Health and Welfare Agency

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund — Budget p. HW 68

Requested 1983–84	$879,000
Estimated 1982–83	772,000 [a]
Actual 1981–82	–
Requested increase (excluding amount for salary increases) $107,000 (+15.0 percent)	
Total recommended reduction	$56,000

[a] Includes estimated 1982–83 expenditures of $750,000 for the Governor's Office of Special Health Care Negotiations and $22,000 for the California Medical Assistance Commission.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Technical Budget Issues. Reduce by $56,000.*** Recommend deletion of $107,000 ($56,000 General Fund and $51,000 reimbursements) to eliminate unjustified expenditures proposed for personal services, data processing, and contracts. 917
2. Reversion of Unneeded Funds. Recommend any unexpended surplus available from Ch 328/82 revert to the General Fund on July 1, 1983, because the budget appropriates sufficient funds for the commission. 918
3. Report to Legislature. Recommend commission include in May 1, 1983, report to Legislature suggested ways to achieve the greatest possible savings using the two hospital reimbursement methods established by AB 799 and SB 2012. 918

GENERAL PROGRAM STATEMENT

The California Medical Assistance Commission (CMAC) was established on January 1, 1983, by Ch 329/82 (AB 3480) to contract with various types of health care providers for the delivery of health care services to Medi-Cal recipients.

During 1982–83, the Governor's Office of Special Health Care Negotiations, (GOSHCN) established by Ch 328/82 (AB 799), is negotiating contracts with hospitals. From January 1, 1983, to June 30, 1983, the seven-member commission is monitoring and reviewing the hospital contracting activities of the office. Effective July 1, 1983, the office will be abolished and the commission will direct the negotiation of contracts with hospitals, county health systems, and health care plans. In addition, the commission will be responsible for evaluating the cost-effectiveness of insurance pilot projects to be established by the office during 1982–83, and for reporting to the Legislature twice each year on the status and cost-

CALIFORNIA MEDICAL ASSISTANCE COMMISSION—Continued

effectiveness of selective provider contracts.

During 1982–83, a total of 26.5 positions, including seven commissioners, are authorized for the office and the commission combined. The budget proposes the same staffing level for the commission in 1983–84.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $879,000 from the General Fund for the support of the commission during 1983–84. This is an increase of $107,000, or 15 percent, over estimated expenditures for the commission ($22,000) and the Governor's Office of Special Health Care Negotiations ($750,000), combined, in the current year. Total expenditures, including federal fund reimbursements from the Department of Health Services, are proposed at $1,684,000. This amount will increase by the amount of any increase in salary or staff benefits approved for the budget year. Table 1 summarizes the proposed increases for the commission in 1983–84.

Table 1
California Medical Assistance Commission and Governor's Office of Special Health Care Negotiations Proposed Budget Changes
1983–84

	General Fund	*Reimbursements from DHS*	*Reimbursements from Office to Commission*	*All Funds*
Estimated 1982–83 expenditures				
Commission	$22,000	$18,000	$152,000	$192,000
Office	750,000 [a]	600,000	−152,000	1,198,000
Totals	$772,000	$618,000	—	$1,390,000
Baseline adjustments				
1. Eliminate salary savings	$29,000	$26,000	—	$55,000
2. Expand commission expenses to full year	100,000	93,000	—	193,000
3. Merit salary adjustments	9,000	9,000	—	18,000
4. Increase federal funding ratio	−46,000	46,000	—	—
5. Five percent price increase for operating expenses	15,000	13,000	—	28,000
Total adjustments	$107,000	$187,000	—	$294,000
Proposed commission budget 1983–84	$879,000	$805,000	—	$1,684,000

[a] This amount was appropriated by Ch 328/82 (AB 799).

Current-Year Deficiency

The budget estimates that in the current year, General Fund expenditures for the commission and the office will total $772,000. This amount exceeds the $750,000 appropriated by AB 799 for the operating expenses of the office by $22,000. The budget proposes that this $22,000 be funded from a deficiency appropriation.

Our analysis indicates that expenditures by the office for salaries and wages and data processing services in the current year may be less than the amount estimated by the Department of Finance.

Progress Achieved in Current Year

During the first seven months of the current year, the office completed contract negotiations with 75 hospitals located in four major metropolitan areas in the state: San Francisco, Los Angeles, San Jose, Oakland, San Diego, and Sacramento. The fiscal effect of these contracts and the activities of the office during 1982–83 are discussed in our analysis of the California Medical Assistance program (Medi-Cal).

At the time this analysis was prepared, four of the seven commissioners had been appointed.

Technical Budget Reductions

We recommend reductions totaling $56,000 from the General Fund and $51,000 from reimbursements to correct for overbudgeting in personal services, contracts, and data processing.

The budget requests $1,684,000, including $879,000 from the General Fund, to support the California Medical Assistance Commission during 1983–84. Our analysis of this request indicates that the proposed amount exceeds the requirements of the commission by $107,000. Table 2 summarizes the areas in which overbudgeting has occurred.

Table 2
California Medical Assistance Commission
Summary of Recommended Budget Reductions
1983–84
(in thousands)

	Proposed Budget	*Recommended Reduction*	*Amount Recommended for Approval*
Personal services—salary savings not budgeted	$1,088	−$55	$1,033
Consultant services—contract expenditures not justified	202	−40	162
Data processing—data center services overbudgeted	40	−12	28
Other proposed expenditures	354	—	354
Totals	$1,684	$107	$1,577
General Fund	*$879*	*−$56*	*$823*
Reimbursements	*805*	*−51*	*754*

Salary Savings Not Budgeted. The proposed budget for salaries, wages, and staff benefits of the commission does not make any allowance for savings due to staff turnover and delays in filling positions. It is standard state budgeting practice to deduct an amount for the salary savings that can be anticipated based on the agency's past experience. In the case of new agencies, a standard 5 percent is deducted for salary savings.

It is inevitable that the commission will experience vacancies and staff turnover during 1983–84. Our review of 10 other state agencies with similarly sized budgets and staff complements indicates that even relatively small agencies experience salary savings and budget accordingly. On this basis, we recommend a reduction of $55,000 from all funds, which amounts to 5 percent of salaries, wages, and staff benefits for the commission.

Contract Expenditures Unjustified. The proposed budget includes $202,000 to pay the cost of anticipated contractual agreements with private vendors and other state agencies. Staff of the commission, however, have identified only $162,000 in contract expenditures for 1983–84 (including $5,000 for special data center services and $18,000 for miscellaneous contracts). Accordingly, we recommend that the remaining $40,000 budg-

CALIFORNIA MEDICAL ASSISTANCE COMMISSION—Continued

eted for contract expenditures be deleted on the basis that these funds have not been justified.

Data Processing Overbudgeted. The budget proposes $40,000 for consolidated data center services, based on estimated services to be purchased during the current year, adjusted to reflect a 5 percent price increase. According to the Health and Welfare Agency Consolidated Data Center, the commission was provided services at a cost of $7,400 during the period August to November 1982. These expenditures included start-up costs for the commission's data processing operations, in addition to ongoing processing fees. If this rate of expenditures were to continue throughout the year, the commission's total 1982–83 data center costs would be $22,000. Because a disproportionate amount of data center services billings often occur in the last few months of the fiscal year, however, we estimate that 1982–83 expenditures will be approximately $27,000 and that 1983–84 costs, assuming a 5 percent price increase, will be $28,000, or $12,000 less than the amount proposed.

In sum, our analysis indicates the proposed budget contains more funds for personal services, contracts, and data processing than the amount required to cover identified needs of the commission. Therefore, we recommend a reduction of $107,000, including $56,000 from the General Fund, to delete the overbudgeted amount.

Reversion of Unneeded Funds

We recommend any unexpended surplus available to the commission from Ch 328/82 at the end of 1982–83 revert to the General Fund.

The budget assumes that $750,000 appropriated by Ch 328/82 (AB 799) for the support of the commission will be expended during 1982–83. Therefore, none of this amount is shown as being unexpended in the 1983–84 budget document. Our analysis indicates, however, that a portion of these funds may remain unexpended at the end of the current fiscal year. Because the 1983–84 budget proposes sufficient funds to meet the needs of the commission, there is no reason to continue into 1983–84 the availability of the unspent portion of the AB 799 appropriation. Therefore, we recommend that any unspent amount of the initial $750,000 appropriation be reverted to the General Fund at the end of 1982–83. We recommend adoption of the following Budget Bill language:

"As of June 30, 1983, the unencumbered balance of the appropriation in Section 60 of Ch 328/82 shall revert to the General Fund."

Report to the Legislature

We recommend the commission include in its May 1, 1983, report to the Legislature recommendations for achieving the greatest possible savings using the two hospital reimbursement methods established by AB 799 and SB 2012.

Chapter 329, Statutes of 1982 (AB 3480), requires the commission to report to the Legislature on January 1 and May 1 of each year. These reports must include:

- The number and types of health services contracts negotiated.
- Statistical information on services provided under these contracts, including the number of persons served and the cost per service.
- Information on projected contract services and estimated cost.

Due to the significant workload involved in negotiating hospital contracts, the January 1 report had not been submitted by the time this *Analysis* was prepared.

Assembly Bill 799 and SB 2012 established negotiated hospital rates as the preferred reimbursement method for hospital inpatient services. These acts also established a backup reimbursement system, under which a hospital's rates would be established based on the costs incurred by similar hospitals clustered in "peer groups."

Our analysis indicates that the budget contains no estimate of the fiscal effect of negotiated hospital contracts for Medi-Cal health care services. The budget does include a specific estimate of savings attributable to peer group-based hospital reimbursement. The budget therefore assumes that negotiating hospital contracts will not produce any additional savings above the anticipated peer-group savings.

Our analysis indicates that in some instances, contracts may reduce hospital inpatient expenditures below what expenditure levels would be using the peer group reimbursement method alone. This would occur whenever the terms of a hospital contract would result in lower costs per day or per discharge than limiting hospital reimbursements to rates paid to comparable hospitals.

In some other instances, of course, negotiated contracts may result in higher rates than those that would be payable under the peer group method. This would occur if all hospitals in an area were unwilling to negotiate rates below those payable under peer grouping. It may not be in the state's best interest to enter into contracts under these circumstances.

In order to assist the Legislature in assessing the effects of negotiated hospital contracts, we recommend that the commission include in its May 1, 1983, report recommendations for integrating these two reimbursement methods to achieve the greatest savings possible. These recommendations should address at least the following issues:

- Under what circumstances might it be in the state's financial interest to use peer-group reimbursement rates for individual hospitals or groups of hospitals, instead of negotiated contract rates?
- What executive or legislative policies regarding the two alternative reimbursement methods should be established to ensure that the aggregate cost of hospital reimbursements is the lowest possible?

Health and Welfare Agency
DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General Fund and Developmental Disabilities Program Development Fund — Budget p. HW 70

Requested 1983–84	$563,774,000
Estimated 1982–83	543,237,000
Actual 1981–82	540,168,000
Requested increase (excluding amount for salary increases) $20,537,000 (+3.8 percent)	
Total recommended reduction	$3,344,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4300-001-001	Support	General	$15,755,000
4300-001-172	Support	Developmental Disabilities Program Development	172,000
4300-001-890	Support	Federal Trust	(223,000)
4300-011-001	State Hospitals	General	—
4300-101-001	Local Assistance	General	545,177,000
4300-101-172	Local Assistance	Developmental Disabilities Program Development	2,670,000
4300-101-890	Local Assistance	Federal Trust	(901,000)
Totals			$563,774,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Administration of Program Development Fund. Reduce Items 4300-101-001 and 4300-001-172 by $66,000 and augment Item 4300-101-172 by $66,000.* Recommend deletion of two positions requested for administration of program development funds due to lack of workload justification. Further recommend that $66,000 in savings be used to offset General Fund cost of regional center programs. 926
2. Regional Center Case Management. Withhold recommendation on proposed reduction in case management staff, pending further analysis of the proposal. 929
3. *Regional Center Operating Expenses. Reduce Item 4300-101-001 by $415,000.* Recommend reduction to correct overbudgeting of regional centers' operating expenses. 930
4. *Out-of-Home Care. Reduce Item 4300-101-001 by $962,000.* Recommend deletion of funds to correct underbudgeting of SSI/SSP reimbursements due to underestimation of caseload. 931
5. *SSI/SSP Cost-of-Living Adjustment. Augment Item 4300-101-001 by $1,534,000.* Recommend an augmentation to replace SSI/SSP reimbursements which would be lost as a result of our recommendation to delete a proposed 2.1 percent COLA for SSI/SSP recipients. 932

6. Transportation Expenditures. Recommend that regional centers' expenditures for transportation services be displayed as a separate category in Item 4300-101-001. 932
7. *ICF-DD(h) Conversions.* Recommend that the department report prior to budget hearings on the expected additional General Fund savings from additional Medi-Cal reimbursements for out-of-home care. 933
8. Regional Center Fiscal Policy. Recommend enactment of legislation which would authorize service restrictions if necessary to limit regional centers' expenditures for services to the amount appropriated for that purpose. 936
9. ***Program Development Fund. Increase Item 4300-101-172 by $121,000 and reduce Item 4300-101-001 by $121,000.*** Recommend the use of excess Program Development Fund reserve to support regional centers' respite and camp services. 938
10. Workers' Compensation Industrial Disability Leave and Nonindustrial Disability Insurance. Recommend that the department report by April 1, 1983, on the reasons why costs have increased and the steps which can be taken to control costs. 943
11. ***State Hospital Overtime Funds. Reduce Item 4300-101-001 by $2,491,000.*** Recommend reduction of funds to correct for inappropriate budgeting of state hospital overtime. 944
12. ***Psychiatric Technician Overtime Pay. Reduce Item 4300-101-001 by $944,000.*** Recommend reduction because these overtime funds should be budgeted in the employee compensation item. 945
13. ***Non-Level-of-Care Staffing.*** Recommend adoption of Budget Bill language requiring the Departments of Developmental Services and Mental Health to develop and implement a plan to correct the maldistribution of non-level-of-care staff. 946

GENERAL PROGRAM STATEMENT

The Department of Developmental Services (DDS) administers community- and hospital-based services for persons with developmental disabilities. The Lanterman Developmental Disabilities Services Act defines a developmental disability as a disability originating before a person's 18th birthday, which is expected to continue indefinitely and which constitutes a substantial handicap. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism, or to neurologically handicapping conditions closely related to mental retardation or other conditions such as mental impairment resulting from accidents which occur before age 18.

The department has 15,222.5 authorized positions to carry out the following four programs during the current year:

1. ***The Community Services Program*** develops, maintains, and coordinates services for developmentally disabled persons residing in the community. The program's activities are carried out primarily through 21 regional centers, which are operated statewide by private nonprofit corporations under contract with the department. The regional centers provide a variety of services, including (a) diagnosis, (b) development of individual program plans, (c) referral to and

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

purchase of needed residential and nonresidential services, (d) monitoring of client progress, and (e) developmental disabilities prevention services. The department also administers the Program Development Fund, which provides start-up funds for new community-based services and provides case management services for clients in out-of-home placement at the request of regional centers through the Continuing Care Services Section.

2. *The Hospital Services Program* provides services in 8 of the state's 11 hospitals. Agnews, Fairview, Lanterman, Porterville, Sonoma, and Stockton hospitals operate programs exclusively for the developmentally disabled, while Camarillo and Napa hospitals operate programs for both the developmentally disabled and the mentally disabled through an interagency agreement with the Department of Mental Health.
3. *The Planning and Evaluation Program* provides a variety of services for the department, including program planning, policy analysis, and data base management.
4. *The Administrative Services Program* provides the services required to support the daily operation of the department.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $560,932,000 from the General Fund to support the programs of the Department of Developmental Services in 1983–84. This is an increase of $20,772,000, or 3.8 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefits approved for the budget year.

Expenditures from all funds are proposed at $567,676,000, which is $18,-043,000, or 3.3 percent, above estimated current-year expenditures. Table 1 displays program expenditures and funding sources for the prior, current, and budget years.

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

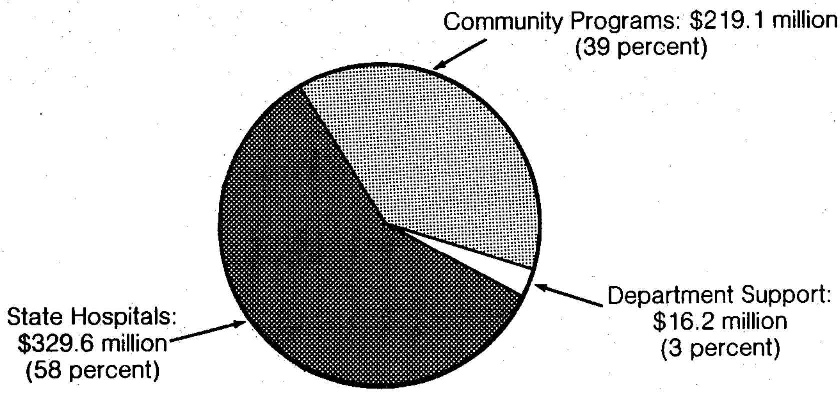
	Actual 1981–82	*Estimated 1982–83*[a]	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Department support	$16,454	$18,788	$17,057	–$1,731	9.2%
Local assistance	(528,456)	(530,845)	(550,619)	(19,774)	(3.7)
State hospitals	317,811	313,973	328,744	14,771	4.7
Regional centers	194,327	208,542	215,362	6,820	3.3
Continuing care services	2,271	1,519	1,436	–83	–5.5
Work activity programs	1,864	—	—	—	—
Other community programs	12,045	6,531	5,077	–1,454	–22.3
Legislative mandates	138	280	—	–280	–100.0
Totals	$544,910	$549,633	$567,676	$18,043	3.3%
General Fund	*$536,059*	*$540,160*	*$560,932*	*$20,772*	*3.8%*
Developmental Disabilities Program Development Fund	*4,109*	*3,077*	*2,842*	*–235*	*–7.6*
Federal Trust Fund	*833*	*982*	*1,124*	*142*	*14.5*
Reimbursements	*3,909*	*5,414*	*2,778*	*–2,636*	*–48.7*

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

Chart 1 displays proposed department expenditures, by program, for 1983–84.

Chart 1

Department of Developmental Services
Proposed Expenditures: $564.9 million
1983–84 (All Funds)



Significant Budget Changes

The budget proposes the following significant changes in the budget year:

- Eliminate two department attorney positions, one clerical position, and related expenses, for a savings of $128,000 to the General Fund.
- Fund regional center caseload growth, at a cost of $12.3 million to the General Fund.
- Fund a 3 percent cost-of-living increase for regional center operations and purchase-of-service budgets, at a cost of $8.1 million to the General Fund.
- Reduce General Fund expenditures for out-of-home care by $1.6 million to account for a 2.1 percent increase in SSI/SSP grants.
- Decrease regional centers' case manager-to-clients ratio from 1:62 to 1:120, for specified cases, for a savings of $7.4 million to the General Fund.
- Transfer case management for state hospital residents to the state hospitals, for a savings of $2.4 million to the General Fund.
- Increase state hospitals' allowance to cover staff absences, at a cost of $5.6 million to the General Fund.
- Eliminate 220.4 direct patient care positions to adjust for declining state hospital caseload, for a savings of $1.8 million to the General Fund.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

- Add 21.5 positions to upgrade an Agnews State Hospital unit to general acute care licensure, at a cost of $694,000 to the General Fund, offset by potential additional federal revenues of up to $3.9 million.

I. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $15,755,000 and an appropriation of $172,000 from the Program Development Fund for support of the department in 1983–84. This is a decrease of $81,000, or 0.5 percent, below estimated current-year expenditures. Total expenditures, including those supported by reimbursements and federal funds, are proposed at $18,493,000, which is $1,814,000, or 8.9 percent, below estimated current-year expenditures. Table 2 shows the adjustments to the current-year budget proposed for 1983–84.

Table 2
Department of Developmental Services
Proposed Budget Changes
Department Support
(in thousands)

	General Fund	*All Funds*
Adjusted base budget, 1982–83		
A. Changes to maintain current program	$15,906	$20,307
1. Merit salary adjustment	194	219
2. Price increase	195	218
3. Staff benefits adjustment	420	460
4. Office of Administrative Law reduction	−6	−6
5. California Fiscal Information System augmentation	67	67
6. One-time uniform fiscal system funding	−715	−715
7. One-time state hospital automation funding	−310	−310
8. Community Care Services Branch salary savings	132	—
9. Continuing reimbursements	—	107
10. One-time reimbursements	—	−1,792
B. Budget change proposals		
1. Legal staff reduction	−128	−128
2. Program Development Fund staff	—	66
Proposed budget, 1983–84	$15,755	$18,493

The budget proposes a total of 449.5 positions in department headquarters and continuing care services in 1983–84, which is a five-position increase over the number of positions authorized in the current year. The net increase reflects (1) a decrease of 2 attorneys and 1 clerical support position, (2) an increase of five positions to staff various federally funded programs, (3) an increase of 1 position to implement the client movement and trust accounting module of the Hospital Client Support System, and (4) an increase of 2 positions to manage additional Program Development Fund activities. Table 3 shows the proposed changes in positions, the associated costs and cost savings, and the funding sources affected by the changes. The budget also reflects reductions of 5.2 positions in both the current and budget years due to the 5 percent support reduction mandated by the Legislature.

Table 3
Department of Developmental Services
Proposed Changes in Authorized Positions

Description	*Number of Positions*	*Cost*	*Funding Source*
Proposed to be eliminated			
Departmental legal staff	−3.0	−$111,000	General
Added in the current year and proposed to be continued			
Community nursery project	2.0	73,000	Federal Trust
State hospital adult education	0.5	8,000	Reimbursements
Manpower, safety, and training	2.5	69,000	Reimbursements
Proposed to be added			
Hospital automation	1.0	31,000	General
Program development	2.0	46,000	Program Development
Totals	5.0	$116,000	

Department Legal Staff

The budget proposes to eliminate two attorney positions and one related clerical position from the department's legal office, for a savings of $128,000 to the General Fund. This reduction amounts to 28 percent of the department's attorney staff and 25 percent of related clerical support staff.

Currently the legal office is authorized seven attorneys, three analysts, and four clerical support positions. The workload consists of work that is specific to the programs administered by the department, as well as general legal activities. Program-specific workload includes maintaining approximately 970 conservatorships and monitoring the regional center contract process. General legal workload includes advising the Director and department management and preparing depositions and other information for the Attorney General in defense of legal actions brought against the department.

Although the available information does not indicate what proportion of the legal staff workload is general, as opposed to program-specific, our analysis indicates that some workload associated with preparing legal opinions and advice for department management may be referred to the Attorney General. Moreover, it appears that the department has the flexibility to reorder its workload priorities to ensure coverage of high-priority activities such as monitoring regional center contracts.

Table 4
Department of Developmental Services
Five Percent Support Reduction
General Fund

Positions eliminated:	
Director's office—1 career executive assignment	$45,924
Administration—0.6 research writer	18,007
Planning and evaluation—1 research program specialist II	28,632
and 1 staff psychologist	32,976
Community services—1 community program specialist II	29,556
Hospital operations—0.6 program administrator I	20,261
Subtotal	$175,356
Staff benefits	46,815
Salary savings	−11,664
Subtotal	$210,507
Additional position vacancies	111,493
Operating expenses and equipment	527,000
Total	$849,000

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Five Percent Reduction

The 1982 Budget Act contained an unallocated General Fund reduction of $849,000, or 5 percent, in the department's support budget. In implementing the reduction, the department (1) eliminated 5.2 positions and related expenses, (2) reduced consultant and professional services, (3) reduced data processing expenditures, and (4) reduced other operating expense items. The budget proposes to continue the reduction in the budget year. Table 4 displays how the reduction was allocated and the associated savings.

Proposed New Positions for Program Development

We recommend deletion of $66,000 from the Program Development Fund and two positions that are not justified on a workload basis. We further recommend that the $66,000 be used to replace General Fund support for regional center programs. Accordingly, we recommend that Items 4300-001-172 and 4300-101-001 be reduced by $66,000 and that Item 4300-101-172 be increased by $66,000.

The budget proposes the addition of two positions for support of program development in the budget year, at a cost of $66,000 to the Program Development Fund (PDF). The department requested these two positions in 1982–83, but the Legislature eliminated them from the budget.

Currently the department has two professional positions to administer PDF grants. The workload associated with this function includes preparing an annual request for proposal, reviewing grant proposals, and negotiating and monitoring PDF contracts. The department, the State Council, and the Area Boards on Developmental Disabilities administer the grants.

Our analysis indicates that the workload associated with reviewing PDF grant proposals will decrease in the budget year. In grant cycle IV (1981–82), a total of 111 proposals were approved by the area boards and submitted to the state council and the department for review. In grant cycle V (October 1981 to December 1983), 65 proposals were submitted for review. In grant cycle VI (1983–84), 54 proposals will be submitted to the state council and the department for review. The reduction in the number of proposals is due to a new policy instituted by the state council, whereby only 54 proposals will be reviewed annually at the state level in subsequent grant cycles.

Our analysis also indicates that the workload associated with negotiating and monitoring contracts will decrease in the first half of 1983–84 when the remaining cycle IV grants expire. Fewer grants will be funded in 1983–84 because, although available funding will remain relatively stable compared to prior years, the average grant cost is increasing annually.

In summary, the two proposed new positions are not justified on the basis of workload. We therefore recommend deletion of the positions and associated funds. We further recommend that the $66,000 in savings to the Program Development Fund be used instead to replace General Fund support for the department's regional centers program. Chapter 327, Statutes of 1982, authorizes the use of excess parental fees for this purpose. By substituting PDF funds for General Fund support, the Legislature would give itself more fiscal flexibility in funding its priorities.

Uniform Fiscal Systems

Chapter 1140, Statutes of 1979, together with the 1979 Budget Act (Item 271), require the department to develop and implement uniform accounting, encumbrance control, budgeting, and management reporting systems for the regional centers. The department has implemented uniform general ledger accounts and uniform cost accounting and budgeting systems. The final phase of implementation will be to automate the system. The department had estimated that automated operation would begin by July 1982. Due to delays in the procurement process, however, the department does not expect to begin operating the system until 1983–84.

The department's current-year budget contains $1,178,000 for systems development. The proposed budget for 1983–84 contains $491,000 for ongoing operating expenses. The Budget Bill also contains language which authorizes the Department of Finance to transfer additional funds, as needed, from regional centers to the department to support the operating costs of the system in 1983–84. The department indicates that this transfer authority is necessary, because it has not as yet leased the computer hardware and software and consequently cannot accurately project the operating costs for the budget year. Regional centers have agreed to fund operating costs by redirecting existing resources allocated for EDP and accounting functions.

Legislatively Mandated Publications

Chapter 1632, Statutes of 1982 (AB 2960), requires state agencies to submit a listing of publications which are legislatively mandated and which require 100 or more personnel-hours to produce. Chapter 1632 further requires the Legislative Analyst to review the listing and determine whether any of the publications should be discontinued. Accordingly, we have reviewed the list of mandated publications provided by the department; and, of the eight mandated publications listed, we recommend that one—the annual progress report to the Legislature on designated continuum agencies (DCAs)—be discontinued. Funding for DCAs was deleted in the 1981 Budget Act; and, consequently, there is no need for the progress report.

The department recommends that two additional reports be deleted. These reports are (1) an annual evaluation and adjustment of parental fee schedules and (2) an annual update of residential care rates. We believe, however, that both these reports should be continued because they provide fiscal information which may be useful to the Legislature.

II. REGIONAL CENTERS

The budget proposes an appropriation of $215,358,000 for regional centers in 1983–84, including $214,858,000 from the General Fund and $500,000 from the Program Development Fund. This is an increase of $6,816,000, or 3.3 percent, above estimated current-year expenditures. Total expenditures, including SSI/SSP payments to residential care providers, are proposed at $292,816,000, which is an increase of $8,395,000, or 3 percent, above estimated current-year expenditures.

Table 5 displays the components of regional center expenditures for the prior, current, and budget years.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 5
Regional Center Program Expenditures and Funding Sources (in thousands)

Program	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Operations					
Personal services	$61,787	$63,166	$56,409	−$6,757	−10.7%
Operating expenses	13,926	13,316	13,685	369	2.8
Subtotals	$75,713	$76,482	$70,094	−$6,388	−8.4%
Purchase of service					
Out-of-home care	$55,315	$58,696	$61,177	$2,481	4.2%
Day programs	21,115	25,542	27,308	1,766	6.9
Medical services	3,058	2,893	3,093	200	6.9
Respite/camps	6,749	7,624	8,152	528	6.9
Other	32,377	34,974	37,392	2,418	6.9
Subtotals	$118,614	$129,729	$137,122	$7,393	5.7%
Cost-of-living adjustment	—	—	8,142	8,142	N/A
Subtotals	$194,327	$208,542 [a]	$215,358	$6,816	3.3%
SSI/SSP reimbursements	70,858	75,879	77,458	1,577	2.1
Totals	$265,185	$284,421	$292,816	$8,395	3.0%
General Fund					
Regional centers	*194,327*	*207,855*	*214,858*	*7,003*	*3.4*
SSP	*37,342*	*38,091*	*34,857*	*−3,234*	*−8.5*
Program Development Fund	—	*687*	*500*	*−187*	*−2.7*
Federal funds (SSI)	*33,516*	*37,788*	*42,601*	*4,813*	*12.7*

[a] Includes $2,331,000 in ICF-DD(h) funding.

Table 6 shows proposed changes to the current-year budget.

Table 6
Regional Center Program Proposed Budget Changes (in thousands)

	Operations	*Purchase of Services*
Adjusted base budget, 1982–83	$76,482	$132,060[a]
A. Changes to maintain current program		
1. ICF-DD(h) continuation funding	—	−1,947
2. ICF-DD(h) start-up funding	—	−384
B. Caseload and cost increases	3,344	8,970
C. Policy changes		
1. Transfer case management to state hospitals	−2,382	—
2. Reduce ratio of case managers to clients	−7,350	—
3. SSI/SSP cost-of-living adjustment (2.1 percent)	—	−1,577
Subtotals	$70,094	$137,122
D. Cost-of-living adjustment (3 percent)[b]	2,014	6,128
Proposed budget, 1983–84	$72,108	$143,250

[a] Includes $2,331,000 in ICF-DD(h) funding.
[b] Does not include $4,000 for cultural centers.

A. REGIONAL CENTER OPERATIONS

The department prepares regional center operations budgets using a staffing and salary formula which utilizes midyear caseload data and a set of client-staff ratios to calculate staffing allocations for each regional center. Regional centers receive an amount of funds sufficient to support the number of staff determined to be needed by the core staffing model. The centers, however, may use the funds to establish any staff configuration and pay any salaries they deem appropriate.

Regional Center Caseload

The department estimates that regional center caseload will be 73,091 in 1983–84, excluding continuing care services clients. This is an increase of 4,288, or 6.2 percent, above estimated current-year caseload.

Table 7 shows that the growth in regional center caseload has slowed significantly in recent years. Some of the high growth rates experienced during the 1978–79 through 1980–81 period, however, do not reflect real caseload growth; instead, they reflect artificial caseload increases resulting from regional centers' failure to remove inactive clients from client registries. In 1979–80 and 1980–81, reviews of client registries and case records resulted in the removal of nearly 15,000 clients from client registries because the cases were no longer active. As a result, the data on caseload growth used in the preparation of the 1982–83 and 1983–84 budget requests are substantially more reliable than those used in prior years.

Table 7
Regional Centers
Midyear Caseload

	Number of Clients	*Increase Over Previous Year*	*Percent Change*
1978–79	49,850	10,211	25.8%
1979–80	57,193	7,343	14.7
1980–81	62,323	5,130	9.0
1981–82	64,221	1,898	3.0
1982–83 (estimated)	68,803	4,582	7.1
1983–84 (proposed)	73,091	4,288	6.2

Regional Center Staffing

We withhold recommendation on the two proposals to reduce regional centers case management staff, pending further analysis of the proposals.

The budget proposes $70,094,000 for support of regional center operations in 1983–84. This is a decrease of $6,388,000, or 8.4 percent, below estimated current-year expenditures. The proposed funding level would allow regional centers to establish the equivalent of 2,288 positions statewide, which is 384 positions, or 15 percent, less than the number of positions authorized for the current year. Although the budget includes $3,344,000 in additional funding for caseload increases, it proposes an overall reduction in funding for regional center operations. The reduction is due to two significant program changes proposed in the budget:

1. ***Transfer of Case Management Responsibility for State Hospital Residents.*** The budget proposes to transfer case management responsibilities for 7,451 state hospital residents from the regional centers to the state hospitals, for a savings to the General Fund of $2,382,000. The savings result from reduced allocations to regional centers for case management staff.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Currently regional centers provide case management services to state hospital residents in addition to persons residing in community facilities or with family members. Regional center case management activities include ensuring that needed services are provided, monitoring clients' progress, and coordinating services. State hospital staff provide similar services for clients residing in the hospitals. Specifically, state hospital residents are assigned to a program director and a social worker, who ensure that services are provided in accordance with the residents' individual program plan and measure the residents' progress towards the plan's objectives.

The department indicates that state hospital staff workload will not increase significantly as a result of assuming full case management responsibilities. The budget provides no additional funding for state hospitals to support the proposed transfer of responsibility.

2. ***Proposed Reduction in Funding for Case Managers.*** The budget proposes to reduce the number of case managers allocated to regional centers for those clients on behalf of whom no services had been purchased during the preceding 12 months. The funding level for these clients would be determined on the basis of 1 case manager for every 120 clients, rather than using the normal 1:62 ratio, for a savings of $7,350,000 to the General Fund. The proposal is based on the assumption that regional center clients for whom services are not purchased require fewer case management services than those for whom services are purchased.

Analyst's Comments. We are not able to determine from the available data how the proposed reductions will affect regional center operations or state hospital workload. Currently regional centers are not required to conform to the staffing pattern yielded by the core staffing formula. Thus, reducing funding for case management staff does not necessarily mean that regional centers will reduce case management staff. It may be that funding currently provided for case management of hospital clients is being used instead to support other essential services. Moreover, the proposal to transfer case management to the state hospitals does not specifically address the ability of hospital staff to assume responsibility for providing placement services. State hospital staff who would assume the case management responsibilities may not be prepared to assume responsibility for community placement as well.

In addition, our analysis indicates that the proposal to reduce the staffing ratio for certain regional center clients may lead to unnecessary expenditures that will offset some or all of the anticipated savings. Specifically, this proposal may provide an incentive for regional centers to purchase some service for each of their clients in order to increase their budget for case managers, even though some clients may not require services.

Overbudgeting Operating Expenses and Equipment

We recommend a $415,000 reduction to Item 4300-101-001 to correct overbudgeting of regional centers' operating expenses.

The budget proposes an increase for regional centers' operating expenses of $369,000, or 2.8 percent, above estimated current-year expenditures. Our analysis indicates, however, that an error was made in calculating the operating expense requirements for regional centers. The budget inappropriately contains $415,000 in funds to (1) purchase equipment for new staff that the budget does *not* request and (2) pay travel expenses for staff proposed for deletion as the result of the proposed transfer in case management responsibilities. Accordingly, we recommend that the regional centers' operating expense budget be reduced by $415,000.

B. REGIONAL CENTER PURCHASE OF SERVICES

The budget proposes $143,250,000 for purchase of services, which is an increase of $11,190,000, or 8.5 percent, above current-year estimated expenditures. The increase consists of $3,336,000 for the increase in average costs per client using services, $1,726,000 for the increased number of clients using services, and $6,128,000 for cost-of-living adjustments.

Table 8 shows the average number of clients using services and the average annual cost per client using services, for each service category.

Table 8

Regional Center Purchase of Service
Average Number of Clients and Annual Cost per Client Using Services

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Percent Change*
Average number of clients using services				
Out-of-home care	14,254	14,589	14,954	2.5%
Day programs	6,260	6,563	7,053	7.5
Medical services	2,030	1,771	1,895	7.0
Respite	3,143	3,281	3,659	11.5
Camps	3,980	4,403	4,480	1.7
Transportation	11,700	13,273	13,863	4.4
Nonmedical professional	6,295	5,037	6,333	26.7
Average annual cost per client using services [a]				
Out-of-home care	$3,884	$3,999	$4,091	2.3%
Day programs	3,339	3,763	3,872	2.9
Medical services	1,633	1,633	1,633	—
Respite	2,016	2,007	2,010	0.2
Camps	170	178	178	—
Transportation	1,272	1,246	1,339	7.5
Nonmedical professional	2,196	2,691	2,698	0.3

[a] Excludes proposed 3 percent cost-of-living adjustment.

SSI/SSP Caseload Underestimated

We recommend a reduction of $962,000 to Item 4300-101-001 to correct for underbudgeting of anticipated SSI/SSP reimbursements.

The budget reflects the receipt of $77,457,000 in reimbursements from SSI/SSP payments made on behalf of regional center clients residing in community care facilities. This estimate, however, does not include the SSI/SSP reimbursements associated with the additional clients expected to be placed in community care facilities during 1983–84. Our analysis, based on the department's projected midyear client count, shows that SSI/SSP reimbursements will be $78,419,000, or $962,000 more than the budget estimate. Accordingly, we recommend a General Fund reduction of $962,000 in recognition of these additional reimbursements.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

SSI/SSP Cost-of-Living Adjustment

We recommend a General Fund augmentation of $1,534,000 to replace SSI/SSP reimbursements which would be lost as a result of our recommendation to delete a proposed 2.1 percent cost-of-living adjustment for SSI/SSP recipients.

In our analysis of the SSI/SSP program, we recommend deletion of a proposed 2.1 percent cost-of-living adjustment. We recommend, instead, that these funds be used to provide increases in AFDC grants. Adoption of this recommendation would result in a reduction of $1,534,000 in the level of SSI/SSP reimbursements to the regional center budget for support of clients in community care facilities.

Thus, to be consistent with our recommendation in the SSI/SSP program analysis, we recommend a General Fund augmentation of $1,534,000 in the regional center budget to replace the SSI/SSP reimbursements.

Budgeting for Transportation Expenditures

We recommend that the Budget Bill be amended to display proposed regional centers expenditures for transportation as a separate category in Item 4300-101-001.

Expenditures for transportation services currently are included within the "other" category of the regional centers' purchase-of-service budget. Transportation expenditures account for approximately 55 percent of this expenditure category, or $19,374,000, in the current year. Transportation expenditures have been growing at an average annual rate of 12 percent over the past three years. We believe that budgeting transportation expenditures separately would facilitate legislative review of this major program expenditure.

Programs Not Funded in the Budget

Two programs recently implemented by the department have not been funded in the 1983–84 budget. The department indicates that it intends to request continuation funding for the programs when it submits revised expenditure estimates to the Legislature in May 1983. At that time, better data on program progress and expected costs will be available. Our analysis indicates that continuing the programs could result in additional costs of $1 million or more over the amount budgeted.

Specifically, the budget does not include funds for the following programs:

Diversion. Chapter 1253, Statutes of 1980 (SB 579), established legal procedures whereby a mentally retarded person charged with a misdemeanor offense could be diverted to a regional center for treatment and habilitation. The act also appropriated $350,000 to the department for diversion-related treatment and habilitation services. The 1982 Budget Act includes $720,000 to serve approximately 310 individuals statewide under this program.

Special Pilot Projects. Item 297 (m) of the 1980 Budget Act appropriated $750,000 for three regional center pilot projects designed to decrease inappropriate state hospital placements through alternative funding and service arrangements. The 1982 Budget Act included an additional $375,000 for this program. The department indicates that it intends to spend both appropriations in the current year.

Three Percent Cost-of-Living Adjustment Underfunded

The budget proposes $8,142,000 to provide a 3 percent cost-of-living adjustment (COLA) for regional center operations and purchase of services.

Our analysis indicates that $8,142,000 would not be sufficient to provide a 3 percent increase for regional centers. We estimate that a 3 percent COLA for the regional centers in 1983–84 would require $8,569,000, or an additional General Fund cost of $423,000 over the amount budgeted.

Conversion of Community Care Facilities

We recommend that the department report prior to budget hearings on the estimated savings associated with the conversion of additional facilities to intermediate care facilities for the developmentally disabled-habilitative (ICF-DD(h)) licensure.

Chapter 569, Statutes of 1980 (AB 2845), directed the Departments of Health Services and Developmental Services to develop and implement licensing regulations for a new health facility category known as intermediate care facility—developmentally disabled (habilitative) (ICF-DD(h)). These facilities are residential facilities that provide habilitation and intermittent health care services. Unlike services provided in community care facilities, ICF-DD(h) services are Medi-Cal reimbursable. The first ICF-DD(h) facility, with a total of 12 beds, was licensed in September 1982. The department estimates that a total of 336 beds will be eligible for Medi-Cal reimbursements in 1983–84.

Our analysis, based on 61 certificate-of-need applications approved by January 20, 1983, indicates that a minimum of 640 beds will be licensed and certified by 1983–84. In addition, given the number of notices of intent filed with the Office of Statewide Health Planning and Development, as many as 736 beds potentially may be licensed and certified as ICF-DD(h). Consequently, we believe the department's estimate of 336 beds is overly conservative.

The fiscal consequence of underestimating the department's number of ICF-DD(h) beds in 1983–84 is that the regional center budgets do not reflect the reductions that will result from the Medi-Cal program assuming the regional centers' cost for out-of-home care. On the average, for each ICF-DD(h) eligible client in community care that is placed in an ICF-DD(h), the regional centers' costs are reduced by $3,660 annually.

At the time this *Analysis* was prepared, we were not able to estimate the unbudgeted savings that will result from having a greater number of ICF-DD(h) beds on line in 1983–84. Specifically, there were not sufficient data available to indicate how many of the available ICF-DD(h) beds will be filled by regional center clients in community care as opposed to residents of state hospitals, ICF-DD (large) facilities, and skilled nursing facilities, or by developmentally disabled persons not currently receiving regional center services. Savings will only result to the extent that clients currently in community care facilities occupy those beds.

We recommend that the department report prior to budget hearings on the expected savings to be achieved from converting community care facilities to ICF-DD(h) licensure.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

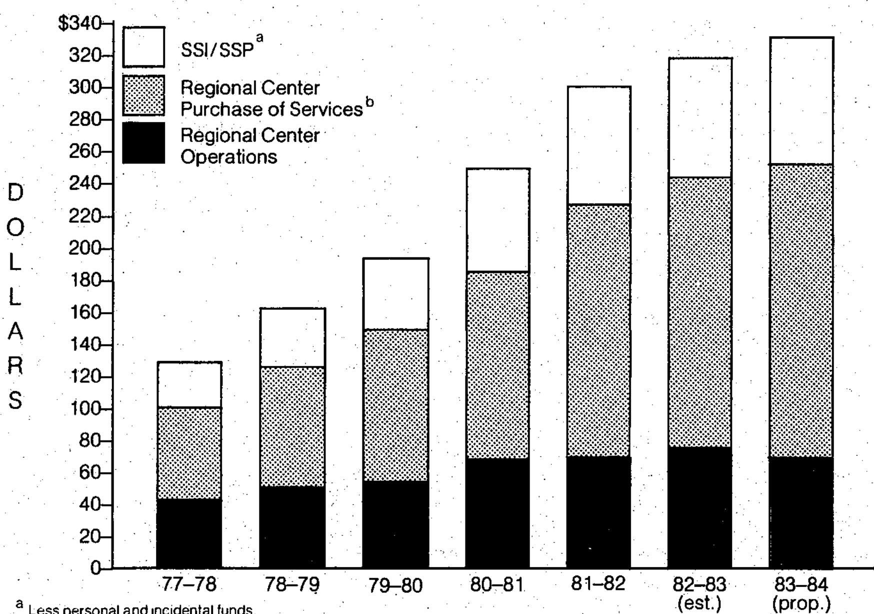
C. REGIONAL CENTERS AND FISCAL POLICY

Growth in Regional Center Expenditures

The cost of the regional center program has grown rapidly during the past six years. Chart 2 shows that expenditures by regional centers and related programs have increased from $129.7 million in 1977–78 to $332.8 million proposed in the budget year, an increase of 157 percent. Of the total increase since 1977–78, $72.8 million is attributable to cost-of-living adjustments. The remaining $130.3 million increase represents real program growth. This increase is equivalent to an average real growth rate of 17 percent annually.

Chart 2

Regional Center Program Expenditures and SSI/SSP Payments to Regional Center Clients 1977–78 to 1983–84 (in millions)



[a] Less personal and incidental funds.
[b] Including work activity programs.

Current-Year Deficit

The department estimates that if current expenditure trends continue, regional center expenditures will exceed available funding in 1982–83 by $11.7 million, or 9 percent of the $129.7 million authorized for purchase of services in the current year. The projection is based on an analysis of regional center expenditures through October 1982.

The current-year budget assumed that (1) in the absence of any program changes, purchase-of-service expenditures would continue to increase at the same rate as they had historically and (2) the department could, by issuing purchase-of-service guidelines, reduce total projected expenditures by $2.5 million. The actual increase in expenditures, however, has been significantly greater than expected since March 1982. Due to time lags in the billing process, information about these larger-than-anticipated expenditures did not become available to the department until after the Legislature had completed action on the 1982 Budget Act.

The increase in purchase-of-service expenditures was largely due to an unexpected increase in expenditures per client in out-of-home care. Out-of-home care includes residential care, specialized services, and independent living programs. The claims data received by the department indicate that the increase in out-of-home care expenditures is largely due to an increase in the regional centers' purchase of more intensive behavior modification services in place of other types of specialized services. An increase in the purchase of these services can have a significant impact on total spending, because intensive behavior modification services cost significantly more than other types of specialized services. Typically, intensive behavior modification costs approximately $1,800 per client per month, while other specialized services cost $350 per client per month.

Department's Actions in the Current Year

The 1982 Budget Act requires the Director of the Department of Developmental Services to establish priorities to guide regional centers' expenditures. The guidelines are necessary in order to achieve the $2.5 million reduction in regional centers' expenditures assumed in the budget. The department issued guidelines, which took effect on November 1, 1982, in order to comply with the 1982 Budget Act language. The guidelines were developed in consultation with the State Council on Developmental Disabilities and the Association of Regional Center Agencies. Specifically, the expenditure guidelines provide that regional centers shall:

- Minimize operation expenditures and redirect any savings to purchase of services.
- Continue (1) developing individual program plans annually for each client and (2) providing intake, diagnosis, and case management services on normal workdays.
- Use, to the maximum extent possible, services provided by other agencies and other funding sources, such as Medi-Cal and SSI/SSP.
- Give the highest priority for expenditures to basic and essential services which are a primary residence, a primary day program, necessary transportation, health care, necessary in-home support, and primary prevention.
- Provide additional basic and essential services in accordance with the client's individual circumstances, to the extent funding permits.

On November 24, 1982, the department issued a memorandum advising regional centers to cease purchasing services for new clients and to restrict services for existing clients. This action was predicated on an analysis of expenditure data submitted by regional centers, which indicated that there could be a system-wide deficit of $11 million if the existing expenditure patterns continued. Specifically, the memorandum directed regional centers to: (1) place all eligible clients not receiving purchased services on waiting lists for services, (2) defer authorizations for new special services until 1983–84, (3) reduce the allowed maximum of five hours of special services per day per client to four hours per day, (4) reduce or defer purchases of recreation and social development services, and (5) allocate respite services only on the basis of individual need.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Court Actions in the Current Year

In separate actions the Superior Court of Los Angeles County and the Superior Court of Sacramento County, during December 1982, issued temporary restraining orders preventing the department from implementing waiting lists or otherwise reducing services to developmentally disabled persons. The restraining order in Los Angeles County was requested by Protection and Advocacy, Incorporated, a federally funded organization, while the order in Sacramento County was requested by the Association for Retarded Citizens—California, a provider of services for the developmentally disabled. Both parties alleged that service reductions violate the rights of developmentally disabled persons, as enumerated in the Lanterman Developmental Disabilities Services Act. The parties also challenged (1) the department's authority to issue restrictive guidelines without undergoing the formal process of adopting regulations and (2) the Legislature's power to require through the Budget Act that the department develop expenditure priorities, which is a substantial departure from provisions in the Lanterman Act. Subsequent to the initial temporary restraining orders, both courts issued preliminary injunctions preventing the department from in any way reducing services until the matter is finally resolved in a trial court.

Policy Consequences and Recommended Law Change

We recommend enactment of legislation which would authorize service restrictions if necessary to limit regional center expenditures to the amount appropriated for that purpose by the Legislature.

Although the civil actions against the department have not yet been decided, the preliminary decisions point out major policy problems that jeopardize legislative control of the budget and should be addressed by the Legislature. The court's decisions, thus far, have explicitly stated that:

- Under existing law, developmentally disabled persons have a right to treatment and habilitation services, regardless of the amount appropriated for these services.
- The Department of Developmental Services does not have the authority to restrict regional center expenditures, regardless of the amount available for these services.

The preliminary rulings imply that the Legislature cannot control regional center expenditures through the budgetary process. Thus, if this ruling holds, aggregate expenditures by regional centers will be determined by the centers' decisions to purchase services indicated to be appropriate in individual client program plans, not by legislative priorities as expressed in the annual Budget Act. If total expenditures exceed the available appropriation, as expected in the current year, the Legislature will, in effect, be forced to provide a deficiency appropriation. Electing not to provide a deficiency appropriation is not a realistic option for the Legislature because it could potentially result in displacement of an undetermined number of clients and the closure of community facilities and programs when the available funding is exhausted.

Given these circumstances, if the courts do not reverse their preliminary rulings, the Legislature will have to decide between two courses of action in 1983: (1) appropriate $11.7 million to cover the estimated current-year deficit and augment the proposed budget by approximately $34 million in order to fully fund the program as mandated by the Lanterman Act or (2) amend the Lanterman Act to authorize the department to implement expenditure controls consistent with legislative policy as expressed in the annual Budget Act.

The absence of effective legislative or administrative control over the expenditures of major programs such as those administered by the Department of Developmental Services is neither desirable nor prudent from a fiscal perspective. It is not fiscally prudent because it leaves the Legislature without an effective means of controlling expenditures through the budget process. It is not desirable because it carries the risk of significant adverse consequences if the Legislature should ever find itself in a position of not being able to appropriate the additional funds needed to close a substantial deficit in the program. Were this to happen, the result would be major disruptions to the lives of many developmentally disabled persons in community programs. These problems could be avoided if the administration were given the statutory authority to limit program expenditures to the amounts appropriated by the Legislature based on the program's priority relative to that of other programs. On this basis, we recommend enactment of legislation authorizing service restrictions if necessary to limit aggregate regional center expenditures to the amount appropriated for regional center programs by the Legislature. This legislation should require that (1) the aggregate regional center contract amount shall not exceed the amount appropriated by the Legislature for that purpose, (2) the Department of Developmental Services shall establish guidelines for purchase of services by regional centers, (3) regional centers shall conform their purchase of services to the guidelines established by the department, and (4) individual regional center expenditures shall not exceed the total amount set forth in their contracts.

III. OTHER COMMUNITY PROGRAMS

A. FEDERAL SUPPORT FOR HOME- AND COMMUNITY-BASED PROGRAMS

California has long had a policy of providing alternatives to institutionalization for its frail elderly, blind, disabled, mentally ill, and developmentally disabled citizens. Due to past limitations on use of federal Medicaid funds, California has had to support these alternatives primarily using state General Fund monies.

It appears that part of the burden of supporting these alternatives may be borne by the federal government in the future. The Omnibus Budget Reconciliation Act of 1981 (PL 97-35) authorized the federal Department of Health and Human Services (DHHS) to waive provisions of the Medicaid program (Title XIX of the Social Security Act) so that states can use Medicaid funding for home- and community-based services.

The Department of Developmental Services (through the Department of Health Services) submitted an initial request for a waiver in December 1981. The initial proposal identified 16,120 clients including both clients in institutions and those likely to be institutionalized, whose care would be financed through the state's Medi-Cal program. The DHHS, however, determined that the client pool identified in the proposal inappropriately included clients other than those already institutionalized and rejected the proposal. The department then submitted a revised proposal, which limited availability of qualifying home- and community-based services to 2,152 institutionalized clients. Subsequent revisions were submitted to

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

clarify or amend technical points, and on November 5, 1982, DHHS approved the requested waiver and proposal for Medi-Cal reimbursement of the cost of these services. The waiver will be in effect until June 30, 1985, at which time a new proposal may be submitted.

The approved waiver allows Medicaid reimbursement for the following services provided by regional centers: (1) personal support and habilitation, (2) adult day training, (3) transportation, (4) direct client services and administration, (5) respite, and (6) homemaker and home health services. The department estimates that the state's General Fund will realize savings of $7.5 million in connection with the services provided to 721 clients in the current year, and $15.1 million in connection with services provided to 1,460 clients in 1983–84.

B. PROGRAM DEVELOPMENT FUND

The Developmental Disabilities Program Development Fund (PDF) was established by Ch 1369/76 to provide start-up grants for new community programs. The PDF is supported by federal funds from the State Council on Developmental Disabilities and by fees collected from parents of minor children in out-of-home community care. Since the first cycle of PDF grants in 1977–78, the fund has financed 142 projects at a cost to the PDF of $9 million. These projects have created more than 4,000 new program spaces. After receiving start-up grants for up to 24 months, the ongoing program costs are incorporated into the regional center purchase-of-service budget.

The 1983–84 budget for regional centers proposes a General Fund augmentation of $2,261,000 to support programs started with PDF funds in 1981–82 and 1982–83.

The budget proposes expenditures of $2,842,000 from the PDF in 1983–84. This is a decrease of $235,000, or 7.6 percent, below estimated current-year expenditures. The proposed expenditures include $172,000 for support of four positions in the department, $500,000 for purchase of respite care and camp services, and $2,170,000 for new program start-up grants in 1983–84.

Excess Program Development Fund Balance

We recommend that $121,000 of the Program Development Fund reserve be used to offset the cost to the General Fund of services purchased by regional centers. Accordingly, we recommend an increase of $121,000 in Item 4300-101-172 and a reduction of $121,000 in Item 4300-101-001.

Chapter 327, Statutes of 1982, authorizes the Legislature to appropriate any parental fees not needed for new program start-up grants to offset the costs to the General Fund of services purchased by regional centers. Accordingly, the Legislature appropriated $500,000 from the PDF for respite and camp services and $187,000 for ICF-DD(h) programs in the 1982 Budget Act. These programs would otherwise have been funded from the General Fund. The budget again proposes to use $500,000 from the PDF for funding of respite and camp services in 1983–84. The ICF-DD(h) programs are now funded through the Medi-Cal program.

The budget shows a reserve of $206,000, or 7.3 percent of total expenditures, remaining at the end of 1983–84. Our analysis indicates that a 7.3 percent reserve is excessive and that a 3 percent reserve would be sufficient to meet program needs during the budget year. Specifically, our analysis of the fund's revenues and expenditures for the period 1978–79 through 1981–82 indicates that actual revenues exceeded budgeted revenues by at least $99,000 in each year. Because the fund has a stable revenue history and there is little danger that expenditures from the fund will exceed the amount appropriated, we believe a 3 percent reserve should be adequate to provide for unforeseen contingencies. We note that the budget proposes a 3 percent reserve for the state's General Fund. For these reasons, we recommend that an additional $121,000 from the PDF be budgeted for regional center respite and camp services, leaving a balance of $85,000, or 3 percent, as a reserve in the PDF.

Parental Fees for Nonresidential Services

The 1982 Budget Act (Item 4300-101-172) requires the Department of Developmental Services to design and implement fee schedules for nonresidential services by July 1, 1983. The Budget Act also required that the fee schedules reflect specified criteria and that they be designed in consultation with a Parental Fee Advisory Committee.

In October 1982, the department notified the Joint Legislative Budget Committee (1) that it was unable to comply with the Budget Act directive because the budget language was not sufficiently clear with regard to whether fees should be assessed against parents of children living at home and (2) the department believed that the Lanterman Act prohibited it from charging fees to parents of children living at home. Subsequently, we requested Legislative Counsel's opinion on the two issues raised by the department.

The Counsel's opinion, dated January 20, 1983, indicated that the budget language, as written, is not enforceable. The Legislature has two options if it wishes to implement a schedule of fees for nonresidential services: (1) adopt Budget Bill language which (a) clearly specifies the Legislature's intent regarding who shall be assessed fees and for which services these fees should be charged and (b) makes the expenditure of funds contingent upon implementation of the fee schedules or (2) enact legislation requiring the department to design and implement a fee schedule for nonresidential services. We make no recommendation on this issue, because the matter of parental fees for nonresidential services is part of a broader issue related to the level of parental fees and the types of services for which fees are assessed.

C. LEGISLATIVE MANDATES

The budget proposes $144,000 in Item 9680-101-001 for legislative mandates in 1983–84. This is a decrease of $136,000, or 49 percent, below estimated current-year expenditures. This decrease is due to deletion of a one-time current-year appropriation of $136,000 in Ch 1586/82 to reimburse claims for costs incurred in prior fiscal years. The budget proposes to reimburse local agency costs for complying with the following mandates:

1. Chapter 498, Statutes of 1977, requires coroners' inquests into deaths at state hospitals;
2. Chapter 694, Statutes of 1977, requires court-appointed public defenders to represent developmentally disabled persons in conservatorship and guardianship hearings;
3. Chapter 1304, Statutes of 1980, requires court-appointed public defenders to represent developmentally disabled persons in limited conservatorship hearings;

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

4. Chapter 644, Statutes of 1980, requires various judicial proceedings related to dangerous mentally retarded state hospital residents; and
5. Chapter 1253, Statutes of 1980, requires court-appointed public defenders to represent mentally retarded persons charged with misdemeanors.

IV. STATE HOSPITALS

A. ALL STATE HOSPITALS

The state operates 11 hospitals which provide services to mentally disabled and developmentally disabled clients. Eight of the 11 hospitals (Agnews, Camarillo, Fairview, Lanterman, Napa, Porterville, Sonoma, and Stockton) are under the jurisdiction of the Department of Developmental Services. The remaining three hospitals (Atascadero, Metropolitan, and Patton) are operated by the Department of Mental Health. The Department of Mental Health also manages programs for the mentally disabled at two state hospitals (Camarillo and Napa) operated by the Department of Developmental Services.

The budget proposes an appropriation of $545,696,000 from the General Fund for support of the state hospitals in 1983–84. This is an increase of $21,475,000, or 4.1 percent, above estimated current-year expenditures. Total expenditures, including those supported by reimbursements, are proposed at $567,822,000, which is an increase of $30,688,000, or 5.7 percent, above estimated current-year expenditures.

The budget proposes 17,892 positions for 1983–84, which is 311, or 1.8 percent, more than the level authorized for the current year. Table 9 displays, by department, the positions requested for 1983–84 and those authorized for the two previous years.

Table 9
State Hospital Positions
All Programs
1980–81 to 1983–84

	Actual 1980–81	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Developmental Services [a]				
Positions	16,185	15,607	13,664 [b]	13,745
Percent change	0.3%	−3.6%	−12.4%	0.6%
Mental Health				
Positions	2,566	2,629	3,917 [b]	4,147
Percent change	3.1%	2.4%	49.0%	5.9%
Total, both programs				
Positions	18,751	18,236	17,581	17,892
Percent change	0.2%	−2.7%	−3.6%	−1.8%

[a] Excludes positions which serve mentally disabled clients who are in hospitals managed by the Department of Developmental Services.

[b] Reflects the transfer of Patton State Hospital and 1,343 associated positions from the Department of Developmental Services to the Department of Mental Health.

Population Projections

The budget projects that the hospital population will decline from 12,849 at the end of the current year to 12,601 at the end of the budget year, a reduction of 248, or 1.9 percent. Table 10 shows hospital populations at fiscal year-end from 1979–80 through 1983–84.

Table 10

State Hospital In-Hospital Population At End of Fiscal Years 1979–80 to 1982–83

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Mentally disabled (MD)					
Atascadero	963	1,090	1,185	1,120	1,168
Metropolitan	788	883	847	944	932
Subtotals	1,751	1,973	2,032	2,064	2,100
Developmentally disabled (DD)					
Agnews	968	1,037	1,044	1,069	1,028
Fairview	1,333	1,296	1,233	1,217	1,163
Lanterman	1,404	1,336	1,242	1,213	1,187
Porterville	1,563	1,520	1,461	1,398	1,328
Sonoma	1,579	1,464	1,368	1,457	1,353
Subtotals	6,847	6,653	6,348	6,354	6,059
Combined populations					
Camarillo	1,392	1,400	1,310	1,125	1,152
DD	(535)	(584)	(586)	(542)	(558)
MD	(857)	(816)	(724)	(583)	(594)
Napa	1,738	1,687	1,634	1,549	1,558
DD	(387)	(376)	(361)	(281)	(292)
MD	(1,351)	(1,311)	(1,273)	(1,268)	(1,266)
Patton	1,224	1,257	1,142	1,184	1,190
DD	(280)	(181)	–	–	–
MD	(944)	(1,076)	(1,142)	(1,184)	(1,190)
Stockton	732	692	592	573	542
DD	(651)	(619)	(582)	(573)	(542)
MD	(81)	(73)	(10)	–	–
Subtotals	5,086	5,036	4,678	4,431	4,442
DD	(1,853)	(1,760)	(1,529)	(1,396)	(1,392)
MD	(3,233)	(3,276)	(3,149)	(3,035)	(3,050)
Totals	13,684	13,662	13,058	12,849	12,601
DD	(8,700)	(8,413)	(7,877)	(7,750)	(7,451)
MD	(4,984)	(5,249)	(5,181)	(5,099)	(5,150)

Level-of-Care (Direct Patient Care) Staffing

The Departments of Developmental Services and Mental Health both indicate that they are unable to place enough level-of-care staff in state hospitals to meet staffing standards established for licensing and certification within existing resources. The departments indicate that there are two primary reasons for the staff shortages: (1) the budgeted coverage factor (the allowance for staff absences such as vacation, sick leave, and the like) is inadequate because of recent increases in the rate of staff absences and (2) the departments have been forced to hold authorized positions vacant due to salary savings requirements set forth in the budget.

The budget for 1983–84 proposes an increase in the coverage factor to correct for staff shortages resulting from absences. The budget does not,

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

however, propose a reduction in salary savings requirements.

We discuss the coverage factor proposal in the next section of this analysis. Below, we summarize the current status of state hospital staffing standards.

Development of Staffing Standards. At the Legislature's direction, both departments, in conjunction with the Department of Health Services, developed state hospital staffing standards in 1979. The standards were designed to comply with state licensing regulations and federal certification requirements.

The 1979 and 1980 Budget Acts included augmentations to fully staff the hospitals according to the standards. Since that time, *the Legislature has approved all of the budget requests for additional staff to meet licensing and certification requirements.*

As a result of complying with federal certification requirements, hospitals operated by the Department of Developmental Services currently claim approximately $155 million annually in federal funds for services rendered to Medi-Cal and Medicare beneficiaries.

Current Status—Department of Mental Health. In the current year, the labor union representing the psychiatric technicians sued the Department of Mental Health for failure to meet level-of-care staffing standards. In an order issued on January 5, 1983, the Sacramento County Superior Court found that between July 1 and September 30, 1982, minimum staffing standards were not met at Atascadero on 35 percent of the shifts, at Patton on 57 percent of the shifts, or at Metropolitan on 13 percent of the shifts. The court ordered the Department of Mental Health within 90 days to (1) identify programs, functions, and activities which could be curtailed to provide funds for what the court deemed to be more essential services; (2) present a proposal for increasing level-of-care staff at the three hospitals to minimum staffing levels; and (3) seek from the Department of Finance additional funds or authorization to spend already appropriated funds to meet level-of-care staffing requirements.

Current Status—Department of Developmental Services. The department indicates that it currently has staff shortages on some shifts at some of the hospitals it operates. The department also indicates that it has received individual licensing citations which have required correction. The hospitals have remained certified, however, and continue to receive federal funds.

The portion of the overall problem which relates to the coverage factor has been documented, and additional positions have been requested to correct these deficiencies. The budget does not mention or address other staffing problems, if any.

Coverage Factor

We recommend approval.

The coverage factor is a staffing allowance that is intended to compensate for normal staff absences from work due to vacation, sick leave, and other factors. The budget proposes to add 480 new positions, at a General Fund cost of $9,409,000, to increase the coverage factor in the 11 state hospitals. The 480 positions include 184 in hospitals operated by the Department of Mental Health ($3,765,000) and 296 in hospitals operated by the Department of Developmental Services ($5,644,000). The 480 new positions represent an increase of 2.7 percent in total state hospital staffing and an increase of approximately 4.6 percent in level-of-care (direct patient care) staffing.

The departments state that the coverage factor adjustment is needed to correct for a gradual decline in the number of staff present on the wards that has occurred as a result of increased staff absences for various reasons. The 1982 Budget Act provides backup staffing ("coverage") for 40.96 days of absence per level-of-care employee per year. The budget for 1983–84 proposes to increase backup staffing to provide for 50.16 days of absence for each nursing and rehabilitation therapist position and 46.85 days for other professional level-of-care staff positions. Table 11 displays current-year authorized and proposed days of absence by type of absence.

Table 11
State Hospitals
Per Level-of-Care Employee Per Year
Authorized versus Proposed

	1982–83 Authorized Days	*1983–84 Proposed Days: Nursing and Rehabilitation*	*1983–84 Proposed Days: Other Professional*	*Change: Nursing and Rehabilitation*	*Change: Other Professional*
Vacation	15.23	15.23	15.23	—	—
Paid holidays	11.00	12.00	12.00	1.00	1.00
Sick leave taken	9.37	9.30	9.30	–.07	–.07
Industrial disability leave	—	2.95	2.95	2.95	2.95
Nonindustrial disability insurance	2.21	4.22	4.22	2.01	2.01
Training	3.00	3.00	3.00	—	—
Military/jury duty	.15	.15	.15	—	—
Time and one-half for working on holidays	—	3.31	—	3.31	—
Total allowed absence	40.96	50.16	46.85	9.20	5.89
Total days at work	219.74	210.54	213.85	–9.20	–5.89
Total days paid	260.70	260.70	260.70		

There are three major reasons for this coverage factor increase:

- One floating holiday per employee per year was authorized as a result of the 1982 collective bargaining agreements. The Legislature was informed in June 1982 that the additional holiday would not add to the cost of government. The state hospitals, however, are requesting new funds to pay for staff coverage on the new holiday.
- The level of absences related to increased industrial and nonindustrial disability leave have increased by approximately 5 days per level-of-care employee.
- The departments proposes to recognize in the coverage factor the costs of paying employees at one and one-half times their normal rates on holidays.

Our review of the coverage factor proposal indicates that the requested positions are justified based on documented increases in staff absences. Therefore, we recommend approval.

Workers' Compensation Expenditures

We recommend that the departments submit a report to the Legislature by April 1, 1983, which indicates why workers' compensation, industrial disability leave, and nonindustrial disability insurance costs have increased and what measures can be taken to control costs.

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The budget for the Department of Mental Health proposes an augmentation of $1,525,000 in the amount budgeted for workers' compensation, industrial disability leave (IDL), and nonindustrial disability insurance (NDI). This is an increase of 58 percent above the amount budgeted in the current year. As discussed earlier, both departments have experienced increases in the number of days of staff absences for IDL and NDI.

The department has no control over the fees that it must pay for workers' compensation, IDL, or NDI benefits received by state hospital employees. Our review indicates that the amount budgeted is necessary to meet departmental obligations. Therefore, we recommend approval of the amount budgeted.

We recommend, however, that by April 1, 1983, the departments submit a report to the Legislature, which specifically indicates why workers' compensation, IDL, and NDI costs have increased and what steps should be taken to prevent future cost increases.

General Overtime Funding

We recommend a reduction of $2,610,000 ($2,491,000 from Item 4300-101-001 and $119,000 from Item 4440-011-001) to correct inappropriate budgeting of state hospital overtime.

The budget proposes $6,151,000 for employee overtime in the 11 state hospitals, including $4,651,000 for general overtime and $1,500,000 for additional overtime that was granted initially in labor agreements signed during 1982–83.

Our review of the general overtime funding request ($4,651,000) indicates that no consistent policy is followed in budgeting for overtime worked by employees of the Departments of Developmental Services and Mental Health. Table 12 shows that on a per-capita basis, the Department of Developmental Services overtime request per employee is twice the amount requested for general overtime worked by each of the Department of Mental Health's employees, other than those at Patton (which was transferred from the Department of Developmental Services in the current year).

Table 12

Proposed State Hospital Overtime Expenditures

1983–84

	Proposed Expenditures (in thousands)	*Available Positions* [a]	*Overtime Request per Position*
A. General overtime			
1. Department of Developmental Services	$4,058	13,745	$295
2. Department of Mental Health Excluding Patton	325	2,839	114
3. Patton	268	1,308	205
Subtotals	$4,651	17,892	$260
B. Labor agreement overtime			
1. Department of Developmental Services	$1,171	13,745	85
2. Department of Mental Health	329	4,147	79
Subtotals	$1,500	17,892	84
C. All overtime			
1. Department of Developmental Services	5,229	13,745	380
2. Department of Mental Health	922	4,147	222
Totals	$6,151	17,892	$344

[a] Net positions available after reductions for salary savings.

The funding discrepancy reflects the Department of Developmental Services' policy to budget overtime funds to provide level-of-care (direct patient care) staffing on a regular basis. The Department of Mental Health does not budget overtime funds for this purpose, except for employees assigned to Patton State Hospital. Instead, the Department of Mental Health budgets overtime funds for non-level-of-care staffing needs in special circumstances.

Budgeting overtime funds to provide level-of-care staff on a regular basis is inappropriate and unnecessarily costly. The State Administrative Manual (SAM) indicates that the preferred method of funding positions is to list required positions in the budget, by unit, in order to provide the Legislature with a clear understanding of staffing needs. The SAM does not consider the provision of *regular* staff coverage as a special circumstance which justifies the use of overtime. Furthermore, the use of overtime to provide regular, as opposed to extraordinary, coverage needlessly increases costs per hour of service, because employees working overtime are paid at one and one-half times their normal salaries. Finally, reliance on overtime for ongoing requirements is poor budgetary practice, because it can enable departments to undertake activities that would otherwise require justification through the budget change proposal process.

Our analysis indicates, moreover, that the departments should not need to fund additional level-of-care staff through overtime in 1983–84 due to the coverage factor adjustment requested in the budget (which we recommend be approved). This adjustment would add 480 level-of-care positions to the hospitals, at a cost of $9,409,000.

For these reasons, we recommend that general overtime funds for the eight hospitals operated by the Department of Developmental Services and Patton State Hospital, which is operated by the Department of Mental Health, be budgeted based on the same per-capita amount, $114 per employee, proposed by the Department of Mental Health for its two other hospitals. This recommendation would reduce the Department of Developmental Services' general overtime requirement from $4,058,000 to $1,567,000, a reduction of $2,491,000, and would reduce the Department of Mental Health's requirement for Patton from $268,000 to $149,000, a reduction of $119,000.

Labor Agreement Overtime Funding

We recommend deletion of $1.5 million requested for psychiatric technician overtime pay, because these funds should be budgeted in the employee compensation item.

The budget requests a $1.5 million augmentation to pay overtime to psychiatric technicians employed by the 11 state hospitals. Of that amount, $329,000 would be used for overtime at the three hospitals under the jurisdiction of the Department of Mental Health, and the balance, $1,171,000, would be used for overtime at the eight hospitals under the jurisdiction of the Department of Developmental Services.

Prior to 1981–82, the state paid psychiatric technicians for overtime. The rate of payment was one and one-half times the normal salary. In 1981–82, however, the state hospitals experienced staffing reductions and hiring freezes resulting primarily from declines in the hospitals' population. One effect of these reductions was that in the latter part of 1981–82, the depart-

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ments discontinued paying psychiatric technicians to work overtime. Instead, the psychiatric technicians received one and one-half hours of compensatory time off (CTO) for each hour of overtime worked. Despite this policy, overtime costs at 10 hospitals (excluding Patton, which had security problems requiring extensive use of overtime) for 1981–82 exceeded the amount budgeted by $1,352,000, or 30 percent.

In June 1982 representatives of the psychiatric technicians negotiated an agreement with the state, which called for the Department of Finance to request an appropriation of $1.5 million for psychiatric technicians' overtime in 1982–83 and an additional $1.5 million in 1983–84. The 1982 Budget Act included $1.5 million *in the employee compensation item,* Item 9800-001-001 (a), for this purpose. The budget proposes to appropriate $1.5 million for psychiatric technicians' overtime in 1983–84. The appropriation, however, shows up as an augmentation to the budget for the state hospitals, rather than as an allocation of funds requested for employee compensation increases in Item 9800-001-001.

We recommend that the $1.5 million requested to pay psychiatric technicians for the overtime they work be deleted from the state hospital budget items and that funding for this purpose be considered in connection with the $211 million proposed for employee compensation in Item 9800-001-001. The basis for our recommendation is as follows:

1. We have no data which indicate that the requested funds are justified on a workload basis in 1983–84. An additional 480 positions have been requested for state hospitals, which, if approved, should reduce the hospitals' overtime requirements during 1983–84. Because the funds have not been justified on a workload basis, the issue is appropriately considered as a compensation issue.
2. The labor agreement provides in Section 15 (c) that, "such funds shall be from funds appropriated by the Legislature for employee compensation."
3. The Legislature will find it difficult to identify the costs of the various collective bargaining agreements if appropriations are spread among many budget items.
4. The 1983 collective bargaining negotiations may result in changes which will affect the amount requested.

State Hospital Non-Level-of-Care Staffing

We recommend the adoption of Budget Bill language to insure that the departments begin to correct imbalances in non-level-of-care staffing among and within the individual state hospitals.

In 1978 the Legislature passed ACR 103, which required development of staffing standards for all positions in state hospitals, including non-level-of-care staff. Non-level-of-care staff includes approximately 7,000 positions in food preparation, janitorial, clerical, building repair, grounds maintenance, administration, and other staff functions not directly involved with the treatment of patients. In April 1981 the Departments of Developmental Services and Mental Health submitted a preliminary report to the Legislature with proposed staffing standards for approximately one-half of the non-level-of-care staff. Since April 1981, the two departments have jointly proposed additional standards covering approximately 90 percent of non-level-of-care staff. The proposed standards have not been reviewed or accepted by either the Department of Finance or the Legislature.

The staffing standards proposed by the departments indicate that certain hospitals have too many employees, while others have too few. For example, based on the standards, some hospitals have too many clerical employees, while others have too few. There are also disparities within hospitals. For example, one hospital may have too many cooks but not enough personnel to maintain the buildings.

According to the proposed staffing standards, there is more understaffing than overstaffing. The departments indicate that if the draft standards were fully implemented, an additional 388 positions would be needed in the 11 state hospitals. Based on the standards, 9 of the 11 hospitals are understaffed; Fairview is overstaffed by 29 positions, or 4.1 percent of non-level-of-care staff; and Metropolitan is overstaffed by 41 positions, or 5.5 percent.

Table 13 shows, by major category of non-level-of-care staff, which hospitals are under or over the proposed staffing standard.

Table 13

Percent of State Hospital Non-Level-of-Care Positions Over (+) or Under (−) Proposed Staffing Standard

	Clerical Services	*Administrative Services* [a]	*Clinical Services* [b]	*Support Services* [c]	*Plant Operations* [d]
Agnews	−32%	−22%	−13%	−2%	−22%
Atascadero	−10	−4	—	−1	−25
Camarillo	+2	−7	−12	−14	−6
Fairview	−27	−8	+6	−19	−11
Lanterman	−16	−12	+4	+17	−4
Metropolitan	+20	+4	−2	−5	−9
Napa	+11	−3	−2	+10	−16
Patton	−18	−16	+7	−6	−17
Porterville	−45	−11	−12	−6	−18
Sonoma	−23	+3	−8	−11	−1
Stockton	+20	−8	+10	+4	−24

[a] Administrative services include executive, medical records, accounting, patient trust office, personnel, telephone switchboards, peace officers, and other staff.

[b] Clinical services include pharmacists, dentists, surgeons, podiatrists, laboratory personnel, medical residency programs, librarians, chaplains, and other staff.

[c] Support services include food preparation, food service, warehouse and supply, clothing repair, janitorial, laundry, and other staff.

[d] Plant operations include plumbers, carpenters, painters, grounds keepers, boiler room operators, and other staff.

Analyst's Recommendation. Even though the proposed non-level-of-care staffing standards have not been reviewed by the Department of Finance or the Legislature, it is nevertheless possible for the Departments of Developmental Services and Mental Health to begin addressing some of the most obvious staffing imbalances within and between hospitals. Specifically, the departments could (1) redirect vacant positions in overstaffed functions to understaffed functions and (2) transfer 29 positions from Fairview and 41 positions from Metropolitan to other hospitals.

We recommend adoption of Budget Bill language which would require the departments to begin correcting these imbalances by transferring and reclassifying excess positions so as to increase staffing in understaffed areas without increasing overall costs or the total number of positions. We recommend that the language also require the departments to (1) adjust their position rosters to accurately reflect current staff distributions, (2)

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maintain records and statistics necessary to monitor implementation, and (3) report to the Legislature by December 1, 1983. Specifically, we recommend that the following Budget Bill language be added to Items 4300-101-001, 4440-011-001, and 4440-101-001:

"The Departments of Developmental Services and Mental Health shall adopt and implement a 1983–84 non-level-of-care staffing plan. No vacant non-level-of-care position shall be filled in any state hospital until the Department of Finance has approved the plan. The plan shall:

"1. Prohibit the filling of any vacant non-level-of-care position which exceeds 95 percent of the departments' proposed staffing standards, and provide that vacant positions in classifications which exceed 100 percent of the staffing standard shall be reclassified and redirected to provide additional positions for classifications which have less than 95 percent of the staffing standards.

"2. Provide for transfer of 29 non-level-of-care positions from Fairview State Hospital and 41 non-level-of-care positions from Metropolitan State Hospital to other state hospitals on the basis of need.

"3. Provide that neither total personnel costs nor total non-level-of-care positions will increase in 1983–84 or 1984–85 as a result of implementing the plan.

"The departments shall further:

"1. Develop position rosters which accurately reflect current state hospital staff distributions. A state hospital may fill vacant non-level-of-care positions after September 15, 1983, only if its position roster has been approved by the Department of Finance.

"2. Maintain such records and statistics as are necessary to monitor implementation of and compliance with the plan.

"3. Jointly submit a report to the fiscal committees of the Legislature, by December 1, 1983, which shall, in narrative and statistical form, describe the progress made in implementing non-level-of-care staffing standards."

Table 14

State Hospital Developmental Disabilities Program
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
Adjusted base budget, 1982–83	$313,973	$316,745
A. Changes to maintain current program		
1. Merit salary adjustment	2,679	2,679
2. Price increase	1,703	1,703
3. Eliminate funding for leased space	−1,100	−1,100
4. Restore retirement reduction	8,424	8,424
5. Special repairs	72	72
6. Energy and utility savings	−326	−326
7. Limited-term nurse instructor positions	−438	−438
B. Caseload adjustments		
1. Reduce budget-year direct care staff	−1,809	−1,809
2. Eliminate temporary staff allocation	−1,213	−1,213
C. Budget change proposals		
1. Nurse instructors	313	313
2. Increase coverage factor	5,644	5,644
3. Upgrade Agnews to general acute care licensure	694	694
D. Cost-of-living adjustments for state hospital education funds	128	128
Proposed budget, 1983–84	$328,744	$331,516

B. DEVELOPMENTAL DISABILITIES PROGRAMS

The budget proposes a General Fund appropriation of $328,744,000 to support state hospital programs for the developmentally disabled in 1983–84. This is an increase of $14,771,000, or 4.7 percent, above estimated current-year expenditures. Total expenditures, including those supported by federal funds and reimbursements, are proposed at $331,516,000, which is an increase of $14,771,000, or 4.7 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary and benefit increase approved for the budget year. Table 14 shows the adjustments to the current-year budget proposed for 1983–84.

Population Adjustments

Based on trends through October 1982, the department projects that the number of developmentally disabled persons residing in state hospitals will decline from 7,750 on June 30, 1983, to 7,451 on June 30, 1984. This is a decline of 299, or 3.9 percent. The budget proposes to reduce direct care staff by 220.4 positions as a result of the projected population decline, for a savings of $1,809,000, and to delete $1,213,000 in current-year temporary staff allocations that state hospitals receive in order to provide services while the population declines to its year-end figure. An additional $3,384,-000 in temporary staff allocations will be reduced from the 1984–85 budget.

The department's budget proposal is based on population trends through October 1982. These projections could change by May, when the department will have completed its analysis of population trends through March 1983.

Agnews State Hospital General Acute Care Licensure

The budget proposes 21.5 new level-of-care (direct patient care) positions and $694,000 in General Fund support to upgrade Agnews State Hospital to general acute care licensure. Of this amount, $521,000 is proposed for 20 nursing and 1.5 other level-of-care positions, $95,000 is for a one-time licensure-related equipment costs, and $78,000 is for drugs and specialty consultants. The department estimates that $150,000 will be redirected in the current-year budget to fund structural alterations required for licensure.

The budget estimates that upgrading Agnews to general acute care licensure will allow the hospital to claim an additional $3.9 million in federal funds for services provided to Medi-Cal and Medicare beneficiaries. Because Agnews is currently licensed as a skilled nursing facility, it is reimbursed at approximately $63 per patient-day. Converting the hospital to general acute licensure will qualify Agnews skilled nursing and intermediate care beds for reimbursement at the "distinct part" rate of approximately $114 per patient-day. (The distinct part rates apply to skilled nursing and intermediate care units within acute hospitals.)

Psychiatric Technician Training Program

The budget proposes to establish permanently nine limited-term nurse instructor positions, at a cost to the General Fund of $313,000. The requested positions will be allocated as follows: five positions will be located at Camarillo, three at Sonoma and one at Agnews. In addition to recruiting for licensed staff, the hospitals use the psychiatric technician training

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

program to help meet the continuing need for licensed psychiatric technicians. The turnover rate for psychiatric technicians is approximately one in five positions annually; thus, system-wide there is an annual need for 200 new licensed staff. Continuing the requested nine nurse instructor positions would enable the department to fill approximately one-half of the psychiatric technician vacancies from the training program. The remaining positions will be filled through recruitment.

Hospital Client Support System (HCSS)

The Hospital Client Support System (HCSS) is the department's overall plan for state hospital automation. It is a series of modular systems, each designed to meet the functional needs of a specific area of hospital operation. The eight modules of the HCSS are (1) pharmacy, (2) client movement, (3) trust accounting, (4) dietary operations, (5) plant operations and maintenance management, (6) personnel and position control, (7) clinical records, and (8) budgets and accounting. Currently the pharmacy module requires only the procurement of hardware to complete, and the client movement and trust accounting module is expected to be implemented in the current year. The budget proposes to establish one new position to support and maintain the operational modules. The position would be funded through a redirection of existing resources.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY

Item 4300-301 from the General Fund, Special Account for Capital Outlay, and Energy and Resources Fund, Energy Account — Budget p. HW 87

Requested 1983–84	$6,205,000
Recommended approval	738,000
Recommended reduction	543,000
Recommendation pending	4,924,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Transfer savings to the General Fund. Recommend that the $543,000 in recommended reductions be transferred from the Special Account for Capital Outlay, and Energy and Resources Fund, to the General Fund, in order to increase the Legislature's fiscal flexibility to meet high priority needs statewide. 952
2. Fire and Life Safety and Environmental Improvements Program. Recommend that the Department of Finance submit to the Legislature a post-audit report on this major renovation program. 952
3. Fire Detection System—Napa State Hospital. Withhold recommendation on $741,000 proposed to correct deficien- 953

cies noted by State Fire Marshal, pending completion of preliminary plans for the proposed project.

4. RTC Fire and Life Safety and Environmental Improvements—Napa State Hospital. Withhold recommendation on $2,964,000 in construction funds, pending receipt of (1) additional information regarding the status of funds previously appropriate for this project and validation of the estimated project cost, and (2) a report by the Department of Mental Health on its plan for renovating state hospital facilities for the mentally disabled. 953
5. ***Central Supply—Sonoma State Hospital. Reduce by $30,-000.*** Recommend preliminary plans and working drawing funds be deleted because the work included in the proposed project is not consistent with the project scope needed to correct licensing deficiencies. 955
6. ***Fire Detection System—Stockton State Hospital. Reduce by $27,000.*** Recommend deletion of Item 4300-301-036(e) for preliminary plans and working drawings to install a fire detection system because adequate fire protection systems have already been installed at this hospital under the major Fire and Life Safety remodeling project previously funded by the Legislature. 955
7. Steam and Hot Water Pipe Insulation—Agnews (West Campus). Withhold recommendation on construction funds for reinsulation of pipes, pending receipt of preliminary plans and information substantiating the cost/benefit of the project. 956
8. Steam and Hot Water Pipe Insulation—Agnews (East Campus). Withhold recommendation on construction funds for reinsulation of pipe, pending receipt of preliminary plans and information substantiating the cost/benefit of the project. 956
9. ***Minor Capital Outlay—General Improvements. Reduce by $416,000.*** Recommend that five projects totaling $408,-000 which are not justified be deleted, and that one project be reduced by $8,000 to eliminate overbudgeting. 957
10. ***Minor Capital Outlay—Energy Conservation. Reduce by $70,000.*** Recommend that funds for replacement of pipe insulation at Napa State Hospital be deleted because adequate information to substantiate the claimed energy savings has not been provided. 959

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of $6,205,000 in capital outlay for the Department of Developmental Services. The request consists of $4,796,000 from the General Fund, Special Account for Capital Outlay (SAFCO), and $1,409,000 from the Energy and Resources Fund (ERF), Energy Account. Table 1 summarizes the proposed program and our recommendations on each project.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Table 1
Department of Developmental Services
Capital Outlay Projects 1983–84

Item/Project Title	Location	Phase[a]	Budget Bill Amount	Analyst's Proposal	Estimated[b] Future Cost
SAFCO (Item 4300-301-036):					
(a) Minor Capital Outlay	Statewide	pwc	$1,034	$618	—
(b) Install Fire Detection System—Buildings 147, 174, 176, 177, 178, 181 and 183	Napa	c	741	pending	—
(c) Fire and Life Safety and Environmental Improvements—RTC Building	Napa	c	2,964	pending	—
(d) Alter Paxton for Central Supply Services	Sonoma	pw	30	—	$573
(e) Fire Detection System	Stockton	pw	27	—	358
Subtotals			$4,796	pending	$931
ERF (Item 4300-301-189):					
(a) Minor Capital Outlay	Statewide	pwc	$190	$120	—
(b) Steam and Hot Water Pipe Insulation	Agnews, West	c	1,049	pending	—
(c) Steam and Hot Water Pipe Insulation	Agnews, East	c	170	pending	—
Subtotals			$1,409	pending	—
Totals			$6,205	pending	$931

[a] Phase symbols indicate: p = preliminary plans, w = working drawings and c = construction.
[b] Department estimate.

Transfer to General Fund

We recommend that the savings resulting from our recommendations on Items 4300-301-036 and 4300-301-189—$543,000—be transferred from the Special Account for Capital Outlay and the Energy and Resources Fund to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend reductions amounting to $543,000 in the Department of Developmental Services capital outlay proposal from tideland oil funds. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tidelands oil revenues in the Special Account for Capital Outlay and Energy and Resources Fund which would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we recommend that any savings resulting from approval of our recommendations be transferred to the General Fund.

A. STATUS OF RENOVATION PROGRAM

Status Report Needed on Fire and Life Safety and Environmental Improvement Program

We recommend that prior to budget hearings, the Department of Finance provide the Legislature with a post-audit report on all alteration projects undertaken as part of the fire and life safety and environmental improvements program. This report, at a minimum, should identify all funds appropriated, additional funds provided through augmentation, and any project savings which have been returned to the original funding source or which are on deposit with the Office of State Architect.

In July 1982, the Department of Developmental Services completed alterations of state hospital facilities needed to correct fire, life safety, and environmental deficiencies. This project was undertaken in 1979 with the objective of complying with a federal mandate that called for the state to assure that facilities intended to house the projected 1982 population of 8,070 developmentally disabled clients comply with applicable codes. The Legislature has appropriated approximately $200 million for the needed work.

In our *Analysis of the 1982–83 Budget Bill,* we indicated our concern regarding (1) the amounts budgeted for construction of the proposed improvements, (2) the transfer of more money to the Office of State Architect (OSA) than was needed to finance the alterations, and (3) the use of funds to renovate buildings which would be vacated within five years. Further, we indicated that, because of the varied mechanisms used to fund the program (direct appropriations, Public Works Board augmentations, reversion and rebudgeting of project phases), it was difficult for the Legislature to monitor use of the funds devoted to the program. Accordingly we recommended that the Department of Finance provide the Legislature with a post-audit report covering all funds appropriated and allocated for the project.

During legislative hearings on the 1982–83 budget, the Department of Finance indicated that a post-audit report would be made available for review by the Legislature. As of January 1983, the report had not been submitted to the Legislature. We recommend that the Department of Finance honor its commitment to the Legislature and, prior to budget hearings, provide a post-audit report clarifying the total expenditures for this program.

B. MAJOR PROJECTS—SPECIAL ACCOUNT FOR CAPITAL OUTLAY

Fire Detection System—Napa State Hospital

We withhold recommendation on Item 4300-301-036(b), pending receipt of preliminary plans for proposed modifications to meet the State Fire Marshal's requirement.

The budget includes $741,000 to install fire detection systems at Napa State Hospital. The State Fire Marshal has surveyed seven buildings and determined that they do not meet fire safety requirements. Three of the buildings are used for employee housing, and the other four buildings house various activities, including housekeeping, the volunteer center, the electric shop, and the neuro-assessment clinic. The 1982 budget included $28,000 for preparation of preliminary plans and working drawings for this project.

The department indicates that the Office of State Architect currently is preparing preliminary plans and an updated cost estimate for the proposed corrections to meet the Fire Marshal's requirements. Until this information is provided, we have no basis to evaluate the adequacy of the amount proposed in the budget. Accordingly we withhold recommendation on Item 4300-301-036(b), pending receipt and review of the needed preliminary plans.

Fire and Life Safety and Environmental Improvements—Napa State Hospital

We withhold recommendation on Item 4300-301-036(c), construct fire, life safety and environmental improvements to the RTC building, pending receipt of (1) additional project information and (2) a statewide hospital plan for mentally disabled clients.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

The budget includes $2,964,000 for construction of fire and life safety and environmental improvements to the Receiving and Treatment Center (RTC) building at Napa State Hospital. The project will provide code complying facilities comprised of 192 program beds, 4 isolation beds, 5 restraint and seclusion beds, and 46 general acute care beds. Alteration to this building was proposed in the original plan of correction submitted to licensing agencies in 1979. The RTC building, however, houses mentally disabled (MD) programs, which do not receive substantial federal support.

In order to insure that the developmentally disabled programs were housed in appropriate facilities by the July 1982 deadline, the proposed renovation plan at Napa was revised to delay renovation of the MD wards until after all developmentally disabled wards had been completed. Another factor delaying the RTC renovation was the department's decision to add energy conservation components to the project, at a cost of $2,562,200. The planned construction for remodeling the RTC building was changed from a start date of November 1980 to April 1982. Accordingly, the 1981 Budget Act included $2,964,000 for the needed code corrections and $2,562,200 for energy conservation improvements.

The proposed renovation of the RTC building has not proceeded as scheduled. The estimated cost for the project, as compiled by the consulting architect in March 1982, indicated that the cost had increased substantially over the amount budgeted. Accordingly, the department requested the Department of Finance to submit a $682,000 augmentation request to the State Public Works Board. This request was not forwarded to the board by the Department of Finance because of an administrative freeze on capital outlay expenditures. As a result, the 1981 construction funds reverted on June 30, 1982. Presumably, the funds requested for 1983–84 would replace a portion of the funds which reverted.

We have not received any information to indicate that the funds proposed in the budget will be adequate to fund the work anticipated by the department. To the contrary, the estimate prepared in March 1982 indicated that additional funds beyond the $2,964,000 would be needed for the renovations to proceed as planned. We would expect that inflation may have increased the needed budget amount, given the delay of over 16 months. Furthermore, there is no mention of the energy improvements which were to be integrated with the other alterations.

Moreover, the Department of Mental Health has not provided the report to the legislature (requested in the *Supplemental Report to the 1982 Budget Act)* on the state hospital buildings which need to be renovated for MD programs. (We discuss this in our analysis of Item 4440-301.)

The Department of Finance should address the adequacy of the proposed funds and provide a justification for any additional amount which may be needed to proceed with this project in the budget year. Similarly, the Department of Mental Health should comply with the Legislature's 1982 directive and submit the required report. Pending receipt of this additional information, we withhold recommendation on the funds requested in Item 4300-301-036 (c).

Alter Paxton for Central Supply Services—Sonoma State Hospital

We recommend Item 4300-301-036 (d), preliminary plans and working drawings, to alter the Paxton Building at Sonoma State Hospital, be deleted because the proposed alterations exceed the scope of work necessary to meet licensing requirements, for a savings of $30,000.

The budget proposes $30,000 for preliminary plans and working drawings to alter the Paxton Building at Sonoma State Hospital. The alterations are proposed in order to provide appropriate space for the hospital's central supply operation. The estimated future cost for construction and equipment is $573,000.

The current central supply facility—located in the basement of the acute hospital—does not provide adequate separation of clean, sterile areas from contaminated areas. Because of this, the location has been noted as a deficiency in an environmental health survey.

While the department's proposal of moving the facility to a new building would correct the noted licensing deficiency, the project proposed by the department includes additional work not related to licensing deficiencies. For example, the total project cost includes approximately $150,000 to install new heating, ventilating, and air conditioning systems and $300,000 for new equipment related to the central supply operation. Furthermore, procurement of this equipment as part of the capital outlay project would be extremely costly. The Office of State Architect's estimate indicates that the manufacturer's quote for this equipment is approximately $150,000. The budget estimate prepared by OSA includes markups for the subcontractor and general contractor, construction contingencies, and architectural and engineering services, which increase the cost to about $300,000, *nearly double the vendor's quoted price for the equipment.* Consequently, even if the equipment is determined to be needed for operations of central supply—regardless of where it may be located—the equipment should not be included as part of the capital outlay project, but rather should be funded in the department's support/operations budget and procured using the normal equipment replacement process.

Our analysis indicates that the project proposed in the budget exceeds the scope of work needed to correct licensing deficiencies. Moreover, it would appear that the Department of Finance does not consider the licensing problem to be critical. Funding for this project originally was included in the 1982–83 Budget Bill, but was deleted per a Department of Finance amendment request submitted in May, 1982.

Accordingly, we recommend deletion of the proposed preliminary plan and working drawing funds in Item 4300-301-036 (d), for a savings of $30,000. The department should reevaluate the work necessary to relocate the central supply and, if appropriate, propose using minor capital outlay funds (projects costing $150,000 or less) for this purpose.

Fire Detection System—Stockton State Hospital

We recommend Item 4300-301-036(e), preliminary plans and working drawings for a fire detection system at Stockton State Hospital, be deleted because the Legislature has already funded adequate fire detection systems needed to meet code requirements.

The budget proposed $27,000 for preparation of preliminary plans and working drawings to install a fire detection system in various buildings at Stockton State Hospital. The project would provide smoke/heat detectors and fire alarm control units in 24 buildings for connection to an existing

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

computerized central fire alarm system. The project also includes relocation of the central monitoring computer to the administration building. The estimated future cost for construction is $358,000.

The fire alarm system at Stockton State Hospital has been the subject of substantial study in the past several years. A March 1981 study evaluated the fire alarm system which, at that time, was being installed under the state hospital's fire and life safety and environmental improvement program. That report indicated that the problems related to the system were complex and included both procedure and hardware issues. Specifically, the study indicated that:

- The hospital staff (and perhaps staff from the Office of State Architect (OSA), as well) were not knowledgeable about the operation of the existing system. This resulted in design errors, repeated/continuing maintenance problems and significant out-of-service time because of inadequate maintenance;
- Renovation of the RTC building had been delayed, and additional costs were anticipated;
- Various hardware items installed at various times were incompatible with one another.

Based on the recommendations included in the report, the department and the OSA proposed solutions for ensuring that remodeled patient-occupied facilities at Stockton State Hospital would comply with fire and life safety requirements. The Legislature subsequently appropriated $350,000 in the 1981 Budget Act in *augmentation* of funds previously appropriated for fire and life safety improvements at Stockton, for these improvements. The improvements have been completed, and there is no information indicating that any of the buildings are now out of compliance with fire and life safety code requirements. Accordingly, our analysis reveals no basis for either adding the smoke detectors and alarm units or extending the computer-based fire reporting system to the 24 additional buildings. We therefore recommend deletion of the proposed planning funds included in Item 4300-301-036(e) for a savings of $27,000.

C. MAJOR PROJECTS—ENERGY AND RESOURCE FUND PROJECTS

Steam and Hot Water Pipe Insulation—Agnews State Hospital

We withhold recommendation on Items 4300-301-189(b) and (c), preliminary plans and working drawings to insulate steam and hot water pipes at Agnews State Hospital, West and East Campuses, pending review of preliminary plans and substantiation of the cost savings claimed for the projects.

The budget includes $1,049,000 and $170,000 for energy conservation projects at the Agnews State Hospital, West Campus and East Campus respectively. The proposed projects include insulation of all existing steam and hot water pipes which run from the central heating plants to various buildings. The proposal is based on a 1981 study of energy conservation opportunities available at Agnews State Hospital. Preliminary plans and working drawings for these projects were included in the 1982 Budget Act.

The projects have not proceeded as scheduled. Consequently, adequate information is not available to substantiate the amount of construction funds requested. Moreover, the department's proposal is based on an energy consultant's study of the system as a whole, rather than the individual segments. The cost-benefit of modifying the individual segments will vary, depending on the energy use by the building(s) served. Accordingly, a more precise engineering evaluation and cost-benefit analysis is needed in order to determine the advantages of undertaking all or a portion of this work.

For these reasons, we withhold recommendation on this request until the department provides (1) additional cost-benefit information and (2) completed preliminary plans and cost estimates.

D. MINOR CAPITAL OUTLAY PROGRAM

The budget includes $1,224,000 for 21 minor capital outlay projects ($150,000 or less per project) for the Department of Developmental Services. This amount includes $1,034,000 proposed from the Special Account for Capital Outlay for various general improvement projects, and $190,000 from the Energy and Resource Fund for energy conservation improvements. Table 2 summarizes the requested projects and our recommendations by descriptive categories.

Table 2
Department of Developmental Services
Minor Capital Outlay
1983–84
(in thousands)

Fund/Category	*Number of Projects*	*Department Request*	*Analyst's Recommendation*
SAFCO Item 4300-301-036(a)			
1. Health and Safety	7	$314	$234
2. Program Efficiency/Improvement	9	626	290
3. Site Improvements	3	94	94
Subtotal, SAFCO	19	1,034	618
ERF Item 4300-301-189(a)			
4. Energy Conservation	2	190	120
Totals, Minor Capital Outlay	21	$1,224	$738

Minor Capital Outlay Projects—SAFCO Funded

We recommend that Item 4300-301-036(a) be reduced by $416,000 by deleting five projects which are not justified and reducing one project which is overbudgeted.

1. ***Health and Safety Projects.*** The department proposes $314,000 for seven projects related to health and safety improvements at various state hospitals. The proposed projects include security fencing, and correction of fire safety deficiencies noted by the State Fire Marshal.

Our review of the proposed projects indicates that six projects totaling $234,000 are justified and we recommend approval. One project, however, for $80,000 to install combustion control and safety devices on one boiler at Lanterman State Hospital is not needed. This project was included in the 1982–83 minor capital outlay budget request. We recommended deletion of the project at that time, given the fact that (1) upgrading of two of the four existing boilers at the hospital has already been funded and (2) the proposal for utilizing cogeneration at the hospital would most likely result in the boiler proposed to be modified being taken out of service.

The department agreed with our analysis of the proposed project, and

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

concurred in the proposed deletion of the project from the 1982–83 budget. We have not received any information to indicate that the project is any different from that proposed last year. Accordingly, we recommend deletion of the $80,000 proposed for this project.

2. ***Projects for Program Efficiency/Improvements.*** The budget includes $626,000 for nine projects under this category. The projects include alterations to existing facilities to improve program services or allow hospital personnel to be more efficient at their duties. The proposed projects include construction of exterior balconies on a building at Agnews, new restroom facilities in the canteen area at Camarillo, modifications to trash areas and loading docks at various hospitals and renovation of the Nelson Treatment Center at Sonoma.

Our analysis of the projects in this category indicates that four projects totaling $290,000 are justified and we recommend that they be approved. We have concerns, however, regarding the following projects:

- ***We recommend deletion of $99,000*** to construct exterior balconies on Building 54 at Agnews State Hospital. The department indicates that this project would provide outdoor space to serve wards on the second level of the building. Presently, staff must take the non-ambulatory patients from these wards through the building and out the main door in order to provide outdoor exposure. Construction of the balcony would eliminate the need for staff supervision of the patients' movements. We recommend that the project be deleted because the hospital can and should determine which programs are most appropriately located on the first level in order to facilitate access to the outdoor spaces, and reassign space accordingly.
- ***We recommend deletion of $105,000*** proposed to restore the Nelson Treatment Center at Sonoma State Hospital. The department indicates that this facility, which originally provided treatment and classroom services, was remodeled extensively three years ago in order to provide living quarters for clients who were displaced during the remodeling of their living units. The department now proposes that the improvements installed three years ago, such as plumbing fixtures, walls, cabinet work and utility services, be removed and the building restored to its former condition.

  When the funds were requested for construction of "swing" space at the various state hospitals, it was determined that the alterations necessary to provide this space would be permanent improvements, in that the hospital would develop appropriate plans to utilize the space efficiently once the major remodeling project was completed. The department has provided no information justifying demolition of these improvements—improvements funded by the Legislature only three years ago—and we recommend the funds proposed for this work be deleted.
- ***We recommend deletion of $43,000*** proposed to demolish various temporary site and utility improvements installed to accommodate temporary trailers. The hospital used these trailers as program space over the past three years during remodeling of living units. The improvements include salvageable materials (wooden ramps, electrical equipment, etc.) which could be used by hospital maintenance personnel. Our analysis indicates that separate funding for a capital out-

lay project is not necessary in order to salvage these materials. Instead, the department should determine what portion of these improvements are salvageable and utilize hospital personnel—on a time permitting basis—to remove them. Given the limited resources available for allocation by the Legislature, we do not believe the proposed use of funds is warranted, and we therefore recommend that the funds be deleted.

- ***We recommend deletion of $81,000*** proposed for air conditioning of the canteen/dining room at Porterville State Hospital. This project was previously funded in the amount of $68,500 in the Budget Act of 1979. The project was assigned to the Office of State Architect (OSA). The project, however, has not proceeded into construction because adequate funds are not available to cover OSA's current cost estimate. Our analysis of the estimate indicates that the OSA has spent over $15,000 in design services for a project originally estimated to cost $65,000—*over 23 percent* of the original budget.

  We recommend that the department reevaluate the project scope with the intent of (1) reducing the scope of work to a level which can be funded within the amount currently available and (2) reassigning the project to the hospital rather than continuing to use the OSA to administer the project. With the hospital administering the project, the estimated cost for services will be reduced. This should allow the project to proceed using the funds available from the 1979 Budget Act, without a need for the funds proposed in the budget for 1983–84. On this basis, we recommend deletion of the $81,000 included for this project.
- ***We recommend a reduction of $8,000*** to one project proposed at $77,000 to connect building 50 to the central air conditioning system at Agnews. A review of the cost estimate prepared by the Office of State Architect indicates that an excessive amount has been budgeted for architectural/engineering services related to the project. To keep the project budget within accepted guidelines, an $8,000 reduction is necessary.

3. ***Site Development Projects.*** This category includes three projects totaling $94,000. The proposed projects would provide installation of sidewalks at Sonoma and Fairview. We recommend approval of the requested funds.

Minor Capital Outlay—Energy and Resources Fund

We recommend that Item 4300-301-189(a) be reduced by $70,000 by deleting one minor capital outlay project which is not justified.

The budget includes $190,000 from the Energy and Resource Fund, Energy Account, for two minor capital outlay projects for energy conservation. One project would replace the oversized chiller at Fairview State Hospital with a more efficient, appropriately sized machine at a cost of $120,000. The project has an estimated payback of 1.6 years, and we recommend that it be approved. The other project proposes $70,000 for upgrading and replacing pipe insulation at Napa State Hospital. The department has not provided any information to substantiate the savings claimed from this project. Accordingly, we have no basis on which to verify that the project is cost effective. On this basis, we recommend deletion of the $70,000 proposed for the Napa project in Item 4300-301-189(a).

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

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 operations.
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.

We have recommended a total of $738,000 for the Department of Developmental Services. These funds represent minor capital outlay projects which generally fall under category 7.

DEPARTMENT OF DEVELOPMENTAL SERVICES—REVERSION

Item 4300-495 to the General Fund — Budget p. HW 70

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Transfer to the General Fund. We recommend approval of the proposed reversion but recommend that the $8,000,000 savings be transferred to the General Fund, instead of reverting to the Special Account for Capital Outlay, in order to increase the Legislature's flexibility in meeting high-priority needs statewide. 961

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the requested reversion of $8 million to the Special Account for Capital Outlay. We recommend, however, that the reverted funds be transferred to the General Fund, in order to maximize the Legislature's flexibility in meeting high-priority needs statewide.

The budget proposes to revert the unencumbered balance of an $8,000,000 appropriation made by Item 4300-301-306(b) in the 1981 Budget Act. The funds would revert to the unappropriated surplus of the Special Account for Capital Outlay.

Item 4300-301-036(b) of the 1981 Budget Act appropriated $23,262,616 to correct fire, life safety, and environmental deficiencies in the state hospitals for developmentally disabled persons. These corrections were needed in order to meet federal requirements and thus maintain the state's eligibility for federal reimbursement of certain costs under the Medicaid program. Language related to this item specified that, in the event federal regulations were adopted which extended the deadline for these renovations: (1) $8,000,000 of the amount appropriated shall be made available for development of new community programs for state hospital residents; (2) the department shall develop a detailed expenditure plan for the use of these funds, subject to approval by the Department of Finance and after the chairman of the Joint Legislative Budget Committee had been given 30 days' prior notification; (3) the balance of $15,262,616 shall revert to the unappropriated surplus of the Special Account for Capital Outlay; and (4) the $8,000,000 would be available for fiscal years 1981–82, 1982–83, and 1983–84.

Federal regulations delaying the deadline for correcting the deficiencies were adopted on August 26, 1982. As a result, $15,262,616 reverted to the Special Account for Capital Outlay, and $8,000,000 became available for community program development, subject to submission of an approved expenditure plan.

The Legislature provided for these funds to be made available for community-based programs in order to assure that the planned reduction in the population of state hospitals from 8,070 on July 1, 1982, to 7,158 in 1987 would occur. These funds, however, are not the only source of support for new community programs. Augmentations to regional center budgets, Program Development Fund grants, and a special item of expense in the state hospital budget are also available for this purpose. The Department of Developmental Services has stated that the $8,000,000 is not needed to achieve the 1987 population targets, *provided* that the other sources of funding remain available.

Because these funds do not support existing services, reverting them would not directly affect services currently available to developmentally disabled persons. We therefore recommend approval of the proposed reversion. In addition, because leaving unappropriated funds in a special purpose account limits the Legislature's options in allocating funds to meet high-priority needs statewide, we recommend that the $8,000,000 savings be transferred to the General Fund, rather than reverting to the Special Account for Capital Outlay.

Health and Welfare

DEPARTMENT OF MENTAL HEALTH

Item 4440 from the General Fund — Budget p. HW 92

Requested 1983–84	$566,029,000
Estimated 1982–83	565,019,000
Actual 1981–82	595,596,000
Requested increase (excluding amount for salary increases) $1,010,000 (+0.2 percent)	
Total recommended reduction	$675,000
Recommendation pending	$3,429,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4440-001-001	Department support	General	$14,611,000
4440-001-890	Department support	Federal	(550,000)
4440-011-001	State operations—judicial commitments	General	90,423,000
4440-101-001	Local assistance	General	460,995,000
4440-101-890	Local assistance	Federal	(14,000,000)
Total			$566,029,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Budget Bill Adjustment. Recommend that the Legislature (a) adjust the department's Budget Bill items to clearly show what is available for department support, state hospitals, and local assistance and (b) adopt Budget Bill language preventing unnecessary inter-item transfers. 967
2. Prevention of Mental Disorders. Withhold recommendation on $818,000 budgeted for mental health promotion contracts, pending receipt of an expenditure plan for 1983–84. Further recommend adoption of Budget Bill language which would require deposit of revenues from sale of mental health promotion materials in the General Fund so that the Legislature, rather than the department, will decide how these funds will be allocated. 968
3. Workers' Compensation, Industrial Disability Leave, and Nonindustrial Disability Insurance. Recommend that the department report by April 1, 1983, on the reasons why costs for these programs have increased and the steps that can be taken to control these costs. 943
4. ***General Overtime Funding. Reduce Item 4440-011-001 by $119,000.*** Recommend reduction to correct for inappropriate budgeting of overtime funds at Patton State Hospital. 944
5. ***Overtime Funding. Reduce Item 4440-011-001 by $556,000.*** Recommend deletion of funds requested for psychiatric technician overtime because these funds, if needed, are appropriately budgeted in the employee compensation item. 945

6. Non-Level-of-Care Staffing. Recommend adoption of Budget Bill language to insure that distribution of non-level-of-care in state hospitals be rationalized. 946
7. Population-Related Staffing Increases. Withhold recommendation on population-related staffing increases in the state hospital mental disability programs, pending receipt of information documenting population, staffing and cost changes. Further recommend adoption of supplemental report language specifying the documentation that should accompany future population and staffing estimates in order to facilitate legislative review. 972
8. Use of State Hospitals. Recommend that the Health and Welfare Agency and the department jointly produce a policy paper by May 1, 1983, setting forth the administration's position on use of state hospitals for mentally disabled county clients. 974
9. Patient Revenue Collection Proposal. Recommend that the department submit additional information by March 15, 1983, explaining the proposal to collect more fees from patients. 977
10. Cost Control in Local Programs. Recommend adoption of Budget Bill language requiring the department to (a) establish a local program cost control unit by redirecting positions, (b) control local administrative as well as service costs, and (c) impose cost controls for services which cost more than 100 percent of the statewide average cost per unit of service. Further recommend that the department submit a proposal for an improved cost reporting system. 980
11. Reimbursement for Medically Unnecessary Care. Recommend adoption of Budget Bill language requiring the department to issue regulations that would reduce or eliminate Short-Doyle program reimbursement for specified categories of medically unnecessary hospital care. 982
12. State Hospital Utilization Reviews. Recommend adoption of Budget Bill language requiring the department to establish utilization review procedures for state hospitals. 983
13. Data Collection. Recommend adoption of Budget Bill language mandating that the department require hospital and psychiatric facilities to furnish information needed to identify and correct excessive lengths of stay or cost per discharge. 983
14. Reimbursement Limit Exemption. Recommend enactment of legislation to repeal a provision of current law that exempts consolidation pilot project counties from the 125 percent reimbursement rate limit. 986

GENERAL PROGRAM STATEMENT

The Department of Mental Health directs and coordinates statewide efforts directed at the treatment and prevention of mental disabilities. The department's primary responsibilities are to:

1. Administer the Short-Doyle Act, which provides for delivery of mental health services through a state-county partnership.
2. Operate Atascadero, Patton, and Metropolitan State Hospitals, which

DEPARTMENT OF MENTAL HEALTH—Continued

exclusively serve the mentally disabled, and manage programs for the mentally disabled located in Camarillo and Napa, which serve both the mentally and developmentally disabled.

3. Manage the Lanterman-Petris-Short Act, which provides for involuntary treatment of the mentally disabled.

The department has 4,934.3 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $638,704,000 (all funds) for the support of the Department of Mental Health's activities in 1983–84. This is an increase of $16,265,000, or 2.6 percent, above estimated current-year expenditures.

Proposed General Fund expenditures on behalf of the department and its programs are $566,029,000, which is $1,010,000, or 0.2 percent, above the level of estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 shows actual, estimated, and proposed expenditures for the department's activities.

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

	Actual 1981–82	*Estimated 1982–83*[a]	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Department support	$31,061	$30,357	$30,972	$615	2.0%
State hospitals	222,231	215,639	233,054	17,415	8.1
Subventions to local mental health programs	390,754	376,443[b]	374,678	−1,765	−0.5
Totals	$644,046	$622,439	$638,704	$16,265	2.6%
General Fund	*$595,596*	*$565,019*	*$566,029*	*$1,010*	*0.2%*
Reimbursements	*47,740*	*47,965*	*58,125*	*10,160*	*21.2*
Federal funds	*710*	*9,455*	*14,550*	*5,095*	*53.9*

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

[b] Excludes $5,311,000 appropriated for voluntary out-of-home placement of mentally disabled children, which was made available to the Department of Social Services.

I. DEPARTMENTAL SUPPORT

The budget proposes total expenditures of $30,972,000 for support of the Department of Mental Health in 1983–84. This is an increase of $615,000, or 2 percent, above estimated current-year expenditures. Of total proposed expenditures, 55 percent is for salaries, 17 percent is for employee benefits, and the balance, 28 percent, is for operating expenses.

The level of salary costs proposed from 1983–84—$17,098,000—is $193,000, or 1.1 percent, below estimated current-year expenditures. Operating expenses of $8,536,000 are virtually the same in both the current and budget years. The amount requested for employee benefits—$5,338,000—is $775,000, or 17 percent, above estimated current-year expenditures for this purpose, primarily because many retirement benefits were funded from other sources in the current year but will be funded through the department's budget in 1983–84.

Table 2 shows five-year trends in expenditures, source of funds, and authorized positions. Since 1980–81, total departmental operating expenditures have remained stable. This stability in expenditures is accounted for primarily by reductions over a period of years in the number of authorized positions, which have offset salary, benefit, and operating expense increases.

Table 2
Department of Mental Health
Five-Year Trends in Department Support
(dollars in thousands)

	Expenditures				*Source of Funds*			
	Salaries	*Benefits*	*Operating Expenses*	*Total*	*Reimbursements*	*Federal Funds*	*General Fund*	*Authorized Positions*
1979–80	$15,098	$4,230	$9,439	$28,768	$1,883	$547	$26,388	842.2
1980–81	17,511	4,790	9,045	31,346	2,579	677	28,090	805.1
1981–82	17,303	5,276	8,482	31,061	1,137	619	29,214	805.7
1982–83	17,291	4,563	8,503	30,357	1,806	1,372	27,179	740.4
1983–84	17,098	5,338	8,536	30,972	1,382	997	28,593	729.9
Change from 1982–83								
Amount	−$193	$775	$33	$615	−$424	−$375	$1,414	−10.5
Percent	−1.1%	17.0%	0.4%	2.0%	−23.5%	−27.4%	5.2%	−1.4%

Table 3 displays the department's proposed adjustments to estimated current-year expenditures.

Table 3
Department of Mental Health Support
Proposed General Fund Budget Changes
(in thousands)

	General Fund	*All Funds*
Final approved budget, 1982–83	$26,554	$30,488
Baseline adjustments for existing programs, 1982–83		
1. One-time reduction in retirement contributions	−883	−918
2. Health and dental benefit increases	404	419
3. Travel reduction	−204	−207
4. Board of Control adjustments	−7	−7
5. Office of Administrative Law adjustment	4	4
6. Budget revisions: primarily federal project	19	578
7. Funding shift: reimbursements	1,292	—
Adjusted base budget, 1982–83	$27,179	$30,357
Baseline adjustments for existing programs 1983–84		
1. Adjustment for one-time 1982–83 costs and savings	$49	−$507
2. Restoration of retirement contributions	703	718
3. Merit salary adjustments	275	281
4. Expiration of limited-term positions	−211	−321
5. Addition of federal limited-term positions	—	162
6. Price increases on operating expenses	354	368
7. CALSTARS system costs	65	67
Base budget, 1983–84	$28,414	$31,125
Budget change proposals		
1. Position redirections and additions	$27	$137
2. Office of Mental Health Social Services overhead shift	442	—
3. Position reductions	−290	−290
Proposed budget, 1983–84	$28,593	$30,972

DEPARTMENT OF MENTAL HEALTH—Continued

Position Changes

The budget proposes to (1) redirect 20 existing positions to higher priority activities, (2) continue 21.5 existing limited-term positions in 1983–84, (3) add 3 new positions, and (4) abolish 6.5 positions. This is a net reduction of 3.5 positions. Table 4 summarizes the position changes.

Table 4
Department of Mental Health
1983–84 Proposed Position Changes

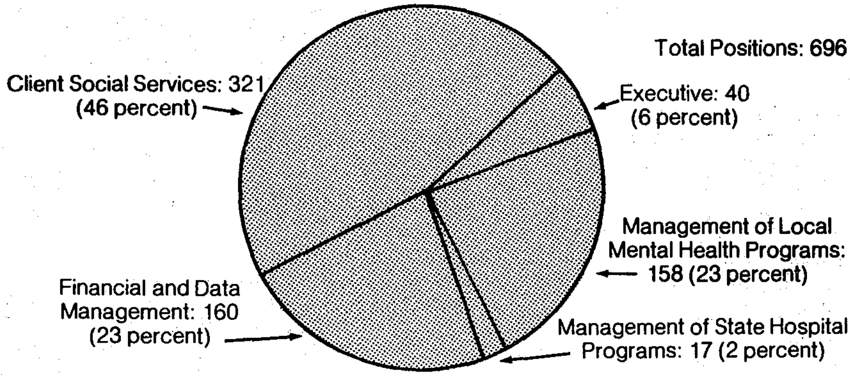
A. Redirect positions	
1. Expand data processing capabilities to implement legislatively required maximum reimbursement limits	8
2. Expand labor relations unit in order to improve collective bargaining capabilities	3
3. Expand staff processing Short-Doyle/Medi-Cal claims to avoid delays and loss of federal funds	3
4. Expand staff doing utilization reviews to implement requirements of recent legislation	5
5. Transfer position from Metropolitan State Hospital to work on hospital automation	1
Total	20
B. Continue limited-term positions	
1. Continue federally funded Manpower Development project	6
2. Continue federally funded Community Strategy Support project	6
3. Continue federally funded positions to administer federal block grant	9.5
Total	21.5
C. New positions	
1. Add federally funded position to accounting section to process Short-Doyle/Medi-Cal claims to avoid delays and loss of federal funds	1
2. Add positions to project management section to maximize claiming of Short-Doyle/Medi-Cal federal funds	2
Total	3
D. Abolished positions	
1. Eliminate 3 attorneys and 1 clerical support position	−4
2. Eliminate vacant research position	−1
3. Eliminate data processing positions	−1.5
Total	−6.5

Overview of Department Functions

Chart 1 shows the distribution of the department's positions by function. The chart indicates that almost one-half of the department's employees are in the Office of Mental Health Social Services. This office provides direct case management and residential placement services to mentally disabled persons referred by local mental health programs. The balance of the department's employees are engaged in activities related to the operation of local mental health programs, state hospital programs for the mentally disabled, or in departmental administration. The chart provides a brief description of many of the functions of department staff.

Chart 1

Department of Mental Health Support Proposed Positions by Function 1983–84



Functions

Client Social Services. Case management and placement in appropriate living arrangements for clients.

Financial and Data Management. Budgeting, accounting, internal operations, data processing, statistical services, auditing, personnel administration, training.

Management of State Hospitals. Policy direction, budget allocations, monitoring treatment services, etc.

Management of Local Programs. Local service area teams (monitoring, technical assistance, planning, and budgeting of county programs), county fiscal management (allocations, data collection, etc.), clinical reviews, special projects, research, special programs (aged, adolescent, long-term care), long-range planning and policy, mental health promotion.

Executive. Executive director's office, legal, public information, legislative liaison, advisory groups, patients' rights, etc.

Budget Bill Adjustments

We recommend that the Legislature adjust the General Fund amounts contained in the three Department of Mental Health Budget Bill items to clearly show what is available for department support, state hospitals, and local assistance. We further recommend that the Legislature adopt Budget Bill language that would prohibit unnecessary inter-item transfers.

The Budget Bill proposes three General Fund appropriation items for the Department of Mental Health—department support, state hospital operation, and local assistance—and includes language allowing the department to transfer funds between these items.

According to the detailed budget schedules, the department is already planning significant transfers of funds between items. This practice makes it very difficult to relate the budget and various budget schedules to the Budget Bill, to track expenditures, or to know precisely how funds will be used. The result is that it is considerably more difficult for the Legislature to review and control the department's spending plan.

We recommend that the Legislature (a) make certain technical funding shifts between items, so that funds are appropriated in the item from which they will be spent, (b) create a new state hospitals local assistance item to enhance its opportunity to review and control the department's expenditures, and (c) adopt Budget Bill language prohibiting transfers between items within the Department of Mental Health, unless the transfers are for specific purposes authorized by the Legislature.

The specific technical changes to the Budget Bill appropriation amounts that we recommend are shown on Table 5.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 5
Department of Mental Health
Recommended Changes in Appropriations
(in thousands)

	Item Number	*Budget Bill As Introduced*	*Analyst's Recommendation*	*Recommended Change*
A. General Fund appropriations				
1. Department support	4440-001-001	$14,611	$28,594	$13,983
2. State hospital support	4440-011-001	90,423	86,658	−3,765
3. State hospital local assistance	4440-106-001	—	130,421	130,421
4. Assistance to local programs	4440-101-001	460,995	320,356	−140,639
B. Federal fund appropriations				
1. Department support	4440-001-890	550	996	446
2. Assistance to local programs	4440-101-890	14,000	13,554	−446
Totals		$580,579	$580,579	—

Prevention of Mental Disorders

We withhold recommendation on the $818,000 budgeted for mental health prevention, pending receipt of additional information. We further recommend that the Legislature adopt Budget Bill language requiring the department to deposit revenues from the sale of mental health promotion materials in the General Fund.

The budget proposes $818,000 from the General Fund for mental health promotion contracts. This is the same amount appropriated each year since 1980–81. In past years, the department has spent prevention contract funds to finance written materials, brochures, posters, television messages, and the preparation of video tape materials for general audiences and special population groups.

The objective of the prevention contracts is to create public awareness of good mental health habits and informal support systems which can be helpful in time of emotional stress. The department assumes that public attitudes and behavior can be affected by the materials it prepares and distributes.

Programs designed to prevent, rather than treat, mental disability would, if successful, be well worth supporting, both from a humanitarian and fiscal standpoint. Unfortunately, we are unable to evaluate the overall success of the department's prevention effort, because there are few data on the effectiveness of specific prevention contracts.

Expenditure Plan for 1983–84 Not Available. We requested the department to furnish a list of projects that will be funded in 1983–84 from the $818,000 proposed for expenditure. At the time this *Analysis* was prepared, the department had not responded to our request. We believe that the department should provide the Legislature with an expenditure plan before any additional funds are approved for this program. We withhold recommendation on the amount requested, pending receipt of an expenditure plan for 1983–84.

Sale of Materials. The department indicates that it intends to copyright and sell many of the mental health promotion materials which have been developed under the program. It is not possible, however, to estimate the amount of revenue that will be generated from such sales in 1983–84.

We recommend adoption of Budget Bill language requiring the department to deposit revenues from sales of the materials in the General Fund. This would allow the Legislature, rather than the department, to determine how these funds should be allocated.

Legislatively Mandated Reports

Pursuant to Ch 1632/82, the department has submitted a list of legislatively mandated reports which require 100 or more employee hours to produce. The department recommends discontinuation of 15 of 26 reports identified. Most of the reports recommended for discontinuation are one-time reports mandated by statute, the Budget Act, or the *Supplemental Report of the Budget Act.* We recommend continuation of one report, which the department proposes to discontinue. This report, mandated by Ch 1594/82 (SB 2012), requires the department to report annually to the Legislature on the factors justifying waivers it has granted to the 125 maximum reimbursement rates. Our review indicates that the Legislature should be informed why waivers have been granted.

2. STATE HOSPITALS—MENTAL DISABILITY PROGRAMS

The Department of Mental Health operates three state hospitals—Atascadero, Metropolitan, and Patton. In addition, it manages programs for the mentally disabled at two state hospitals—Napa and Camarillo—which are operated by the Department of Developmental Services.

The budget proposes state hospital expenditures of $233,054,000 for programs to serve 5,100 mentally disabled clients in 1983–84. This is an increase of $17,415,000, or 8.1 percent, above estimated current-year expenditures. The budget proposes an appropriation of $217,079,000 from the General Fund for these programs, which is an increase of $6,831,000, or 3.2 percent, above estimated current-year expenditures. Table 6 shows actual, estimated, and proposed expenditures for state hospital programs for the mentally disabled.

Table 6

State Hospitals—Mental Disabilities Program Expenditures and Funding Sources

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change* Amount	*Change* Percent
Judicially committed clients	$78,444	$88,203	$86,658	−$1,545[b]	−1.7%
County clients	139,247	122,045	130,421	8,376	6.9
Other clients	4,540	5,391	15,975	10,584[b]	196.3
Totals	$222,231	$215,639	$233,054[a]	$17,415	8.1%
General Fund	*$217,691*	*$210,248*	*$217,079*	*$6,831*	*3.2%*
Federal funds	—	—	—	—	—
Reimbursements	*4,540*	*5,391*	*15,975*	*10,584*[b]	*196.3*

[a] Excludes community outpatient treatment local assistance funds ($3,292,000) and funds transferred to the department for mentally disabled offender outpatient programs ($473,000).
[b] Reflects the transfer of funds from the state hospitals budget to the Department of Corrections budget.

The budget proposes three major changes for 1983–84: an increase of $2.6 million for additional staff needed because of projected population increases, $3.8 million for additional staff needed to cover increased employee absences, and $1.5 million to pay for increased workers' compensation costs. In addition the budget proposes to transfer $10.6 million for clients of Departments of Corrections and the Youth Authority to the Department of Corrections budget. Total expenditures by the Department of Mental Health will not change as a result of the transfer, because the funds will appear as reimbursements in the department's budget.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 7 shows the adjustments to the current-year base that were used to derive the proposed 1983–84 level of expenditures.

Table 7
State Hospitals—Mental Disabilities Program
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
Final approved budget, 1982–83	$217,466	$223,262
Baseline adjustments for existing programs		
1. Funds transferred to local assistance and department support	−3,647	−3,647
2. One-time reduction in retirement contributions	−8,000	−8,000
3. Health and dental benefit increases	3,588	3,588
4. Additional overtime per negotiated labor agreement	556	556
5. Pay increase on swing and graveyard shifts	339	339
6. Eliminated federal training funds	—	−405
7. Travel reduction	−52	−52
8. Board of Control adjustments	−2	−2
Adjusted base budget, 1982–83	$210,248	$215,639
Baseline adjustments for existing programs, 1983–84		
1. Merit salary adjustment	$2,113	$2,113
2. Restoration of retirement contributions	6,348	6,348
3. Price letter increases on operating expenses	1,755	1,755
4. Quarterly staffing adjustments	−608	−608
5. CALSTARS accounting system costs	43	43
Base budget, 1983–84	$219,899	$225,290
Hospital population increase	$2,611	$2,611
Budget change proposals		
1. Transfer funding for Departments of Corrections and the Youth Authority clients to the Department of Corrections budget	−$10,584	—
2. Increase coverage factor	3,765	3,765
3. Increase workers' compensation costs	1,525	1,525
4. Transfer position to department support	−27	−27
5. Reduce positions at Metropolitan State Hospital	−110	−110
Proposed budget, 1983–84	$217,079	$233,054[a]

[a] Excludes $473,000 for transfer to department operations and $3,292,000 for transfer to local assistance.

Mentally Disabled State Hospital Clients

State hospitals serve three categories of clients: county clients, judicially committed clients, and clients of other institutions.

County clients may voluntarily consent to treatment or may be detained involuntarily for treatment under the provisions of the Lanterman-Petris-Short Act (LPS) for specified periods of time.

Judicially committed clients include persons who are legally categorized as (a) incompetent to stand trial, (b) not guilty of a crime by reason of insanity, or (c) mentally disordered sex offenders.

Clients of other institutions include mentally disabled clients of the Departments of Corrections and the Youth Authority who are transferred to state hospitals to receive medication and other treatment. In addition, Metropolitan State Hospital operates a 93-bed county-funded program for drug abusers, and Camarillo operates a county-funded 42-bed program for alcohol abusers.

Table 8 shows the average lengths of stay in state hospitals for the different categories of clients.

Table 8
State Hospital Clients
Legal Category and Average Length of Stay

Legal Category	*Average Length of Stay*
A. Involuntary Clients	
72-hour observation (9.8 percent of discharges)	8 days
14-day treatment (53.4 percent)	11 days
90-day treatment (.4 percent)	62 days
Temporary conservatorship (12.4 percent)	40 days
Conservatorship (24 percent)	273 days
B. Voluntary Clients	79 days
C. Not Guilty by Reason of Insanity	
Homicide (23.4 percent of discharges)	7.7 years
Robbery (3.9 percent)	2.7 years
Assault (38.1 percent)	2.4 years
Burglary (4.6 percent)	1.7 years
Rape, child molestation, other sexual offenses (7.4 percent)	3.5 years
Arson (7.5 percent)	2.7 years
Other (10.1 percent)	N/A
D. Mentally Disordered Sex Offender	2.5 years
E. Incompetent to Stand Trial	N/A
F. Other Clients	N/A

Staff Distribution and Functions

Chart 2 shows the distribution of positions in the three state hospitals operated by the Department of Mental Health. Approximately one-half of the staff is composed of nursing personnel, mostly psychiatric technicians, who supervise patients on the wards on a 24-hour seven-day-a-week basis. Other staff are employed in the following service areas: general patient services (11 percent); administrative services (11 percent); food, clothing, and housekeeping services (15 percent); plant operations (4 percent); and psychiatric treatment services (10 percent).

Direct patient care positions, including nursing and psychiatric treatment services, constitute 59 percent of the positions in the hospitals. The number of direct patient care positions is budgeted based on projected patient populations.

Cross-Cutting Issues

Some issues concerning the state hospitals involve both the Department of Mental Health and the Department of Developmental Services. These issues are discussed in the "All State Hospitals" section of our analysis of the Department of Developmental Services' budget request. In that section, we recommend the following changes to the Department of Mental Health's budget:

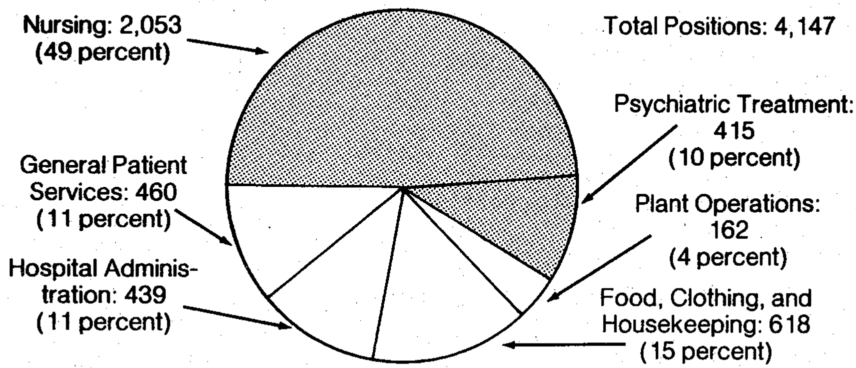
- Reduction of $119,000 in regularly budgeted overtime funds because the funds are unneeded.
- Reduction of $556,000 in special overtime funds which relate to collective bargaining agreements. Such funds, if necessary, are appropriately budgeted in the employee compensation item.
- Adoption of Budget Bill language requiring implementation of a plan to rationalize the distribution of non-level-of-care staff.

We also recommend that the Department submit a report to the Legislature by April 1, 1983, which indicates why workers' compensation, industrial disability leave, and nonindustrial disability insurance costs have increased and what measures can be taken to control these costs.

DEPARTMENT OF MENTAL HEALTH—Continued

Chart 2

Department of Mental Health
Atascadero, Patton, and Metropolitan State Hospitals
Proposed Positions by Function 1983–84



Functions:

Nursing. Patient scheduling and management (dressing, eating, therapy sessions, medications), patient supervision, disturbed patient intervention, participation in patient therapy sessions, record-keeping, etc.

General Services. Medical services, pharmacy, dentistry, chaplains, library, patient workshops, management of clinical programs, etc.

Administration. Overall management, security, personnel, accounting, medical records, telephone switchboard, etc.

Food, Clothing, and Housekeeping. Cooking, food service, laundry, clothing repair and distribution, janitorial, etc.

Plant Operations. Painting, plumbing, carpentry, grounds maintenance, heat and power generation, etc.

Psychiatric Treatment. Services from psychiatrists, psychologists, social workers, recreational therapists, etc.

Population Changes in Hospitals Operated by the Department of Mental Health

We withhold recommendation on population-related level-of-care (direct patient care) staffing increases, pending documentation of population, staffing, and cost changes. We further recommend that the Legislature adopt supplemental report language specifying the procedures to be used by the department for documenting population and staffing changes in the May and December population estimates.

The budget proposes to add 134 level-of-care (direct patient care) staff in state hospitals operated by the Department of Mental Health, due to increases in the hospital population. The cost of the new positions is $2,611,000.

Population Increases. Table 9 shows the hospital populations projected for 1983–84. The table shows a net population increase of 175 clients, or 3.5 percent, from the current year. The major factors accounting for the increase are:

- An increase of 92 clients who are not guilty by reason of insanity.
- An increase of 25 clients who are incompetent to stand trial.
- A decrease of 105 mentally disordered sex offenders (MDSOs). The reduction in the MDSO population is due to enactment of Ch 928/81,

which eliminates MDSOs as a separate category and requires commitment of all sex offenders to state prison. Thus, the MDSO population will gradually disappear from state hospitals as existing clients are released.

- A transfer of 107 mentally disabled inmates and 50 sex offenders from the Department of Corrections to Atascadero State Hospital for treatment. Chapter 1529, Statutes of 1982, requires the department to operate an experimental treatment program for "no more than" 50 inmates of the Department of Corrections who have been convicted of a sex offense. There is no statutory requirement that the additional 107 mentally disabled inmates be transferred from the Department of Corrections.

Table 9

Department of Mental Health
Population Estimates of Mentally Disabled Clients
In State Hospitals
As of June 27, 1984

	Atascadero	*Camarillo*	*Metropolitan*	*Napa*	*Patton*	*Totals*	*Change From Prior Year*[a] *Number*	*Percent*
County clients	23	545	618	980	177	2,543	—	—
Not guilty by reason of insanity	421	—	2	192	480	1,095	92	9.2%
Incompetent to stand trial	156	—	10	57	252	475	25	5.5
Mentally disordered sex offenders	330	—	—	—	245	575	−105	−15.4
Department of the Youth Authority and other clients	38	49	9	33	33	162	56	52.8
Department of Corrections clients	200	—	—	4	3	207	107	107
Drug contract clients	—	—	93	—	—	—	—	—
Totals	1,168	594	932	1,266	1,190	5,150	175	3.5%
Change from prior year:[a]								
Number	77	11	−9	—	96	175		
Percent	7.1%	1.9%	−1.0%	—	8.8%	3.5%		

[a] Population increases are compared to the May 1982 estimates, which are the base from which staffing changes must be calculated.

Staffing Changes. Table 10 shows the proposed staffing changes, by hospital, and compares staffing changes to population changes.

Table 10

Department of Mental Health
Staffing Changes and Population Changes by Hospital

	Atascadero	*Camarillo*	*Metropolitan*	*Napa*	*Patton*	*Totals*
A. Population changes	77	11	−9	—	96	175
B. Staffing changes						
Physicians	7	−2	−2	−1	3	5
Psychologists	1		−1		1	1
Social workers	1	−1	−2	−1	3	—
Rehabilitation therapists	2				3	5
Psychiatric technicians	85		−12	−4	54	123
Totals	96	−3	−17	−6	64	134

We have been unable to verify the population projections and the calculations used to determine the proposed staffing and funding. For example,

DEPARTMENT OF MENTAL HEALTH—Continued

the department has not yet documented why Atascadero needs 96 positions for a population increase of 77 individuals, whereas Patton needs only 64 positions even though it expects a population increase of 96 individuals, and Camarillo needs fewer positions despite an increase in its population.

We withhold recommendation on the proposed changes, pending receipt of information documenting the need for the requested positions.

Proposed Supplemental Report Language. Without adequate information documenting the need for additional resources in the state hospitals, it is difficult for the Legislature to review and act on the budget proposed for the department. In the past, this kind of detailed and complete information generally has not been forthcoming. Accordingly, we recommend adoption of supplemental report language which would require the department to document more adequately its state hospital population and staffing estimates. The proposed language would require the department to document its estimates at each step of the process, from population projection to calculating the cost of the new positions. Our recommended language is as follows:

> "In preparing state hospital population projections and level-of-care staffing change requests as required by the Budget Act, the department shall compile documentation which shall clearly display each step in estimating population; distributing population to various hospital programs; determining the position requirements of hospital programs; and calculating the salary, salary savings, benefit, and other costs and savings associated with position increases or decreases. Specifically, the documentation shall include, for each hospital: (a) in-hospital population trend data including 24 months of actual populations by category, (b) population graphs by population category showing past actual and projected population, (c) worksheets which show average monthly populations by category distributed to programs, (d) worksheets showing calculations of staffing requirements based on average monthly program population, (e) worksheets comparing currently authorized level-of-care staff to requested staff, and (f) worksheets showing salary, benefit, salary savings calculations, and other cost changes resulting from increases or decreases in authorized positions. Documentation shall be organized by hospital and shall be clearly titled and footnoted to facilitate review."

Use of State Hospitals

We recommend that the Legislature request the Health and Welfare Agency and the Department of Mental Health to jointly produce a policy paper by May 1, 1983, setting forth the administration's position on the use of state hospitals for mentally disabled county clients.

State hospitals care for approximately 1,150 mentally disabled long-term care county patients in rehabilitation programs. The cost of their care is approximately $100 per patient per day, or $42 million per year. The federal government does not help finance these costs. The costs for the same patients if cared for in a community skilled nursing facility with a special treatment program for the mentally disabled is approximately $45 per patient per day, of which the federal government pays approximately one-half. Consequently, the net difference in costs to the state resulting from these two forms of treatment is approximately $77.50 per patient per day.

A preliminary review indicates that some of the major factors explaining the higher cost of care in state hospitals are that the hospitals (a) pay substantially higher salaries than skilled nursing facilities for most nursing and housekeeping staff; (b) utilize substantially more professional treatment staff, such as psychiatrists, psychologists, psychiatric social workers, and rehabilitation therapists, than community skilled nursing facilities; and (c) have a very large overhead structure consisting of such services as centralized medical records, patient trust accounts, chaplain services, dentists, pharmacies, acute care hospitals, medical residency programs, and many other services not available to a comparable degree in community skilled nursing facilities.

Because of the wide differential between the hospitals and community facilities in terms of cost per patient-day, we recommend that the Legislature request the department and the Health and Welfare Agency to prepare a paper which addresses several important public policy questions regarding use of the state hospitals. These questions are:

1. Is the quality of life for patients in state hospitals better, worse, or the same as the quality of life for mentally disabled county patients in skilled nursing facilities?

2. Is the measurable quality of state hospital treatment programs superior to the quality of community skilled nursing facilities' special treatment programs? Are state hospital patients released to lower levels of care more rapidly? Is there any difference in the rate of readmission? Is the benefit from the more expensive treatment component in state hospital programs worth the extra cost?

3. In what respects are the patients in state hospital rehabilitation programs different from patients in skilled nursing facilities? What implications do these differences have for staffing in state hospitals or skilled nursing facilities?

4. Should state hospitals relicense units currently licensed as acute psychiatric hospital programs as skilled nursing or intermediate care programs, in order to more accurately reflect the characteristics of the patients served? Would this reduce operating costs? Could relicensing these programs qualify the programs for federal matching funds under Medi-Cal? Under what circumstances?

5. Should the state develop a large number of community skilled nursing, intermediate care, and residential facilities for county patients who are currently in state hospitals? How might such a transition be managed to significantly reduce state hospital costs?

3. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $320,356,000 from the General Fund for assistance to local mental health programs in 1983–84. This is a decrease of $7,238,000, or 2.2 percent, from estimated current-year expenditures. Total proposed expenditures for local mental health programs in 1983–84, including expenditures from reimbursements and federal funds, are $374,678,000, which is $1,765,000, or 0.5 percent, below estimated current-year expenditures. Table 11 displays local assistance expenditures and funding sources for the past, current, and budget years.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 11
Department of Mental Health Local Assistance
Expenditures and Funding Sources
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
General Fund	$348,691	$327,594[b]	$320,356	−$7,238	−2.2%
Reimbursements[a]	42,063	40,768	40,768	—	—
Federal funds	—	8,081	13,554	5,473	67.7
Totals	$390,754	$376,443	$374,678	−$1,765	0.5%

[a] Reimbursements are federal funds claimed by local mental health programs for services provided to Medi-Cal eligible persons.
[b] Excludes $5,311,000 appropriated for voluntary out-of-home placement of mentally disabled children. A portion of these funds were transferred to the Department of Social Services. The remaining funds will be reverted.

Current-Year Changes

The budget indicates that the administration does not intend to spend $8.7 million appropriated for local mental health programs in the current year. The specific reductions that the administration intends to make are as follows:

- A decrease of $4.9 million, reflecting a reestimate of the effect of establishing reimbursement rate limits pursuant to Ch 1594/82 (SB 2012).
- A decrease of $2.4 million, because the administration does not intend to spend funds appropriated for agreements with counties to reduce their usage of state hospitals.
- A decrease of $1.4 million, reflecting a reestimate of the cost of special treatment ("patch") programs for persons in skilled nursing and residential care facilities.

Table 12 shows the proposed adjustments to the current-year approved budget.

Table 12
Local Assistance—Mental Disabilities Program
Proposed Budget Changes (in thousands)

	General Fund	*All Funds*
Final approved budget, 1982–83	$335,961[a]	$384,830
Baseline adjustments in 1982–83		
1. Additional savings from implementation of 125 percent reimbursement limit	−4,868	−4,868
2. Removal of overbudgeted "patch" program funds	−1,400	−1,400
3. Removal of performance agreement funds	−2,400	−2,400
4. Gilroy methadone project	−140	−160
5. Office of Mental Health Social Services adjustment	441	441
Adjusted base budget	$327,594	$376,443
Baseline adjustments in 1983–84		
1. Full-year funding of federal block grant contracts	—	5,473
2. Transfer of local mandate funding	−314	−314
3. Office of Mental Health Social Services adjustment	−440	−440
Cost-of-living adjustment	9,362	9,362
Program change proposals		
1. Additional savings from 125 percent reimbursement limit	−6,690	−6,690
2. Collection of additional patient fees	−9,156	−9,156
Proposed budget, 1983–84	$320,356	$374,678

[a] Excludes funds appropriated for voluntary out-of-home placement of mentally disabled children. A portion of these funds were transferred to the Department of Social Services, and the remainder will revert to the General Fund.

Budget Proposal

The budget proposes the following major changes in local mental health program funding in 1983–84:

- A decrease of $6.7 million, due to the full-year effect of establishing reimbursement rate limitations pursuant to Ch 1594/82 (SB 2012). The budget assumes aggregate full-year savings of $26.8 million from this proposal ($15.2 million in the 1982 Budget Act, plus $4.9 million additional current-year savings, plus $6.7 million additional budget-year savings).
- An increase of $9.4 million to provide a 3 percent cost-of-living increase for local mental health programs.
- A decrease of $9.2 million to reflect additional county collection of fees from patients.
- An increase of $5.5 million in federal block grant funds to provide full-year funding for community mental health center contracts.

Patient Revenue Collection Proposal

We recommend that the department submit additional information to the Legislature by March 15, 1983, explaining its proposal to collect more fees from patients.

The budget proposes to reduce 1983–84 county mental health program allocations by $9,126,000 and encourage counties to replace these funds by collecting additional fees from patients. Counties that currently do not collect $3 or more per unit of patient service would receive a reduction in funds. The size of the reduction would depend on (a) how much less than $3 per unit of service the county collects and (b) how many units of service are rendered by the county.

The administration's proposal to require counties to more uniformly collect patient fees may have merit. The fees would save money for the state (a) due to increased revenue collections and (b) because imposing small fees would discourage patients from seeking unneeded services.

County mental health programs could offset the loss of state revenue if they can, in fact, improve the collection of patient fees. If they cannot increase these collections, however, counties would have to reduce mental health program expenditures or obtain replacement funding from county funds or other sources.

We have no basis for determining whether counties could improve fee collections enough to prevent program reductions. We note, however, that 49 of the state's 58 counties currently collect less than $1.50 per unit of service. Four counties—Contra Costa ($4.87), Inyo ($3.16), Monterey ($3.04), and Ventura ($4.10)—currently collect more than $3 per unit of service.

We recommend that the department submit to the Legislature additional information about the implementation and potential effects of its fee collection proposal. Specifically, we recommend that the department provide answers to the following questions by March 15, 1982:

- Is $3 per unit of service an appropriate figure? Should all counties be able to achieve collection rates in excess of $3 per unit of service, as four counties are now doing?

DEPARTMENT OF MENTAL HEALTH—Continued

- Would there be minimum patient fees? If so, would the fee vary by type of service?
- Would patients be refused service if they could not pay the fee? Under what circumstances?
- Are there differences in the characteristics of the patients between counties that affect ability to pay?
- Would county efforts to collect from insurance companies and Medicare be affected by the proposal?
- How much will counties spend to collect these fees? What is the anticipated cost/benefit ratio? How will the administrative costs be funded?
- What systems changes will be made at the local level? Will there be a transition period for implementation?

Legislative Mandates

We recommend approval.

The budget proposes $314,000 in Item 9680-001-001 to reimburse the cost of two mandated local programs. This amount includes: (a) $284,000 for costs resulting from Chapter 1061, Statutes of 1973, which requires local programs to provide specified services and administrative positions, and (b) $30,000 for costs resulting from Chapter 991, Statutes of 1979, which established a special due-process procedure to extend commitments of mentally disordered sex offenders.

Effect of Medi-Cal Reform Legislation on Local Mental Health Programs

Assembly Bill 799 (Ch 328/82), as amended by SB 2012 (Ch 1594/82), introduced major Medi-Cal program reforms and made numerous changes affecting county Short-Doyle (mental health) programs. Specifically, these statutes (a) establish a ceiling on Short-Doyle reimbursement rates, (b) require the department to implement a program for reviewing utilization of inpatient hospital services provided under county Short-Doyle programs, and (c) require consolidation of Medi-Cal and Short-Doyle mental health services into a single program in 1983–84, if authorized in the 1983 Budget Act. Previous law authorized consolidation only in counties participating in a pilot project.

A. 125 Percent Reimbursement Limit

The reform legislation requires the department to reimburse county Short-Doyle programs based on rates established by the department, rather than the costs of providing the service. The rates would be the lower of each individual provider's actual costs or 125 percent of the statewide weighted average cost per unit of service, adjusted for inflation. The legislation exempts from the 125 percent reimbursement rate limit those counties which participate in the consolidation pilot project. The legislation authorizes the department to waive the reimbursement rate limit for certain providers if a county demonstrates that the limit "will result in a substantial inability to provide mental health services."

Table 13 shows the statewide average cost per unit of service in 1980–81 and the percent of expenditures that were over 125 percent of the statewide average cost.

Table 13
Local Mental Health Programs
1980–81 Expenditures and Statewide
Average Unit Cost
All Funds

	Expenditures (in millions)	*Statewide Average Unit Cost*	*Percent of Expenditures Over 125 Percent of Statewide Average*
A. 24-hour care			
1. Acute care in hospitals	$107.0	$250 per day	2.3%
2. Acute care in other facilities [a]	3.4	66 per day	24.7
3. Subacute care in other facilities [a]	5.8	67 per day	5.1
4. Board and care facilities	19.0	48 per day	17.7
B. Partial day care			
1. Hospital day treatment	10.9	$83 per day	15.2%
2. Nonhospital day treatment	55.0	53 per day	11.7
3. Sheltered workshops	2.8	26 per day	13.0
4. Social activity centers	4.1	22 per day	15.4
C. Outpatient care			
1. Individual therapy	91.7	$61 per visit	11.6%
2. Group therapy	13.9	39 per visit	12.1
3. Medication visit	16.6	51 per visit	8.5
4. Family therapy	2.7	40 per visit	13.4
5. Collateral services	3.6	55 per visit	14.7
6. Crisis intervention	24.7	154 per case	11.5
7. Assessment workups/screening referral	8.6	66 per case	12.7
Total	$369.8		9.6%
General Fund	*$271.1*		
Other funds	*98.7*		

[a] Acute and subacute services are provided by skilled nursing facilities, psychiatric health facilities, and residential crisis units.

Current-Year Savings. The Legislature reduced the 1982 Budget Act by $15.2 million in anticipation of savings that would result from applying the 125 percent reimbursement limit. After enactment of the 1982 Budget Act, the administration reestimated the effect of the 125 percent limit and determined that a total of $20.1 million in savings would be achieved in the current year, an increase of $4.9 million above the savings assumed in the Budget Act. The revised savings estimate is based on the assumption that the 125 percent reimbursement limit would be fully applied in all counties, beginning October 1, 1982.

Budget Proposal. The budget reflects savings in 1983–84 of $26.8 million as a result of the 125 percent reimbursement limit. This is $11.6 million more than the amount of savings budgeted in the current year and $6.7 million above the reestimated savings for the current year.

Current-Year Implementation

The department will not be able to apply the 125 percent rate limit to individual providers until it receives final cost data from counties at the close of the fiscal year. It can project the effect of the rate limit based on past county cost reports, but these projections may not be accurate for two reasons. First, waivers and/or exemptions from the 125 percent reimbursement limit will reduce potential savings. Second, currently the de-

DEPARTMENT OF MENTAL HEALTH—Continued

partment allows counties to redirect potential savings funds into more cost-effective services, so that actual savings may not materialize. Consequently, the department uses county allocations calculated at the beginning of the year as its primary means of controlling aggregate county expenditures, rather than depending on the reimbursement rate limit to produce the required savings by itself.

The department allocated the 1982 Budget Act's $15.2 million reduction to counties using the following methodology:

- The department applied the 125 percent reimbursement limit to individual providers, based on 1980–81 data. The department did not, however, make more than a 10 percent reduction in any county's allocation.
- The department applied a 3.3 percent across-the-board reduction to all counties in order to make reductions totaling $15.2 million.

The effect of the allocation methodology is to allocate a portion of the $15.2 million reduction to counties with low unit costs, instead of allocating the entire reduction to counties with high unit costs. The department indicates that it does not intend to change the allocation of the $15.2 million reduction in future years.

The budget does not indicate what mechanism the department will use to achieve additional savings of $4.9 million in the current year. As indicated above, if the department continues to use its existing procedures for managing this program, the 125 percent reimbursement limitation, by itself, may not produce the target amount of savings. Therefore, the department may have to continue reducing county allocations in the future.

The reform legislation does not tell the department to administer the 125 percent reimbursement limit so as to create additional savings in the current year.

Reimbursement Limit Exemptions and Waivers

The reform legislation exempts counties that participate in the consolidation of Medi-Cal and Short-Doyle mental health programs from the 125 percent reimbursement limit. Because the state has not obtained federal approval for the consolidation pilot projects, no county has yet been exempted from the 125 percent reimbursement limit.

The reform legislation further provides that counties may seek waivers from the 125 percent reimbursement limit for individual high-cost providers. The department will consider individual waiver requests, if submitted as part of a county's 1982–83 budget proposal. In September 1982, the department indicated to counties that waiver requests must meet one of the following criteria in order to be approved:

- the services are not available from an alternative provider at a lesser rate,
- the provider offers a program for a high-cost target group such as children and youth or minorities, or
- the provider's rates are temporarily high due to start-up costs.

Local Mental Health Program Cost Controls

We recommend adoption of Budget Bill language requiring the department to (1) establish a local program cost control unit by redirecting positions, (2) control local administrative costs in addition to service costs, and (3) impose cost controls for services that cost between 100 percent and

125 percent of the statewide average cost per unit of service, in addition to those services costing greater than 125 percent of statewide average costs. We further recommend that the department submit a proposal for improved collection of county cost data by April 1, 1983, because the current data system is inadequate.

By enacting the 125 percent reimbursement limit, the Legislature took the first step in attempting to improve the cost-effectiveness of local mental health programs. The essential elements of a program aimed at improved cost-effectiveness are (1) a budget allocation system that transfers funds from providers with high unit costs to lower-cost providers and (2) an information system that permits meaningful comparisons between counties and providers on a cost-per-unit-of-service basis.

To implement a comprehensive and ongoing system for controlling local mental health program costs, we recommend that the Legislature adopt Budget Bill language requiring the department to establish a cost control unit by reorganizing existing staff. The activities of the unit would improve the Legislature's ability to control costs in local mental health programs and would continue the direction established in AB 799. The unit would (1) examine local administrative and service delivery costs and (2) through the county allocation and budget approval process, control excess costs. Specifically, we recommend that the following language be added to Item 4440-001-001 of the Budget Bill:

"The department shall establish a local program cost control unit by reorganizing existing departmental resources. The local program cost control unit shall (1) identify local providers whose costs per unit of service exceed statewide averages, (2) identify county mental health department administrative costs that exceed statewide average unit costs, (3) develop budget requests based on county-specific fiscal information, (4) develop annual plans to correct unacceptable service and administrative costs, and (5) allocate and reallocate appropriated funds in a manner that furthers the objective of cost control. The Department of Finance shall review and approve annual cost control plans. The Director may, at his discretion, limit reimbursements and allocations for counties or providers, when expenditures per unit of service exceed statewide averages.

"It is the intent of the Legislature that the department, in administering its cost control program, shall, to the extent feasible, direct available funds into services that will reduce the frequency of hospitalization of chronically mentally disabled persons."

We further recommend that the department submit a written proposal to the fiscal subcommittees, by April 1, 1983, for an improved data collection and management information system. The proposal should (1) define the units of service and costs to be reported, (2) specify reporting frequencies, (3) contain an implementation timetable, and (4) indicate what reorganization or redirection of departmental resources is required to implement a reliable, timely, and comprehensive system for reporting unit costs by provider and service category.

We make this recommendation because the current system for reporting services and costs is not adequate to support legislative efforts at cost control. The data system does not furnish up-to-date information. Definitions of services are too broad, and counties do not report services and costs in a uniform manner. Consequently, true inter-county comparisons of unit costs are not always possible. Reliable and meaningful inter-county

DEPARTMENT OF MENTAL HEALTH—Continued

unit cost comparisons are essential to enable the Legislature to evaluate the functioning of the 125 percent reimbursement limit and to determine if further changes to the cost control method established in AB 799 are required.

B. Utilization Review

Sanctions Needed to Reduce Medically Unnecessary Hospitalization

We recommend adoption of Budget Bill language requiring the department to adopt utilization review regulations that would reduce or eliminate Short-Doyle program reimbursement for specified categories of medically unnecessary hospital care.

Since 1978, the Welfare and Institutions Code has required counties to review utilization of inpatient psychiatric care funded by the Short-Doyle program to determine (1) the need for an admission to a hospital and (2) the appropriateness of the length of stay. This legislative requirement, which was intended to encourage counties to use less costly alternatives for meeting patient needs than state-funded hospitalization at a cost of $250 a day, still had not been implemented by mid 1982.

The 1982 reform legislation required the department to (1) submit a report describing its proposed utilization review standards and compliance procedures by November 30, 1982, and (2) 30 days later issue implementing regulations.

The Department's Report. The department's November 1982 report contains guidelines that would permit counties to apply existing Medi-Cal psychiatric utilization review procedures to Short-Doyle patients. Under Medi-Cal procedures, (1) hospital staff review each admission to determine whether it is medically justified and whether the length of stay is appropriate and (2) Medi-Cal staff review the decisions of facility staff on a sample basis. At the facility level, it appears that under the department's guidelines, Medi-Cal utilization review procedures will remain essentially unchanged, although workload will increase as a result of subjecting Short-Doyle inpatient care to review.

Penalties. The report indicates that the department will impose penalties on counties that do not comply with its inpatient utilization review regulations. The report mentions the following methods for penalizing counties: withholding allocations, recoupment of funds, requiring more resources to be channeled into quality assurance functions, and bypassing the local mental health director and going directly to the Board of Supervisors or county administrative officer with noncompliance issues.

The report does not discuss how noncompliance would be defined, when penalties would be imposed, or what types of penalties would be imposed for the various kinds of noncompliance.

Reimbursement for Medically Unnecessary Care. According to the guidelines (Policy Letter 82-17) contained in the department's November 1982 report, facilities will continue to receive Short-Doyle reimbursement for medically unnecessary days of care. Hospitalization is "medically unnecessary" when a patient is kept in the hospital, even though he or she is ready to be discharged to a lower level of care, such as a nursing home, board and care, family, or independent living arrangement.

Instead of disallowing or reducing payment for medically unnecessary care, the department's report provides for the collection of data about the number of medically unnecessary days of care and documentation of the reasons such extended care was authorized by the hospital staff. Each quarter, hospitals will be required to submit these data to the county mental health director. Such data could provide the basis for review of the department's policy on payment for medically unnecessary care at some time in the future.

Analyst's Comments. A departmental policy that permits Short-Doyle reimbursement for medically unnecessary days of hospitalization encourages overutilization of costly hospital services and diverts resources from other needed Short-Doyle services.

In some circumstances, extended hospitalization may be clinically desirable. For example, some patients who are ready for discharge might be retained in a hospital until a bed becomes available in a nursing home. In general, however, medically unnecessary days of inpatient care should *not* be fully reimbursed by the Short-Doyle program.

Accordingly, we recommend adoption of Budget Bill language requiring the department to issue regulations that prohibit reimbursement of medically unnecessary days, except in circumstances that are specified in detail in the regulations.

For example, reimbursement should be denied when a facility's discharge planning system functions poorly, resulting in delayed placement of patients in a lower level of care, or when a facility's utilization review system is ineffective in controlling unnecessary utilization. Rates should be reduced when a discharge-ready patient is held in a hospital for nonmedical reasons (such as pending a hearing as a result of a judge's order). In many of these cases, the decision to inappropriately hospitalize is made by county officials. Consequently, the frequency of such inappropriate hospitalization can be reduced if counties are given a fiscal incentive to avoid unnecessary care.

Rates should also be reduced when a discharge-ready patient remains in a hospital because a bed in an appropriate lower level of care facility is temporarily not available. The lower rate will create a fiscal incentive for counties to investigate all placement alternatives and to develop additional placement facilities where needed.

State Hospital Utilization Reviews

We recommend that the Legislature adopt Budget Bill language requiring state hospitals to establish utilization review procedures.

The department's proposal does not require utilization reviews for state hospital patients, even though 1980–81 state hospital expenditures constituted 57 percent ($144.2 million) of the $253.6 million expended on inpatient care for mentally disabled county patients. A one-day survey of 1,086 Los Angeles County patients conducted at Camarillo and Metropolitan state hospitals indicated that approximately one-quarter of these patients are discharge-ready. Utilization review would assist in assuring that some of these patients are discharged more rapidly, reducing costs to the state.

Data Collection

We recommend that the Legislature adopt Budget Bill language mandating that the department require hospitals and psychiatric health facilities to furnish timely information on length of stay by diagnosis and cost per discharge as a condition for participation in the Short-Doyle program.

The department currently does not collect hospital-specific data on

DEPARTMENT OF MENTAL HEALTH—Continued

length of stay and cost per discharge, by patient diagnosis. The collection of such data could permit the department and the counties to identify hospitals which keep patients too long or which have unacceptably high costs per discharge. Such facilities could then be encouraged to correct their length of stay and cost problems, or face the possibility of loss of Short-Doyle contracts.

C. Consolidation of Mental Health Programs

The 1982 Medi-Cal reform legislation mandates the consolidation of Medi-Cal fee-for-service mental health services with local Short-Doyle programs, effective July 1, 1983, if approved in the 1983 Budget Act. Previous law authorized consolidation of the two programs only in counties wishing to participate in a pilot project. The goals of consolidation are (1) improved fiscal management, (2) reduction of inappropriate services, especially unnecessary hospitalization, and (3) improved integration of services to ensure a wide range of service options.

The budget proposes to continue the pilot projects in 1983–84. The Budget Bill does not include any language that would authorize statewide consolidation.

Implementation of Pilot Projects

The pilot projects called for by Ch 102/81 (AB 251) have not been implemented as yet, due to delays in obtaining waivers of federal regulations. These waivers are necessary in order to allow the state to continue receiving federal matching funds for mental health services provided to Medi-Cal beneficiaries.

At the time this analysis was prepared, the department was working with the Department of Health Services to prepare a revised waiver request. The request soon will be submitted to the federal government, which would be required to respond within 90 days. Federal concerns about the fiscal effects of consolidation could result in either additional delays or possibly denial of the state's request. When the waivers are approved, the department indicates that it will need at least 60 days to notify providers and Medi-Cal beneficiaries and to make changes in the Medi-Cal claims processing system. The department indicates that Los Angeles County is the only county prepared to rapidly implement consolidation when the federal waivers are obtained.

Thus, the pilot projects could be implemented on April 1, 1983, at the earliest. It is likely, however, that implementation will be delayed significantly beyond April 1.

Statewide Consolidation

Under the reform legislation, statewide consolidation of Short-Doyle and Medi-Cal mental health delivery systems will occur only if approved in the 1983 Budget Act. If the Legislature does not approve statewide consolidation in the 1983 Budget Act, the enactment of additional legislation would be the only means of implementing statewide consolidation.

At the time this provision was enacted, the Legislature anticipated that the department's consolidation report, due May 1, 1983, would contain data covering several months of pilot project operations. It now appears that the consolidation pilot projects will not be operational for a long enough period to permit evaluation by the end of the current fiscal year. Therefore, we recommend that the decision on whether to proceed with statewide consolidation be postponed for one year.

Efficiency Under Consolidation

Under consolidation, county mental health programs would have additional funds and additional patients. Whether the combined population of persons currently served by the Short-Doyle and Medi-Cal programs receives better care or worse care will depend on how efficiently the consolidated systems are managed by the counties.

Consolidation would result in better use of public funds if county mental health systems (1) reduce hospital utilization by diverting patients into less costly service alternatives, (2) absorb some Medi-Cal patients at no increased cost, or (3) directly provide or contract for additional services at rates that are below current Medi-Cal rates. If, however, consolidated county programs are not able to arrange for additional services at rates that are competitive with the current Medi-Cal rate structure, fewer services will be provided.

It may be difficult for counties to arrange for services for the transferred patients at costs that are below current Medi-Cal rates, for several reasons. First, Medi-Cal limits the number of outpatient services it will provide in a given period of time and also has prior authorization controls and length-of-stay reviews for hospital patients. County mental health programs do not have these utilization controls. Second, counties offer a broader spectrum of services than provided by the Medi-Cal program. If Medi-Cal patients receive a broader spectrum of services as a result of consolidation, the costs for services to Medi-Cal patients could increase. Finally, the Medi-Cal program has statewide maximum rates that limit expenditures for outpatient services, whereas county programs generally reimburse all providers for their actual costs. Although exact comparisons cannot be made between the rate structures of the two programs, Medi-Cal rates for outpatient services may be lower than Short-Doyle rates for similar services.

Major unanswered questions about consolidation, which should be addressed in the pilot project evaluation, are:

- How will changes in the delivery system affect Medi-Cal recipients' access to, and utilization of, mental health services?
- How will the counties spend the funds transferred from the Medi-Cal program? Will the counties use private sector or public sector providers? What services will be purchased? At what rates?
- Will federal funding increase or decrease?
- Will costs per unit of service increase or decrease?
- Can the county mental health systems absorb a significant number of clients without increasing per-client costs?
- What additional county administration costs will result from consolidation?

Pilot Project County Selection

Current law does not provide guidance to the department in determining the size of the consolidation pilot projects. Los Angeles County and several other urban counties that have a large part of the state's Medi-Cal population wish to participate in the pilot project. In large counties, any problems resulting from consolidation could have a major fiscal effect on the state.

The department informs us that Los Angeles and Ventura Counties are particularly interested in consolidation but that the other counties shown

DEPARTMENT OF MENTAL HEALTH—Continued

in Table 14 have also expressed such interest.

Table 14

Counties Interested in Participating in Consolidation Pilot Projects

County	*Medi-Cal Mental Health Expenditures 1981–82 (All Funds)* [a]
Butte	$249,607
Contra Costa	1,617,712
Los Angeles	24,066,553
Marin	1,228,149
Mendocino	179,527
Orange	4,897,157
Placer	138,781
Riverside	1,864,766
Sacramento	3,267,427
San Luis Obispo	136,061
San Mateo	1,764,718
Solano	685,120
Stanislaus	387,212
Tulare	191,097
Ventura	528,573

[a] Figures shown exclude expenditures for clients in skilled nursing facilities and for medically indigent adults.

Reimbursement Limit Exemption

We recommend enactment of legislation to repeal a provision of current law that exempts pilot project counties from the 125 percent reimbursement rate limit.

Current law exempts counties that participate in consolidation pilot projects from the 125 percent reimbursement limit. The exemption would allow counties selected for the project to continue to fund high-cost providers. If this happens, fewer units of service would be available.

Existing law authorizes the department to waive reimbursement units for high-cost providers if full reimbursement can be justified. We see no reason why such justification should not also be required for high-cost services in consolidation counties.

We are aware of no analytical basis for excluding any county from the requirement that it take steps to correct excessively high reimbursement rates. We therefore recommend enactment of legislation that would repeal the exemption from the 125 percent limit for participating counties.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the General Fund, Special Account for Capital Outlay; and Energy and Resources Fund, Energy Account — Budget p. HW 109

Requested 1983–84	$1,671,000
Recommended approval	861,000
Recommended reduction	810,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Transfer to General Fund. Recommend that $810,000 in savings resulting from our recommendations be transferred to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide. 988
2. ***Minor Capital Outlay—Statewide. Reduce by $117,000.*** Recommend deletion of funds for three minor capital outlay projects because the projects are not justified. 989
3. ***Air Conditioning and Heating—Atascadero. Reduce by $543,000.*** Recommend deletion of working drawing funds for air conditioning and heating of Atascadero because a less expensive, energy-efficient alternative system should be installed in lieu of this project. 989
4. ***Electrical Distribution System Repairs—Metropolitan. Reduce by $111,000.*** Recommend deletion of preliminary planning funds because the department has not developed adequate information to substantiate the need for this project. 991
5. ***Enclose Porches—Patton. Reduce by $10,000.*** Recommend deletion of planning and working drawing funds because the existing facilities are adequate to meet program needs. 991
6. ***Minor Capital Outlay—Energy and Resources Fund. Reduce by $29,000.*** Recommend that one energy conservation project be reduced by $6,000 to eliminate overbudgeting; and two projects totalling $23,000 be deleted because of inadequate justification. 992
7. Report to Legislature on Security Improvements at Patton State Hospital. Recommend that the Departments of Mental Health and Finance advise the Legislature of the status of and reasons for delay of the $1.6 million project funded in the 1982 Budget Act to improve security at Patton State Hospital. 993
8. Report to Legislature Overdue. Recommend that prior to legislative hearings, the department submit the report on state hospital renovation needs for mentally disabled clients. This report was due November 1, 1982. 993

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of $1,671,000 for capital outlay projects for the Department of Mental Health. This amount includes $1,557,000 from the General Fund, Special Account for Capital Outlay (SAFCO), and $114,000 from the Energy and Resources Fund (ERF), Energy Account. Table 1 summarizes the requested projects and our recommendations.

Table 1
Department of Mental Health
Capital Outlay Projects 1983–84
(in thousands)

Item/Project Title	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Proposal*	*Estimated*[b] *Future Cost*
SAFCO (Item 4440-301-036)					
(a) Minor Capital Outlay	Statewide	pwc	$117	—	—
(b) Air Conditioning and Heating of Patient Occupied Building	Atascadero	w	543	—	$9,743
(c) Electrical Distribution System Repairs	Metropolitan	pw	111	—	1,860
(d) Install Emergency Electrical Power, Phase II	Patton	c	776	776	—
(e) Enclose porches, N Building	Patton	pw	10	—	210
Subtotals			1,557	776	11,813
ERF (Item 4440-301-189)					
(a) Minor capital outlay	statewide	pwc	114	85	—
Totals			$1,671	$861	$11,813

[a] Phase symbols indicate: p = preliminary plans, w = working drawings and c = construction
[b] Department estimate.

Transfer to General Fund

We recommend that the savings resulting from our recommendations on Items 4440-301-036 ($781,000) and 4440-301-189 ($29,000) from the Special Account for Capital Outlay and the Energy and Resources Fund, respectively, be transferred to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend reductions amounting to $810,000 in the Department of Mental Health capital outlay proposal. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tideland oil revenues in the Special Account for Capital Outlay and the Energy and Resources Fund, which would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we recommend that any savings resulting from approval of our recommendations be transferred to the General Fund.

Minor Capital Outlay—Statewide

We recommend Item 4440-301-036(a), $117,000 for three minor capital outlay projects, be deleted because our analysis indicates that the proposed projects are not justified.

The budget includes $117,000 for three minor capital outlay projects ($150,000 or less per project) for the Department of Mental Health. Our analysis indicates that the three projects are not justified. Consequently, we recommend deletion of the minor capital outlay funds proposed in 4440-301-036(a), for a reduction of $117,000.

1. ***Water Valves in Maintenance Tunnel—Atascadero State Hospital—($33,000).*** This project would install four new valves on water mains located in the hospital utility tunnel. The department states that these valves would be automatically activated to avoid flooding of the maintenance tunnel if a major earthquake should occur in the area. In the event of a major earthquake, the existing manually operated shut-off valves could be used should the earthquake cause any damage to the water system. Manual valves are the normal installation in other state facilities with utility tunnels, and we see no reason to install an expensive redundant system at Atascadero.

2. ***Construction of a Trash Loading Area—Metropolitan State Hospital—($60,000).*** This project proposes the construction of a ramp loading dock and concrete area for storage of trash bins on a portion of the hospital grounds. The purpose of the ramp would be to allow trucks to dump refuse directly into the large trash bins and avoid the need for department personnel to handle it twice. The hospital, however, has not provided any information to indicate if any labor savings would be achieved through this project. We recommend that the funds be deleted because the project is costly, and the resulting benefits, if any, have not been identified.

3. ***Security Fencing for Athletic Field—Patton State Hospital—($24,000).*** This project would provide for installation of a baseball field including new fencing, dugouts, and bleachers. The department indicates that the improvements are needed to provide athletic facilities to Penal Code (PC) patients. The Legislature, however, appropriated $1.6 million in the 1982 Budget Act for security improvements, building renovations, and site development to increase the number of beds available for PC patients. With completion of this project, the altered building and adjacent area will accommodate a substantial portion of the PC population, and alleviate overcrowding at Patton. Consequently, existing outdoor recreation facilities in the vicinity of the currently occupied building should no longer be overcrowded. Accordingly, our analysis indicates that it is not necessary to construct additional outdoor recreation facilities, and we recommend deletion of the requested funds.

Air Conditioning and Heating of Patient Occupied Building—Atascadero State Hospital

We recommend Item 4440-301-036(b), working drawing funds to install heating and air conditioning at Atascadero State Hospital be deleted because a less expensive alternative to this project is available.

The budget proposes $543,000 in Item 4440-301-036(b) for working drawings to install air conditioning and heating for patient-occupied buildings at Atascadero State Hospital.

This project initially was funded for preliminary plans and working drawings in the 1979 Budget Act, in the amount of $530,800. The 1979

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Budget Act specified that prior to allocation of the funds, the Department of Mental Health (DMH) and the Office of Appropriate Technology (OAT) were to submit to the Legislature an evaluation and cost analysis of the energy conservation alternatives to installing air conditioning at this hospital.

In March 1981, the department reported to the Legislature that based on a consultant engineer's study of alternatives, the most cost-efficient air conditioning project was to (1) install additional insulation on the exterior of the patient-occupied buildings, and (2) for the cooling season provide air conditioning to maintain 72 degrees for the acute psychiatric portion of the hospital and maintain 78 degrees for other patient areas.

The Legislature appropriated $1.4 million in the 1980 Budget Act for construction of the recommended insulation for the patient-occupied buildings. This work has been completed. In addition, at a cost of $308,000 (from the 1979 appropriation), the Office of the State Architect has completed preliminary plans for a central plant-based air conditioning system. The balance of the 1979 appropriation reverted because preliminary plans were not completed in time to allow these funds to be allocated within the year of appropriation.

In the 1981 Budget Act the Legislature again appropriated funds ($495,000) for working drawings for this project. These funds also reverted. The 1983–84 request for $543,000 would *again* provide funds for working drawings. The request however is for $319,000 more than the amount provided in 1979 for the same purpose—an increase of 43 percent. Based on the preliminary plans, the estimated future cost of this project is $9,743,000.

Legislative Recommendation Ignored. This project, as currently proposed, does not reflect the scope of work suggested by the Chairman of the Joint Legislative Budget Committee in correspondence with the DMH and OAT. The Chairman's letter of April 10, 1981 advised the administration that the proposed project should be revised to include energy-conserving alternatives to air conditioning that were suggested in the report submitted to the Legislature.

Alternative Configuration Recommended. In the studies submitted for legislative review, the consulting engineer identified an alternative cooling system employing evaporative cooling coupled with energy-efficient modifications which could provide 78° temperatures for essentially the entire cooling season, resulting in significant savings in capital costs and future energy costs. The alternative project would be capable of providing a 78° temperature nearly all of the time. The consultant indicates that electrical demand under the alternative project would be only 21 percent of what it would be under the central plant proposal, and the total energy consumption would be 48 percent less under the alternative project. Moreover, the studies assume that the building insulation project would provide an insulating value of R-5. The project actually provided an insulating value of R-11. Consequently, the newly installed insulation will perform much better than the engineer assumed, and thus provide more energy conservation and improve interior comfort conditions.

It is apparent from the information developed thus far that refrigerated air conditioning is not required to maintain 78° in patient-occupied areas. Consequently, we recommend that the requested working drawing funds be deleted, for a savings of $543,000. An alternative proposal which addresses the energy conserving alternatives to installing air conditioning at this hospital would warrant legislative consideration.

Electrical Distribution Repairs—Metropolitan State Hospital

We recommend deletion of Item 4440-301-036(c) preliminary plans and working drawings for electrical distribution system repairs at Metropolitan because the department has not provided adequate information to substantiate the need for this project, for a savings of $111,000.

The budget proposes $111,000 for preliminary plans and working drawings for repairs to the electrical distribution system at Metropolitan State Hospital. The estimated future cost for the project is $1,860,000. The department requested this project on the basis of a survey of the primary electrical distribution system conducted by the Office of State Architect in July of 1976. The report indicated that a substantial portion of the system is old and that cable failures may occur. There is no indication, however, that there have been any problems with the distribution system.

Moreover, the project includes not only improvements to the primary electrical distribution system, but also new street lighting, removal of overhead pole lines (including telephone circuits), new primary electrical switch gear, and relocation of the main substation of the hospital. We have no information to indicate why the department is proposing these changes.

Further, our review of the planned cogeneration project at this hospital —proposed to be financed through a third-party agreement—indicates that new primary switch gear and relocation of the main substation are included in the cogeneration project. In view of the cogeneration project, it would not be prudent for the state to undertake this portion of the work.

In any event, the need to make the proposed electrical improvements has not been substantiated by the department. Therefore, we recommend deletion of the requested $111,000.

Install Emergency Electrical Power—Phase II—Patton State Hospital

We recommend approval of Item 4440-301-036(d), $776,000 in construction funds for emergency electrical power at Patton State Hospital.

Currently, Patton State Hospital has no backup electrical service to buildings which house Penal Code (PC) clients. This presents a serious security/safety problem and should be corrected. Approval of the requested funds would allow sufficient back-up electrical service to be provided to the buildings currently housing PC clients and to a building to be altered for PC clients. Our analysis of the project cost estimate indicates that the requested amount is reasonable, and we recommend approval.

Enclose Porches, N Building—Patton State Hospital

We recommend deletion of Item 4440-301-036(e), preliminary plans and working drawings to alter the N building at Patton State Hospital, because the existing facility is adequate to met the program needs, for a savings of $10,000.

The budget includes $10,000 for preliminary plans and working drawings to enclose the porches on the N building at Patton State Hospital. The estimated future costs for construction of this project is $210,000. At the present time, the screened porch areas supplement the day room activity space available in the N building. The proposed project would provide for permanent enclosure of the porch areas, and installation of new lighting and ventilating systems. The department indicates that this will allow porch areas to be utilized more frequently, especially during inclement weather.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Our analysis suggests that because the weather conditions in Southern California are quite favorable, the benefits to be derived through enclosing the porch areas are minor in relation to the substantial cost. Most of the time, these areas can continue to be used as an extension to the day rooms. Moreover, when the $1.6 million improvements (funded in the 1982 Budget Act) to the east campus of Patton State Hospital have been made, the population of the N building will be reduced substantially. This will alleviate the demand for day room space in the N building. Accordingly, we recommend deletion of the proposed planning funds, for a savings of $10,000.

Minor Capital Outlay—Energy and Resources Fund

We recommend 4440-301-189, minor capital outlay for energy conservation improvements, be reduced by $29,000 to reduce funds for one project ($6,000) and eliminate funds for two other projects ($23,000).

The budget includes three energy conservation projects to be funded through the minor capital outlay program ($150,000 or less per project) from the Energy and Resources Fund, Energy Account.

New Boiler—Atascadero. The budget proposes $91,000 to install an additional boiler at Atascadero State Hospital. A consultant's study of energy conservation opportunities at Atascadero indicates that for a substantial portion of the year, one of the three existing 27,000 lb/hour boilers must operate even though the steam requirement frequently is as low as 2,000 lbs/hour. As a result, the boiler operates inefficiently and wastes energy. This project would install an 8,000 lb/hour boiler which could operate efficiently at outputs as low as 2,000 lbs/hour and respond rapidly to fluctuating steam demands.

Based on the engineer's evaluation, this project has a payback period of approximately 2.6 years. Consequently, we recommend approval of the project. Our analysis, however, indicates that the project is overbudgeted. Based on an estimate by the Office of State Architect prepared in March of 1982, the total contract cost for the new boiler is $65,000. Adjusting this amount for inflation to July 1983, the project should be budgeted at a contract cost of $72,000 plus fees and contingency of $13,000, for a total cost of $85,000. Accordingly, we recommend deletion of $6,000 to eliminate overbudgeting for this project. We recommend approval of the balance—$85,000—to implement the energy saving measure. If the department, however, installs air conditioning or cogeneration, it should determine if these changes would erode the anticipated savings from installing the new boiler.

Replacement of Lights—Atascadero and Patton. The budget also includes funds to replace incandescent light fixtures with mercury vapor lights at Atascadero ($7,000) and to replace existing quartz *and mercury vapor lights* with high pressure sodium lights at Patton ($16,000).

We have not received adequate information to substantiate the claimed savings used in the cost benefit analyses for these two projects. Our analysis indicates that the assumed savings are overstated, and as a result, the cost benefit analyses are incorrect. For example, the savings attributable to the Atascadero project is based on the existing lights operating 24 hours per day, rather than for eight hours per day, as proposed for the new lights. Accordingly, we recommend deletion of the two projects, for a savings of $23,000.

Administration Should Report to the Legislature on the Reasons for Delaying Security Improvements at Patton State Hospital

We recommend that prior to legislative hearings on the budget, the Department of Mental Health and the Department of Finance advise the Legislature on the status and the reasons for the delay of the $1.6 million project funded in 1982 Budget Act to improve security at Patton State Hospital.

The Budget Act of 1982 included $1,620,000 for various security improvements at Patton State Hospital. The project was to relieve crowding at the N building by upgrading a vacant building. The project included installation of a double security fence, electronic surveillance devices, guard stations, a visitor control center and regrading of the surrounding land to provide a patrol road and to make the facility operable. The Legislature considered this a high priority, urgent project, and therefore adopted supplemental report language directing the department and the Office of State Architect to expedite completion of this work.

At the time this *Analysis* was prepared, *none* of the 1982 Budget Act funds for this project had been spent. Moreover, the Office of State Architect's master project schedule revealed that the office was not scheduling any work for this project but was awaiting "agency direction."

We know of no reason to delay this project. The approved improvements are critical if the Department of Mental Health is to house adequately the patients assigned to this hospital. In view of the legislative directive and the critical nature of this work, we believe that the Department of Finance and the Department of Mental Health should inform the Legislature of the reason for the delays and the current status of the project.

Report to the Legislature on Needed Renovations of Hospital Facilities is Overdue

We recommend that the Legislature direct the Department of Mental Health to explain why it has not submitted the report on state hospital renovation requirements which was due November 1, 1982.

In our *Analysis of the 1982–83 Budget Bill* and in legislative hearings on the budget, we indicated that the Department of Mental Health had not renovated its state hospital facilities as proposed in the department's 1979 plan of corrections. The renovations had not proceeded because (1) due to the state's fiscal condition, a number of renovation projects were deferred and (2) the population in the MD hospitals had not declined as projected, and therefore the number and location of living units needing renovation was uncertain. In view of these issues, the Legislature adopted language in the *Supplemental Report to the 1982 Budget Act*, which directed the Department of Mental Health to submit a report to the Legislature on the department's plan to provide adequate, safe facilities for its projected client population. This report was due November 1, 1982. At the time this *Analysis* was prepared, however, the report had not been received. Consequently, the Legislature does not have adequate information to assess the need for capital improvements at hospitals which accommodate mentally disabled programs. We recommend that during legislative hearings on the budget, the Legislature direct the department to explain why the requested report has not been submitted.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

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.

We have recommended approval of a total of $861,000 for the Department of Mental Health. The $776,000 recommended from the Special Account for Capital Outlay for emergency power falls under category 1. The $85,000 recommended for approval from the Energy and Resources Fund, Energy Account, is for energy conservation improvements, category 5.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General Fund and various funds — Budget p. HW 111

Requested 1983–84	$66,619,000
Estimated 1982–83	64,788,000
Actual 1981–82	50,269,000
Requested increase (excluding amount for salary increases) $1,831,000 (+2.8 percent)	
Total recommended reduction	$4,642,000
Recommendation pending	$1,351,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5100-001-001—EDD, support		General	$54,373,000
5100-001-185—EDD, support		Contingent	10,849,000
5100-001-514—EDD, support		Employment Training	1,397,000
5100-001-588—EDD, support		Unemployed Compensation —Disability Insurance	(48,251,000)
5100-001-870—EDD, support		Unemployment Administration	(377,848,000)
5100-001-871—EDD, UI benefits		Unemployment—Federal	(2,058,406,000)
Total			$66,619,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Personal Income Tax Penalty Assessments. Recommend adoption of supplemental report language requiring the Employment Development Department to provide the fiscal committees with a report on the costs and benefits of assessing penalties on businesses that do not file annual reconciliation statements. 1004
2. Evaluation of Employment and Training Programs. Recommend the Employment Development Department submit a proposal to the fiscal committees prior to the budget hearings for evaluating the state's employment and training programs. 1014
3. Employment Training Fund. Withhold recommendation on $540,000 proposed to support the Employment Training Fund Panel pending receipt of information prior to budget hearings on the amount of funds proposed for employment and training programs supported by the Employment Training Fund. Recommend adoption of Budget Bill language reverting year-end fund surpluses in the Employment Training Fund to the Unemployment Insurance Fund. 1015
4. Job Training Partnership Act Proposal. Recommend the Employment Development Department advise the fiscal committees prior to the budget hearings on (a) its plan to 1019

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

administer the Job Training Partnership Act and (b) the amount of funds the state will receive under the act.

5. ***Linking Vocational Education with Private Industry. Reduce by $1,035,000.*** Recommend deletion of funds because program duplicates activities required by Job Training Partnership Act. 1019
6. ***Services to Displaced Workers. Reduce by $449,000.*** Recommend that unbudgeted federal funds be used to replace General Fund support for employment services to displaced workers in order to provide the Legislature with more fiscal flexibility. 1020
7. Services to Displaced Workers. Recommend that the Employment Development Department advise the fiscal committees prior to the budget hearings on the California Economic Adjustment Team's plan to support employment and training programs for displaced workers in 1983–84. 1021
8. ***Employment Preparation Program. Reduce by $3,158,000.*** Recommend General Fund reduction of $3,158,000, partially offset by $1,194,000 in federal Work Incentive funds, because (a) increased federal funds are available, (b) proposed program expansion is not properly planned, (c) administrative expenses are overbudgeted, and (d) statutory funding will be available to replace budgeted funds. 1022
9. California Worksite Education and Training Act. Withhold recommendation on $811,000 requested for the California Worksite Education and Training Act, pending receipt of a proposal from the Employment Development Department to alter the performance contract reimbursement rate to allow the program to operate as intended. 1025
10. Legislatively Mandated Publications. Recommend enactment of legislation requiring that all legislatively mandated publications concerning employment and training programs be consolidated into one annual publication. 1025

GENERAL PROGRAM STATEMENT

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

In addition, the department administers the tax collection and benefit payments for the UI and DI programs. The department collects from employers (1) their unemployment insurance contributions and (2) employee contributions for DI and personal income tax withholdings. It also pays UI and DI benefits to eligible claimants.

The Budget Act authorized 12,138.5 positions in EDD for the current year. The department, however, increased the number of positions by 2,112.6, due to federal funding increases for the administration of the UI program, for a revised total of 14,251.1 positions in 1982–83.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $66,619,000 from various *state* funds for support of EDD in 1983–84. This is an increase of $1,831,000, or 2.8 percent, over estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefits approved for the budget year.

General Fund Request

The budget proposes an appropriation of $54,373,000 from the General Fund to support the EDD in 1983–84. This represents a net increase of $1,026,000, or 1.9 percent, over estimated current-year expenditures. The budget proposes the following major changes in General Fund expenditures by EDD in 1983–84:

- Restore funds needed to pay the employer's retirement contribution, following a one-time reduction in the current year, at a General Fund cost of $920,000.
- Increase funding for operating expenses and equipment by 5 percent, or $1,094,000.
- Reduce statutory funding available to EDD by $1,220,000.
- Provide full-year funding for the Educational Linkages program, at a cost of $117,000.

These and other budget changes are listed in Table 1.

Table 1
Employment Development Department Support Budget
Proposed General Fund Adjustments
1983–84
(in thousands)

	Costs	*Total*
1982–83 Revised Expenditures		$53,347
I. Baseline adjustments to existing programs		
A. Increase in existing personnel costs		
1. Personal services for Employment Preparation Program	$115	
2. Restore funds for employer's retirement contribution	920	
Subtotal		$1,035
B. Operating expenses and equipment		
1. Support-related	$257	
2. Client-related:		
a. General Employment Services	−50	
b. Service Center	9	
c. Job Agent	6	
d. CWETA	383	
e. California Youth Employment and Development Act	221	
f. Employment Preparation Program	237	
g. Educational Linkages	31	
Subtotal		$1,094
II. Program Change Proposals for 1983–84		
A. Employment and employment-related services—Eduational Linkages		$117
III. Reductions in Statutory Funding		
A. Employment Preparation Program		
1. Chapter 3x/82	−$947	
2. Chapter 832/82	−25	
B. Youth Employment and Development Program		
1. Chapter 678/77	−248	
Subtotal		−$1,220
IV. Total Budget Change Proposed for 1983–84		$1,026
V. Total General Fund 1983–84 Expenditures		$54,373

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Total Revenues and Expenditures

Table 2 details the department's total revenues and expenditures in the current and budget year, by program. Total expenditures of $3,491,994,000 are projected in 1983–84, which is a decrease of $615,233,000, or 15 percent, below the current-year level. Of the $3.5 billion, $491 million (14 percent) is for programs and administration. The remaining $3.0 billion (86 percent) is for the payment of unemployment and disability insurance benefits.

The $491 million proposed for programs and administration is $29.8 million, or 5.7 percent, below current-year expenditures. Reductions are due to (a) a $26.6 million reduction in federal funds for support of the UI program and (b) an $8.8 million decrease in federal funds for the Employment Service program. These reductions are partially offset by the following increases: (1) $1.0 million, primarily for increased support of employment programs, (2) $2.2 million in support for the Disability Insurance program and Personal Income Tax Withholding program, and (3) $1.8 million in increased funds for the Comprehensive Employment Training Act (CETA) program.

Table 2
Employment Development Department
Expenditures and Revenues by Program
All Funds
1981–82 to 1983–84
(in thousands)

				Change 1982–83 to 1983–84	
	1981–82	*1982–83* [a]	*1983–84*	*Amount*	*Percent*
Employment Programs:					
Employment Service	$86,850	$84,704	$75,910	–$8,794	–10.4%
Work Incentive (WIN) program	32,295	34,576	35,770	1,194	3.5
Food Stamp Recipients	3,292	4,087	4,601	514	12.6
Service Centers	6,126	6,091	6,311	220	3.6
Job Agent	2,527	2,562	2,653	91	3.6
California Worksite Education and Training Act (CWETA)	9,712	10,015	10,480	465	4.6
Youth Employment	11,410	8,109	8,100	–9	–0.1
Employment Preparation	1,109	13,046	12,704	–342	–2.6
Employment Assistance—Displaced Workers	—	1,956	2,026	70	3.6
Employment Training Fund Panel	—	92	540	448	487.0
Comprehensive Employment and Training Act (CETA):					
Office of Employment and Training	51,400	39,004	40,997	1,993	5.1

Contracts with prime sponsors	15,151	10,666	11,108	442	4.1
Public Works Employment Act	7,028	1,499	—	−1,499	−100.0
Totals, Employment Programs	$226,900	$216,407	$211,200	−$5,207	−2.4%
Office of Economic Opportunity	$26,882	—	—	—	—
Unemployment Insurance (UI)	$2,366,720	$2,979,278	$2,335,255	−$644,023	−21.6%
Administration	(191,136)	(240,089)	(213,505)	(−26,584)	(−11.1)
Benefits	(2,175,584)	(2,739,189)	(2,121,750)	(−617,439)	(−22.5)
Disability Insurance (DI)	809,977	892,019	926,983	34,964	3.9
Administration	(43,920)	(47,273)	(48,729)	(1,456)	(3.1)
Benefits	(766,057)	(844,746)	(878,254)	(33,508)	(4.0)
Former Inmates Program	2,296	2,490	997	−1,493	−60.0
Administration	(183)	(190)	(197)	(7)	(3.7)
Benefits	(2,113)	(2,300)	(800)	(−1,500)	(−65.2)
Personal Income Tax	13,760	15,105	15,541	436	2.9
Employment Training Fund	—	911	857	−54	−5.9
General Administration					
Distributed	(−27,684)	(−28,596)	(−26,381)	(−2,215)	(−7.8)
Undistributed	1,711	1,107	1,161	54	4.9
Total Budget	$3,448,246	$4,107,227	$3,491,994	−$615,233	−15.0%
Totals, Programs	($504,492)	($520,992)	($491,190)	(−$29,802)	(−5.7%)
Totals, Benefits	($2,943,754)	($3,586,235)	($3,000,804)	(−$585,431)	(−16.3%)
Revenue					
General Fund	$42,805	$53,347	$54,373	$1,026	1.9%
Disability Insurance Fund	809,659	891,557	926,505	34,948	3.9
EDD Contingent Fund	7,464	10,438	10,849	411	3.9
Employment Training Fund	—	1,003	1,397	394	39.3
School Employees Fund	26,225	29,737	32,567	2,830	9.5
Local Public Entity Employees' Fund	3,708	4,052	4,634	582	14.4
Federal Unemployment Fund	2,032,584	2,671,174	2,058,406	−612,768	−22.9
Federal Unemployment Administration Fund	412,065	421,517	377,848	−43,669	−10.4
Federal Trust Fund	90,372	—	—	—	—
Reimbursements	23,364	24,402	25,415	1,013	4.2
Totals	$3,448,246	$4,107,227	$3,491,994	−$615,233	−15.0%

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

Position Adjustments

For 1983–84, the budget proposes to eliminate 1,506.5 positions due to reductions in federal funds. This reduction includes the elimination of 1,169.7 temorary help positions in EDD field offices and 282.4 permanent positions due to anticipated federal reductions in support for the Employment Services program. The net effect of these proposals would be to reduce the number of positions to 12,737.7 in the budget year. This is:

- 202.9 (1.6 percent) more than the number of positions in 1981–82.
- 1,506.5 (11 percent) less than the number of positions in 1982–83.

The department projects it will have salary savings equal to 190 positions, resulting in a proposed staffing level of 12,547.7 personnel-years during the budget year.

Table 3 details the changes in personnel-years, by program:

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 3
Employment Development Department
Personnel Equivalents by Program
1982–83 and 1983–84

	Estimated 1982–83	*Proposed 1983–84*	*Difference Number*	*Difference Percent*
Employment Services	2,304.2	2,021.8	282.4	−12.3%
WIN	750.7	778.5	27.8	3.7
EPP	162.7	161.7	−1.0	−0.6
CETA	159.7	157.9	−1.8	−1.1
Contracted prime sponsor	213.6	213.6	—	—
Other employment programs	518.9	534.7	15.8	3.0
Subtotal, Employment Services	4,109.8	3,868.2	−241.6	−5.9%
Unemployment insurance	7,201.5	6,031.8	−1,169.7	−16.2%
Disability insurance	1,351.1	1,351.1	—	—
Personal income tax	447.6	447.6	—	—
Employment training fund	23.0	35.0	12.0	52.2
Former inmate program	7.0	7.0	—	—
Administration	914.1	807.0	−107.1	−11.7
Totals	14,054.1	12,547.7	1,506.5	−10.7%

Disability Insurance Program

The state's Disability Insurance (DI) program provides benefits to workers who cannot work due to nonemployment-related illness or injury. Coverage under the state program is mandatory for most private industry workers, with benefits being funded by worker contributions. Employers and self-employed individuals can elect to purchase coverage from the state.

The budget proposes total expenditures in 1983–84 of $926,983,000 for the DI program. Of this amount, $48.7 million is for administrative costs and $878.3 million is for the payment of benefits. This represents a total increase of $35.0 million, or 3.9 percent, over current-year expenditures. Benefit expenditures would increase by $33.5 million, or 4.0 percent, over the current year, and administrative expenditures would increase by $1.5 million, or 3.1 percent, due to increased workload.

New Legislation Affecting the Disability Insurance (DI) Fund

Chapter 717, Statutes of 1982 (AB 2992), provides that individuals in drug-free residential facilities or alcoholic recovery homes may now receive disability benefits for up to 45 days, with an additional 30 days, upon a doctor's certification that the individual needs continuing residential services.

Prior to Ch 717/82 individuals being treated in alcoholic recovery homes were eligible for up to 30 days of DI benefits.

Unemployment Insurance Program

The purpose of the Unemployment Insurance (UI) program is to reduce economic hardship by providing benefit payments to eligible workers who, through no fault of their own, are temporarily unemployed. UI benefits are financed through employer payroll taxes which vary according to (1) the experience of the individual employers in terms of benefits paid and (2) the size of the UI Trust Fund's reserves. Administrative costs are paid by the federal government on the basis of projected workload. During periods of high unemployment, additional funds are made available to handle the increased number of UI claims.

In 1983–84, the budget proposes $213.5 million for UI administration and $2,121.8 million for benefits. The level of administrative expenditures proposed for 1983–84 is $26.6 million, or 11 percent, below the current-year level. The $2.1 billion proposed for UI benefits in 1983–84 is $617.4 million, or 23 percent, below estimated current-year expenditures. Of the $2.1 billion, (1) $1,992 million is for regular benefits paid from the state's UI Trust Fund, (2) $66 million is for claimants employed by the federal government who file claims in California, (3) $36 million is for local government and school employees, and (4) $27 million is for individuals eligible for assistance under the Trade Readjustment Assistance Act and the Redwood Protection Plan program.

New Legislation Affecting the UI System

Chapter 1075, Statutes of 1982 (AB 3154), changed the method of determining employer contributions to the UI Fund and established a new fund—the Employment Training Fund—supported by an additional employer tax.

Prior to the passage of Chapter 1075, an employer's contribution to the UI Fund was determined by several factors:

- The amount of an employer's previous contributions and the amount of benefits paid to the firm's workers (reserve account);
- The condition of California's UI Fund; and
- The amount of benefits paid to workers whose employers have gone out of business or who maintain a negative reserve account (balancing account).

Chapter 1075 alters the way employer contributions are determined. First, it eliminates the balancing account tax. To compensate the fund for the loss of this revenue, contribution rates are increased for all employers. Second, the fund balance must now fall below 1.7 percent of total covered wages, instead of the previous 2.5 percent, in order to trigger a tax increase. Third, the law requires the use of the low tax schedule in 1983, and provides that in the event of a federally mandated increase in the maximum taxable wage to $7,000 (which has since occurred), a compensating decrease in the tax rate must occur. All changes became effective January 1, 1983.

Chapter 1075 also increased maximum weekly unemployment compensation benefits from $136 to $166 for claims filed after January 1, 1983.

The new act creates the Employment Training Fund, supported by a 0.1 percent payroll tax on employers with positive reserve account balances, and authorizes up to $55 million of the revenue generated by the new tax to be used for employment and training programs authorized by Ch 1074/82. Revenues exceeding $55 million will be returned to the UI Fund.

Eligibility and Benefits Under UI

Unemployed workers who are covered by the UI system are eligible for a maximum of 26 weeks of UI payments. In addition, workers may be eligible for the following extended and/or special benefits:

- *Extended Benefits for All Workers.* Under the federal extended benefits (Fed-Ed) program, unemployed individuals who have ex-

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

hausted their regular benefits may receive an additional 13 weeks of benefits if the state's insured unemployed rate exceeds 6 percent, or 5 percent given specified conditions. The federal government pays 50 percent of Fed-Ed benefits, and the state UI Fund supports the remainder. In addition, Federal Supplemental Compensation (FSC) benefits are also available to employees who have exhausted regular benefits. FSC benefits are available for up to 14 weeks and are paid entirely by the federal government. The statutory authority for FSC benefits, however, expires on March 31, 1983. Both the Fed-Ed and the FSC programs can operate simultaneously, in which case individuals could collect 27 weeks of extended benefits (13 weeks of Fed-Ed and 14 weeks of FSC) beyond their 26 weeks of regular benefits.

- *Extended Benefits for Dislocated Workers.* Chapter 522, Statutes of 1980, provides UI benefits for up to one year to individuals who have become unemployed because of technical innovations in industry or because there is not sufficient demand for their particular skills. In order to qualify for these benefits, the individuals must be enrolled in a training program which will prepare them for immediate employment in a demand occupation. Individual benefit amounts paid under this program are the same as regular UI payments. All benefits are paid from the state UI Fund.
- *Extended benefits for the unemployed enrolling in a training program.* Chapter 546, Statutes of 1982 (AB 11) provides up to 26 weeks of extra UI benefits to individuals who are enrolled in a training program and apply for the benefits no later than the 14th week of his or her unemployment. The program ends July 1, 1983, after which no benefits will be paid. Benefits are entirely state-funded.
- *The Redwood Protection Program.* This program provides benefits to workers who lose their jobs as a direct result of the expansion of a federal redwood park in Northern California. The federal government compensates the UI Fund for these benefits.
- *Shared Work Unemployment Compensation (SWUC).* This program provides unemployment benefits to individuals whose work week has been reduced by their employer in order to avoid layoffs. The amount of benefits depends on the extent to which an employee's work week has been reduced.

EMPLOYMENT TAX BRANCH

The Employment Tax Branch (ETB) is responsible for all phases of the state's Unemployment Insurance (UI), Disability Insurance (DI), and Personal Income Tax (PIT) collection effort. ETB registers employers for UI participation, receives quarterly UI, DI, and monthly PIT deposits, maintains accounts tracking employer tax liability, payments, and UI and DI claimant benefit amounts. Through its field offices, ETB audits employer accounts and pursues delinquent payments.

Shared versus Added Costs of Collecting UI, DI, and PIT Funds

The ETB tracks employer and employee contributions for UI, DI, and PIT by requiring employers to submit, using the same tax form, quarterly statements indicating the amount of tax liability accrued during the previous three months. Using only one tax form allows the three taxes to *share* the costs of the collection activities, thereby reducing total collection costs.

Each tax also causes some added, or unique costs—costs that result solely from the collection of that tax. For example, calculating an employer's tax liability for each tax and comparing it to the employer-generated total is an added cost because each tax must be checked individually.

Because the state and federal governments share the cost of this collection system, a cost allocation method has been devised that is based on the concept of *shared* and *added* costs. Specifically, the collection cost of each tax is defined as one-third of the shared cost *plus* any added costs attributable to that tax. As a result, state and federal budget-year costs are apportioned as follows:

- The state General Fund will pay $15.8 million for PIT collection activities.
- The federal government will pay $31.7 million for the full cost of collecting UI taxes plus the shared cost of DI taxes. The federal government agreed to bear the DI portion of shared costs as a means of inducing the state to create the DI program.
- The DI fund pays $2.7 million in added costs attributable to the DI program.

Employment Tax Fund Collection Costs

Chapter 1075, Statutes of 1982 (AB 3154), established the Employment Training Fund (ETF), which is support by a 0.1 percent payroll tax on the employer. In order to keep the administrative costs of the ETF low, EDD proposed to add the ETF tax to the existing system for collecting UI, DI, and PIT contributions from employers. The state requested that the federal government allow it to pay only the added costs attributable to the ETF tax.

The Department of Labor (DOL) has denied the state's request, and instead has required the ETF to pay both the shared and added cost attributable to it.

Table 4 shows the collection costs to the UI, DI, PIT, and ETF for the budget year, under two assumptions: The "added" and "shared plus added" cost criteria.

- Only the added costs of the ETF tax must be paid from the ETF, as the state proposed; shared costs continue to be divided among the UI, DI, and PIT programs (Column 1).
- The ETF must pay *both* the added costs attributable to it and a share of the joint costs, as the DOL has required (Column 2).

Table 4
EDD Tax Collection Costs
1983–84
(in thousands)

	ETF Bears Added Costs Only	*ETF Bears Added and Shared Costs*	*Difference*	
			Amount	*Percent*
Unemployment Insurance Tax[a]	$31,659	$24,491	–$7,168	–22.6%
Disability Insurance Tax	2,683	2,683	—	—
Personal Income Tax	15,821	12,291	–3,530	–22.3
Employment Training Fund Tax	857	11,555	10,698	1,248.3
Totals	$51,020	$51,020	—	—

[a] Includes Disability Insurance shared cost allocation.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 4 shows that, due to the federal requirement that the state pay both the shared and added collection costs:

- The state's General Fund contribution for PIT collections will *decrease* by $3.5 million in 1983–84;
- The federal government's contribution for UI and DI shared costs will decline by $7.2 million in 1983–84; and
- The state's contribution for ETF collections will increase by $10.7 million, thereby reducing the number of workers that can be trained with fund revenues.

The federal government indicates that it may, in the future, require the DI fund to support its portion of the shared costs, as well. This would not reduce PIT or ETF costs, but would result in a savings of $10.7 million to the federal government and a corresponding increase in costs to the DI fund.

Employment Tax Branch Audit Results

We recommend adoption of supplemental report language requiring the EDD to submit a report to the fiscal committees by December 1, 1983, on the actual costs incurred and revenues generated as a result of ETB's policy of assessing penalties on businesses that do not file annual tax reconciliation statements.

As part of its PIT collection activities, the Employment Tax Branch tracks employer income tax liabilities and payments, deposits employer payments in the General Fund, and reconciles over- or underpaid employer accounts. The budget proposes General Fund expenditures of $15,541,000 in 1983–84 for PIT collection activities.

EDD Internal Audit. In 1980, the Auditor General issued a report indicating that a large number of out-of-balance accounts—accounts that show year-end over- or underpayments—existed in ETB files, dating back as far as 1977. In response to this finding, an internal EDD audit was conducted to evaluate the ETB reconciliation process.

The audit concluded that the state could lose up to $17.2 million in penalty collections because ETB had no plan to assess penalties against those businesses which did not file year-end reconciliation statements in the years 1977 through 1980. The year-end reconciliation statement is important because it is the only time the department verifies that employers have paid the state the amount of tax withheld from employee paychecks. Specifically, the state could lose the following amounts:

- $7.5 million in PIT penalty collections, due to nonfilers in 1977 and 1978. (The department subsequently determined that these funds have been lost because the three-year statute of limitations on the penalty has expired.)
- $2.6 million in penalty collections from firms that had gone out of business in 1979.
- $7.1 million in penalty collections from nonfilers in 1980, because ETB had not decided which employers to penalize.

ETB Response. In response to the EDD audit, ETB conducted an analysis of the costs and benefits of applying penalties against employers who failed to file year-end reconciliation statements. ETB indicates that it routinely conducts cost-benefit analyses so that it can pursue activities that generate the largest amount of revenues for the least cost. Based on its review, ETB concluded that:

- Applying penalties against out-of-business nonfilers would cost more in state funds that it would realize in fine revenues because of the difficulty in locating out-of-business employers. Estimated collection costs are $672,080, while likely collections total only $463,000.
- Applying penalties against other nonfilers would realize at least $3.66 for each dollar of increased cost. ETB estimates that $1.9 million of the $7.1 million potential penalty revenues could be collected. Collection costs of $517,000 would result in $1.4 million in net revenues.

Table 5 shows potential penalty collections as reported in the EDD audit and as estimated by ETB.

Table 5
Employment Development Department
Estimated Penalty Collections

	Estimated Collections			
	Internal Audit Estimate	*ETB Estimate*	*Estimated Collection Costs*	*Net Revenues*
Non-filers, 1977–78	$7,500,000	—[a]	—	—
Out-of-Business Nonfilers, 1979	2,600,000	$463,000	$672,080	−$209,080
Non-filers, 1980	7,100,000	1,949,347	517,700	$1,431,647
Totals	$17,200,000	$2,412,347	$1,189,780	$1,222,567

[a] Penalties have been lost due to the expiration of the statute of limitations.

Based on our review of ETB's cost-benefit analysis, we believe that ETB may have overestimated the collection costs. Specifically:

1. The cost-benefit analysis assumes that all employers who file a petition challenging the penalty assessment eventually will require an appeals board hearing. The ETB indicates, however, that only one out of every 20 employers who files a petition eventually has a hearing. The ETB activities associated with the petitions and subsequent hearings constitute 33 percent of the cost of collecting assessments.

2. Cost estimates differ substantially, depending on whether ETB automates the collection system or relies upon a manual process for handling penalty assessments. Manual costs are $66,000, or 15 percent, higher than the cost of an automated system. ETB's estimate of collection costs shown in Table 5 assume a manual collection process.

As a result, collection costs may be significantly lower than estimated. If ETB has overestimated costs, it should reevaluate the costs and benefit of assessing out-of-business non-filers.

To facilitate legislative review of the ETB's efforts to protect the state's revenue base, we recommend that the Legislature adopt supplemental report language requiring EDD to submit a report to the fiscal committees by December 1, 1983, on the actual costs incurred and revenues generated as a result of ETB's policy of assessing penalties on in-business non-filers. The following supplemental report language is consistent with this recommendation:

"The Employment Development Department shall submit a report to the fiscal committees by December 1, 1983 which identifies the actual costs incurred and revenues collected as a result of the Employment Tax Branch policy of assessing penalties on in-business non-filers."

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

EMPLOYMENT AND TRAINING PROGRAMS IN CALIFORNIA

An Overview

A wide variety of employment programs are administered in California by the federal, state, and local governments. The EDD now conducts 19 employment and training programs, and funds for three new federal programs are proposed in the budget year, for a total of 22 programs in 1983–84. Eight other state departments and the community colleges provide a variety of additional employment and training services. The community colleges, in particular, are a major source for occupational training.

State agencies will spend about $672 million on these programs in the budget year. The General Fund will finance about 54 percent of these expenditures ($363 million), while the federal government will fund the remaining 46 percent ($309 million). Although EDD is the dominant state agency in the employment and training field, it accounts for only 31 percent of the total funds expended at the state level in this program area.

A Summary of EDD Programs

Table 6 summarizes the 19 existing and three proposed employment and training programs that would be administered by EDD in 1983–84. This table indicates that:

- The budget proposes $211.2 million for EDD employment and training programs, of which $43.4, or 21 percent, are General and special state funds. The federal government will finance 79 percent, or $167.8 million, of the costs of these programs.
- The amount of federal funds availabe in 1983–84 will be $4.8 million less than the amount available in the current year, primarily due to funding reductions in the Employment Services program.
- Employment and training services costing approximately $139 million will be available to the general population in 1983–84, a decline of $5.6 million, or 3.9 percent, from the current year. Many of these programs give priority to the economically disadvantaged.
- AFDC recipients will receive $48.5 million in employment and training services in 1983–84, an increase of 1.0 million, or 2.1 percent above the current year level.

Programs of Other State Agencies

Table 7 summarizes the employment services and training programs provided by eight other state agencies and the community colleges. It indicates that:

- The Regional Occupational Centers and Programs, and the vocational and adult education programs account for $266.2 million, or 58 percent, of total expenditures in 1983–84. This does not include General Fund support for vocational education programs provided through general aid apportionments to the state's secondary schools and the community colleges.
- The Department of Rehabilitation, with $126.8 million, is the second largest training agency in terms of total funding.
- The California Conservation Corps proposes to spend $25.9 million for employment and training in the budget year.
- The General Fund supports about 69 percent of the expenditures

shown in this table, which is three times the General Fund's share of EDD programs.

Services Provided

Employment and training services available through the various programs shown in Table 6 and 7 can be categorized as follows:

1. ***General employment services,*** including job referrals, employment counseling and vocational testing, job development, and referrals to training programs available from a community's educational institutions or local employment programs.
2. ***Training,*** including vocational education, classroom instruction, on-the-job training, work experience, apprenticeships, and work-site education that combines classroom instruction with on-the-job training.
3. ***Supportive social services,*** including counseling, transportation, child care, medical assistance, aids for the disabled, and tools required for employment.

Funding

Table 6 shows that total funding for the EDD's employment and training programs in 1983–84 is proposed at $211.2 million, a decrease of $3.7 million, or 1.7 percent, from the current-year level. Under the proposed budget, programs serving the general population would receive $139.1 million in 1983–84, or 66 percent of all funds. Recipients of AFDC would receive the second largest allocation of funds—$48.5 million, or 23 percent of the total. Other targeted groups would receive $13.0 million, or 6.2 percent of employment and training funds. Employment programs for youth would receive $8.1 million, or 3.8 percent of total funding, while displaced workers would receive $2.5 million, or 1.2 percent of the total. The amount shown for displaced workers, however, does not include training grants available from the Employment Training Panel, which may amount to $53.6 million in the budget year. The Panel, established by Chapter 1074/82, is authorized to make grants to employers for the purpose of training new employees.

At the time this analysis was prepared, the Congress had not established a specific funding level for the Jobs Training Partnership Act (JTPA). The estimates for 1983–84 shown in Table 6 assume that funding for the Comprehensive Employment and Training Act (CETA) in 1983–84 will be transferred to the JTPA. Because the JTPA specifically allocates funds for training particular groups, the table, by including all CETA funds in the general population category, probably overstates the amount available for programs serving the general population and understates the amount available for programs serving youth and displaced workers, in 1983–84.

Table 6
Employment Development Department
Inventory of Employment and Training Services
Expenditures in the Governor's Budget [a]
1982–83 and 1983–84
(in millions)

Program	*Services Provided*	*1982–83* General Fund	*1982–83* Federal Fund	*1982–83* Total	*1983–84* General Fund	*1983–84* Federal Fund	*1983–84* Total	*Population Served*
A. *AFDC Recipients Only*								
1. Work Incentive (WIN) Program	Training, employment and supportive services	$5.2	$29.3	$34.5	$5.5	$30.3	$35.8	AFDC recipients who are required to register with EDD. Since 10/1/81, applicants may also be served.
2. Job Search Assistance Project (JSAP)	Training, employment and supportive services	(included in WIN)						AFDC applicants in 11 sites.
3. Employment Preparation Program (EPP)	Employment and supportive services	9.5	3.5	13.0	9.0	3.7	12.7	AFDC applicants and recipients.
4. California Welfare Employment Skills Training Act (CWESTA)	Services through contracts for education and job placement services	(0.8)	—	(0.8)	(0.8)	—	(0.8)	Long-term or potentially long-term AFDC recipients.
5. Supported work	Work projects that provide (1) intensive supervision, (2) gradual performance objectives and wages, and (3) training for entry level occupations.	(0.4)	(0.5)	(0.9)	(0.4)	(0.5)	(0.9)	Long-term AFDC recipients.
6. Employment Training Program	On-the-job training or subsidized employment	(0.3)	(0.5)	(0.8)	(0.3)	(0.6)	(0.9)	State-only AFDC-U parents.
Subtotal		$14.7	$32.8	$47.5	$14.5	$34.0	$48.5	

B. *Youth*								
7. Youth Employment Services	Grants for locally-based youth employment and training services and general employment services	$5.7	$1.1	$6.8	$5.7	$1.2	$6.9	Youth 16 to 21 years old who are unemployed, underemployed, or in school. Priority to inner city youth and youth with "barriers to employment."
8. Job Corps	Recruitment for the federal Job Corps program which provides education and vocational training in a residential setting	—	1.3	1.3	—	1.2	1.2	Economically disadvantaged youth, 16 to 21 years old unable to benefit from programs in their own environment.
9. Job Training Partnership Act—Title II	Employment services, training, and placement services, summer subsidized employment	—	—	—	—	— [d]	—	Economically disadvantaged youth, 16 to 21 years old.
Subtotal		$5.7	$2.4	$8.1	$5.7	$2.4	$8.1	
C. *Displaced Workers*								
10. Reemployment Assistance for Displaced Workers	General employment services	$2.0 [b]	—	$2.0	$2.0 [b]	—	$2.0	Persons who are unemployed because of plant closure or mass layoffs, foreign trade competition, or other industrial and economic changes.
11. Job Training Partnership Act—Title III	General employment services, training, and remedial education	—	— [d]	—	—	— [d]	—	Unemployed with little opportunity to return to former occupation or industry.
12. Employment Training Panel	On-the-job training	0.1 [c]	—	0.1	0.5 [c]	—	0.5	Persons who are receiving, have exhausted UI benefits, or are likely to become unemployed and claim UI benefits.
Subtotal		$2.1	—	$2.1	$2.5	—	$2.5	

Table 6—*Continued*

Employment Development Department
Inventory of Employment and Training Services
Expenditures in the Governor's Budget [a]
1982–83 and 1983–84
(in millions)

Program	*Services Provided*	*1982–83* General Fund	Federal Fund	Total	*1983–84* General Fund	Federal Fund	Total	*Population Served*
D. *Other Targeted Programs*								
13. Disabled Veterans Outreach Program (DVOP)	Community outreach, job development, and intensive employment services	—	$7.1	$7.1	—	$7.1	$7.1	In order of priority, (1) disabled Vietnam-era veterans, (2) other disabled veterans, and (3) other veterans.
14. Rural Employment Services	General employment services	—	1.3	1.3	—	1.3	1.3	Migrant and seasonal farm workers.
15. Food Stamp Recipient Registration Program	General employment services	—	4.1	4.1	—	4.6	4.6	Food stamp recipients required to register with EDD.
Subtotal		—	$12.5	$12.5	—	$13.0	$13.0	
E. *General Population*								
16. California Work-Site Education and Training Act (CWETA)	Employer-sponsored vocational education that combines classroom instruction with on-site job training	$10.0	—	$10.0	$10.5	—	$10.5	Priority given to: (1) economically disadvantaged persons, (2) youth, (3) displaced workers, (4) persons with inadequate or obsolete skills, and (5) Vietnam-era veterans (as of 1/1/82).

17. Job Agents	Intensive employment services	2.6	—	2.6	2.7	—	2.7	Persons with "barriers to employment," who are economically disadvantaged and registered with an EDD Job Service office.
18. Service Centers	Employment and training services in eight centers located in economically depressed areas	6.1	—	6.1	6.3	—	6.3	Anyone who is "potentially employable" but has barriers to employment.
19. Employment Service	General employment	0.2	76.1	76.3	0.2	67.3	67.5	General population.
20. Jobs Training Partnership Act—Title II	Employment services, training, and supportive social services	—	—	—	—	— [d]	—	Economically disadvantaged or has other barriers to employment.
21. Governor's CETA Special Grant [e]	Grant funds are available for:							
	(1) vocational education programs through the Department of Education	—	10.5	10.5	—	11.1 [e]	11.1	Economically disadvantaged persons.
	(2) Employment and training programs	—	26.1	26.1	—	27.3 [e]	27.3	
	(3) Coordination between employment programs and educational institutions	0.9	1.5	2.4	1.0	1.6 [e]	2.6	
22. Contracts with local prime sponsors	Employment and training services, job referral, and placement services	—	10.7	10.7	—	11.1 [e]	11.1	
Subtotal		$19.8	$124.9	$144.7	$20.7	$118.4	$139.1	
Total, EDD		$42.3	$172.6	$214.9	$43.4	$167.8	$211.2	

[a] Includes reimbursements, by source of funding.
[b] $1.0 million in General Funds, $1.0 million from the EDD Contingent fund.
[c] Program supported by funds from the Employment Training Fund.
[d] Federal funding levels have not been determined.
[e] The CETA program is scheduled to end September 30, 1983. Funding levels shown are annual totals.

Table 7
Employment Services or Training Provided by Various State Agencies Expenditures in the Governor's Budget 1982–83 and 1983–84 (in millions)

		1982–83			*1983–84*			
Program	*Services Provided*	*General Fund*	*Federal Fund*	*Total*	*General Fund*	*Federal Fund*	*Total*	*Population Served*
1. Department of Rehabilitation								
• Vocational Rehabilitation Program	Vocational counseling, training, and supportive services to help clients keep and/or find a job	$13.9	$74.8	$88.7	$14.6	$72.3	$86.9	Physically or mentally disabled individuals.
• Habilitation Services Program	Sheltered employment, work activity, and habilitation services	38.7	—	38.7	39.9	—	39.9	Developmentally disabled adults in need of habilitation services.
2. State Personnel Board—Career Opportunities Development Program (COD)	On-the-job training in subsidized public sector jobs	6.5	(2.1) [a]	6.5	6.5	(2.1) [a]	6.5	Former, current, or potential welfare recipients and disabled individuals.
3. Department of Education:								
• Regional Occupational Center and Programs	Vocational training	153.6	—	153.6	173.0	—	173.0	High school students and adults.
• Vocational Education	Vocational training through the state's high schools	— [b]	67.5 [c]	67.5	— [b]	53.2 [c]	53.2	Secondary School students.
• Adult Education	Short-term vocational training	40.0 [d]	—	40.0	40.0 [d]	—	40.0	Adults.

4. Community Colleges:								
• Apprenticeship programs	Classroom instruction for certified apprenticeship programs	9.9	—	9.9	9.9	—	9.9	General Population.
• Investment in People	Grants to establish instruction programs in high technology fields	1.9	—	1.9	1.9	—	1.9	General Population.
5. Department of Industrial Relations	Apprenticeship programs and on-the-job training	4.6	0.4	5.0	3.9	0.4	4.3	General population.
6. Department of Aging	General employment, training, and job development services	0.4	4.7	5.1	0.4	4.5	4.9	Over 60 years old with preference given to the "most needy."
7. California Conservation Corps	Vocational training, remedial education, and employment in conservation projects	31.1	—	31.1	25.9	—	25.9	Youth 18 to 23 years old.
8. Office of Statewide Health Planning and Development	Grants to increase supply of doctors, nurses, and physician assistants in areas with a shortage of medical personnel	3.5	—	3.5	3.3	—	3.3	General population.
9. Department of Social Services	Education, training, and employment services	—	14.7	14.7	—	11.0	11.0	Refugees certified by the U.S. State Department.
Totals		$304.1	$162.1	$466.2	$319.3	$141.4	$460.7	

[a] Federal funds included in EDD's WIN program and Department of Rehabilitation.
[b] Included in K-12 revenue limit.
[c] Excludes CETA funds shown in EDD for vocational education.
[d] Estimate.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Evaluation of Employment and Training Programs

We recommend that the Employment Development Department submit a proposal to the fiscal committees prior to the budget hearings for evaluating the state's employment and training programs with the goal of eliminating duplication and increasing the effectiveness of federally and state funded programs.

Effectiveness of Current Employment Programs is Unknown. In our 1982–83 *Analysis,* we discussed a number of serious problems common to all EDD employment and training programs. These problems, which limit the effectiveness of the state's programs in providing employment and training services to individuals, are as follows:

1. ***The effectiveness of the programs is undetermined because the performance measures used stress the number of participants placed in a job, rather than the program's success in helping people find and keep a job, thereby increasing their earnings.*** In addition, comparisons between programs are difficult to make because of program-specific performance measures.
2. ***The cost-effectiveness of programs for specific target groups is unknown.*** Because of inadequate performance measures, very little information is available on the types of services that are most cost-effective.
3. ***Information is not available to determine what services should be provided, given limited resources.*** Information is not available to determine which program applicant is likely to (a) enter employment with little or no program services or (b) face ongoing trouble finding a stable job and therefore need specialized help. This distinction is critical to getting the most out the state's investment in employment and training programs.
4. ***The diffusion of programs limits legislative oversight and results in duplication of services.*** As Table 4 shows, EDD operates 19 employment and training programs. This diffusion of responsibility makes it difficult for the Legislature to (a) monitor program performance, (b) coordinate programs to enhance the impact of state expenditures, and (c) determine the appropriate level of effort necessary to address the long-term problem of unemployment.

These problems still exist. With the addition of the federal JTPA, which establishes a locally operated employment and training program, the need to rationalize the state's effort in order to coordinate the provision of employment and training services increases.

For these reasons, we recommend that EDD submit a proposal to the fiscal committees prior to the hearings for an independent evaluation of its employment and training programs. The proposal should address the following issues:

1. Options available to the state concerning the most efficient administrative structure under which local intake centers provide skill evaluation and referral for further employment and training services for all participants of EDD programs.
2. Performance measures that enable a determination of program effectiveness. These indicators should be common to all programs to allow inter-program comparisons.
3. Types of services, or combination of services, that most benefit targeted groups, given limited resources. Attention should be paid to the

kinds of performance indicators that encourage the provision of employment and training services to only those participants who require help.

Recent State Legislative Action Affecting Employment Programs

Family Economic Security Program. Chapter 1329, Statutes of 1982 (AB 3424), creates the Family Economic Security Program (FESP) which assigns to the counties the responsibility for designing and administering employment programs for recipients of Aid to Families with Dependent Children (AFDC). The measure was intended to allow state employment and training programs for AFDC recipients to operate within the administrative structure of the Job Training Partnership Act (JTPA). To accomplish that goal, FESP establishes a state coordinating council and local private industry councils designed to meet the requirements of governing councils established by JTPA. As a result, these councils oversee the operation of both FESP and JTPA.

Employment Training Panel. Chapter 1074, Statutes of 1982 (AB 3461), establishes within EDD an Employment Training Panel to make employee training grants to eligible employers and training agencies. The training programs would be funded through direct grants from the Employment Training Fund, or through credits to the employer's liability for unemployment compensation contributions.

The panel is authorized to make grants to employers, groups of employers, and training agencies for the purpose of providing employment training to:

- Unemployed individuals who are receiving, or have exhausted eligibility for, unemployment insurance; or,
- individuals who are employed but likely to be displaced and subsequently claim UI benefits.

Chapter 1074 requires that the panel design training programs which promote employment with career potential and long-term job security. The new law requires that preference be given to training programs that promise employment upon the successful conclusion of training and designates on-the-job training as a preferred training program.

The new legislation also gives priority to (1) firms that expand business operations in the state, (2) firms that locate in areas targeted for economic development by the Department of Economic and Business Development, and (3) skill training in occupations where a shortage of skilled workers exists.

Chapter 1075, Statutes of 1982 (AB 3154), created the Employers' Training Fund to support the training program. The fund is supported by a new 0.1 percent payroll tax. Chapter 1075 specifies that up to $55 million of the proceeds from this tax is available to the training program. Any collections exceeding $55 million will revert to the UI Fund.

Employment Training Fund

We withhold recommendation on $540,000 proposed to support the ETF Panel pending the receipt of information prior to the budget hearings on the amount of funds it intends to spend from the Employment Training Fund (ETF) for employment and training programs in 1983–84. We further recommend that the Legislature add language to the budget bill reverting the year-end Employment Training Fund reserves to the UI Fund, in order to strengthen the ability of the Legislature to control the fund's expenditures.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The budget proposes $1,397,000 and 49 positions from the ETF to support tax collection and program administration activities in the budget year. Of this amount, the budget proposes $857,000 and 35 positions to collect the ETF tax and $540,000 and 14 positions to support the ETF Panel in administering the program.

No Expenditures Have Been Budgeted Under this Program. The budget does not propose expenditures from the ETF for employment and training programs in 1983–84. As a result, the budget shows an accumulated fund balance of $80.1 million by the end of 1983–84. This reserve is labeled "Reserve for Economic Uncertainty." Thus, it is not clear what the adminstration proposes to do with the funds collected by the ETF. For this reason, we withhold recommendation on $540,000 proposed to support the ETF Panel pending information from EDD prior to budget hearings on how much it intends to spend from the ETF in 1983–84 for employment and training programs, and how these funds will be used.

ETF Surplus Should Revert to the UI Fund. Chapter 1075 specifies that ETF tax collections over $55 million shall revert to the UI Fund. The law, however, does not specify how amounts collected during a given year and *not* spent are to be treated. Thus, it is possible that the fund may carry a surplus from one year into the next and thereby increase program expenditures above the $55 million level.

We recommend that any ETF monies that are unobligated at year-end revert to the UI Fund, for the following reasons:

1. ***It would be consistent with the way the Legislature controls expenditures under most other programs.*** Generally, the Legislature makes funds available for one year only, and unused funds (other than funds appropriated for capital outlay projects) revert at the end of the fiscal year. We know of no reason why this program should be treated differently.

2. ***Allowing the ETF to keep prior year fund surpluses reduces the ability of the Legislature to control program expenditures.*** Funds that are not expended during one fiscal year and are carried over to the following year can be obligated without further action by the Legislature. This allows the administration, rather than the Legislature, to establish priorities for expenditures.

3. ***Allowing unused ETF funds to be carried over into a subsequent year may result in the Legislature being "locked in" to funding increases in subsequent years.*** If no program funds are spent in the current year, the panel will have $80.1 million in program funds available for allocation in 1983–84, despite the $55 million limit that the Legislature imposed on ETF collections. If the full amount is allocated in the budget year, the Legislature would find it much more difficult to avoid providing an increase in funds for this program in 1984–85, since without an increase the amount of funding available in 1984–85 would *decline* by $25 million.

For these reasons, we recommend that the following budget bill language be added to Item 5100-001-514.

> "All funds in the Employment Training Fund, established under Article 6, Chapter 6 of Part 1 of Division 1 of the Unemployment Insurance Code, not obligated by July 1, 1983, shall revert to the Unemployment Insurance Fund."

It would be appropriate to revert the surplus funds to the UI fund because these funds originally were diverted from that fund.

Recent Federal Legislation Affecting Employment Programs—Job Training Partnership Act

The Job Training Partnership Act (JTPA), signed by President Reagan as the successor to the Comprehensive Employment and Training Act (CETA), establishes job training and job search assistance programs to aid youth, unskilled adults, and dislocated workers. JTPA requires private-sector involvement in the design and administration of local programs, in the hope that this participation will lead to private-sector employment for trainees, once their training is completed. JTPA will begin operation October 1, 1983.

While JTPA programs are reminiscent of CETA programs, there are major differences between the two acts: (1) While many CETA programs were administered by local prime sponsors under contracts negotiated by the federal government, most JTPA programs will be designed and operated by states or local governments. (2) Unlike CETA, the JTPA does not allow funds to be used for public service employment. (3) JTPA restricts much more than CETA did the use of stipends and work experience programs as a component of a job training program.

JTPA Employment and Training Programs. Titles II, III, IV, and V of the new law authorize nine employment and training programs. Title II programs are aimed at economically disadvantaged youths and adults. Title III creates a program to aid dislocated workers—those who are unemployed due to the declining demand within an industry. All Title II and III programs must be state- or locallv-operated. Title IV authorizes federally run programs, including programs for Native Americans, seasonal and migrant farm workers, and veterans. Title IV also reauthorizes the existing Job Corps program. Title V restructures the existing Employment Service, a federally-funded job search and placement program administered by the states.

Funding

The new legislation requires the federal government to fund JTPA programs in two-year increments. The first JTPA appropriation will cover the periods from October 1, 1983 to June 30, 1984, and July 1, 1984 to June 30, 1985. The act, however, contained no appropriation. Consequently, the Employment Development Department cannot estimate funding levels at this time.

Title II—Youth and Adult Programs. Title II of the JTPA authorizes three employment and training programs: adult and youth programs, special youth training programs, and a summer youth employment program. A wide range of services is authorized under Title II. California's share of Title II funds is dependent on its proportion of national unemployment, excess unemployment (unemployment over 4.5 percent), and economically disadvantaged persons. The JTPA requires that economically disadvantaged adults and youth receive at least 90 percent of the Title II funds.

Title II Spending Requirements. The new law contains a number of spending requirements for Title II programs. The requirements provide that:

- AFDC recipients and school dropouts must be served in proportion to their prevalence among the disadvantaged in the area;
- Forty percent of training services must go to youth; and
- Six percent of Title II funding is reserved for the Governor's incentive grants.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Title III—Dislocated Worker Program. Title III of the JTPA authorizes a job-search assistance and training program for dislocated or displaced workers. California's share of Title III funds is dependent on its proportion of national unemployment, excess unemployment, and long-term unemployment.

A wide range of services is available under the Dislocated Worker program. Job-search assistance, skill training in high demand areas, and pre-layoff assistance are eligible activities. Relocation assistance is also permitted under specified circumstances.

The state must match federal grants for dislocated workers on a dollar-for-dollar basis. State and private funds dedicated to programs under Title III may count towards the state match. In addition, 50 percent of state-funded extended unemployment benefits intended to assist dislocated worker retraining may be credited toward up to 50 percent of the matching requirement. State matching funds may be reduced 10 percent for each one percentage point that the state unemployment rate exceeds the national average.

Title IV—Federally Operated Programs. Title IV authorizes four employment and training programs to be operated by the federal government. They are: (1) a Native Americans program, (2) a program for seasonal and migrant farm workers, (3) a veteran's program, and (4) the Job Corps.

Title V—Employment Services. Title V restructures the United States Employment Services (ES) program, which provides job-search and placement services to the general population. Under Title V, the Employment Services program is required to coordinate its activities with local Private Industry Councils (PIC). The JTPA also alters the distribution formula used to determine each state's share of funds appropriated for employment services. The EDD estimates that California's share of ES funds will remain constant or increase slightly using the new formula.

JTPA Operating Structure

Title I of the new law establishes the operating structure for the JTPA. Most of the state's duties must be carried out by the Governor. In order to begin state and local implementation of the law, the Governor must appoint a Job Training Coordinating Council (JTCC). This council, in consultation with the Governor, will establish the service delivery structure and determine local funding levels, thereby enabling local entities to begin implementation of the act.

Title II Programs. The key operating structure for Title II—youth and adult programs—is the Service Delivery Area (SDA), which is intended to encompass job markets. Each SDA will form a PIC, composed of local private and public executives, to define and administer local programs. The PIC will have the option of delegating most of its authority to administer its local program. The PIC, however, must retain responsibility for developing procedures by which program content is determined and conducting oversight evaluations.

The SDAs are designated by the state JTCC appointed by the Governor. While the council has some latitude in making its SDA determinations, cities or counties (or groups of contiguous cities or counties) with a population greater than 200,000 must be granted SDA designation, if they so request. Similarly, any concentrated employment program grantee for a rural area that served as a CETA prime sponsor must be granted SDA designation if they want such a designation. The council will have discretion over all other requests for designation as an SDA.

Title III Programs. The Dislocated Workers program is to be operated by the state. The Employment Development Department (EDD) could administer the program, using funds provided under the state's Displaced Worker program as the required state match. This however, would require the EDD to alter its existing program substantially. This is because the EDD has been concentrating resources only on workers displaced because of plant closures. The federal definition of displaced workers is much broader.

Title V Programs. The JTPA somewhat alters the administrative structure for the Employment Services program. The ES will continue to be operated by the state. The ES offices located within local unemployment insurance offices throughout the state, however, are now required to coordinate their activities with local PICs. The ES is also required to assist state employment programs with planning and administrative problems.

EDD's Plan for Administering The Job Training Partnership Act

We recommend that EDD advise the fiscal committees, prior to budget hearings, on (1) the department's plan to administer the Job Training Partnership Act and (2) the estimated amount of federal funds that the state will receive under the act.

CETA is scheduled to end on September 30, 1983, and be replaced by the Job Training Partnership Act (JTPA). The administration's budget, however, provides no plan for administering this major new federal program in 1983–84. To assure that the Legislature has the information it needs to establish funding priorities and policies in the employment and training area, we recommend that EDD advise the fiscal committees prior to the budget hearings on (1) the department's plans for administering the JTPA and (2) the amount of federal funds California will receive under the act.

Linking Vocational Education with Private Industry

We recommend a reduction of $1,035,000 in General Fund support for activities intended to link vocational education programs with the training needs of private industry because these activities duplicate those required by the JTPA.

The budget proposes $1,035,000 from the General Fund to support several industry-labor employment and training councils. This funding is intended to increase the effectiveness of the councils in assuring that local vocational education programs provide training that meets the needs of industry and local labor markets. In the current year, funds have been provided to four nonprofit agencies to modify local vocational education courses to meet the needs of employers and workers.

Several reports, including our own on vocational education (Report No. 77-13), have concluded that vocational education programs have not been responsive to the needs of local industry and labor markets. These programs have not trained sufficient numbers of persons to meet the occupational demands of the private sector, and have trained too many individuals in occupations for which there is not sufficient demand. Consequently, we believe that efforts to strengthen linkages between vocational education planning and private sector occupational demands warrants a high priority.

Our analysis indicates, however, that such efforts can be promoted effectively without having to provide General Fund support for the Education Linkages program. This program duplicates activities required by the federal JTPA. The JTPA stipulates that PICs must devise a plan to coordinate training programs with educational, vocational, and training agencies in order to be eligible for federal funding. Though JTPA is not scheduled to begin operation until October 1, 1983, transition funding will be available to PICs as soon as each council is certified by the Governor. The PICs—composed of representatives from business, educational and vocational agencies, labor, and other interested parties—will receive $80,000 in transition funding to begin the required coordinating and planning activities in 1983. In addition, federal funds available under the JTPA can be used to carry out the plan for coordinating programs with job demands.

Because the Educational Linkages program duplicates activities required by JTPA, we recommend elimination of General Fund support for this program, for a savings of $1,035,000. These funds could then be used by the Legislature to support high priority activities in this or other program areas for which federal funding is not available.

General Fund Support for Displaced Workers Program

We recommend that unbudgeted federal Employment Services funds replace General Fund support for the Reemployment Assistance to Displaced Workers program, for a General Fund savings of $449,000.

The Employment Services program (ES), a federally funded employment program, refers individuals to jobs after matching individual skills with the requirements of a verified job opening. The ES program also provides counseling, vocational testing and training, and job-search workshops to participants who require further assistance.

The ES program was reauthorized by the JTPA. The reauthorization specifically permits states to provide employment services to displaced workers using ES funds. No regulations have been issued to date that specifically define the activities that are eligible under this program for federal support.

The budget proposes $75.9 million in 1983–84 for the ES program ($174,000 General Fund and $74.5 million federal funds). EDD budget documents, however, show federal funding for the ES program totaling $74.9 million, or $449,000 more than the amount proposed for expenditure in the budget.

EDD Displaced Worker Program. The EDD currently operates a program to provide employment services to displaced workers—those individuals who are unemployed due to mass layoffs or permanent plant closures. The budget proposes $2,026,000 for the program in 1983–84, of which $1,013,000 is from the General Fund and $1,013,000 is from the EDD Contingent Fund. Under the Reemployment Assistance to Displaced Workers program, the EDD provides a wide range of employment services to displaced workers through temporary centers located on or near plants that are closing or undergoing mass layoffs.

If the unbudgeted federal funds are used to support these services to displaced workers in the budget year, the Legislature would be able to reallocate $449,000 in General Fund support to other high-priority programs in this or some other functional area where federal funds cannot be used. Accordingly, in order to give the Legislature more flexibility in funding its priorities, we recommend that unbudgeted ES funds be used to replace General Fund support for the Reemployment Assistance to Displaced Workers program, for a General Fund savings of $449,000. This recommendation would maintain funding for the Reemployment Assistance for Displaced Workers program at the same level proposed in the budget.

Funding Needs for the Displaced Worker Program

We recommend that EDD advise the fiscal committees prior to budget hearings on the funding proposal of the California Economic Adjustment Team to provide employment and training services to displaced workers.

Employment and training services for displaced workers—individuals that became unemployed as a result of plant closures or substantial layoffs—are provided by the California Economic Adjustment Team (CEAT). The EDD operates one component of this interdepartmental program. The other agencies involved in the displaced work program are the Chancellor's Office of the California Community Colleges, and the Departments of Industrial Relations, Education, and Economic and Business Development.

The displaced worker program provides a range of services to displaced workers, including job search and placement assistance, job referral and job development, labor market information, vocational training, and supportive services. Support for these services is provided by state appropriations, federal grants, and private sources. In addition the CEAT seeks to obtain financial or in-kind contributions from local community colleges, Adult Education or regional occupation centers, and other employment retraining benefit provisions of the Unemployment Insurance Code.

The EDD field staff establish employment centers in areas with high unemployment resulting from recent plant closures or layoffs. Displaced workers receive employment services and counseling at these centers.

Current-Year Budget. The 1982 Budget Act appropriated $2.0 million to EDD to establish the displaced worker program. In order to supplement state funding, EDD seeks voluntary contributions for employment assistance from companies planning closures or mass layoffs.

The General Motors/United Auto Workers (GM/UAW) Program. During the current year, the administration notified the Legislature of its intention to spend approximately $8.5 million from various sources to provide employment and training services to 8,400 laid-off GM employees at the company's Fremont and Southgate assembly plants. Funds for the program came from the following sources:

1. $3.25 million from General Motors and the United Auto Workers for training and counseling.
2. $3.7 million in federal funds for training, search assistance, and program evaluation.
3. $1,443,000 in state funds for retraining, employment services, and transportation.

Of the $8.5 million, $3.7 million in state and federal funds were used as follows:

1. $685,000 made available by the EDD's displaced worker progam was used to provide employment and placement services.
2. $400,000 in California Worksite Education and Training Act (CWETA) funds were used for on-the-job training.
3. In-kind contributions of $200,000 from the Community Colleges and Department of Education provided training equipment and classroom space for the program.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

4. $200,000 appropriated to the Chancellor's Office of the Community Colleges as part of the Investment in People program were used to provide high technology training.

5. $2,075,000 in federal Vocational Education Act funds made available by the Department of Education were used for retraining programs.

6. $158,000 from the State Transportation Fund was used for ridesharing subsidies.

Budget Proposal. The EDD's budget requests $2.0 million for the displaced worker program for 1983–84. There is no indication, however, whether a program similar in scope to the GM/UAW program, or a different program, is contemplated in the budget year. CEAT indicates that by March 1, 1983, it will submit a report, as required by Ch 226/82 (SB 1109), recommending alternatives for additional funding.

We believe that the Legislature should have an opportunity to review and approve specific proposals for using funds provided for the displaced worker program. To assure that the Legislature has this opportunity, we recommend that EDD, prior to the hearings, provide the fiscal committees with the CEAT's expenditure plan for 1983–84, including supporting detail on the types of services to be provided and the number of workers to be served.

Employment Preparation Program

We recommend that:

1. *Additional federal Work Incentive (WIN) funds be used to replace General Fund support for the Employment Preparation Program (EPP), in order to provide the Legislature with more fiscal flexibility, for a General Fund savings of $1,194,000.*

2. *Funds requested from the General Fund to expand EPP services to other counties be deleted, because (1) the department has no specific plans for using these funds, and (2) further expansion of the program should be deferred until the comprehensive evaluation of the program's effectiveness is completed, for a General Fund savings of $887,000.*

3. *The amount of General Fund support provided for increased operating expenses be reduced because of overbudgeting, for a General Fund savings of $130,000.*

4. *Statutory funding available under Ch 3x/82 be used to support continuation of EPP in the budget year, for a General Fund savings of $947,000.*

Background. Chapter 918, Statutes of 1980 (SB 1476), authorized the establishment of the Employment Preparation Program (EPP) under which job search assistance, employment training, and supportive services are provided to applicants for and recipients of AFDC. The goal of EPP is to prevent and reduce welfare dependency by assisting eligible clients to find employment as quickly as possible. In the current year, EPP is operating in seven demonstration counties.

Three additional programs were enacted in 1981 to supplement the basic EPP programs. Chapter 1078, Statutes of 1981 (AB 1182), establishes the California Welfare Employment Skills Training Act (CWESTA), which provides employment training and job placement assistance to long-term AFDC recipients. Chapter 1080, Statutes of 1981 (SB 957), establishes a program of employment and training services to unemployed parents who receive cash assistance under the state-only AFDC-Unemployed Parent program. Chapter 1077, Statutes of 1981 (SB 958), establishes a supported work program for long-term AFDC recipients.

Current Year General Fund Reversion. The current-year budget for EPP and related programs originally totaled $12,512,000. Of this amount, $9,468,000 came from the General Fund and $3,044,000 represented federal fund reimbursements from the Department of Social Services (DSS). In the current year, however, the EDD reverted $4.6 million of the amount provided by the state's General Fund. The General Fund savings was made possible by:

1. Diversion of WIN funds which were not spent in the first quarter of 1982–83 to replace General Fund support for EPP ($2,025,000).
2. Delays in implementing EPP and related programs ($2.6 million).

As a result of the reversion, EDD estimates that current-year expenditures for EPP will total $9,937,000 of which $4,863,000 is from the General Fund and $5,074,000 represents federal funds.

Budget Proposal. The budget proposes a total of $12,704,000 for support of EPP and related programs in 1983–84. This is an increase of $2,768,-000, or 28 percent, from the revised 1982–83 budget. Of this amount, $8,956,000 is from the General Fund, and $3,767,531 represents reimbursements from the DSS.

WIN Funding in Budget Year. Although the department used approximately $2.0 million in WIN funds in the current year to support EPP and related programs, it does not propose to continue this funding in 1983–84. The department indicates that the use of WIN funds in the current year was done on a one-time basis.

Our analysis indicates that $1.2 million in WIN funds is available and should be used in lieu of General Fund support for EPP in 1983–84, for the following reasons:

1. The budget anticipates an *increase* of $1,194,000 in WIN funds during 1982–83. Under federal law, California can use these funds to provide EPP-type services to AFDC applicants and recipients. By using increased WIN funds to support EPP, the Legislature can make additional General Fund money available for other legislative priorities while at the same time maintaining statewide funding for WIN at the current-year level.
2. By providing employment services to AFDC applicants and recipients, EPP reduces the WIN workload in the six counties where both programs operate. The reduced workload in these areas allows the WIN program to increase funding in other areas of the state.

On this basis, therefore, we recommend a General Fund reduction of $1,194,000 for EPP, to be offset by a corresponding increase in WIN funds for the program. Using these additional federal funds to replace General Fund support for EPP will give the Legislature an additional $1,194,000 in General Fund to use in funding its priorities in this or other program areas.

Further Program Expansion Unwarranted. The budget proposes $867,-000 from the General Fund to expand EPP services to one county not currently served by the program. We recommend postponing further expansion of the EPP for the following reasons:

1. The EDD has not been able to fully implement previous expansions of the program. The department had planned to expand EPP services into Orange, Kern, and Humboldt Counties during the current year. Due to start-up delays, EDD was only able to begin operation in Kern and Humboldt Counties. The Orange County site is scheduled to begin operation in 1983–84, a year later than planned.
2. The department has no specific plans for using the additional funds

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

or expanding the program. It could not identify where expansion is to occur, nor could it explain how it derived its caseload estimates.

3. Expansion of EPP should be delayed until a thorough evaluation of the program, now in progress, has been completed. While EPP has prepared a preliminary evaluation of this experimental program comparing it to WIN, it is questionable whether the results of this evaluation provide a reliable basis for making judgments about the program's potential. At the time the study was conducted, EPP was serving mainly applicants who possessed a strong labor force attachment due to recent work experience, while WIN was serving mainly AFDC recipients lacking in recent job experience. As a result, the success of the EPP may be due to the fact that the program was serving more employable clients, rather than providing more effective services. A more rigorous evaluation is currently being conducted in San Diego, and is due to be completed in 1984.

For these reasons we recommend deletion of funds requested to expand EPP, for a General Fund savings of $886,000.

Operating Expenses Overbudgeted. The budget proposes a General Fund increase of $404,000 to maintain current-year support for personnel costs and operating expenses associated with EPP in the budget year. Of this amount, $150,000 is for increased personnel costs and $254,000 for increased operating expenses.

In calculating the increased costs, however, the department assumed that General Fund expenditures in the current year would be $8,489,000. Our analysis indicates that, by calculating these costs on the original General Fund base, instead of using the revised level of expenditures, the department has overbudgeted funds for personal services and operating expenses. We estimate that the General Fund increase should be $274,000, instead of $404,000. Therefore, we recommend a reduction of $130,000 in General Fund support because operating expenses are overbudgeted.

Statutory Funding Available. Chapter 3x, Statutes of 1982, transferred $1.0 million from the 1981 Budget Act to the department for support of EPP. The department advises that, during the current year, it will spend $947,000 of these funds. Our analysis, however, indicates that these funds will not be spent in the current year, and will be available for use in 1983–84, for the following reasons:

1. The department indicates the statutory funds will be used during the current year to (a) provide job search services to state-only AFDC-U recipients ($450,000) and (b) support the EPP center in Lake County and fund start-up costs for the EPP center in Orange County ($497,000). Since 1982–83 is already half over, EDD should have spent at least some of the statutory funds in the current year for these activities. The State Controller's Office informs us, however, that the department has not expended any of the statutory funds in 1982–83. In addition, the department was unable to identify the number of AFDC-U state-only recipients who will receive EPP services or the costs per recipient of these services.

2. We have identified $1,321,500 in potential savings during the current year that would alleviate the need for the EDD to use its statutory funds. The sources of the potential savings are as follows:

- $771,500 appropriated by the 1982 Budget Act for the CWESTA program. The department has no plans to implement the program in 1982–83, and therefore will not incur these costs during 1982–83.
- $550,000 for EPP services to refugees. The department has not been

able to identify the number of refugees to receive these services in the current year.

On this basis, we recommend that $947,000 in statutory funding be used to support EPP in the budget year, and that $947,000 be deleted from Item 5100-001-001.

California Welfare Employment Skills Training Act

We withhold recommendation on $811,000 in General Fund support for the California Welfare Employment Skills Training Act (CWESTA) program, pending receipt of EDD's proposal to alter the performance contract reimbursement rate.

The budget proposes $811,000 from the General Fund for the CWESTA program. These funds would be used to provide employment and training services to 100 long-term or potentially long-term AFDC recipients. CWESTA, authorized by Ch 1078/81 (AB 1182), allows EDD to enter into performance-based contracts with training programs to provide remedial education, job-related language instruction, and vocational skills. The act provides that contractors shall be reimbursed for actual costs, plus 10 percent, for training clients who are employed at least 90 days. Contractors are not reimbursed for the cost of providing training to individuals who fail to complete training or fail to be employed at least 90 days.

CWESTA Not Currently Operating. The department has not implemented CWESTA in the current year, and has no plans for implementing it in the budget year. The EDD indicates that contractors consider the reimbursement rate of 10 percent to be too low to adequately compensate them for assuming the risk of placing AFDC recipients in jobs. As a result, EDD has been unable to contract for CWESTA services in the current year.

No Proposed Program Changes. Our analysis indicates that a statutory change probably is needed if CWESTA is to be implemented. The department, however, has not proposed any program changes that would enable CWESTA to be implemented in the manner originally intended.

Therefore, we withhold recommendation on $811,000 in General Fund support requested for CWESTA pending EDD's proposal to change the funding rate so that CWESTA can operate using performance contracts acceptable to both the state and training contractors.

Consolidate Legislatively Mandated Publications

We recommend that the companion bills to the Budget Bill be amended to require the Employment Development Department to submit annually by December 1, one report which evaluates the performance during the previous state fiscal year of all employment and training programs for which the department is now required to submit separate reports.

Chapter 1632, Statutes of 1982 (AB 2960), requires each state agency to include in its 1983–84 budget request a list of titles and brief descriptions of 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 publications, if any, should be discontinued.

The department has identified 14 legislatively mandated reports. Twelve of the yearly reports concern specific employment and training programs. The two remaining publications report on local government employee Unemployment Insurance fund balances.

The department recommends that each of these publications be con-

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

tinued. We concur with the department's recommendation. We also recommend that the 12 legislatively mandated publications concerning employment and training programs be consolidated into one annual publication. Our analysis indicates that consolidating the employment and training program reports into one annual publication would:

1. Focus attention on the cost and effectiveness of the overall state effort to employ and train individuals through EDD programs, as well as allow comparison of the effectiveness of each separate program.
2. Increase the ease with which inter-program comparisons can be made by requiring all programs to evaluate performance within one standard time period. General economic conditions affect the success of EDD programs. Evaluations made in different time periods—and, as a result, different economic conditions—are not strictly comparable. Standardizing the time period in which evaluations are made facilitates inter-program comparisons.
3. Provide the Legislature with a single source of information on the design and performance of EDD's employment and training programs.

For these reasons, we recommend that the companion bills to the Budget Bill be amended to require EDD to submit annually by December 1, one report which evaluates the performance during the previous fiscal year of all employment and training programs for which the department is now required to submit separate reports.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 5100-301 from the Unemployment Compensation Disability Insurance Fund, the Unemployment Administration Fund, and the Federal Trust Fund — Budget p. HW 128

Requested 1983–84	$1,513,000
Recommended reduction	1,513,000

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay

We recommend deletion of Items 5100-301-588, 5100-301-870, and 5100-301-890, minor capital outlay, because sufficient justification has not been provided for the proposed projects and estimated costs.

The budget includes appropriations of $193,000 from the Unemployment Compensation Disability Insurance Fund and $1,320,000 from the Unemployment Administration Fund (transferred from the Federal Trust Fund) for 29 minor capital outlay projects for the Employment Development Department. These projects are summarized by descriptive category in Table 1.

Table 1
Employment Development Department
1983-84 Minor Projects by Descriptive Category
(in thousands)

Category	*Number of Projects*	*Budget Bill Amount*
Site 3 building modifications	7	$424
Health and Welfare Data Center and Site 3 backfill alterations	4	358
Disability Insurance automation	4	193
Alterations to reduce program deficiencies	12	484
Energy conservation	2	54
Totals	29	$1,513

Inadequate Project Information. The information provided in support of the Employment Development Department's minor capital outlay request does not provide sufficient information about the individual projects to permit legislative review and approval. The information provided generally consists of a few sentences describing the scope and justification of the project. No cost detail is provided other than a single dollar figure for each of the 29 projects.

Furthermore, some of the proposed projects are questionable, based on the descriptions included for them. For example, the department requests funds to:

- Upgrade the elevators in the Sacramento EDD building, based on a consultant's study which has not yet been completed.
- Construct new computer rooms, while existing computer center space is proposed to be remodeled into offices.
- Modify a new state office building (Site 3, Sacramento) which was designed explicitly for EDD use and which EDD has not yet occupied.
- Implement energy conservation projects for which no energy analysis has been provided.
- Provide for unspecified alterations to premises where EDD indicates needs *may* arise in the budget year.

The information provided does not sufficiently justify or describe the work to be done. Consequently, we are unable to evaluate the need or cost of these projects, and we recommend that the proposed funds be deleted.

Health and Welfare Agency
DEPARTMENT OF REHABILITATION

Item 5160 from the General Fund and Federal Trust Fund — Budget p. HW 130

Requested 1983–84	$58,962,000
Estimated 1982–83	58,311,000
Actual 1981–82	51,379,000
Requested increase (excluding amount for salary increases) $651,000 (+1.1 percent)	
Total recommended reduction	100,000
Recommendation pending	$38,977,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5160-001-001—Support		General	$58,962,000
5160-001-890—Support		Federal Trust	(73,138,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Federal Waivers. Recommend that the Departments of Rehabilitation and Health Services advise the fiscal committees prior to budget hearings regarding the steps they are taking to seek federal Medicaid support for the department's programs. 1032
2. Staffing Reductions. Recommend that the department submit a reorganization plan by March 15, 1983. 1036
3. Reader and Interpreter Services. Recommend enactment of legislation authorizing the use of federal funds to support reader and interpreter services in the state's institutions of higher education. Further recommend adoption of Budget Bill language directing the department to reimburse the institutions for the cost of those services. 1037
4. Work Activity Program. Recommend:
   a. That the department advise the fiscal committees prior to budget hearings regarding the steps it is taking to improve the reliability of its caseload and budget estimates. 1041
   b. Enactment of legislation authorizing the administration to set service priorities and administer the program within the funds appropriated. 1041
   c. Enactment of legislation authorizing the department to award contracts for work activity services on a competitive bid basis, and that the department advise the fiscal committees prior to budget hearings regarding the feasibility of such a contracting method. 1044
   d. That the department advise the fiscal committees prior to budget hearings regarding the number of work activity clients that could be served more appropriately in vocational rehabilitation programs. 1044
5. Work Activity Caseload. Withhold recommendation on $37,- 1046

855,000 for work activity services, pending receipt of revised estimates. We also recommend that the department advise the fiscal committees prior to budget hearings on how it intends to implement the program reduction proposed in the budget.

6. Work Activity Rate Increases. Withhold recommendation on $1,122,000 for cost-of-living increases pending receipt and analysis of information on facility costs. We also recommend that the department advise the fiscal committees prior to budget hearings on how it intends to set provider rates based on "allowable costs". 1047
7. ***Community Facilities. Reduce by $100,000.*** Recommend deleting $100,000 from independent living centers and other facilities due to overbudgeting. 1048

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation assists disabled persons to achieve social and economic independence by providing vocational rehabilitation and habilitation services. Vocational rehabilitation services seek to place disabled individuals in suitable employment. Habilitation services help individuals who are unable to benefit from vocational rehabilitation achieve and function at their highest levels.

Vocational rehabilitation services are provided by the department's counselors and by nonprofit organizations. Counselors (1) evaluate applicants for services, (2) work with clients to develop their rehabilitation plans, (3) authorize the purchase of services necessary to implement the plans, (4) supervise the progress of each client in their caseload, and (5) follow-up to verify rehabilitation. Nonprofit organizations, which include sheltered workshops, facilities for the deaf and blind, and independent living centers, provide counseling, job development, placement and supportive services.

Habilitation services are provided by the Work Activity program to adults who are developmentally disabled. The department purchases services from community-based work activity centers whose goals are to help clients achieve their highest level of functioning and live independently. The objectives of work activity centers are to (1) provide clients with work stability in sheltered employment, (2) increase their vocational productivity and earnings, and (3) to the extent possible, develop their potential for competitive employment. Clients may move into competitive employment either from the work activity centers directly or through the department's vocational rehabilitation services. Habilitation services also include daily living and adjustment skills for physically or mentally disabled persons who are not ready for, or who are unable to benefit from, vocational rehabilitation.

The 1982 Budget Act authorized 1,968.7 positions for the department in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $58,962,000 from the General Fund for support of the Department of Rehabilitation in 1983–84. This is an increase of $651,000, or 1.1 percent, above estimated current-year General Fund expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total program expenditures, including expenditures from federal funds, special funds, and reimbursements, are proposed at $137,111,000, a decrease of $2,431,000, or 1.7 percent, below estimated current-year expenditures.

DEPARTMENT OF REHABILITATION—Continued

Chart 1

Department of Rehabilitation Proposed Expenditures by Program

1983–84 (in millions)

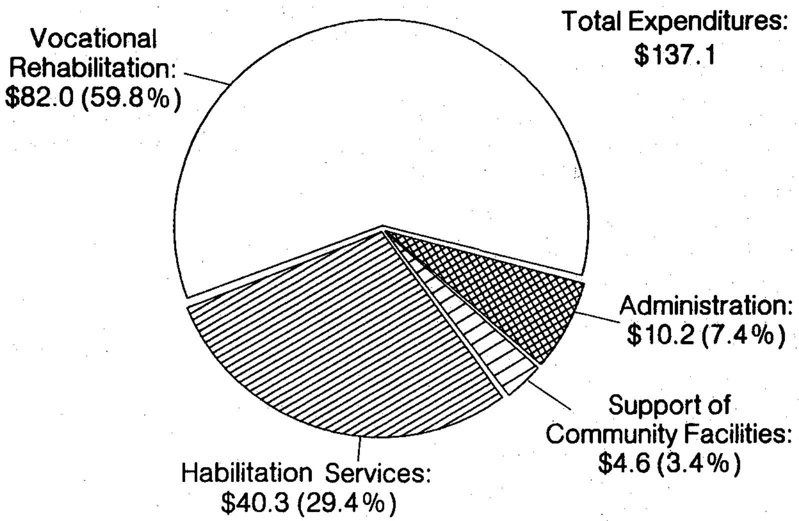


Chart 2

Department of Rehabilitation Proposed Expenditures By Funding Source

1983–84 (in millions)

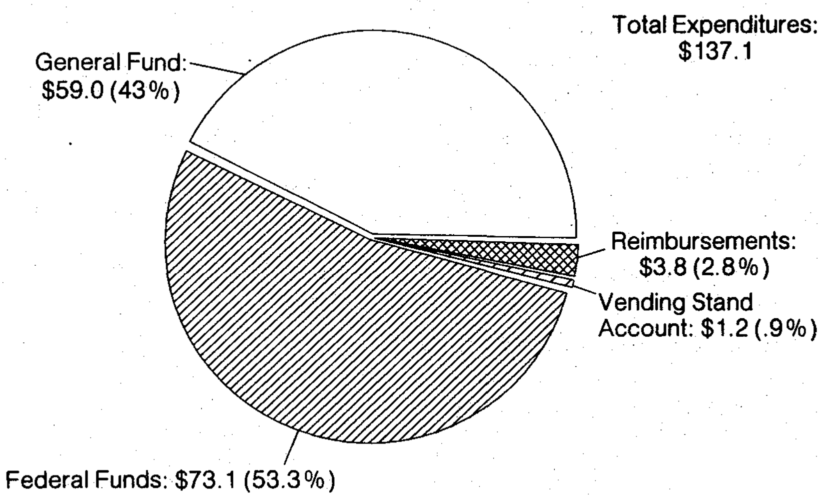


Table 1 displays program expenditures and funding sources for the prior, current, and budget years. Chart 1 shows proposed program expenditures and Chart 2 shows proposed funding sources.

Table 1
Department of Rehabilitation
Program Expenditures and Funding Sources
(in thousands)

	Actual 1981–82	*Estimated 1982–83*[a]	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Programs:					
Vocational Rehabilitation	$79,757	$82,730	$82,033	−$697	−0.8%
Habilitation Services	35,781	39,969	40,305	336	0.8
Support of Community Facilities	4,994	5,603	4,621	−982	−17.5
Administration	11,026	11,240	10,152	−1,088	−9.7
Totals	$131,558	$139,542	$137,111	−$2,431	−1.7%
Revenue:					
General Fund	*$51,379*	*$58,311*	*$58,962*	*$651*	*1.1%*
Federal Trust Fund	*73,616*	*76,253*	*73,138*	*−3,115*	*−4.1*
Vending Stand Account	*1,185*	*1,185*	*1,185*	—	—
Reimbursements	*5,378*	*3,793*	*3,826*	*33*	*0.9*

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

Significant Budget Changes

The budget proposes the following significant program changes in the budget year:

- Deletion of 147.0 authorized positions to achieve a reduction in federal spending for administration in the amount of $4,659,000.
- A 3 percent cost-of-living adjustment for the Work Activity program, at a General Fund cost of $1,122,000.
- A 5.7 percent cost-of-living adjustment for independent living centers, at a General Fund cost of $197,000.

The budget also proposes the following General Fund changes to fund the cost of continuing the current level of services in the budget year, and to delete one-time expenditures, as shown in Table 2:

- Restoration of a one-time reduction in retirement contributions, at a General Fund cost of $393,000.
- A 5 percent increase for operating expenses intended to offset the effects of inflation, at a General Fund cost of $238,000.
- Reclassification of certain work activity programs as day training programs and transfer of $844,000 to the Department of Developmental Services.
- Deletion of a one-time augmentation of $494,000 to independent living centers.

DEPARTMENT OF REHABILITATION—Continued

Table 2
Department of Rehabilitation
General Fund Budget Changes
1983–84
(in thousands)

	Adjustments	*Totals*
1982–83 Revised Budget		$58,311
A. Changes to maintain current program		
1. Restore 1982–83 retirement adjustment	$393	
2. Transfer from Board of Control	10	
3. Merit salary adjustment	36	
4. Price adjustment, operating expenses	238	
5. Transfer to Office of Administrative Law	−12	
6. Transfer day training services to Department of Developmental Services	−844	
Total		−$179
B. One-time expenditures		
1. Delete one-time augmentation for independent living centers		−$494
C. Budget Changes Proposals		
1. Delete 1.0 Legal Counsel		−$10
D. Cost-of-Living Adjustments		
1. Habilitation Services program (3 percent)	$1,122	
2. Independent living centers (5.7 percent)	197	
3. Other community facilities (5 percent)	15	
Total		$1,334
E. Total changes for 1983–84		$651
F. Proposed Budget, 1983–84		$58,962

I. LEGISLATIVE FOLLOW-UP

Additional Federal Medicaid Funds May be Available

We recommend that the Departments of Rehabilitation and Health Services advise the fiscal committees prior to budget hearings regarding the steps they are taking to seek federal waivers permitting the use of federal Medicaid funds to support DOR's programs, as required by Ch 1309/82.

The federal Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) authorizes the Secretary of the Department of Health and Human Services (DHHS) to grant states waivers permitting the use of federal Title XIX (Medicaid) funds to support community-based nonmedical services for individuals who otherwise would be placed in institutions. Chapter 1309, Statutes of 1982 (SB 1678), requires the Department of Health Services (DHS) to seek all necessary waivers from DHHS authorizing the use of Title XIX funds pursuant to the broader authority provided by P.L. 97-35.

To date, DHS has submitted waiver requests on behalf of itself and the Departments of Developmental Services, Mental Health, Social Services, and Aging. The DHS, however, has not submitted a waiver request on behalf of the Department of Rehabilitation, nor has DOR conducted a thorough analysis to determine whether its services might qualify for Medicaid funding under P.L. 97-35.

Our analysis indicates that there is substantial reason to believe that the department would be granted a waiver request for at least some of the services it now provides (and which are now supported by the General

Fund). Many of the clients served by independent living centers and work activity centers are severely disabled. A substantial number have resided in state hospitals or nursing homes, and others would risk placement in institutions were it not for services they receive from these programs. Further, the federal government has already granted a waiver to the Department of Developmental Services (DDS), permitting many community-based services provided to developmentally disabled clients by regional centers to be reimbursed as Medicaid benefits. The DDS estimates federal revenues under its waiver plan will be $7.5 million in 1982–83 and $15.1 million in 1983–84.

The budget proposes $42.6 million from the General Fund to support independent living and work activity centers in 1983–84. If DHHS approved a waiver request to reimburse the state for even a portion of these services, the savings to the state's General Fund would be major.

We recommend that the Departments of Health Services and Rehabilitation advise the fiscal committees prior to budget hearings regarding the steps they are taking to determine DOR's eligibility for a federal waiver and to request such a waiver from the federal government.

Report on Legislatively Mandated Publications

Ch 1632/82 (AB 2960) requires each state agency to include in its 1983–84 budget request a list of titles and brief descriptions of 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 publications, if any, should be discontinued.

The department has identified three legislatively mandated reports as follows:

- An annual report on vocational rehabilitation program performance and administrative costs, required by Ch 1181/82 (AB 964) and the 1982 Budget Act;
- An annual report on affirmative action hiring, required by Ch 716/77 (AB 284); and
- A bi-annual report on the adequacy of the department's fiscal and administrative controls, required by Ch 630/82 (AB 2395).

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

Reports on Administrative Costs and Program Performance

The 1982 Budget Act and Ch 1127/82 (AB 964) requires the department to submit two reports to the Legislature by January 1, 1983. The first is to include an analysis of the administrative costs of the vocational rehabilitation program in 1981–82. The second is to include an analysis of how various programs are performing and workload data for the vocational rehabilitation program in 1981–82.

At the time this analysis was written, the department had not completed these reports.

II. VOCATIONAL REHABILITATION SERVICES

A. FEDERAL FUNDS AVAILABLE IN 1983–84

The federal government provides financial support for the state's basic vocational rehabilitation services and for vocational rehabilitation services provided to eligible Supplemental Security Income (SSI) and Social Secu-

DEPARTMENT OF REHABILITATION—Continued

rity Disability Insurance (SSDI) recipients. The federal government also funds grants to individual facilities and programs. The state is required to provide a match equal to 20 percent of the federal appropriations for the basic support program. Services provided to SSI and SSDI recipients are supported entirely by federal funds.

Because federal and state fiscal years overlap, federal funds available in 1983–84 depend on the amount of federal funds appropriated by Congress in both federal fiscal years (FFY) 1983 and 1984. The department allocates 73 percent of the total annual federal award in the first nine months of the federal fiscal year in which they are received (October to June) and 27 percent of the funds in the last three months (July to September). Hence, the proposed 1983–84 expenditure of federal funds includes 27 percent of the FFY 83 appropriation, 73 percent of the anticipated FFY 84 appropriation, plus any unspent federal funds carried over from 1982–83.

The budget assumes that congressional appropriations for vocational rehabilitation basic support services will be $944 million in both FFY 83 and FFY 84. This is the same level established by House Joint Resolution (HJR) 631, (P.L. 97-377), the final continuing resolution for FFY 83. The final appropriation figure for FFY 84 will not be known until October 1983 at the earliest.

Table 3 displays the federal funds available to California for Vocational Rehabilitation Services in 1982–83 and 1983–84, based on the HJR 631 funding level.

Table 3
Department of Rehabilitation
Availability of Federal Funds—All Programs
(in thousands)

Appropriation Source	*1982–83*	*1983–84*	*Change*	*Percent Change*
Basic Support:				
FFY 82	$17,640	—	N/A	N/A
FFY 83	51,977	$19,225	N/A	N/A
FFY 84	—	51,977	N/A	N/A
Carryover from Prior Year	6,600	1,981	N/A	N/A
Less Reserve for Following Year	−1,981	—	N/A	N/A
Subtotal	$74,236	$73,183	−$1,053	−1.4%
SSI	300	300	—	—
SSDI	362	362	—	—
Special Grants	1,355	355	−1,000	−73.8
Totals	$76,253	$74,200	−$2,053	−2.7%

This table shows that $74.2 million in federal funds are expected to be available for expenditure in 1983–84, which is $2.1 million, or 2.7 percent, less than the amount available in 1982–83.

Carryover is Underestimated

Historically, the department has carried over unspent federal funds from one fiscal year to the next. The amount of carryover available in any budget year depends upon anticipated federal appropriations and on estimated current-year spending.

The 1983–84 budget proposes to spend $1,981,000 in unspent federal funds carried over from 1982–83. Our analysis indicates that the department has significantly underestimated the carryover likely to be available in 1983–84, because the budget overestimates current-year expenditures from federal funds.

The budget estimates that the department will spend $74,236,000 of the basic support funds available in the current year. Because of increased salary savings resulting from a hiring freeze and an unanticipated decline in case service expenditures, however, the expenditure of federal funds will be significantly less than this amount. The department's most recent expenditure estimate shows federal funds expenditures for basic support totaling, $71,308,000, or $2,928,000 less than the estimate for the current year shown in the budget. The amount of unspent federal funds available as carryover to 1983–84, therefore, could be as much as $4,909,000 ($1,981,000 plus $2,928,000), which would make a total of $77,128,000 available—an increase above the amount available in 1982–83.

B. 1983–84 BUDGET PROPOSAL—ALL FUNDS

The budget proposes $91,879,000 from all funds for vocational rehabilitation services and associated administration in 1983–84. This is a decrease of $1,775,000, or 1.9 percent, below estimated current-year expenditures. Of the total, $14,561,000 is from the General Fund, $72,307,000 is from federal funds, and $5,011,000 is from fees and reimbursements.

The Vocational Rehabilitation program will receive $72,307,000 in federal funds, which is all but $1,893,000 of the $74,200,000 estimated in the budget to be available in 1983–84. Of the balance, $831,000 is proposed for grants to various community facilities. The department plans to hold the remaining $1,062,000 in reserve to pay the federal share of any salary or benefit increase granted to state employees by the Legislature. This amount is sufficient to fund the federal share of a 2.6 percent salary and benefit increase.

Because of a decline in the availability of federal funds and the projected increased cost of the current level of services, the budget proposes significant staffing reductions in the Vocational Rehabilitation program, primarily in administration. Specifically, the budget proposes to eliminate 147.0 positions in order to achieve a reduction of $4,659,000 in federal spending. Table 4 shows the distribution of these reductions among the department's various organizational units.

Table 4

Department of Rehabilitation

Proposed Reduction of Federally Funded Positions

1983–84

	Authorized Positions 1982–83	*Proposed Reduction*	*Percent Change*
Central Office	460.8	−83.5	−18.1%
Director's Office	(46.1)	(−11.0)	(−23.9)
Program Support Division	(159.1)	(−25.0)	(−15.7)
Program Development Division	(50.0)	(−16.0)	(−32.0)
Field Operations Division	(29.0)	(−7.0)	(−24.1)
Administrative Services Division	(176.6)	(−24.5)	(−13.9)
District Offices	1,507.9	−63.5	−4.2%
Totals	1,968.7	−147.0	−7.5%

DEPARTMENT OF REHABILITATION—Continued

Central Office Reductions

We recommend that the department submit a reorganization plan to the fiscal committees by March 15, 1983, which reflects its proposed reduction of 83.5 positions in the central office.

The budget proposes to delete 83.5 positions in the department's central office, or 18 percent of the office's workforce. The director's office and each of the department's four divisions are affected by this proposal. The only program that will maintain its current staffing level is the Work Activity program, which is supported entirely from the General Fund.

The department informs us that the proposed staff reductions will require the central office to reorganize by combining the Program Support and Program Development divisions under a single deputy director. Currently, the Program Support Division administers the Work Activity program, the Independent Living Centers program, the Business Enterprise program, Services for the Blind, the Orientation Center for the Blind, Services for the Deaf, and various support units. The Program Development Division is responsible for planning, policy analysis, program evaluation, and technical assistance.

While the department plans to combine these two divisions, it has not planned the organization of the new division itself. In the absence of a detailed reorganization plan, we are uncertain what effect the proposed staffing reductions will have on the management of programs currently administered by the Program Support and Program Development divisions. We recommend that the department submit a detailed reorganization plan for its central office to the Legislature by March 15, 1983, as well as an analysis of the effects of the reorganization on the management of programs currently administered by the Program Support and Program Development divisions.

District Office Reductions

The budget proposes to delete 63.5 positions in the department's district offices, or 4.2 percent of those offices' workforce. The staffing reductions include: (1) 42 administrative staff positions eliminated by reducing the number of administrative districts from 26 to 20 and closing six district offices, (2) 14 supervising counselors (which will increase the workload of the remaining supervisors), and (3) 7.5 District Occupational Resource Specialist positions (which currently are vacant).

Analysis of Proposed Staffing Reductions

We have concluded the following regarding the department's proposal:

1. *The proposed reductions will probably result in the layoff of a significant number of state employees.* Approximately 25 of the 147 positions proposed for reduction currently are vacant. The number of vacancies may increase as incumbents resign, transfer to other departments, or retire. Nevertheless, it is unlikely that the department will be able to accommodate a staff reduction of the proposed magnitude by attrition alone; some layoffs will most likely occur. The department has already taken actions necessary to initiate layoffs, including requesting seniority lists for the position classifications affected by the staffing reduction. If the positions identified in the budget are eliminated, layoffs would occur on July 1, 1983, and federal fund savings would commence on that date.

2. ***Adoption of the proposed reductions will not have a significant adverse impact on direct client services.*** Almost all of the positions eliminated by the budget are administrative staff in the central and district offices. The budget does not delete any case-carrying counselor positions or reduce funds currently budgeted for case services expenditures.

3. ***Sufficient federal funds are available in 1983–84 to support most of the positions proposed for elimination.*** The department's proposal to reduce staff was prepared at a time when it appeared that the congressional appropriation for basic support in FFY 83 would be $863 million instead of $944 million. Because federal funding is higher than initially anticipated and because current-year spending is likely to be less than the amount shown in the budget, the amount of federal funds available in 1983–84 will be $2.9 million more than what the budget proposes to spend. The reduction of staff may be justified on the grounds of reducing the department's administrative expenses, but it is not necessary to eliminate all 147.0 positions because of a reduction in federal funds.

Because the department has underestimated the amount of federal funds to be available in 1983–84 by $2,928,000, the Legislature has the flexibility to make significant changes to the department's budget for vocational rehabilitation services. The fiscal committees should keep in mind, however, that the projected availability of an additional $2,928,000 is based on the rate of expenditures in the first four months of the current year. This figure may change as more information on spending levels becomes available. Also, any additional carryover would be reduced by the federal share of any salary and benefit increase granted to state employees by the Legislature that exceeds 2.6 percent.

Reader and Interpreter Services for Students in Colleges and Universities

We recommend enactment of legislation authorizing the expenditure of federal vocational rehabilitation funds for reader and interpreter services provided to blind and deaf students in the state's institutions of higher education. We further recommend adoption of Budget Bill language directing the department to reimburse the University of California, the California State University, and the California Community Colleges for the cost of those services.

Chapter 976, Statutes of 1981 (SB 1053), gives responsibility to the state's institutions of higher education for providing reader and interpreter services to blind and deaf students who are clients of DOR. The act also expresses legislative intent that state funds be made available to the University of California, the California State University, and the California Community Colleges to support these services. Prior to enactment of that act, these services were provided and paid for by the department.

Because the department proposes to spend less federal funds than it anticipates will be available in 1983–84, we believe federal vocational rehabilitation funds should be used in lieu of General Fund appropriations to support these services. Accordingly, we recommend enactment of legislation authorizing the use of federal vocational rehabilitation funds to support reader and interpreter services. We further recommend that the Legislature direct the department to reimburse the institutions of higher education for the direct cost of providing reader and interpreter services to clients of DOR who are students in these institutions. Specifically, we recommend that the following language be added to Items 5160-001-001 and 5160-001-890 in the Budget Bill:

"The department shall reimburse the University of California, the Cali-

DEPARTMENT OF REHABILITATION—Continued

fornia State University, and the California Community Colleges for the cost of reader and interpreter services for the department's clients."

III. WORK ACTIVITY PROGRAM

The Work Activity program purchases sheltered employment services from community-based work activity centers for developmentally disabled adults. The purpose of the program is to prepare clients for employment, help them live independently, and provide them with prevocational training.

A. Review of Program Performance

Our review of the performance of the Work Activity program indicates three areas where the program needs improvement:

- The department has had difficulty predicting and managing the influx of new clients into the program. The department should improve its budget planning and should have statutory authority to administer the program so as to stay within the limits of funds appropriated to it.
- Existing fee-for-service reimbursement policies inhibit efforts at containing program costs, encourage inefficient operation of facilities, and substantially reduce the department's ability to administratively avoid or reduce program deficits. To help correct these problems, the state should adopt a "prudent buyer" approach to purchasing work activity services.
- Very few work activity clients move to more independent, less restrictive settings. Efforts to increase the movement of clients into vocational rehabilitation programs would improve program performance and reduce state costs.

MANAGEMENT OF CASELOAD GROWTH

The Work Activity program, like all programs serving the developmentally disabled, has grown rapidly in recent years. In 1974–75, the program served 3,100 clients at a cost of $10 million. In 1982–83, an average of 11,900 clients will be served or referred to the program, at a cost of $37.9 million. As the program has continued to grow, predicting the program's caseload and funding requirements, and managing the influx of new clients, have become increasingly difficult.

Department's Caseload Projections Lack Credibility

Funding requests for the Work Activity program are based in part on the department's estimates of the number of clients who will receive work activity services in the budget year. The Legislature has repeatedly expressed concern about the department's analysis and projection of caseload trends. For example, in 1981 it adopted supplemental report language requiring the Departments of Rehabilitation and Developmental Services to analyze trends in client population and service needs.

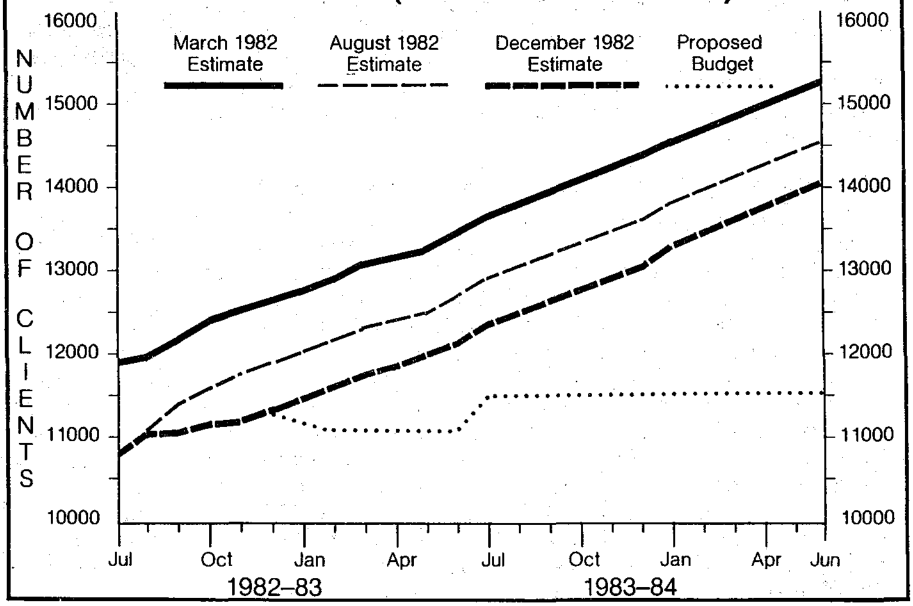
The department has addressed this issue in written reports and in testimony before legislative committees. In our view, however, the Legislature's concerns have not been adequately addressed. The department continues to base its caseload estimates merely on projections of past trends. This estimating procedure in no way reflects changes in the number of disabled adults residing in the community, changes in the state hospital population, the effects of regional center assessment and referral policies, limitations on the supply of work activity services, changes in the number of referrals from special education programs, the establishment of waiting lists, or any other factor affecting caseload. Further, the Departments of Rehabilitation, Developmental Services, Education, and Finance do not jointly plan the budgets of the large number of programs serving the developmentally disabled. Each department prepares a separate budget that fails to consider its effects on other programs.

The result of these practices is that caseload estimates for the Work Activity program are highly unreliable and have little credibility. Chart 3 shows three successive caseload estimates produced by the department since March 1982. The March 1982 estimate predicted that program caseload would increase from 11,900 in July 1982 to 13,600 in June 1983 (the March 1982 estimate differs little from the December 1981 estimate, which was the basis for the 1982–83 budget proposal). The August 1982 estimate showed an actual caseload of 10,800 in July 1982 and projected 12,800 clients in June 1983. In December 1982, the department estimated that June 1983 caseload would be only 12,200, which is 10 percent less than the prediction of the March 1982 estimate.

Clearly, the growth in demand for and provision of work activity services has diminished considerably over the past year. In 1981–82, much of this decline occurred because of caseload limitations and waiting lists established by the department between November 1981 and March 1982. In 1982–83, however, no caseload restrictions were in effect, yet caseload growth was considerably less than previously estimated.

Chart 3

Work Activity Program
Caseload Estimates (1982–83 and 1983–84)



DEPARTMENT OF REHABILITATION—Continued

Whatever factors have contributed to the decline in caseload growth over the past year are not considered in the department's December 1982 estimate of 1983–84 caseload. The department now estimates that caseload will increase from 12,200 in June 1983 to 14,000 in June 1984. This rate—150 new clients per month—is 25 percent higher than the average rate of the first five months of the current year—120 new clients per month. We are unable to advise the Legislature why the department believes caseload growth will accelerate in 1983–84, when caseload growth has dramatically and unexpectedly declined over the past year.

We also note that the December 1982 estimate is not the basis for the department budget proposal. The budget provides no funds for caseload growth in 1983–84.

Management of 1981–82 Caseload Was Erratic

The 1981 Budget Act contained sufficient funds to support caseload anticipated in 1981–82, but the budget as a whole contained $2.6 million less than the amount needed to pay work activity providers the reimbursement rates required by statute. The department had two alternative means of dealing with this problem—it could seek additional funds from the Legislature, or it could limit client access to services.

On November 2, 1981, DOR notified work activity centers that it would begin to limit the number of new clients participating in the program, and established a policy for setting priorities among clients for placement in work activity centers. Initially, the department placed a "cap" on caseloads—new clients were enrolled only as existing program slots became vacant. In December 1981, though, the department established a caseload "freeze"—no new clients were enrolled. These caseload restrictions resulted in about 700 clients being placed on waiting lists.

The department lifted the caseload restrictions in March 1982. In retrospect, the restrictions were lifted too early. The program ended the 1981–82 fiscal year with a deficit of $484,000. As a result, work activity centers were not reimbursed for services provided between June 25 and June 30, 1982. The DOR hopes to reimburse these facilities retroactively from audit recoveries.

Court Decisions May Result in Major Current-Year Deficit

The 1982 Budget Act contains $1.2 million less than the amount needed to support 1982–83 caseload growth (December 1982 estimate). In August 1982, the department notified work activity centers that it would begin to limit caseload growth by forming waiting lists and "capping" caseload in November 1982. This action prompted lawsuits by the California Association of Rehabilitation Facilities *(CalARF v. Roberts)* and the Disabled Clients' Union *(Disabled Clients' Union v. Roberts)* These plaintiffs sought injunctions (1) prohibiting DOR from establishing any policy limiting clients' access to services and (2) requiring DOR to reinstate reductions in the reimbursement rates of 44 facilities made in February 1982. These remedies were sought on the grounds that (1) various state laws establish a right to work activity services and, hence, DOR lacks authority to limit caseload growth, and (2) the February 1982 rate reductions were not implemented as formal regulatory changes and, hence, violated the provisions of the Administrative Procedures Act.

On November 23, 1982, the Sacramento County Superior Court ruled in favor of the plaintiffs and ordered the department to (1) refrain from establishing any policies limiting clients' access to the program and (2) restore the 44 facilities' rates to the January 1982 level. The department has appealed the decision.

Because the current-year budget is underfunded relative to predicted caseload, and the department is prohibited by the court from taking actions which could significantly reduce spending, the program is incurring a major deficit. In the absence of any further action by the department or the Legislature, we estimate that the program's funding will be exhausted on or about June 20, 1983. Thus, unless additional funds become available, work activity centers will not be reimbursed for services they provide between that date and June 30, 1983.

Analysis and Recommendations

We recommend that the department advise the fiscal committees prior to budget hearings regarding the steps it is taking to improve the reliability of its caseload estimates and credibility of its budget planning.

We further recommend that legislation be enacted to provide the department with authority to set priorities for services and to administer the Work Activity program within the funds appropriated to it.

Even though the department overestimated caseload growth in 1981–82 and 1982–83, the program has incurred large deficits in both years. In 1981–82, the deficit resulted because the cost of statutory rate increases was underfunded. The department's efforts to eliminate the 1981–82 deficit were only partially successful—despite five months of caseload restrictions, invoices covering four days of service were left unpaid. In 1982–83, the deficit arose because the Legislature did not fully fund caseload growth, and the court decisions in *Cal ARF v. Roberts* and *Disabled Clients' Union v. Roberts* leave the department with little or no authority to reduce spending sufficiently to stay within the legislatively approved funding level for the program.

We conclude that the department's recent difficulties in managing caseload growth and avoiding large year-end deficits will not be avoided in the future unless two significant steps are taken.

First, the department must improve the reliability of its caseload estimates. Rather than basing its estimates only on past trends, the department should analyze the effects of a variety of factors affecting the demand for and supply of work activity services. This will require the development of a more sophisticated estimating procedure, and the participation of the Departments of Rehabilitation, Developmental Services, Education, and Finance in joint budget planning. We recommend that the department advise the fiscal committees prior to the budget hearings regarding the steps it is taking to improve the reliability of its caseload estimates and the credibility of its budget planning.

Second, the department needs statutory authority to administer the Work Activity program within the funds appropriated to it. Specifically, we recommend that the Legislature enact legislation establishing the authority for the department, in conjunction with the Department of Developmental Services (1) to set priorities for expenditure of funds appropriated for work activity services, and (2) to limit caseload to the level supportable by annual appropriations for the program.

REIMBURSEMENT OF WORK ACTIVITY PROVIDERS

Chapter 1132, Statutes of 1979, requires the department to reimburse work activity centers on the basis of "reasonable costs", and to develop procedures for determining reimbursable expenses and setting rates.

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The DOR has decided that reimbursable costs are those directly associated with Work Activity program functions. The DOR disallows costs associated with activities not related to work activity, activities supported by other funding sources, production of marketable products, and services to clients provided by other programs. Reimbursable costs are divided by client attendance to determine a daily reimbursement rate. This rate is based on prior year cost statements, and is then adjusted by an inflation factor to become the approved rate for the subsequent year.

In last year's *Analysis* and in budget hearings, we identified several problems with the program's rate setting policies. These policies have not significantly changed in the past year and the problems remain. Specifically:

1. ***The rate-setting policy does not effectively limit total program costs because program expansions are reimbursable costs and automatically result in higher rates in subsequent years.***

The department could place stricter limits on reimbursable costs than it currently does. For example, the department does not limit facilities' staff salaries or benefits that are considered reimbursable for purposes of setting rates. Also, expenses such as providers' association dues and legal fees are reimbursable, even when these expenses support legal actions filed against the state.

In contrast, cost-reimbursement policies in the Medi-Cal program use much more restrictive definitions of reimbursable costs.

2. ***Rate-setting based on costs discourages efficient facility operation because facilities that reduce expenses are penalized by having their rates reduced.*** High-cost facilities receive higher rates than low-cost facilities. Further, a facility has no incentive to seek the maximum use of its program, or to increase client productivity.

In contrast, fixed reimbursement rates for nursing homes and community care facilities provide facilities with strong incentives to limit their expenses.

3. ***Rate-setting based on past costs results in inflexible program administration because rates are built into a contract the state cannot renegotiate based on ability to pay.*** Rates established by the department are incorporated into a memorandum of understanding that serves as a contract between the state and each facility. The contract may be amended only if an audit amends the cost statement used to establish the facility's rate, or if the department changes its definition of reasonable costs by formally amending its regulations. The contract may not be amended otherwise, even if the program's appropriation is insufficient to support the program's actual expenditures. Because the state may not renegotiate contracts with providers based on its ability to pay, program costs can be reduced only by limiting the number of clients enrolled in work activity centers. Currently, however, the department is prohibited by court order from limiting clients' access to the program, so the department has little or no flexibility to reduce the program's cost when the program is underfunded.

In contrast, the Director of Health Services is authorized to reduce rates paid to Medi-Cal providers in circumstances where the program is incurring a significant deficit.

4. ***The cost of providing rate increases based on "reasonable costs" has greatly exceeded the amount the Legislature has been willing to pay for those increases during the past two years.*** In 1981–82, rates based on

"reasonable costs" resulted in an increase of 14 percent in the average daily rate. The Legislature appropriated funds sufficient to provide an increase that averaged 6 percent, which was $2.6 million less than the amount needed to support the rate increases. In 1982–83, the department requested $2.1 million for a 5 percent increase in rates. The Legislature appropriated no funds for rate increases in the 1982 Budget Act. Unlike 1981–82, however, the 1982 budget companion act (Ch 327/82, SB 1326), suspended the rate-setting provisions of Ch 1132/79 and limited the average rate increase to the percentage amount granted in the Budget Act for rate increases (i.e., zero).

Legislative Options

The cost-based fee-for-service reimbursement method has helped encourage the development of work activity centers and has greatly expanded the supply of this service. At the same time, this method has led to cost increases greater than those the Legislature has been willing to fund, has weakened incentives for providers to provide services economically, and has reduced the state's flexibility to manage program deficits. Options available to the Legislature to modify the program's reimbursement policies include: (1) establishing a schedule of maximum allowances, (2) limiting annual rate increases, and (3) adopting "prudent buyer" contracting policies.

Schedule of Maximum Allowances. Although an individual facility's rate currently is limited to "reasonable costs" adjusted for inflation, theoretically there is no maximum rate. A schedule of maximum allowances (SMA) establishes a maximum rate for each class of provider and service, and calls for the provider to be paid the lesser of the maximum or actual costs. The SMAs have been used extensively to limit reimbursement of physicians, hospitals, and nursing homes in the Medi-Cal program. Also, the Department of Developmental Services uses a SMA to establish rates for providers of community residential care for regional center clients. Rates established in SMAs can be based on either the projected cost of an adequate program operated by an efficient facility, or can be set relative to existing rates (for example, they could be set equal to 125 percent of the current mean reimbursement).

The SMAs can reduce the cost of the program, but even with SMAs in place, many problems inherent to cost-based reimbursement remain. The most serious problem is that facilities whose rates are below the maximum would have no incentive to economize.

Limit Rate Increases. The Legislature could continue its policy established in Ch 327/82 of limiting rate increases to the percentage amount appropriated for rate increases in the Budget Act. Such an action would reduce projected increases in program costs, but would not reduce the cost of the existing level of services. Moreover, limiting rate increases would not alter facilities' fiscal incentives, provide facilities with greater flexibility to manage program deficits, or alter the existing wide variation in provider rates.

"Prudent Buyer" Contracting. In order to encourage provider participation in the program and provide ready access to services for clients, the Work Activity program allows regional centers the freedom to refer clients to any qualified provider. An important consequence of this policy is that the state must defray the cost of referrals to costly and inefficient providers.

Because the work activity program is entirely state-funded, the state has

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substantial flexibility to "lock out" providers it considers excessively costly. Specifically, the state could contract for services only with providers selected using a competitive bidding process. Facilities unable to compete with other lower-cost facilities within a certain service area would not be permitted to serve regional center clients.

The use of "prudent buyer" contracting for work activity services has much to recommend it. It would compel facilities to achieve greater efficiency and would drive inefficient providers out of the industry. The remaining contractors would have a more predictable revenue source than they currently have under the fee-for-service system. Further, contracts could be written so as to correspond to the amount of funds appropriated for the program, and could be renegotiated to accommodate unanticipated expenditure growth.

The option of contracting for work activity services, however, has one significant drawback. Unlike the market for hospital inpatient services, there is very little excess capacity in the work activity industry. Few program slots are vacant, and shortages exist in many areas. It would therefore be difficult, at least initially, to contract for services with low-cost providers and maintain or expand the current level of services. For contracting to be effective in reducing costs and maintaining an adequate supply of services, special care would have to be taken to recruit new low-cost providers and to increase the utilization of existing low-cost providers.

Recommendation

We recommend the enactment of legislation authorizing the department to contract with work activity centers selected on a competitive basis. We further recommend that the department advise the fiscal committees prior to budget hearings on the feasibility of implementing such a contracting system.

We conclude that reimbursement methods based on facility costs are inherently ineffective in controlling program costs, promoting efficient operation of facilities, and allowing flexible fiscal administration of the Work Activity program. While modifications of the current system limiting maximum reimbursement or rate increases could result in immediate savings, these modifications would do nothing to promote competition, provide providers with incentives to reduce costs, or provide the department with the flexibility it needs to keep costs within legislatively-set funding levels.

We recommend that the state discontinue the use of reimbursement rates based on "reasonable costs", and instead use "prudent buyer" approach to purchasing work activity services. Specifically, we recommend that legislation be enacted authorizing the department to contract for work activity services, and that contractors be selected on the basis of competitive bidding. We also recommend that the department advise the fiscal commitees prior to budget hearing on the feasibility of implementing such a contracting system.

APPROPRIATENESS OF PLACEMENT

We recommend that the department advise the fiscal committees prior to budget hearings regarding (1) the number of work activity clients who might be appropriately placed in vocational rehabilitation programs, (2)

the steps needed to increase the number of referrals to such programs, and (3) the effects of such policies on program caseload and expenditures.

The department does not make decisions about which developmentally disabled adults are most appropriately served in work activity centers. Rather, these decisions are made by an interdisciplinary team consisting of the client, his or her parents, and professional case workers and clinicians employed by regional centers. The placement of each work activity client is reviewed at least annually as part of the review of each client's individual program plan. At that time, the interdisciplinary team decides whether the client should continue to be placed at the work activity center or whether he/she can be served more appropriately in a day training center, in a vocational rehabilitation program, or some other program.

The appropriate placement of clients is important from both a programmatic and a fiscal standpoint. Programmatically, a client needs placement in a program which is well suited to his or her developmental level, and which promotes his or her growth in the least restrictive setting.

Inappropriate placements can also be costly. For example, the average cost of work activity services in 1982–83 is estimated at $3,275 annually per client, which is entirely supported by the General Fund. The average cost of vocational rehabilitation services for developmentally disabled adults in 1982–83 is estimated at $2,361 annually, of which 80 percent is paid for by federal funds. Further, placement in work activity centers tends to be long term, while the costs of successful vocational rehabilitation programs are limited to the duration of the client's rehabilitation, often 12 to 18 months. Generally, the costs of services to a developmentally disabled adult can be reduced by placing the client in a vocational rehabilitation program rather than in a work activity program, provided that such placement is appropriate for that client.

The Departments of Rehabilitation and Developmental Services have not established policies that define work activity or day training programs, or set forth programmatic criteria for placement of clients into those programs. The absence of uniform definitions of services and placement criteria means that the 21 regional centers may be using different criteria to place clients in various programs. The two departments currently are developing these criteria, but it is uncertain whether the Department of Developmental Services (DDS) has the legal authority to implement the policy through its contracts with regional centers.

Our analysis indicates that there may be a significant number of work activity clients who could be appropriately served in vocational rehabilitation programs. The number of clients currently moving from work activity centers to vocational rehabilitation programs is very small. In 1981–82, the department conducted a survey of 20 facilities serving 2,606 clients between July 1, 1980, and January 31, 1982. It found that one (1) of the clients had entered a vocational rehabilitation program during that period, and that five (5) had entered competitive employment. We presume that work activity centers are, or should be, providing training services in sufficient quantity and quality so that more than an insignificant portion of work activity clients could benefit from placement in a vocational rehabilitation program. We conclude that either a significant number of high functioning clients are inappropriately placed in work activity centers, or that work activity centers are providing essentially maintenance services to clients, and are not helping them move into more independent settings.

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The department recognizes that many work activity clients might be better served in a vocational rehabilitation program (VRP). It currently is conducting a field survey to estimate the number of work activity clients who might be appropriately referred to other programs. The department intends to complete this survey in March 1983. We recommend that the department advise the fiscal committees prior to budget hearings regarding (1) the number of work activity clients who might be more appropriately served in vocational rehabilitation programs, (2) what steps are needed to increase the number of referrals from the WAP to the VRP, and (3) the effects of these policies on WAP and VRP caseload and expenditures.

B. Budget Proposal

The budget proposes $39,898,000 from the General Fund for support of the Work Activity program in 1983–84. this is an increase of $1,158,000, or 3.0 percent, above estimated current-year expenditures. Table 5 shows that the budget includes $37,855,000 for work activity services, $921,000 for administration, and $1,122,000 for a 3 percent cost-of-living adjustment for work activity providers.

Table 5
Work Activity Program
Program Expenditures
(in thousands)

	Estimated 1982–83	*Proposed 1983–84*	*Change*	
			Amount	*Percent*
Work Activity Services	$37,855	$37,855	—	—
Administration	885	921	$36	4.1
Cost-of-Living Adjustment (3 percent)	—	1,122	$1,122	N/A
Totals	$38,740	$39,898	$1,158	3.0

Budget Bears No Relation to Caseload Estimates

We withhold recommendation on work activity caseload growth, pending receipt and analysis of revised caseload estimates. We also recommend that the administration advise the fiscal committees prior to budget hearings on how it intends to implement program reductions proposed in the budget.

The department predicts that caseload will increase from 12,200 in June 1983 to 14,000 in June 1984. This is an increase of 1,800 clients, or 15 percent. The budget, however, provides no funds for caseload growth, and proposes to serve an average of only 11,558 clients in 1983–84. The budget states: "Caseload increases were substantially lower than projected for the months of September through November 1982. As a result, no caseload growth is projected for 1983–84. Caseload trends will be evaluated for December 1982 and January, February, and March of 1983 to help determine if more than 11,558 clients will be referred by the Regional Centers". Even though caseload growth has declined, the administration has provided no evidence to support its projection of *no* caseload growth in 1983–84. To the contrary, all available evidence suggests that referrals from special education, state hospital and day training programs will continue, and hence, that some caseload growth will occur in 1983–84.

Chart 3 shows that the budget proposes to serve substantially fewer clients than the department projects will seek services. We also note that because the department has increased facility rates pursuant to a court order, the budget will be sufficient to serve an average of 11,140 clients in 1983–84, not 11,558, as stated in the budget. This is substantially fewer than the 12,200 clients the department projects will be enrolled in the program when current-year funding runs out in mid-June 1983. Under current law and court orders, the department is required to serve all eligible individuals referred to it for service. Because the budget proposes to serve substantially fewer clients than the number that will seek services, it represents a major reduction in the level of service required by current law.

The budget companion bills (SB 124 and AB 223) propose various statutory changes intended to provide the state with more direct control over the level of services provided by regional centers and the Work Activity program. Generally, the bills: (1) delete current laws that establish a statutory right to treatment and habilitation services and (2) authorize DDS and DOR to establish and implement priorities for expenditure of regional center and work activity funds. These bills do not, however, specifically restrict work activity eligibility, limit benefits, authorize DOR to form waiting lists for work activity services, or propose any other specific policy needed to implement the major program reduction proposed in the budget.

Because of the unreliability of the department's caseload estimates, we withhold recommendation on the proposal to limit caseload growth, pending receipt and analysis of (1) the department's report on improving its budget planning and (2) revised caseload estimates based on the program's March invoices. We also recommend that the administration advise the fiscal committees prior to budget hearings on the specific steps it intends to take to implement the major program reduction it has proposed.

Funding for Rate Adjustments

We withhold recommendation on the proposed funding for provider rate increases. We recommend further that the department advise the fiscal committees prior to budget hearings regarding: (1) 1983–84 facility costs and (2) how it intends to set rates based on "allowable costs".

The budget proposes $1,122,000 for work activity provider rate increases. This is sufficient to support an average increase of 3 percent.

The budget companion bills (SB 124 and AB 224) propose to discontinue the use of "reasonable costs" as the basis for setting work activity rates. Instead, rates would be based on "allowable costs," which would be those costs determined by the department to be appropriate for work activity services, within the amount appropriated annually for the program. Neither the companion bills nor the budget describe how rates based on "allowable costs" would be set, or how this procedure would differ from the current procedure.

Under the provisions of Ch 1132 and the department's rate setting policies, 1983–84 facility rates would be based on 1981–82 cost statements, and adjusted for increases in the cost of living. The department currently is analyzing the 1981–82 cost statements submitted by the work activity centers, but will not complete this analysis until February 1983. Until then, we will have no information on whether a 3 percent rate adjustment is sufficient to support the rates required by current law.

Because we lack both information on facilities' costs and a specific pro-

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posal to limit rate increase to 3 percent, we withhold recommendation on the proposed rate adjustments. We recommend that the department advise the fiscal committees prior to budget hearings regarding: (1) projected 1983–84 facility costs and (2) how it intends to set rates based on "allowable costs" and limit rate increases to 3 percent.

IV. TECHNICAL BUDGETING ISSUES

Community Facility Grants Are Overbudgeted

We recommend a General Fund reduction of $100,000 to correct overbudgeting of a cost-of-living adjustment for independent living centers and other community facilities.

The budget proposes $3,927,000 from the General Fund to support grants to various community facilities, including $3,627,000 for independent living centers, $200,000 for a pilot project for the partially sighted, and $100,000 for a project for the newly blind elderly. The total amount includes $212,000 for discretionary (i.e., nonstatutory) cost-of-living adjustments, amounting to 5.7 percent for the independent living centers and 5 percent for the two other projects.

The budget proposes to provide other local assistance providers discretionary cost-of-living adjustments of 3 percent. The administration proposes larger increases for these community facilities apparently for reasons having to do with budgetary accounting, rather than policy considerations. The budget considers these items of expense as part of the department's operating expenses, rather than as local assistance. The independent living centers and the two other projects, however, are not part of the department or contributors to its "operating expenses". They clearly are recipients of local assistance funds, regardless of budgetary accounting practices. We have no basis to recommend that these facilities receive larger cost-of-living adjustments than all other local assistance recipients. We therefore recommend that these facilities receive a 3 percent adjustment, and that Item 5160-001-001 be reduced by $100,000.