follows:

- A reduction in AB 799-related change orders. Estimates for the current year assume AB 799 change orders will cost $38,000. The budget proposes only one AB 799 change order in 1983–84 (related to mental health funding changes), at a General Fund cost of $17,000 ($100,000 all funds).
- A 10 percent reduction in claims submitted to CSC, due to the termination of MIA eligibility.
- Reduced General Fund costs of $170,000 related to reduced physician claim coding and crossover claims processing costs.
- Deletion of overhead charges that have been inappropriately applied to amounts paid for sales tax during prior years.
- Other reductions in CSC workload, design, and operating costs, including workload reductions anticipated from various features of AB 799, other than those providing for the MIA transfer, which effect eligibility and utilization of service.
- Fewer requests for access to MIO records of claims paid prior to September 1980. The major users of these historical records anticipate less need for this service in 1983–84.
- Deletion of the one-time cost of paying 1981–82 claims deferred into 1982–83.
- Reduction in the amount expected to be withheld due to federal

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sharing ratio reductions.

The CSC contract accounts for 79 percent ($9 million) of proposed General Fund expenditures and 88 percent ($34 million) of all funds proposed for claims processing in 1983–84. The costs of this contract result from (1) operating costs under the terms of the original contract and (2) modifications to the claims processing system requested by official notifications called change orders. Minor changes, not requiring systems development, may be implemented without change orders.

The remaining 21 percent of General Fund expenditures for claims processing are proposed for (1) the record retention contract with CSC's predecessor, Medi-Cal Intermediary Operations (MIO) ($265,000), (2) contracts with three firms to process claims for persons who are eligible for both Medicare and Medi-Cal ($318,000), (3) reimbursements to the State Controller for writing checks to Medi-Cal providers ($554,000), and (4) replacement of federal funds withheld due to reduced federal sharing ratios ($1,231,000). Table 39 shows the amounts proposed for each of these claims processing activities during 1982–83 and 1983–84.

Table 39

Fiscal Intermediary Expenditures
1982–83 and 1983–84
(in thousands)

	Estimated 1982–83		*Proposed 1983–84*		*Percent General Fund Change*
	General Fund	*All Funds*	*General Fund*	*All Funds*	
A. Computer Sciences Corporation					
1. Original contract					
a. Design, development, and 10 percent withhold	$87	$865	—	—	-100.0%
b. Operations	7,938	27,256	$5,963	$23,851	-24.9
c. Reimbursable items	1,711	5,876	1,363	5,455	-20.3
d. Sales tax	1,363	2,584	950	1,899	-30.3
Subtotals	$11,099	$36,581	$8,276	$31,205	-25.4%
2. Change orders					
a. Physician claim coding	$529	$1,816	$392	$1,566	-25.9%
b. Crossover rates	48	161	16	63	-66.6
c. Assembly Bill 799 changes	38	240	17	100	-55.3
d. Other specified orders	380	2,985	30	121	-92.1
e. Potential changes	98	500	88	500	-10.2
Subtotals	$1,093	$5,702	$543	$2,350	-50.3%
3. Carry-over from 1981–82	875	3,375	—	—	-100.0
Subtotals—CSC	$13,067	$45,658	$8,819	$33,555	-32.5%
B. MIO record retention contract					
1. Normal operations	$807	$2,634	$265	$1,061	-67.2%
2. Los Angeles County audit	49	168	—	—	-100.0
3. Carry-over from 1981–82	309	1,198	—	—	-100.0
Subtotals—MIO	$1,165	$4,000	$265	$1,061	-77.3%
C. Medicare crossover claims contract	$314	$1,257	$318	$1,270	1.3%
D. State Controller	646	2,218	554	2,218	-14.2
E. Federal sharing ratio reductions	1,423	—	1,231	—	-13.5
Totals	$16,615	$53,133	$11,187	$38,104	-32.7%

Legislative Notification of Fiscal Intermediary Change Orders

We recommend that language requiring legislative notification of fiscal intermediary change orders that was included in the 1982 Budget Act be added to the Budget Bill.

The Budget Bill does not include language that was added by the Legislature to the 1982 Budget Act. The 1982 Budget Act language required that:

- At least 30 days' prior notice be given to the Legislature before CSC change orders costing $250,000 or more are implemented.
- The Legislature be notified if there are actual or potential changes in the availability of federal funding for CSC operations.

We recommend that the Legislature add the 1982 Budget Act language to the 1983 Budget Bill because (1) the Legislature should have an opportunity to review major changes to the CSC system and (2) the Legislature should be made aware of changes in available federal funding that could affect General Fund support requirements. The 1982 Budget Act language reads as follows:

"Change orders to the fiscal intermediary contract for amounts exceeding $250,000 shall be approved by the Department of Finance not sooner than 30 days after written notification of the change order is provided to the chairperson of the committee in each house that considers appropriations, the chairperson of the committee in each house that considers bills related to public health and welfare, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than such lesser time as the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may designate.

"If there are changes or potential changes in federal funding, the Department of Finance shall provide timely written notification of the changes to the chairperson of the committee in each house that considers appropriations and to the Chairperson of the Joint Legislative Budget Committee. This notification shall include proposed corrective action, including an implementation schedule and whether the potential or actual change represents a decrease in federal funding."

Current Fiscal Intermediary Contract Expires February 29, 1984

The budget proposes $33,556,000 ($8,819,000 General Fund) to support the claims processing costs of the Medi-Cal fiscal intermediary, Computer Science Corporation (CSC).

The current CSC contract expires on February 29, 1984. The budget assumes that this contract will be extended until at least June 30, 1984. Such an extension would be consistent with current plans for procurement of the next fiscal intermediary contract.

Background. Since the Medi-Cal program was implemented in 1966, a private fiscal intermediary has processed Medi-Cal claims. Medi-Cal Intermediary Operations (MIO), a consortium of private insurers and claims processing firms, held the first fiscal intermediary contract. The MIO was reimbursed by the state based on its costs.

In 1976, the state initiated a competitive bid process which resulted in the award of a fixed price contract to CSC. The cost of the contract was estimated at $130 million over five and one-half years, excluding some cost-reimbursable items. The contract with CSC became effective September 1, 1978, and is scheduled to terminate on February 29, 1984. The contract provides that the state may extend its provisions for up to one

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year beyond this date.

Major features of the current CSC contract are as follows:

- Reimbursement for most costs is based on a fixed price per "claim line" within specified claim volumes. A claim line is a separate charge. A single provider claim may contain several claim lines for various charges.
- Cost-based reimbursement is provided for selected items, including postage, printing of provider notifications, and sales tax.
- Modifications to the existing system are accommodated through a "change order" process. The department submits requests for changes, which are priced and returned for approval. Of 33 change orders submitted as of July 16, 1982, 11 had been implemented, 6 had been cancelled, and 16 are in the process of being implemented.
- The contract includes penalty assessments for late reporting, inadequate performance, and other conditions.

Reprocurement Project in Health and Welfare Agency. Effective October 1, 1981, the Legislature transferred responsibility for procuring the next fiscal intermediary contract from the Department of Health Services to the Health and Welfare Agency. The budget includes $1.3 million and 25 positions in the Health and Welfare Agency for this effort. In addition, the Department of Health Services anticipates that peak reprocurement workload will require up to 30 persons for limited time periods, for a total of 11 personnel-years during 1983–84.

Project Schedule. In our *Analysis of the 1982 Budget Bill,* we stated that in order for a new contractor to begin processing claims on March 1, 1984, the contract would have to be effective by September 1982. In May 1982 the Health and Welfare Agency released a consultant report which outlined necessary reprocurement tasks and the amount of time required for completion. This report concluded that it was not possible for a new fiscal intermediary contract to be entered into prior to expiration of the current contract. The report contained a recommended project time schedule which calls for a contract extension of up to 12 months. This time schedule has been adopted by project staff.

Table 40

Medi-Cal Procurement Project
Schedule Established May 1982

Milestones	*Estimated Completion Date*
Summary preview RFP released	October 12, 1982
Draft RFP released	January 4, 1983
Final RFP released	March 1, 1983
Technical proposal preparation	May 16, 1983
Technical proposal evaluation	July 31, 1983
Invitation for bid issued	August 1, 1983
Contract awarded	September 1, 1983
Contract signed and approved	October 1, 1983
Transition begins	February 1, 1984
State acceptance testing [a]	June 1, 1984
Expiration of the CSC contract [b]	December 31, 1984

[a] This four-month acceptance testing period may be shortened if the state determines that the vendor is prepared to assume full responsibility.

[b] In the event that the next contractor is not CSC and a complete transition cannot be accomplished by December 31, 1984, the state may extend the CSC contract to February 28, 1985.

According to the Auditor General, the reprocurement project has met almost all milestones in the recommended schedule, and there is no evidence of delays in the implementation of the project. Table 40 displays the current schedule for the reprocurement project. As the table indicates, the project staff proposes to extend the current CSC contract by 10 months, to December 31, 1984.

Status of the Reprocurement. The current procurement project, like the last procurement, involves a two-step request process. First, potential bidders will submit technical proposals. Second, vendors with satisfactory proposals will submit bids. In early January 1983, the procurement project staff issued a draft request for technical proposals which details the technical requirements and deliverables of the next contract. After reviewing comments, the project staff is scheduled to issue the final request for proposals on March 1, 1983.

Differences from Earlier Procurement. The current procurement differs in several respects from the procurement effort which resulted in the current contract:

- The state owns the computer software, systems, and manuals required to operate the CSC claims processing system. Therefore, in theory, if a vendor other than CSC is selected, the transition from CSC to the next vendor should be smoother than the transition from MIO to CSC. This assumes that CSC's system documentation is adequate.
- The Auditor General has monitored the status of the procurement project and, as of January 15, 1983, had published three reports containing numerous recommendations on project management. Our analysis indicates that these recommendations have been welcomed by the project and, in many instances, incorporated in the project plans.
- An independent consultant developed a comprehensive work plan for the project.
- Transition of responsibility for claims payment is planned based on the claims submission date, not the date on which the service was provided. On July 1, 1984, all pharmacy and long-term care claims will be transferred to the new contractor. On October 1, 1984, hospital inpatient and outpatient processing will be shifted. The previous procurement resulted in both MIO and CSC receiving and processing claims at the same time. The current procurement plan requires *all* claims for the specified services to go to the new contractor after the cutoff date.
- The request for technical proposals asks potential bidders to identify the costs of maintaining a "systems development group" to design and develop necessary modifications to the claims processing system. Under the current contract, any modifications are subject to cost-based pricing. Many change orders under the current contract have been delayed due to lengthy negotiations between the department and CSC.
- Some items of expense, including forms printing and mailing functions, will be shifted from cost reimbursement to fixed price reimbursement.

DEPARTMENT OF HEALTH SERVICES—Continued

Auditor General's Role Should Continue

We recommend that the Legislature request that the Auditor General continue to monitor the transition to the next fiscal intermediary contract and provide ongoing information and advice to the Legislature.

The reprocurement project located in the Health and Welfare Agency appears to be completing designated tasks within established time frames. In addition, documentation is available to support major policy decisions reached by the project staff and its Policy Advisory Council. Nevertheless, the significance of this contract and the risks associated with delays or an inadequate claims processing system continue to warrant close monitoring of the reprocurement effort by the Auditor General. Therefore, we recommend that language included in the *Supplemental Report of the 1982 Budget Act* directing the Auditor General to monitor the reprocurement be adopted once again in 1983. This language reads as follows:

"The Auditor General shall monitor the transition to the next fiscal intermediary contract and shall report to the Legislature. The reports shall make recommendations to the Legislature regarding changes in the fiscal intermediary request for proposal, contract, and the role of the state in monitoring the contract and managing residual fiscal intermediary functions. The Auditor General will monitor the entire transition to a new fiscal intermediary. Specifically, the Auditor General's monitoring will include, but not be limited to, (a) monitoring the analysis, deliverables, and recommendations of the Medi-Cal procurement project's consultant; (b) reviewing the draft request for proposal; and (c) monitoring the implementation and transition of the new intermediary. During each of these phases, the Auditor General will address prior fiscal intermediary performance problem areas."

Contract Extension Proposal

We recommend adoption of Budget Bill language requiring the Department of Finance to (1) notify the Legislature 30 days prior to extending the CSC contract beyond February 29, 1984, and (2) include with such notification an analysis of the costs and benefits of extending the current contract.

The budget proposes a total of $34 million, including $9 million from the General Fund, to support the current fiscal intermediary contract in 1983–84. Of these amounts, $11 million ($3 million General Fund) are proposed to fund a four-month extension of the contract to June 30, 1984. Current project plans call for the contract to be extended through December 31, 1984. (This period may be shortened if the next contractor is capable of implementing the claims payment system more rapidly.)

Expenditure estimates for contract operations from July 1, 1983, to February 29, 1984, are based on agreed-upon fixed prices per claim line. During the contract extension period, these established rates of payment will be increased by the percentage increase in the California Consumer Price Index (CPI). According to project staff, a one-year extension may cost $29 million (all funds) or more, depending on claims volume, possible contractor nonperformance, and changes in the CPI.

Based on current project time schedules, a contract extension of at least four months appears necessary. At least two potential vendors, however, have stated that they could fully implement a claims processing system

prior to December 31, 1984. If the next contractor is capable of processing claims prior to December 31, 1984, it would not be necessary for the state to extend the current contract to that date. Furthermore, because reimbursement during any contract extension would be on a cost-plus basis, it would not be in the state's financial interest to extend the current contract any longer than necessary. On the other hand, terminating the current contract prior to full acceptance of the next contractor's claims system could result in payment delays, errors, and undeterminable General Fund costs. At the time this *Analysis* was prepared, reprocurement project staff were unable to assess the potential costs and benefits of extending the contract for 10 months or less.

We recommend that language be added to the Budget Bill requiring the Department of Finance to (1) notify the Legislature 30 days prior to extending the current contract beyond February 29, 1984, and (2) include with this notification an analysis of the costs and benefits of extending the current contract. This would assure that the Legislature has an opportunity to monitor effectively any extension of the contract. Our recommended language is as follows:

"Any extension of the Medi-Cal fiscal intermediary contract with the Computer Sciences Corporation beyond the expiration date of February 29, 1984, shall not be effective until 30 days after notification by the Department of Finance to the fiscal committees and the Joint Legislative Budget Committee. Such notification shall include an analysis of the costs and benefits of extending the contract."

Budget Does Not Contain Funding for Next Contract

We recommend that prior to April 1, 1983, the Department of Finance advise the fiscal committees where funds needed to finance the next fiscal intermediary contract will be derived.

The budget requests funds sufficient to support anticipated claims processing costs during 1983–84. No funds are proposed, however, to support any additional costs that might result from the selection of a new contractor. According to the procurement project timetable, the next contract will be effective October 1, 1983, with the first claims processing scheduled to begin July 1, 1984.

During the transition period, no reduction in normal claims processing costs is anticipated. In the event that the next contractor is *not* CSC, however, significant start-up costs may be incurred during 1983–84. Even if CSC *is* awarded the next contract, there may still be some start-up costs in excess of CSC's normal operating expenses. These start-up costs will depend on a number of factors, including negotiated price for claims processing, the identity of the new contractor, and the steps involved in developing the new system. The administration has not requested any additional funds to cover any start-up costs associated with the new contract.

Staff of the procurement project advise us that they intend to transfer funds from amounts appropriated for Medi-Cal health care services to support the start-up costs of the new contract. There are, however, several problems with this approach:

- Estimates of Medi-Cal health care services expenditures are based on projections of the actual amounts required for these services. Therefore, to the extent that funds are shifted from health care services to pay for start-up costs in connection with a new fiscal intermediary, a

DEPARTMENT OF HEALTH SERVICES—Continued

deficiency may be created.

- In order to know what the state is buying with funds appropriated for Medi-Cal, the Legislature has in the past included language in the Budget Act limiting transfers between health care services, fiscal intermediary services, and county eligibility determination to 3 percent. This language is also contained in the 1983 Budget Bill. Given the amount requested for fiscal intermediary services in 1983–84, this language would allow up to $1.1 million ($330,000 General Fund) to be transferred from health care services to pay for the next contract. It is not certain that this amount will be sufficient to pay for the start-up costs.
- If the state is unable to pay the next contractor's start-up costs, there is a risk that the contract may be invalid.

Because no specific proposal has been presented for funding anticipated start-up costs associated with the next fiscal intermediary contract, the budget probably is underfunded. For this reason, we recommend that by April 1, 1983, the Department of Finance advise the Legislature how much will be needed to support anticipated start-up costs, and where these funds will come from.

Checkwrite Agreement Overbudgeted

We recommend a reduction of $226,000 ($57,000 General Fund) in the amount budgeted for the interagency agreement with the State Controller's Office to reflect lower check volume.

The budget proposes $2,218,000 ($554,000 General Fund) to reimburse the State Controller's Office (SCO) for writing and mailing checks to Medi-Cal providers in 1983–84. This is the same amount estimated to be expended for this activity during 1982–83.

The Department of Health Services estimates that the number of claims submitted for Medi-Cal payments in 1983–84 will be 12.4 percent lower than the number of claims submitted in the current year, due primarily to the fact that most medically indigent adults will no longer be eligible for Medi-Cal. The department advises that the number of checks written in a given year generally corresponds to the volume of claim submissions.

In a September 1982 letter to DHS, the State Controller's Office advised that checkwrite costs are fixed and do not vary according to volume. Information provided by the Controller's office in support of its Medi-Cal checkwrite request for 1982–83, however, indicates that the SCO requested (and obtained) a 6.81 percent increase in total reimbursements based on an estimated 6.81 percent increase in anticipated claims volume. We conclude that some, if not all, of the SCO's checkwrite costs vary according to the volume of claims processed.

Our analysis indicates that 82 percent of the SCO's proposed budget for Medi-Cal checkwrites is for items which fluctuate with the number of claims—printing, postage, computer costs, and data center costs. Assuming that costs for personal services and other operating expenses are fixed, we estimate that $1,818,000 of the proposed $2,218,000 can be classified as variable costs. We recommend that this amount be reduced by 12.4 percent to reflect reductions in anticipated claims volume, for a savings of $226,000 ($57,000 General Fund).

Termination of MIO Contract

We withhold recommendation on $1,061,000 ($265,000 General Fund) proposed for retention of records, pending receipt of additional information.

The budget proposes $1,061,000, including $265,000 from the General Fund, for a record retention contract with Medi-Cal Intermediary Operations (MIO), the Medi-Cal fiscal intermediary prior to Computer Sciences Corporation. Under the terms of this contract, MIO has provided the state with detailed payment information for claims processed by MIO prior to September 1980. This information has been used by the state for (1) claim adjustments required by provider appeals, (2) provider audits, (3) recoveries from beneficiaries and providers, and (4) evidence in court cases.

Since January 1981, MIO has entered into consecutive six-month agreements to provide this service to the state. The department advises, however, that due to workload and revenue reductions, MIO has declined a contract extension beyond December 31, 1982. The budget does not reflect the termination of the contract. As a result, proposed funding for fiscal intermediary services may be overbudgeted by as much as $1,061,000.

The department advises that there may be a continued need for access to MIO records during 1983–84. It is doubtful, however, that the entire amount proposed for the MIO contract will be required in the budget year. We withhold recommendation on the request, pending receipt of information from the department indicating how much of the requested amount actually will be needed for this function.

D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $107 million ($36 million General Fund) for state administration of the Medi-Cal program in 1983–84. This is an increase of $15 million, or 16 percent, in total funds and a reduction of $1 million, or 3 percent, in General Fund support.

Table 41

Medi-Cal State Administration Expenditures
1982–83 and 1983–84
(in thousands)

	Estimated 1982–83		*Proposed 1983–84*		*Percent General Fund Change*
	General Fund	*All Funds*	*General Fund*	*All Funds*	
1. Administration—Department of Health Services	$37,260	$92,221[a]	$36,034	$106,965[b]	−3.3%
2. Other agencies					
Department of Social Services	3,449	(9,893)	3,449	(9,893)	—
Health and Welfare Agency	147	(590)	147	(590)	—
California Medical Assistance Commission—Governor's Office of Special Health Care Negotiations	772	(1,390)	879	(1,684)	13.9
Subtotals	$4,368	($11,873)	$4,475	($12,167)	(2.4%)
Totals	$41,628	$92,221[a]	$40,509	$106,965[b]	−2.7%

[a] Does not include $7,505,000 in federal funds for costs of agencies other than DHS. This amount is reflected in local assistance expenditures.

[b] Includes $7,692,000 in federal funds proposed for expenditures by other agencies.

DEPARTMENT OF HEALTH SERVICES—Continued

In addition to these amounts, which are included in the budget for the Department of Health Services, the budget proposes $4 million from the General Fund for support of Medi-Cal-related activities in other state agencies. The federal fund match for this $4 million is included in the $107 million proposed for DHS state support. In past years, federal funding for these activities has been reflected in Medi-Cal local assistance expenditures. Of the $15 million increase in total funds proposed for Medi-Cal state administration, $8 million is attributable to this revised presentation of federal fund support for other agencies.

According to the department, the remaining $7 million increase in total fund support for DHS Medi-Cal state operations is the result of various increases and decreases in the overall budget for the department. The $1 million reduction in General Fund departmental support is attributed by the department to a lower state share of total costs due primarily to the termination of state-funded health care services for medically indigent adults. Table 41 displays Medi-Cal state administration expenditures in 1982–83 and 1983–84.

Table 42

Department of Health Services
Medi-Cal Program Proposed Position Changes

Program Component	Existing Positions	AB 799 Changes[a]	Other Workload Adjustments	Requested New Positions	Total Medi-Cal Positions	Net Change Number	Net Change Percent
Eligibility	87.3	1.0	−9.0[b]	—	79.3	−8.0	−9.2%
Benefits	40.1	2.0	−0.6[b]	—	41.5	1.4	3.5
Rate development	31.2	2.0	−0.2[b]	4.0[c]	37.0	5.8	18.6
Field services	446.4	−15.0	—	—	431.4	−15.0	−3.4
Organized health systems	75.3	7.2[d]	—	—	82.5	7.2	9.6
Recoveries	235.8	—	—	6.0	241.8	6.0	2.5
Fiscal intermediary	80.6	2.3	—	23.0[c]	105.9	25.3	31.4
ment	21.4	3.0	−2.6	—	21.8	0.4	1.9
Audits	127.8	—	—	—	127.8	—	—
Administration[e]	243.9	31.5	−11.9	—	263.5	19.6	8.0
Totals[f]	1,389.8	34.0	−24.3	33.0	1,432.5	42.7	3.1%

[a] Includes reduction of 25 positions not required for on-site reviews due to anticipated reduction in treatment authorization requests associated with medically indigent adults. Does not include 10 positions established in the County Health Services program to implement the transfer of responsibility for medically indigent adults to counties.

[b] These positions were reduced as part of the unallocated 5 percent state operations reduction required by the 1982 Budget Act.

[c] These positions will expire June 30, 1983. The budget proposes to continue them permanently.

[d] This is the net result of the addition of 18.2 positions to implement the provisions of AB 799 and a reduction of 11 positions no longer required for the development of a dental services utilization review project due to the provisions of the act.

[e] These positions are located in various administrative units of the departments and perform Medi-Cal related tasks, such as accounting, purchasing, personnel transactions, etc.

[f] This is the number of authorized positions and is not adjusted for salary savings due to vacancies and turnover. Therefore, the total overstates the actual number of positions available for Medi-Cal administration at any point in time.

Medi-Cal Program Positions

The budget proposes 1,433 positions for the department's administration of the Medi-Cal program. This is 43 positions, or 3 percent, more than the number of authorized positions in the 1983–84 base budget. Of the 1,433 positions, 1,041 are located in various Medi-Cal program units, 128 are in the Audits and Investigations Division, and 264 are located in various administrative units throughout the department.

The largest change in Medi-Cal positions is a net increase of 34 positions due to the enactment of AB 799. This increase reflects (1) 70 new positions to implement the various provisions of the act, (2) a reduction of 25 positions related to reviews of requests to authorize services for medically indigent adults, and (3) deletion of 11 positions no longer required due to elimination of a dental services utilization review project. In addition to these positions, the 1982 Budget Act contained funds for the support of 10 positions to implement the transfer of responsibility for medically indigent adults to counties. These 10 positions are located in the Office of County Health Services and are discussed in our analysis of the County Health Services program. Table 42 shows the proposed changes in Medi-Cal-related positions.

Assembly Bill 799 Positions. The budget proposes to continue 80 positions authorized in the current year to implement various provisions of AB 799. Specifically, the budget proposes 80 positions to perform the following tasks:

- Transfer responsibility for health care for medically indigent adults to counties (10 positions). These positions are discussed in our analysis of county health services.
- Evaluate the overall impact of the hospital contracting program (8 positions).
- Review treatment authorization requests associated with new utilization controls for podiatry, drugs, and portable x-ray services (10 positions). The budget also proposes to continue a reduction of 25 positions previously assigned to this function due to the MIA transfer.
- Manage fiscal intermediary change orders associated with AB 799 (2.3 positions).
- Draft and review regulations, federal waivers, CSC change orders and state plan changes and address litigation questioning hospital contracting and Medi-Cal cutbacks (7 positions).
- Contract with noninstitutional providers and selected health care providers in order to expand choices for beneficiaries (18.3 positions). The budget also proposes to delete 11 positions in the organized health program due to the termination of a dental utilization review project by AB 799.
- Support increased accounting, budgeting, and fiscal forecasting workload (14.4 positions).
- Develop various EDP systems to determine if Medi-Cal recipients have private insurance, process eligibility and claims data for counties' medically indigent adults, identify high utilization items that may qualify for "prudent purchasing," and contract with various alternative medical service providers (10 positions). Our analysis indicates that the systems development needed to implement provisions of AB 799 will be completed in 1983–84. Thus, these 10 positions may not be needed in 1984–85.

DEPARTMENT OF HEALTH SERVICES—Continued

Funding of County Contract Workload

We recommend that workload associated with county health services for medically indigent persons be supported by reimbursements from counties, for a savings of $184,000 ($104,000 General Fund).

Assembly Bill 799 authorizes counties with populations under 300,000 to contract with the state for administration of health care services to medically indigent persons. The measure allows up to 5 percent of each county's total allocation for such services to be used for state administrative costs. The state operations budget for the Department of Health Services does not include this funding source. In our analysis of the County Health Services program, we recommend the department identify the anticipated use of these administrative funds during 1982–83 and 1983–84.

The department has identified, however, workload related to these county contracts, which will require at least six positions in the budget year. This work consists of (1) reviewing treatment authorization requests (four positions) and (2) developing data processing systems for eligibility determination and claims processing (two positions). The budget includes $184,000 ($104,000 General Fund) for these positions. The work identified for these positions, however, is directly attributable to the County Health Services program. Therefore, we recommend that these positions be funded as reimbursements from counties for a savings of $184,000 ($104,000 General Fund).

Expiring Limited-Term Positions

We recommend approval.

The budget proposes to continue 23 positions to monitor the fiscal intermediary contract and 4 positions assigned to develop hospital reimbursement policies and methods. These positions were established on a limited-term basis and will expire on June 30, 1983. Our analysis indicates that the workload initially identified for these positions still exists. In addition, the procurement of a new fiscal intermediary contract and new hospital reimbursement regulations are expected to generate additional workload. We recommend that these positions be approved.

Medi-Cal Cost Recovery Positions

We recommend approval.

The Recovery Branch detects, seeks out, and recovers monies due the Medi-Cal program from beneficiaries, providers of service, insurance carriers, and other third-party payors. The department estimates that the branch will recover approximately $31,960,000 ($17,742,000 General Fund) in the current year, and approximately $38,450,000 ($21,281,000 General Fund) in 1983–84. The budget proposes General Fund expenditures of $2,977,000 in the Recoveries Branch, which is $201,000, or 6.3 percent, less than estimated current-year expenditures. Therefore, the General Fund will receive an average of $6 for every $1 spent for support of Medi-Cal recoveries.

The budget proposes a net reduction of 10 positions in the Recovery Branch. This reflects (1) a reduction of 16 existing limited-term positions currently assigned to recovery efforts with declining workloads, (2) the addition of 6 new positions to the workers' compensation recovery unit that currently has a workload in excess of staffing levels, and (3) redirec-

tion of an additional five positions to process workers' compensation recovery claims.

Based on our analysis of the department's current and anticipated workload, we believe the six new positions proposed for the workers' compensation recovery unit are justified. Our analysis indicates that the redirection of five positions also is justified on a workload basis. Therefore, we recommend approval of these position changes in the Recovery Branch.

County Contracts for Recoveries

We recommend that legislation be enacted allowing the department to pay counties up to 25 percent of recoveries in excess of county costs associated with identifying and recovering Medi-Cal benefits improperly received by beneficiaries. We further recommend enactment of legislation preventing counties from claiming more costs for administering a recovery program than the state might recover.

Chapter 102, Statutes of 1981 (AB 251), provided that the department may contract with counties to identify and recover funds from Medi-Cal beneficiaries for services that were received improperly. The act provides that counties shall receive 10 percent of the revenues recovered in excess of a county's administrative costs in making a recovery, plus the cost of the recovery effort itself.

The department indicates that the potential benefits from recovering reimbursement from beneficiaries for inappropriately received benefits are not sufficient to justify the cost of a direct state recovery effort. In addition, the department believes that because county eligibility workers routinely meet with beneficiaries on eligibility matters, the counties are better equipped than the state to seek these recoveries.

A pilot program conducted in San Diego in 1977–78 indicated that counties could be significantly more effective than the state in recovering inappropriately received benefits per dollar spent. The department estimated that, based on the results in the pilot project, if all counties participated in a recovery program, the state could recover approximately $2,250,000 ($1,514,000 General Fund) net of county administrative costs and the 10 percent fee. The department indicates that counties have not instituted recovery programs pursuant to AB 251 because they feel that a 10 percent incentive fee is not adequate.

We have no basis for estimating the level of incentive that would be required to encourage counties to make Medi-Cal recoveries on behalf of the state. We note, however, that county recovery programs could benefit the state so long as the amount of recoveries exceeds the administrative costs. In order to encourage greater efforts by the counties, we recommend that legislation be enacted allowing the department to pay a county up to 25 percent of amounts recovered in excess of county costs.

Administrative Costs. Under Ch 102/81, counties under contract with the department to make recoveries would be reimbursed for their administrative costs via the county administrative cost control plan. To prevent the counties from claiming more costs for a recovery program than the state might recover, the statute should be amended to limit cost reimbursements for county administrative costs of recovery to an amount not to exceed the total recoveries received by the state as a result of a county's recovery effort. Specifically, we recommend that the following language be added to Section 14016.4 of the Welfare and Institutions Code:

"In no event shall the state reimburse a county for administrative costs

DEPARTMENT OF HEALTH SERVICES—Continued

incurred in carrying out an agreement under this section, which are in excess of recovered benefits resulting from such an agreement."

Dual-Choice Positions Not Required

We recommend a reduction of $204,000 ($102,000 General Fund) proposed to fund two positions and a county contract for a "dual-choice" program because the budget proposal making PHP enrollment mandatory makes these positions unnecessary.

The budget includes four positions, at a cost of $138,000 ($69,000 General Fund), to develop and monitor the dual-choice program. Our analysis indicates that if the mandatory PHP enrollment program is implemented, two of these positions will not be needed and should be deleted for a savings of $69,000 ($35,000 General Fund). This is because, given the budget proposal, the dual-choice program would no longer be required in 4 of the 12 counties currently having dual-choice programs. In addition, a dual-choice contract could be eliminated in one county, for a savings of $135,000 ($67,000 General Fund).

Therefore, we recommend a reduction of $204,000 ($102,000 General Fund) that, under the proposed budget, would no longer be required for dual-choice activities. If the Legislature does not adopt the mandatory PHP enrollment policy, however, these funds should be approved.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY

Item 4260-301 from the General Fund, Special Account for Capital Outlay and the Energy and Resources Fund, Energy Account — Budget p. HW 67

Requested 1983–84	$783,000
Recommended approval	629,000
Recommended reduction	8,000
Recommendation pending	146,000

ANALYSIS AND RECOMMENDATIONS

The budget proposes $728,000 from the General Fund, Special Account for Capital Outlay (SAFCO), and $55,000 from the Energy and Resources Fund, Energy Account (ERF), for capital outlay projects for the Department of Health Services. The funds will be used for the fourth phase of the six phase autoclave replacement program at the Berkeley Lab Facility, and for various minor modifications to Department of Health Services facilities around the state.

Minor Capital Outlay

We recommend that Item 4260-301-036(b) be reduced by $8,000 to delete funds for unnecessary air conditioning units. We further recommend that the $8,000 be transferred from the Special Account for Capital Outlay to the General Fund to increase the Legislature's flexibility in meeting high-priority needs statewide.

We withhold recommendation on $146,000 for fire and life safety modifications to the Los Angeles laboratory, pending receipt of additional information.

The budget proposes $372,000 under Item 4260-301-036(b) for 12 minor capital outlay projects for the Department of Health Services. The proposed projects are listed in Table 1. With the exception of two projects, we recommend approval.

Table 1
Department of Health Services
1983–84 Minor Capital Projects
(in thousands)

Project	*Lab Facility*	*Budget Bill Amount*
Correct Fire and Life Safety Deficiencies	Los Angeles	$146
Correct Fire and Life Safety Deficiencies	Berkeley	29
Handicapped Access Modifications	Acton Street	27
Install Eyewash Stations and Drench Showers	Berkeley	22
Install Eyewash Stations	Los Angeles	3
Install Refrigerated Storage Box	Berkeley	20
Install Fume Hoods	Berkeley	31
Alter Clinical Chemistry Lab	Acton Street	24
Airlock Entrance—Microbial Disease Lab	Berkeley	7
Renovate for Mutagenic Testing Lab	Berkeley	17
Alter Microbial Disease Lab	Berkeley	24
Renovate Microscopy Lab	Berkeley	22
Total		$372

Alter Clinical Chemistry Laboratory—Acton Street. The minor projects program includes $24,000 to alter space at the Acton Street Laboratory in Berkeley to provide a clinical chemistry laboratory. The project would renovate office space to provide an office/laboratory room and an office/computer terminal room. The proposed alterations are needed. The project, however, includes $8,000 for two two-ton air conditioners for the renovated space. The air conditioning portion of the project is both overdesigned and unnecessary.

The total area proposed for renovation does not exceed 300 square feet. A one-ton air conditioning unit would be more than sufficient for this area—especially given Berkeley's climate.

More importantly, the need to provide air conditioning is not clear. The department indicates that air conditioning is necessary in order to maintain the temperature required for proper operation of the computer terminals. Units of this type usually function properly in a typical office environment. The department has not provided any information indicating that the units to be installed are atypical. Consequently, there is no apparent basis for adding air conditioning units, and we recommend deletion of the $8,000 related to air conditioning.

Transfer to General Fund. Approval of the above recommendation would leave an unappropriated balance of tideland oil revenue in the Special Account for Capital Outlay, where it 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 have recommended throughout the *Analysis* that any savings

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

resulting from approval of our recommendations to reduce appropriations from tidelands oil revenue be transferred to the General Fund. Accordingly, we recommend that if the above recommendation is approved, the $8,000 in savings be transferred to the General Fund.

Fire and Life Safety Modifications—Los Angeles Lab Facility. The budget includes $146,000 to correct fire and life safety deficiencies in the Los Angeles laboratory facility. The department identifies this as the first of two phases to bring the building into compliance with the California Administrative Code. The first-phase work includes electrical modifications and installation of a fire alarm and fire sprinkler system. The second phase will include modifications to improve handicapped accessibility and fire and life safety modifications to the exterior stairway and interior corridors. The department estimates that the work on first and second phases will cost $146,000 and $81,000, respectively. This estimate however, was prepared in June 1982, and has not been adjusted to reflect the 1983–84 price levels.

This project, with a combined cost in excess of $230,000, is a major capital outlay project, and should not be budgeted within the minor category. Further, it is not clear that there is any benefit to breaking this project into two phases. Generally, savings can be achieved by including related work in a single project. Prior to hearings on the Budget Bill, the department should provide updated cost information which compares the cost of proceeding with this project under two phases with the cost of funding the entire project in one year. We withhold recommendation on this project, pending receipt of this information.

Autoclave Replacement—Phase IV

We recommend approval of Item 4260-301-036(a).

The budget proposes an appropriation of $356,000 under Item 4260-301-036(a) for Phase IV of a six-phase project to replace autoclaves (steam sterilizers). The autoclaves are used to sterilize (1) equipment and reagents which are used in tests to determine the presence of infectious disease, and (2) material used in the testing process prior to disposal of the material.

A total of $705,000 has been appropriated by the Legislature in the past to replace 11 autoclaves. The department anticipates future expenditures of $352,000 and $396,000 for Phases V and VI, respectively.

The department proposes to replace four autoclaves under Phase IV. The present equipment is 18 years old and is becoming unserviceable because replacement parts are difficult to obtain. The proposed project is necessary to ensure continued operation of the laboratories. We recommend approval.

Energy Conservation Minor Projects

We recommend approval of Item 4260-301-189(a).

Item 4260-301-189(a) proposes $55,000 from the Energy and Resources Fund, Energy Account, for two minor projects for the Department of Health Services. Specifically, $15,000 is requested to install a waste heat recovery system, and $40,000 is sought to install sunscreen window shades at the Berkeley laboratory facility.

Waste Heat Recovery System. The department currently uses over 3,000 gallons of potable water a day as coolant to condense steam in a

distillation process. This process heats the water to between 90°F and 120°F. Currently, the hot water is drained to the sewer system. The department is proposing to install a waste heat recovery system to pipe this hot water into a large storage tank for use in the domestic hot water supply system. This project has an estimated discounted payback period of 5.2 years. We recommend approval.

Sunscreen Window Shades. The department is proposing to install louvered sunscreen shades on the south facing walls of the west wing of the Berkeley laboratory facility. In 1980–81, the department was provided funds to install sunscreen window shades on the south and west windows of the infectious disease wing. Based on the energy savings experienced from this prior work and from other similar state installations, the department is proposing to place sunscreens on the south wall of the west wing. Information provided by the department indicates that this project will pay for itself in approximately two years. We recommend approval.

Projects by Descriptive Category

In *The Budget for 1983–84: Perspectives and Issues,* we identify a number of problems that the Legislature will confront in attempting to provide for high-priority state needs within available revenues. To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which our analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The autoclave project ($356,000) falls under category two. The ERF minor projects fall under category five ($40,000) and category six ($15,000). The SAFCO minor projects ($218,000) are in category seven.

DEPARTMENT OF HEALTH SERVICES—REVERSION

Item 4260-495 to the General Fund

Budget p. HW 30

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes reversion of the unencumbered balances of seven appropriations to the Department of Health Services. The funds would revert to the unappropriated surplus of the General Fund. The appropriations, and our reason for recommending approval of the proposed reversions, are set forth below:

1. Chapter 578, Statutes of 1971, requires that family planning services be offered to current or potential public assistance recipients of childbearing age. The act appropriated $1 million for this purpose. Those funds have been expended, and funding for this program is now provided in the budget.

2. Chapter 282, Statutes of 1979, established the county health services fiscal relief program. The act appropriated $820,000 to the department to implement the new provisions. Those funds have been expended and funding for the administration of county health services is now provided in the budget.

3. Chapter 331, Statutes of 1979, required the department to implement regionalized perinatal health systems, as specified. The act reappropriated, for this purpose, the unencumbered balance of funds initially appropriated for pilot programs required by Article 2.4 (commencing with Section 283) of Chapter 2 of Division 1 of the Health and Safety Code. The entire reappropriation was not needed to implement the perinatal health systems, and as of December 31, 1982, a balance of $51,000 remained unexpended. Funding for the program is now provided in the budget.

4. Chapter 1153, Statutes of 1979, appropriated $200,000 for Huntington's disease research grants. This was a limited-term project which has been completed. As of December 31, 1982, a balance of $28,000 remained unexpended.

5. Chapter 277, Statutes of 1980, required the department to conduct a review of public health statutes, in conjunction with the California Conference of Local Health Officers and report to the Legislature by December 31, 1982. The act appropriated $225,000 for this purpose. The review has been completed and the report has been submitted to the Legislature. The entire appropriation has been expended.

6. Chapter 776, Statutes of 1980, required the department to conduct an education and public information program for persons exposed to diethylstilbestrol (DES). The act appropriated $39,431 for this purpose. The requirements of the act have been met, and as of December 31, 1982, a balance of $19,000 remained unexpended.

7. Chapter 1224, Statutes of 1980, required the department to study the extent and prevalence of chronic lung diseases, and to report to the Legislature by July 1, 1982. The act appropriated $60,000 for this purpose. The requirements of the act have been met, and as of December 31, 1982, a balance of $47,750 remained unexpended.