DEPARTMENT OF HEALTH SERVICES—REVERSION—Continued

The ongoing monitoring activities are now supported in the budget, and the department expects to encumber all of the funds for the malathion study in the current year. Consequently, we recommend approval of the proposed reversion of funds associated with these portions of the appropriation.

The department has not, however, implemented the EDB study and was unable to tell us if any of the $150,000 for the study would be encumbered by June 30, 1984, when the reversion would take effect.

We withhold recommendation on the proposed reversion of $150,000 for the EDB study and recommend that the department report at budget hearings on whether it intends to perform the study and its reasons for proposing to revert the funds.

8. Chapter 478, Statutes of 1982, appropriated $250,000 to establish adult day health centers. Those funds have been fully expended and we recommend approval of the proposed reversion.

9. Chapter 1461, Statutes of 1982, provided for the establishment of two Drug Utilization and Peer Review Committees to review standards of health practice under the Medi-Cal program. The act appropriated $14,000 for a two-year pilot program terminating January 1, 1985. As of December 31, 1983, the full amount of $14,000 remained unexpended. The Department of Finance advises that this program will be implemented and that the appropriation will be expended during 1983–84. We recommend approval of the proposed reversion.

Health and Welfare Agency

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund — Budget p. HW 89

Requested 1984–85	$889,000
Estimated 1983–84	850,000
Actual 1982–83	505,000 [a]
Requested increase (excluding amount for salary increases) $39,000 (+4.6 percent)	
Total recommended reduction	34,000

[a] Includes Governor's Office of Special Health Care Negotiations.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Technical Budgeting Issues. Reduce by $34,000.* Recommend deletion of $66,000 ($34,000 General Fund and $32,000 reimbursements) to eliminate unjustified expenditures for general expenses, data processing and rent. 1033

$11,000 reduction withdrawn

2. Authorized Positions and Workload. Recommend that the commission report to the Legislature during budget hearings regarding (a) the difficulties it is encountering in attempting to fill authorized positions and (b) the effect of 1034

high vacancies on the commission's ability to accomplish the objectives established for it by the Legislature.

GENERAL PROGRAM STATEMENT

The California Medical Assistance Commission (CMAC) was established by Ch 329/82 (AB 3480), effective January 1, 1983, 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 negotiated contracts with hospitals wishing to serve Medi-Cal participants. From January 1 to June 30, 1983, the commission monitored and reviewed the hospital contracting activities of the office. The Governor's Office of Special Health Care Negotiations was abolished on July 1, 1983, and the commission assumed all the responsibilities of the office.

The commission's functions are to negotiate contracts for health care with hospitals, county health systems, and health care plans. In addition, the commission is responsible for reporting to the Legislature twice each year on the status and cost-effectiveness of selective provider contracts.

During 1983–84, a total of 26.5 positions, including 7 commissioners, are authorized for the commission.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $889,000 from the General Fund for the support of the commission during 1984–85. This is an increase of $39,000, or 4.6 percent, over estimated current-year expenditures. This increase will grow by the amount of any increase in salary or benefits approved for the budget year.

Total expenditures, including the expenditure of federal funds provided by the Department of Health Services, are proposed at $1,703,000, an increase of $74,000, or 4.6 percent, above estimated total expenditures in the current year. Table 1 summarizes the increases for the commission proposed in 1984–85.

Table 1
California Medical Assistance Commission
Proposed Budget Changes
(in thousands)

	General Fund	*Reimbursements from DHS*	*All Funds*
1983 Budget Act	$834	$779	$1,613
1983–84 salary increase	16	—	16
Adjusted base budget, 1983–84	$850	$779	$1,629
Baseline adjustments			
1. Full-year cost of 1983–84 salary increase	23	21	44
2. Miscellaneous personal services adjustments	3	3	6
3. Increase operating expenses	13	11	24
Proposed budget, 1984–85	$889	$814	$1,703

CALIFORNIA MEDICAL ASSISTANCE COMMISSION—Continued

ANALYSIS AND RECOMMENDATIONS

Hospital Contracts Implemented

The commission has attempted to implement hospital contracting in one health facility planning area (HFPA) at a time, beginning with HFPAs in major urban areas. When contract negotiations have been completed in an area, the area is considered "closed." Medi-Cal recipients may not receive inpatient services from noncontracting hospitals in "closed" areas unless (1) a hospital in the area is specifically exempted from contracting or (2) the services are of an emergency nature.

As of January 1984, 243 acute care hospital contracts had been signed in 65 of the state's 137 health facilities planning areas. These areas account for approximately 85 percent of Medi-Cal inpatient expenditures. Table 2 summarizes the status of hospital contracting.

Table 2
Status of Hospital Contracting
Contracts with Acute Care Hospitals
January 1984

1. Coverage	
a. Number of health facilities planning areas	137
b. "Closed" areas	65
c. Areas in which contracting has not been completed	72
2. Hospital participation	
a. Number of hospitals in closed health facilities planning areas	417
b. Number of hospitals exempted from contracting	−55
c. Net number eligible for contracts	362
d. Number of hospitals that submitted contract proposals	317
e. Number of current contracts	243
f. Number of contracts currently being implemented	3

The commission advises that it has executed technical amendments to 40 hospital contracts in the current year, and that it intends to negotiate new contracts in the current year and the budget year.

The current contracts do not have expiration dates but may be renegotiated at the request of either the commission or the hospital. The commission advises that most of the current contracts probably will be renegotiated during the budget year. The fiscal effects of these contracts are discussed in our analysis of the California Medical Assistance program (Medi-Cal).

County Health Systems

Assembly Bill 799 (Ch 328/82) authorizes the commission to contract with counties to provide health care services to Medi-Cal recipients within the counties. The commission, in conjunction with the Department of Health Services, has entered into negotiations with four counties for this purpose—Contra Costa, Marin, San Bernardino, and San Mateo. Four additional counties have expressed interest in developing county health systems. As of January 15, however, the commission had not completed negotiations with any counties.

Expanded Choice

Assembly Bill 799 also authorizes the commission to contract with health plans for the provision of prepaid capitated health services to Medi-Cal recipients residing in a clearly defined geographic area, on a pilot project basis.

In order to implement this project, the federal Department of Health and Human Services must waive Medicaid freedom-of-choice requirements. The commission advises that the state will submit a waiver request in March 1984. If the federal waiver is approved, the first pilot project is scheduled to become operational by September 1, 1984.

Technical Budget Reductions

We recommend reductions totaling $34,000 from the General Fund and $32,000 from reimbursements, to eliminate unjustified expenditures in general expenses, data processing, and rent.

Our analysis of the budget request indicates that the amount proposed for the commission exceeds the commission's requirements by $66,000. Table 3 summarizes the areas in which overbudgeting has occurred.

Table 3
California Medical Assistance Commission
Summary of Recommended Budget Reductions
1984–85
(in thousands)

	Proposed Budget	*Recommended Reduction*	*Amount Recommended For Approval*
General expense	$87	–$30	$57
Data center services	59	–11	48
Rent expense	108	–25	83
Other proposed expenditures	1,449	—	1,449
Totals	$1,703	–$66	$1,637
General Fund	*$889*	*–$34*	*$855*
Reimbursements	*814*	*–32*	*782*

Current-Year Expenditures Overestimated. In the current year, the commission has a budget of $1,629,000. We estimate actual expenditures in 1983–84, however, will be $133,000 less than budgeted, or $1,496,000. We expect the shortfall to occur in three areas: increased salary savings ($102,000), rent ($20,000), and data processing costs ($11,000).

Compared to *our* estimate of 1983–84 expenditures, the budget would provide for an increase of 14 percent. We recommend that, instead, the increase be limited to 9.4 percent.

General Expenses Unjustified. The proposed budget includes $87,000 in general expenses. Staff of the commission have identified specific needs for only $57,000 of this amount. Accordingly, we recommend that the remaining $30,000 be deleted on the basis that these funds have not been justified. Reduction Withdrawn

Data Processing Overbudgeted. The budget proposes $59,000 for data center services in 1984–85, based on estimated expenditures during the current year. According to the Health and Welfare Agency Consolidated Data Center, the commission was provided services at a cost of $27,000 during 1982–83 and $16,366 during the period July through November 1983. If the July through November 1983 rate of expenditures continues throughout 1983–84, the commission's total 1983–84 data center costs would be $39,000. Recognizing that a disproportionate amount of data center services often are needed in the last few months of the fiscal year, however, we estimate that 1983–84 and 1984–85 costs will be approximately $48,000, or $11,000 less than the amount proposed.

Rent Expense Overbudgeted. The commission's budget proposes $108,000 for office rental expense. The commission's existing lease arrangement, however, requires only $83,000 in 1984–85. The commission has not presented any plan for spending the remaining funds. Therefore, we recommend a deletion of $25,000 proposed for rent expense.

Reporting Requirements

We recommend that the commission report to the Legislature during budget hearings regarding (1) the difficulties it has encountered in attempting to fill authorized positions and (2) the effect of high vacancy rates on the commission's ability to accomplish the objectives established by the Legislature.

During the first six months of the current year, an average of six positions, or 31 percent of the commission's 19.5 staff positions, have been vacant. Vacancies at the beginning of the period are attributable to the transition from the Governor's Office of Special Health Care Negotiations to the commission and a change in executive directors. Since then, the vacancy rate has remained high in part because the commission has been precluded from filling positions until the Governor's office approves a reorganization plan. The reorganization plan was submitted in November 1983 but had not been acted on as of January 15, 1983.

The high vacancy rate resulted in large salary savings for the Governor's Office of Special Health Care Negotiations during 1982–83, and has done the same for the commission during 1983–84. In 1982–83, 69 percent of the amount budgeted for salaries was actually spent. Based on a comparison of authorized and vacant positions during the first six months of 1983–84, we estimate that 1983–84 salary costs will be $158,000, or 29 percent less than the amount required to support the commission's authorized positions.

We believe that the commission's extraordinarily high vacancy rate and salary savings during its first year of operation probably will not continue into the budget year. If it does, however, it would tend to indicate that either (1) the commission may have more staff than required to meet its objectives *or* (2) the objectives spelled out by the Legislature are not being fulfilled.

The commission advises that it needs six negotiators to renegotiate hospital contracts and enter into expanded-choice contracts. At present, three of these positions are vacant. We are unable to determine if three negotiators will be able to renegotiate up to 243 hospital contracts between March and August 1984, the anniversary dates of the current contracts, as proposed by the commission.

If the commission is to meet the objectives for which it has been established, it must have the staff needed to perform the functions associated with these objectives. If these objectives *can* be achieved using only 71 percent of the budgeted salary expenditures, then it would seem the commission is overstaffed.

Given the uncertainty regarding the commission's staffing needs, we recommend that the commission report to the Legislature during budget hearings regarding (1) the difficulties it has encountered in attempting to fill authorized positions and (2) the effect of high vacancies on the commission's ability to accomplish the objectives set by the Legislature.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS

Items 4300-001 and 4300-101 from the General Fund and Developmental Disabilities Program Development Fund — Budget p. HW 90

Requested 1984–85	$261,578,000
Estimated 1983–84	240,175,000
Actual 1982–83	231,684,000
Requested increase (excluding amount for salary increases) $21,403,000 (+8.9 percent)	
Total recommended reduction	1,977,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4300-001-001	—Department support	General	$15,844,000
4300-001-172	—Department support	Developmental Disabilities Program Development	280,000
4300-001-890	—Department support	Federal	(66,000)
4300-101-001	—Local assistance	General	242,759,000
4300-101-172	—Local assistance	Developmental Disabilities Program Development	2,695,000
Total			$261,578,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Uniform Fiscal System. Reduce Item 4300-001-001 by $176,000.* Recommend deletion of 3.5 positions and $176,000 from department support to reflect completion of system design and development activities related to the uniform fiscal system. 1039
2. Continuing Care Services Section. Recommend that the department report during budget hearings on (a) the results of negotiations regarding the transfer of CCSS functions to regional centers and (b) its estimate of any General Fund savings that may result from the transfer. Recommend further that 13 CCSS positions to be phased out in 1984–85 be budgeted on a limited-term basis. 1040
3. *Parental Fee Determinations. Reduce Item 4300-101-001 by $95,000.* Recommend reduction of $95,000 from regional center operations to reflect transfer of workload for parental fee determinations to department support. 1041
4. Parental Fee Collection Rates. Recommend that the de- 1041

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

partment report during budget hearings on the steps it has taken to increase fee collection rates.

5. ***Transportation Program. Reduce Item 4300-101-001 by $306,000.*** Recommend deletion of $306,000 from the regional center transportation program to reflect estimated savings from improved utilization of client transportation services. 1048
6. Community Placements. Recommend adoption of Budget Bill language to set aside $1.1 million of Program Development Fund monies for contracts with regional centers for development of community programs and placement of state hospital residents. 1049
7. ***Prevention Programs. Reduce Item 4300-101-001 by $1 million.*** Recommend reduction of $1 million from the Program Development Fund proposed for expansion of prevention programs, because the request is premature. Further recommend that the $1 million savings be used to offset General Fund costs of regional center services. 1051
8. ***Program Development Fund. Reduce Item 4300-101-001 by $400,000 and increase Item 4300-101-172 by $400,000.*** Recommend the use of excess Program Development Fund reserve to offset the General Fund costs of regional center services. 1053

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 that is expected to continue indefinitely and that 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 that occur before age 18.

The department is authorized 504.5 positions in the current year, *excluding state hospital staff,* to carry out the following programs:

1. ***The Community Services Program*** develops, maintains, and coordinates services for developmentally disabled persons residing in the community. The program's activities are carried out primarily through 21 regional centers, which are operated statewide by private nonprofit corporations under contract with the department. The regional centers provide a variety of services, including (a) diagnosis, (b) development of individual program plans, (c) referral to and purchase of needed residential and nonresidential services, (d) monitoring of client progress, and (e) developmental disabilities prevention services. As part of the Community Services Program, 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 Assessment Program*** conducts program evaluations, audits, and investigations.

4. ***The Administration Program*** provides revenue collection, financial management, information systems management, and other support services for the department.

An analysis of the budget for state hospital programs for developmentally disabled persons is contained in our analysis of the state hospitals, which begins on page 1054.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $258,603,000 from the General Fund to support the programs of the Department of Developmental Services, excluding state hospital programs, in 1984–85. This is an increase of $21,312,000, or 9 percent, above estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefits approved for the budget year.

Expenditures from all funds are proposed at $263,711,000—$261,578,000 from appropriated funds and $2,073,000 from reimbursements and federal funds. This is $22,212,000, or 9.2 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
Expenditures and Funding Sources
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Department support	$19,798	$18,860	$17,239	−$1,621	−8.6%
Community services	(218,585)	(222,639)	(246,472)	23,833	10.7
Regional centers	215,602	220,607	243,167 [a]	22,560	10.2
Program development grants	1	1,897	2,170	273	14.4
Prevention	—	—	1,000	1,000	N/A
Cultural centers	135	135	135	—	—
Special pilot projects	2,483	—	—	—	—
Legislative mandates	364	(144)	(144)	—	—
Totals	$238,383	$241,499	$263,711	$22,212	9.2%
General Fund	*$232,458*	*$237,291*	*$258,603*	*$21,312*	*9.0%*
Developmental Disabilities Program Development Fund	*92*	*2,618*	*2,975*	*357*	*13.6*
Federal trust fund	*38*	*330*	*66*	*−264*	*−80.0*
Reimbursements	*5,795*	*1,260*	*2,067*	*807*	*64.1*

[a] Includes proposed 2 percent cost-of-living increase ($6,656,000).

The budget proposes the following significant changes in 1984–85:

- Increases to fund regional center caseload growth and service expansion, at a cost of $16 million to the General Fund.
- A 2 percent cost-of-living increase for regional centers operations and

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

purchase-of-service budgets, at a cost of $6.7 million to the General Fund.

- Expansion of regional center prevention programs, at a cost of $1 million to the Program Development Fund.
- Reduction of 16 positions from department support to reflect the transfer of case management responsibility from the Continuing Care Services Section to the regional centers. This change has no net fiscal effect.
- Redirection of $293,000 from the regional center purchase-of-services budget to operations in order to fund seven positions that will coordinate regional transportation services.
- Four new clerical positions, at a cost of $95,000 to the Program Development Fund, to perform parental fee determination activities previously conducted by regional centers.
- Reductions in various operating expenses for a General Fund savings of $109,000.

ANALYSIS AND RECOMMENDATIONS

I. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $15,844,000 for support of the department in 1984–85. This is a decrease of $1,248,000, or 7.3 percent, below estimated current-year expenditures. Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $17,239,000, which is $1,621,000, or 8.6 percent, below estimated current-year expenditures. Table 2 shows the adjustments to the current-year budget proposed for 1984–85.

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

	General Fund	*All Funds*
1983 Budget Act	$16,528	$17,830
Baseline adjustments, 1983–84		
1. 1983–84 salary and benefit increase	564	570
2. Federal manpower grant and other adjustments	—	460
Adjusted base budget, 1983–84	$17,092	$18,860
Baseline adjustments, 1984–85		
1. Full-year cost of 1983–84 salary and benefit increase	325	348
2. Merit salary adjustment	126	127
3. Price increases	238	250
4. Expiration of federal grant programs	—	−686
5. Collective bargaining adjustment	4	4
6. Reimbursement adjustments	—	182
7. Transfer data systems funds to local assistance	−1,296	−1,296
Program change proposals		
1. Add four positions for parental fee determinations	—	95
2. Reduce operating expenses	−109	−109
3. Transfer Continuing Care Services Section staff to regional centers	−536	−536
Proposed budget, 1984–85	$15,844	$17,239

The budget proposes a total of 421 positions for department headquarters and continuing care services in 1984–85. This is a decrease of 83.5 positions below the number authorized in the current year. The net decrease reflects (1) the reduction of 71.5 positions due to the expiration of two federal studies, (2) the reduction of 16 positions transferred from the Continuing Care Services Section to the regional centers, and (3) an increase of 4 positions to conduct parental fee collection activities.

Operating Expense Reduction

The budget proposes to reduce various operating expense items for a savings of $109,000 to the General Fund. The savings include a reduction of $37,000 in general expenses, $27,000 in external consultant and professional services, $12,000 in association dues, and $33,000 from various other items of expense.

3/21/84 Implementation of Uniform Fiscal System Is Near Completion

Recommend approval DDS provided new information

We recommend deletion of 3.5 positions and $176,000 from the General Fund proposed for support of the uniform fiscal system, because most system design and development activities will be completed by July 1984.

Chapter 1140, Statutes of 1979, together with the 1979 Budget Act (Item 271), require the department to develop and implement uniform accounting, budgeting, encumbrance control, and management reporting systems for the regional centers. Thus far, the department has implemented uniform accounting, budgeting, and encumbrance control systems. To automate these functions and provide management reports, the department in the current year has contracted with a private firm to install a decentralized computer system in the regional centers. The system is expected to be operational at North Bay, Central Valley, and San Gabriel Valley regional centers in January 1984. The remaining centers will be operational by June 1984.

Our review of the project's history indicates that 20 person-years and $2,327,000 have been allocated for the development of this project through 1983–84. The initial feasibility study estimated project development costs of $1,760,000. The higher actual cost is due to substantial delays in obtaining agreement on systems design and procuring the necessary hardware.

The budget proposes to continue 6.5 positions, at a General Fund cost of $327,000, for support of the uniform fiscal system in 1984–85. Of these positions, 3.5 were established in 1980–81 to conduct the initial feasibility studies and systems design. An additional 3 positions were added in 1982–83 to install the computer hardware.

Our review indicates that the initial systems design has been completed. Automation of the accounting, budgeting, encumbrance control, and management reporting systems at the regional center level will be completed by the end of the current year. Workload related to automating the system in 1984–85 will be limited to developing a reporting system at headquarters and making minor program modifications, if necessary. Consequently, we conclude that the 6.5 positions proposed for this project in 1984–85 are not justified by the expected workload.

We also find that the department has 41 positions authorized for systems support and development. Since no major or new data processing projects have been proposed for the budget year, we see no reason why some of these positions could not be redirected on a temporary basis to take-on any unexpected workload that may arise related to the uniform fiscal system. Accordingly, we recommend the deletion of the 3.5 data processing staff

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

and related expenses originally budgeted for design and development of the uniform fiscal system, for a General Fund savings of $176,000.

Phase-Out of the Continuing Care Services Section (CCSS)

We recommend that the department report during budget hearings on (1) the results of negotiations regarding the transfer of CCSS staff and clients to regional centers and (2) its estimate of the General Fund savings that may result from the transfer due to differences in workload and employee compensation levels. We further recommend that the 13 CCSS positions proposed for phase-out in 1984–85 be approved on a limited-term basis.

The Continuing Care Services Section of the department has been providing case management services to persons with developmental disabilities since 1946. In 1971, the Lanterman Mental Retardation Act established the regional centers, giving them responsibility for providing those services traditionally provided by CCSS. As an experiment, three regional centers were permitted to absorb the CCSS functions and staff for their areas. This arrangement became permanent in 1974, but CCSS continued to provide services in the remaining 18 regional centers' areas until 1979. In these 18 areas, CCSS was responsible for serving clients who were older than the average regional center clients and who generally did not have concerned relatives to protect their interests.

In 1979, the department concluded that regional centers should be responsible for *all* case management functions, including those performed by CCSS, and permitted the 18 regional centers to absorb the CCSS function and staff (opt-out). Sixteen of the 18 regional centers chose to do so. Two regional centers, East Bay and San Andreas, chose not to absorb CCSS because the centers have union contracts that prohibit them from accepting state employees with more seniority than their employees. Consequently, CCSS continues to provide services in the two areas. CCSS is authorized 29 positions in the current year.

The budget proposes to phase out CCSS operations by June 30, 1985. Specifically, it proposes to transfer 16 positions and $536,000 from department support to regional centers in the current year. The remaining 13 positions and $468,000 budgeted for CCSS would be transferred in 1984–85. To implement this proposal, the department is negotiating a plan of transfer with the two regional centers and the labor unions representing the state and regional center employees. The Oakland CCSS staff and clients will transfer to East Bay Regional Center by July 1, 1984, and the San Jose and Salinas CCSS staff and clients will transfer to San Andreas Regional Center by July 1, 1985.

Our analysis indicates that transferring CCSS staff to the regional centers should result in a savings to the General Fund because the staff benefits provided to regional center staff are less costly than the benefit package that the state currently provides to CCSS staff. On the average, regional centers' staff benefits equal 21 percent of salaries, while CCSS staff benefits are 30 percent of salaries. These savings will be partially offset because regional center staffing standards are more costly than CCSS staffing standards.

The department indicates that although a General Fund savings may be realized, it is premature to estimate a savings because DDS currently is negotiating with the regional centers and the labor unions and does not know what salary and benefit concessions, if any, will be required in order to reach an agreement with them.

We believe the department's reasoning is sound. We recommend, however, that the department report to the Legislature on the results of its negotiations, and provide it with an estimate of the savings, if any, during budget hearings. We further recommend that the 13 positions remaining in CCSS be budgeted as limited-term positions because they will not be needed after 1984–85.

Department's Assumption of Parental Fee Determinations

We recommend deletion of $95,000 requested for regional center operations, in order to reflect the transfer of parental fee determination workload to the department.

The budget proposes to establish four clerical positions, at a cost of $95,000 to the Program Development Fund, to assume responsibility for determining the amount of fees owed by parents of children placed outside the home. This activity is currently performed by regional centers. The fees are collected by the department and are based on a fee schedule approved by the department that takes into consideration the parents' ability to pay. The fees are redetermined annually on the minor's birthday. Currently, approximately 4,000 minor clients are placed outside the home. The parents of 2,000 of these clients are charged fees.

The department indicates that it is losing fee revenues because regional centers do not consistently apply criteria for determining fees. According to the department, regional centers do not place a high priority on fee collections and allocate only minimal staff time to this function. The problems cited by the department are supported by Department of Finance studies of the regional centers in 1979 and 1980.

The department projects that by assuming responsibility for fee determination, it will be able to collect an additional $400,000 annually in parental fees.

Our analysis of the department's proposal indicates that transferring fee determination activities to the state would be cost-effective. Therefore, we recommend that the Legislature approve the four additional staff. The core staffing formula, however, should be adjusted to reflect the reduced revenue collection workload for the regional centers. The core staffing formula used to determine regional center operating budgets provides for one revenue clerk per 400 clients in out-of-home placements to determine parental fee liability, eligibility for Medi-Cal, Social Security, SSI/SSP, and other third-party payments. In total, the budget contains $740,000 to fund 43.8 revenue clerk positions at regional centers. We recommend that the budget be reduced by $95,000 to reflect the transfer of responsibility for parental fee determinations from the regional centers to the department.

Reduced Fee Collection Rates

We recommend that the department report to the Legislature during budget hearings on the steps it has taken to increase fee collections.

Our analysis of parental fee collections during the period 1980–81 through 1982–83 indicates that the percentage of fee charges actually received by the state has dropped from 90 percent in 1981–82 to 87 percent in 1982–83. Had the collection rate remained at 90 percent, the state would have realized $56,000 in additional revenue to the Program Development Fund during 1982–83.

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

We also find that there are significant differences in collection rates among regional centers. In 1982–83, revenues from the South Central Los Angeles Regional Center amounted to 47 percent of charges, while the statewide average was 87 percent. Table 3 shows the collection rates for each center, as well as the average statewide rate, for 1980–81, 1981–82, and 1982–83.

Table 3
Parental Fee Collection Rates
By Regional Center[a]
1980–81 through 1982–83

	Collection Rates		
Regional Center	*1980–81*	*1981–82*	*1982–83*
Alta California	88%	94%	98%
Central Valley	74	94	85
East Bay	84	80	91
Eastern Los Angeles	95	95	77
Far Northern	91	72	89
Frank D. Lanterman	88	85	98
Golden Gate	95	97	89
Harbor	84	97	98
Inland Counties	94	89	102
Kern	80	80	82
North Bay	88	87	77
Redwood Coast	95	81	108
North Los Angeles County	88	101	89
Orange County	95	97	95
San Andreas	85	84	91
San Diego	99	104	91
San Gabriel Valley	91	97	93
South Central Los Angeles	91	48	47
Tri-Counties	97	79	83
Valley Mountain	82	104	67
Westside	96	77	87
Average collection rate	90%	88%	87%

[a] Reflects voluntary contributions as well as fee collections. Consequently, collection rates are somewhat overstated.

Significant additional revenues could be generated for the Program Development Fund if the department increased its fee collection rates. We estimate that if collection rates increased from 87 percent to 95 percent in 1984–85, an additional $200,000 in revenues would be realized.

The department has not discovered why the collection rate is decreasing, nor has it determined what a reasonable collection rate is. Because it is clear that the state is losing revenues that could be used to develop new programs or offset the General Fund cost of services, we recommend that the department determine why fee collection rates have decreased and advise the Legislature during budget hearings what measures it has taken to increase fee collections.

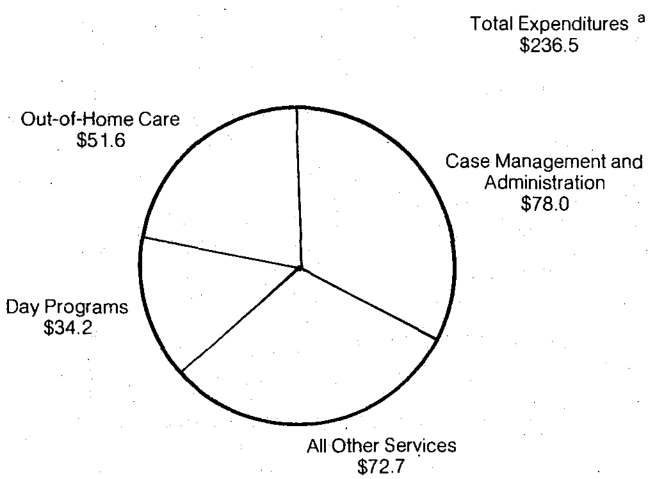
II. COMMUNITY SERVICES

A. REGIONAL CENTERS

The budget proposes an appropriation for $243,164,000 for regional centers in 1984–85, including $242,621,000 from the General Fund and $543,000 from the Program Development Fund. This is an increase of $22,557,000, or 10 percent, above estimated current-year expenditures. Total expenditures, including the expenditure of SSI/SSP payments to residential care providers, are proposed at $339,729,000, which is an increase of $32,638,000, or 11 percent, above estimated current-year expenditures.

Chart 1 displays proposed 1984–85 expenditures, by program.

Chart 1
Regional Centers
Expenditures—All Funds Excluding SSI/SSP
1984–85 (in millions)



[a] Excludes $6,653,000 proposed for a 2 percent cost-of-living adjustment

Table 4 displays the components of regional center expenditures for the prior, current, and budget years.

Table 5 shows proposed changes to the budget approved for the current year.

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

Table 4

Regional Centers Expenditures and Funding Sources 1982–83 through 1984–85 (dollars in thousands)

Program	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Operations					
Personal services	$62,613	$61,636	$63,748	$2,112	3.4%
Operating expenses	13,044	13,140	14,227	1,087	8.3
Subtotals	$75,657	$74,776	$77,975	$3,199	4.3%
Purchase of service					
Out-of-home care	$45,940	$47,082	$51,574	$4,492	9.5%
Day programs	26,623	31,725	34,194	2,469	7.8
Medical services	2,849	3,140	3,140	—	—
Respite/camps	6,660	6,770	7,412	642	9.5
Special services	16,677	17,860	21,667	3,807	21.3
Transportation	20,426	21,602	22,580	978	4.5
ICF-DD (h)	2,990	—	—	—	—
Other	17,780	17,652	17,969	317	1.8
Subtotals	$139,945	$145,831	$158,536	$12,705	8.7%
Cost-of-living adjustment [a]	—	—	6,653	6,653	N/A
Subtotals	$215,602	$220,607	$243,164	$22,557	10.2%
SSI/SSP reimbursements	79,059	86,484	96,565	10,081	11.7
Totals	$294,661	$307,091	$339,729	$32,638	10.6%
General Fund					
Regional centers	*$214,535*	*$220,064*	*$242,621*	*$22,557*	*10.3%*
SSP [b]	*39,529*	*43,242*	*48,282*	*5,040*	*11.7*
Program Development Fund	*1,067*	*543*	*543*	—	—
Federal funds (SSI) [b]	*39,530*	*43,242*	*48,283*	*5,041*	*11.7*

[a] Does not include $3,000 for cultural centers.
[b] Based on 50 percent General Fund/50 percent federal funds.

Table 5

Regional Centers Proposed Budget Changes (in thousands)

	Operations	*Purchase of Services*
1983 Budget Act	$73,873	$145,841
Baseline adjustments		
1. Case management funding from state hospitals	893	—
2. Salary study	10	−10
Adjusted base budget, 1983–84	$74,776	$145,831
Baseline adjustments		
1. Uniform fiscal systems	463	—
2. One-time funds for George Miller centers	—	−302
3. Expiration of salary study	−10	10
4. SSI/SSP adjustment	—	−1,202
Caseload increases	1,917	14,492
Program change proposals		
1. CCSS phase-out	536	—
2. Staff to coordinate transportation services	293	−293
Subtotals	$77,975	$158,536
Cost-of-living adjustment (2 percent) [a]	1,560	5,093
Proposed budget, 1984–85	$79,535	$163,629

[a] Does not include $3,000 for cultural centers.

Operations

The budget requests $79,535,000 for regional center operations in 1984–85. This is an increase of $4,759,000, or 6.4 percent, above estimated current-year expenditures. The increase includes (1) $1.9 million for increases in caseload, (2) $1.6 million for a 2 percent cost-of-living increase, (3) $463,000 to support the ongoing costs of a new computer system, (4) $536,000 for additional staff to manage caseload transferred from the Continuing Care Services Section, and (5) $293,000 to coordinate transportation services on a regional basis.

Regional Center Caseload Estimates

The department estimates that regional center caseload will be 77,633 in 1984–85. This is an increase of 4,580, or 6.3 percent, above estimated current-year caseload. This caseload estimate will be revised by the department in May when additional client data become available. Table 6 shows the increases in caseload for 1980–81 through 1984–85.

Table 6
Regional Centers
Midyear Caseload
1980–81 through 1984–85

	Number of Clients	*Increase Over Previous Year*	*Percent Change*
1980–81	62,323	5,130	9.0%
1981–82	64,221	1,898	3.0
1982–83	68,473	4,252	6.6
1983–84 (estimated)	73,053	4,580	6.7
1984–85 (proposed)	77,633	4,580	6.3

Modifications to the Core Staffing Formula

The department prepares regional center operations budgets using a staffing and salary formula that 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.

The staffing formula used to determine the proposed budget has been modified in two significant respects. First, no additional budget and accounting staff will be allocated due to the automation of the uniform fiscal system. Second, the department has reduced the number of clerical staff allocated per professional position to reflect actual workload. In addition, the department modified the core staffing formula in the current year to reflect the assumption by state hospital staff of responsibility for case management of state hospital residents. The department has contracted with the State Personnel Board to study the appropriateness of the salaries used in the core staffing formula and will propose further modifications if necessary in the May revision to the budget.

Purchase of Services

The budget proposes $163,086,000 from the General Fund and $543,000 from the Program Development Fund for purchase of services in 1984–85. This is an increase of $17,798,000, or 12 percent, above estimated current-

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

year expenditures. The increase consists of $2,491,000 for the increase in the average costs per client using services, $7,582,000 for the increased number of clients using services, $5,093,000 for a 2 percent cost-of-living adjustment, and $2,632,000 to fund programs established with Program Development Fund grants.

Impact of Ch 16x/83 (AB 40x) and Current-Year Expenditure Trends

The trailers bills to the Budget Bill (SB 1379 and AB 2314) contain language to continue in 1984–85 the emergency regulations and administrative procedures established by Chapter 16, First Extraordinary Session, Statutes of 1983 (AB 40x). The authority for these provisions would otherwise sunset on June 30, 1984. The level of funding proposed for purchase of services in 1984–85 assumes that these cost control measures will be continued.

Chapter 16x provided funds for the regional centers' 1982–83 budget shortfall and established new procedures for preventing cost overruns in future budgets. In April 1983, the department projected that at then-current expenditure rates, the $129.7 million authorized for purchase of services in 1982–83 would not be sufficient to cover costs, and that a $6.8 million deficiency would arise. The department funded $2.5 million of the projected deficiency by redirecting funds from the state hospitals budget. To address the remaining deficit of $4.3 million, the Legislature enacted Ch 16x/83, which appropriated $3.1 million and authorized adoption of emergency regulations and procedures to reduce projected cost overruns in both 1982–83 and 1983–84. The measure also (1) prescribed procedures and timelines for administrative hearings on appeals related to decisions by regional centers to terminate or reduce services to specified individuals and (2) authorized a study by the Assembly Office of Research of funding, management, and organizational issues related to the state's provision of services for developmentally disabled persons. The study has been completed, but had not been released at the time we prepared this analysis.

Pursuant to the direction and authority provided by Chapter 16x, the department adopted emergency regulations in August 1983 to constrain expenditures for services to the amount appropriated by the 1983 Budget Act. The regulations (1) allow regional centers to purchase services only if the client's need for the service is documented on the individual program plan and no other public agency is responsible for providing the service and (2) provide for service reductions, as specified, if necessary to prevent cost overruns.

The department estimates that if current expenditure trends continue, regional center expenditures will exceed available funding in 1983–84 by $4 million, or 3 percent of the $145.8 million authorized for services in the current year. The regional centers have submitted individual plans of action for coping with this prospective deficit to the department. At the time this analysis was prepared, the department had not yet determined the actions it will take to address the projected cost overrun. The department, however, intends to develop a plan of action by March 1984. We will comment during budget hearings on the department's effort to address the projected deficiency, as well as on the effectiveness of the administrative procedures that were established by Ch 16x/83 and are proposed to continue during 1984–85.

Allocation of Funds for Purchase of Services

The budget proposes to allocate funds to regional centers for purchase of services in the following manner. Funds will be allocated for the full expected costs of residential and day programs, consistent with past practice. These amounts include the costs for additional clients and the cost for projected increases in use of services. Funds for all other services, which include transportation, special services, medical, and respite services, will be allocated on a modified "capitation" basis. This allocation methodology was initiated by the department in the current year.

"All Other" Services. Up until the current year, funds were allocated to regional centers for all other services based on historical trends in the average cost per client and on the expected number of clients to be served. Due to regional differences in the level of usage and costs for services, this allocation mechanism has resulted in significant differences among regional centers in the average allocation per client for similar services.

The "capitation" approach equalizes the allocation per client for all other services. Because the existing differences in allocations per client were so large, the department concluded that it could not impose a strict capitation rate when it implemented this approach initially. If it had done so, the new approach would have resulted in reduced funding for "all other services" in some regional centers by over 58 percent and increased funding in other centers by 91 percent. To avoid this, the department modified the capitation approach by adjusting the per-capita allocations to reflect the individual needs of each center. The department proposes to reduce the adjustments each year until the adjustment is 30 percent or less of the statewide capitation rate for each regional center.

Table 7 shows the purchase-of-service allocations on a per-client basis in 1982–83, before funds for other services were allocated on a capitation basis, and in 1983–84—when the modified capitation approach was in effect. In 1982–83 the difference between the largest allocation ($1,966) per client for other services and the smallest allocation ($428) was $1,538 per client. This difference was reduced by $631, or 41 percent, to $907 per client in 1983–84.

Residential and Day Programs. Table 7 also shows that there are very large differences in allocations per client for residential and day programs. In the current year, Inland Counties Regional Center in San Bernardino is allocated $2,308 per client for residential services, while Eastern Los Angeles Regional Center is allocated $6,149, or 166 percent more per client. The variation in residential program costs can be attributed to differences in (1) the level of client disability, (2) the percent of clients in residential programs who receive SSI/SSP, and (3) the percentage of facilities in the region that are smaller, more costly facilities. The variation in day program costs is attributable to (1) the level of client disability and (2) a rate structure that allows new facilities to be reimbursed at current costs while holding established facilities to reimbursement at lower historical costs.

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Table 7
Regional Centers
Purchase of Service Allocations Per Client 1982–83 and 1983–84

	Residential Programs[a]			*Day Programs*			*All Other Programs*		
	Allocation per Client			*Allocation per Client*[b]			*Allocation per Client*[b]		
Regional Centers	*1982–83*	*1983–84*	*Percent Change*	*1982–83*	*1983–84*	*Percent Change*	*1982–83*	*1983–84*	*Percent Change*
Alta California	$3,230	$3,284	1.7%	$919	$1,039	13.0%	$587	$588	0.2%
Central Valley	2,712	2,990	10.3	1,387	1,513	9.1	474	529	11.7
East Bay	4,138	3,758	−9.2	1,527	1,934	26.7	1,162	945	−18.7
East Los Angeles	6,057	6,149	1.5	3,964	3,668	−7.5	653	763	16.8
Far Northern	2,884	2,601	−9.8	1,554	1,741	12.1	726	761	4.8
Frank D. Lanterman	4,422	3,606	−18.5	1,569	1,503	−4.2	1,141	1,072	−6.1
Golden Gate	4,226	4,238	0.3	1,992	2,183	9.6	841	810	−3.7
Harbor	5,228	4,797	−8.2	1,301	1,508	15.9	952	970	2.0
Inland Counties	2,820	2,308	−18.2	655	1,675	155.8	428	394	−7.9
Kern	3,125	3,390	8.5	1,720	1,822	5.9	573	523	−8.7
North Bay	2,865	2,908	1.5	2,242	2,329	3.9	1,128	1,049	−7.0
North L.A. County	5,971	5,613	−6.0	1,428	1,511	5.8	833	772	−7.4
Orange County	3,980	4,118	3.5	1,144	1,356	18.6	557	514	−7.6
Redwood Coast	5,053	4,701	−7.0	3,340	3,477	4.1	1,966	1,301	−33.8
San Andreas	3,849	3,774	−2.0	1,557	1,736	11.5	833	681	−18.3
San Diego	4,098	3,772	−8.0	3,312	3,248	−1.9	631	711	12.7
San Gabriel Valley	5,419	5,494	1.4	850	821	−3.4	667	628	−5.9
South Central L.A.	3,436	3,406	−0.9	1,141	1,342	17.6	503	560	11.4
Tri-Counties	3,908	3,901	−0.2	2,437	2,291	−6.0	856	834	−2.5
Valley Mountain	2,770	2,510	−9.4	3,992	4,118	3.2	826	745	−9.9
Westside	5,985	6,003	0.3	1,273	1,493	17.3	863	846	−2.0
Maximum allocation	$6,057	$6,149		$3,992	$4,118		$1,966	$1,301	
Minimum allocation	2,712	2,308		655	821		428	394	
Difference between maximum and minimum	3,346	3,841		3,337	3,297		1,538	907	
Average	4,104	3,968	−3.3%	1,872	2,015	7.6%	819	762	−7.0%

[a] Excludes SSI/SSP payments to providers and clients.
[b] Based on initial 1983–84 contracts.

Regional Center Transportation Specialists

We recommend deletion of $306,000 from the purchase-of-service budget to reflect the net savings expected to result from the proposal to establish seven transportation specialists.

The budget proposes to increase regional center operations by $293,000, using funds redirected from the purchase-of-services budget, in order to establish seven transportation specialists. The positions would seek to reduce transportation costs by coordinating the use of transportation services on a regional basis. Specifically, the transportation specialists would (1) obtain mobility training for eligible clients, (2) identify less-costly noncommercial transportation providers, (3) use established automated commuter routing systems to more efficiently route client transport, (4) establish an inventory of transportation needs and providers, (5) determine the feasibility of establishing regional automated routing and scheduling systems, and (6) train other regional center personnel to more efficiently use transportation resources available for clients.

Our analysis indicates that the budget request for seven transportation specialists should be approved for two reasons. First, implementation of the proposal would help attain one of the program's basic objectives—client independence—by identifying clients who can benefit from mobility training and ensuring that the training is provided. Secondly, similar projects conducted in regional centers on a pilot basis demonstrate that substantial savings in transportation expenditures can be realized. The department indicates that its primary goal in 1984–85 is to achieve a savings of $599,000 in the regional center transportation budget. This is $306,000 more than the $293,000 savings reflected in the budget. On this basis, we recommend that the regional centers' purchase-of-services budget be reduced by $306,000 to reflect the estimated net General Fund savings that will result from implementing this proposal. The department expects savings in future years to exceed the amount saved in 1984–85.

B. PROGRAM DEVELOPMENT FUND

The Developmental Disabilities Program Development Fund (PDF) was established by Ch 1369/76. 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 care.

The budget proposes expenditures of $3,993,000 from the PDF in 1984–85. This is an increase of $1,375,000, or 53 percent, above estimated current-year expenditures. This increase is primarily due to a delay in funding 1982–83 PDF grants and the department's inability to spend the funds in 1983–84. This will result in a large carry-over of parental fee revenues into 1984–85. The proposed expenditures include $280,000 for support of eight positions in the department, $543,000 for regional center purchase of services, $1,000,000 for prevention activities, and $2,170,000 for new program start-up grants.

PDF grant funding for new programs is limited to 24 months. The ongoing costs of new programs must be funded from the regional centers purchase-of-services budget. The budget for regional centers in 1984–85 proposes a General Fund augmentation of $2,632,000 to support programs started with PDF funds in 1982–83 and 1983–84.

Use of PDF to Reduce Inappropriate State Hospital Placements

We recommend that the Legislature adopt Budget Bill language earmarking $1,135,000 in the PDF specifically for the development of programs to reduce inappropriately placed state hospital residents.

Preliminary information from the department indicates that it has not met recent state hospital population reduction targets. This is partly due to a decline in the rate at which state hospital clients are being placed in the community. The department indicates that approximately 300 state hospital residents are awaiting placement into the community but cannot be placed because there are not sufficient programs to accommodate them. More than 100 of these clients were expected to have been placed in 1983–84.

Community placements are becoming more difficult to make because (1) the remaining clients in the state hospitals have greater developmental needs and (2) funding support for staff performing placement functions has decreased. The Governor vetoed $2.4 million from the 1983 Budget Bill that had been appropriated by the Legislature to fund 184 regional center staff providing case management for state hospital residents. As chaptered, the budget assumes that case management for state hospital residents will be provided by state hospital staff, and provides a reduced level of $893,000 for regional centers' community placement staff.

As we noted in our *Analysis of the 1983–84 Budget Bill*, regional center staff can play an important role in the successful placement of state hospi-

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

tal residents. These staff have ongoing contact with their clients and are more aware than hospital employees of suitable programs in the community. With reduced placement staff, the previous level of effort cannot be maintained.

The Governor also vetoed $8 million specifically appropriated by the Legislature for the development of new community programs for state hospital residents.

If the Legislature wishes to continue placing eligible state hospital residents into the community, a specific funding source should be identified for this purpose. Our analysis indicates that the PDF is an appropriate source of funds for community placement of state hospital clients. The purpose of the PDF, as stated in the Lanterman Act (Welfare and Institutions Code Section 4677), is to provide resources to start new programs according to the priorities for program development outlined in the state plan prepared by the State Council on Developmental Disabilities. Our review of the plan indicates that the development of alternative living arrangements for institutionalized clients is a major priority. Moreover, federal funds allocated to California and deposited in the PDF pursuant to PL 95-602 are specifically for developing community residences for institutionalized clients.

Under current procedures, however, the use of PDF grants to develop new programs for state hospital residents is not very effective, for several reasons. First, the programs developed with PDF grants are not tied to the placement of specific state hospital residents. Our analysis of the phase-out of developmental programs from Patton State Hospital indicates that developing programs for the placement of a *specific* group of clients results in the most efficient use of resources as well as more effective placements. The Patton phase-out involved the use of contracts with regional centers to develop the programs needed to place a specific group of state hospital clients.

Second, under the PDF grant process, a grant award takes one to two years from the time a grant proposal is submitted. Additional time is required to develop the program. Because the grant process is so prolonged, it cannot be used to develop projects for specific clients since client needs and circumstances may change substantially over a one- to two-year period.

Third, the PDF grants support only program development costs and do not fund regional center staff needed to work with the clients, parents, and service providers to ensure placement. The Patton contract provided a source of funding for regional center staff working on the development of the programs and placement of clients.

To use the PDF more effectively for community placement purposes, we recommend that a specific portion of the PDF monies be set aside to fund new community programs for placement of state hospital residents. These funds should be made available to the department for use in contracting with regional centers for placement of specifically identified state hospital residents. The funds should be authorized to support additional regional center staff, if necessary, to manage the development of the new programs as well as the placement of the client.

The amount of funds needed for this purpose cannot be identified at this time because the department has not yet determined the level of need for new community programs. As a start, however, we recommend setting aside one-half of the PDF monies budgeted for new program development in 1984–85—about $1.1 million. Accordingly, we recommend that the Legislature adopt the following Budget Bill language for Item 4300-101-172:

"Of the funds appropriated by this item, $1,135,000 shall be used by the department to contract with regional centers to develop new programs and place state hospital residents suitable for placement into the community. The new programs shall be developed by regional centers, in conjunction with clients, parents, state hospital staff, and specific service providers. The contracts shall include a detailed implementation timetable."

Proposed Increase in Expenditures for Prevention

We recommend the reduction of $1 million from the Program Development Fund proposed for additional prevention services because the request is premature. We further recommend that the savings be used to offset the cost to the General Fund for regional center services.

The budget proposes $1 million from the Program Development Fund to support prevention-related activities and staff at regional centers. The proposal entails soliciting 10–12 proposals from regional centers to fund additional prevention services and programs. The proposal identifies the following three prevention programs as funding priorities: (1) genetic diagnosis and counseling for high-risk parents, (2) early intervention services for high-risk infants, and (3) increasing public and professional awareness of prevention services.

The specific objectives of these activities are as follows:

- Increase regional center staff skills in planning, monitoring, and delivering prevention services.
- Develop plans to coordinate local agency prevention activities.
- Develop a regional data base with information on the incidence of developmental disabilities, service needs, and expenditures for prevention.
- Increase genetic counseling to specific target groups by 10 percent.
- Increase early intervention to high-risk infants.
- Increase use of prevention services through the media.

The budget does not identify how the proposed prevention programs will be funded in future years. The $1 million that would be used to support prevention in 1984–85 is only available on a one-time basis. These funds represent the money carried over from prior years. Because the prevention programs would be ongoing, this proposal could result in a General Fund obligation in 1985–86.

Our analysis indicates that the department's proposal to increase expenditures for prevention is premature because (1) the level of need for additional prevention services is unknown and thus cannot be evaluated against other service needs and (2) the department has not acted to more effectively use existing resources for the prevention of developmental disabilities.

1. ***Level of Additional Need is Unknown.*** Prevention services currently are provided through the regional centers. Existing law requires regional centers to secure or provide prevention services to eligible high-risk infants and parents. The law further states that prevention services are of equal priority to other basic services such as intake, diagnosis, and assessment.

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The department indicates that in 1982–83, regional centers provided early intervention services to 1,710 high-risk infants, and genetic screening and counseling services to 2,360 high-risk parents. One and one-half million dollars was allocated for this purpose in 1982–83, and another $1.7 million was allocated in 1983–84.

The department has not documented the extent to which additional services are needed. The State Council on Developmental Disabilities, which is responsible for assessing unmet service needs in California's state plan, has not as yet assessed the unmet needs for preventive services, although it has done so for other services. Because the need for additional prevention services is not known, we cannot evaluate the budget proposal relative to the use of these funds to meet other service needs, such as the need for additional programs to reduce inappropriate placements in state hospitals.

2. ***Department Can Increase Use of Currently Available Prevention Services.*** The Department of Health Services operates major programs for the prevention of developmental disabilities. These programs and services include (1) professional and public education and awareness, (2) family planning, (3) genetic diagnosis and counseling, (4) prenatal screening and counseling, (5) newborn screening and high-risk infant identification and follow-up, and (6) pediatric care and early intervention for high-risk infants. Neither the Department of Developmental Services nor the state council has identified the deficiencies or inadequacies of these programs in meeting prevention needs. If such deficiencies or inadequacies exist (it is not clear that they do), it is possible that the *existing* programs could be modified or enriched to provide prevention services more effectively than through the establishment of new programs in individual regional centers. Modifying existing programs can be less costly than starting new programs because additional costs for start-up and administration could be avoided.

Additionally, the department has not established policies and procedures to ensure that regional centers make the most effective use of locally available prevention services. The department has not required all regional centers to develop an inventory of prevention services available in their region. Identification of available resources could lead to increased use of prevention services. The department also has not implemented procedures to improve the sharing of prevention-related information and programs among regional centers and between the regional centers and the department.

In sum, we believe that the budget proposal to expend an additional $1 million for prevention activities is premature because (1) the need for additional prevention services has not been documented and (2) it appears that the department could take administrative actions to increase the use of existing prevention resources without spending an additional $1 million. Moreover, we find that the $1 million identified by the department for prevention is a *one-time* source of funds, and prevention programs supported with these funds would be likely to require a General Fund augmentation if they were to continue them in 1985–86.

Consequently, we recommend the deletion of $1 million proposed for expenditure from the Program Development Fund. We further recommend that the $1 million in PDF savings be used to offset General Fund support for regional center purchase of services, for a General Fund savings of $1 million.

Excess Program Development Fund Balance

We recommend that $400,000 of the Program Development Fund reserve be used to offset the cost to the General Fund of services purchased by regional centers.

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, and $543,000 for respite and camp services in the 1983 Budget Act. These programs would otherwise have been funded from the General Fund. The budget again proposes to use $543,000 from the PDF to fund respite and camp services in 1984–85. The ICF-DD(h) programs are now funded through the Medi-Cal program.

The budget shows a reserve in the PDF of $555,000, or 21 percent of total PDF expenditures, on June 30, 1985. The department indicates that a large year-end reserve is necessary to meet cash needs that result from (1) advance payments for PDF grants in July and (2) expenditures for respite and camp services occurring in July and August.

Our analysis indicates that the advance payment for grants does require a cash balance in July or August. There is no reason, however, why the amount budgeted from the PDF for purchase of services could not be used to support service expenditures that occur in the latter months of the fiscal year. In the latter months of the fiscal year sufficient parental fee balances *are* available. Our analysis of the department's cash flow needs indicates that a 21 percent reserve is excessive and that a 5 percent reserve would be sufficient to meet program needs during the budget year.

The fund's revenues and expenditures for the period 1978–79 through 1982–83 indicate 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 5 percent reserve should be adequate to provide for cash-flow needs and unforeseen contingencies. For these reasons, we recommend that an additional $400,000 from the PDF be budgeted for regional center purchase of services, leaving a balance of $155,000, or 5 percent, as a reserve in the PDF. We further recommend that the reserve be used to offset the cost to the General Fund of services purchased by regional centers. This would result in a General Fund savings of $400,000.

C. LEGISLATIVE MANDATES

We recommend approval.

The budget proposes $144,000 in Item 9680-101-001 to reimburse local agencies for the costs of complying with legislative mandates in 1984–85. This amount is equal to estimated expenditures for the current year. The budget proposes to reimburse local agencies for the following mandates:

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

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

defenders to represent developmentally disabled persons in limited conservatorship hearings.

4. Chapter 644, Statutes of 1980, which requires various judicial proceedings related to dangerous mentally retarded state hospital residents.

5. Chapter 1253, Statutes of 1980, which requires court-appointed public defenders to represent mentally retarded persons charged with misdemeanors.

Health and Welfare Agency

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS

Items 4300-111, 4440-011 and 4440-121 from the General Fund — Budget p. HW 94–120

Requested 1984–85	$578,780,000
Estimated 1983–84	552,979,000
Actual 1982–83	516,489,000
Requested increase (excluding amount for salary increases) $25,801,000 (+4.7 percent)	
Total recommended reduction	1,084,000
Recommendation pending	5,356,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4300-101-890	—Department of Developmental Services	Federal	($834,000)
4300-111-001	—Department of Developmental Services	General	349,666,000
4440-011-001	—Department of Mental Health—judicially committed clients	General	86,085,000
4440-121-001	—Department of Mental Health—county clients	General	143,029,000
Total			$578,780,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Stockton State Hospital. Recommend adoption of supplemental report language requiring a report on two options for reducing support expenses. 1061
2. Operating Expense Reductions. Recommend the departments report in budget hearings on the effect of the proposed operating expense reductions. 1063
3. Laundry Study. Recommend submission of the laundry study by April 15, 1984. 1064
4. Staffing Increase for Programs Serving Mentally Disabled. Withhold recommendation on 209 new positions and $5,959,000 ($5,244,000 General Fund) proposed for state hos- 1074

pital programs for the mentally disabled, pending receipt of additional information on the benefits of proposed treatment program changes and how the program changes would be implemented.

5. ***New Positions. Reduce Item 4440-011-001 by $330,000 and Item 4440-121-001 by $401,000.*** Recommend reduction because even if new positions are approved, it will take at least two months to fill them. 1076
6. Sex Offender Pilot Project. Withhold recommendation on 55 new positions and $872,000 ($112,000 General Fund) for a pilot project to treat sex offenders, pending receipt of information describing the treatment and evaluation components of the proposal. 1077
7. ***Technical Budgeting Error. Reduce Item 4440-011-001 by $353,000.*** Recommend reduction of 10.8 positions and $353,000 to correct overbudgeting of positions at Atascadero State Hospital. 1078

GENERAL PROGRAM STATEMENT

The state operates 11 hospitals that provide services to mentally disabled and developmentally disabled clients. Eight of the 11 hospitals are under the jurisdiction of the Department of Developmental Services. The remaining three hospitals are operated by the Department of Mental Health. The Department of Mental Health also manages programs for the mentally disabled at two state hospitals operated by the Department of Developmental Services.The 11 hospitals and their locations are:

	Hospital	*County*
Department of Developmental Services:	Agnews	Santa Clara
	Camarillo	Ventura
	Fairview	Orange
	Lanterman	Los Angeles
	Napa	Napa
	Porterville	Tulare
	Sonoma	Sonoma
	Stockton	San Joaquin
Department of Mental Health:	Atascadero	San Luis Obispo
	Metropolitan	Los Angeles
	Patton	San Bernardino

The hospitals have 18,838 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $607,951,000 (all funds) for support of the state's 11 hospitals in 1984–85. This is an increase of $32,411,000, or 5.6 percent, above estimated current-year expenditures. The proposed General Fund appropriation of $578,780,000 is $25,801,000, or 4.7 percent, above estimated current-year expenditures. The increase will grow by the cost of any salary or staff benefit increases approved by the Legislature for the budget year.

The expenditure increase proposed for the budget year results from the following major budget adjustments and program change proposals:

- Baseline adjustments to provide for full-year costs of 1983–84 salary and benefit increases, merit salary increases, and inflation adjustments to operating expenses.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

- Reductions in budgeted salary savings.
- Major staffing increases in programs for the mentally disordered.
- Purchase of additional hospital equipment and furniture.
- Savings resulting from population decreases.

Table 1 displays state hospital expenditures, funding sources, population, positions, and cost per client for the prior, current, and budget years.

Table 1
Expenditures, Funding Sources, Population, Positions, and Cost Per Client
1982–83 through 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
A. Expenditures and funding sources (dollars in thousands)					
Developmentally disabled clients	$321,299	$345,585	$357,702	$12,117	3.5%
Mentally disabled clients	209,791	229,955	250,249	20,294	8.8
Totals	$531,090	$575,540	$607,951	$32,411	5.6%
General Fund	*$516,489*	*$552,979*	*$578,780*	*$25,801*	*4.7%*
Federal funds	*823*	*834*	*834*	—	—
Reimbursements	*13,778*	*21,727*	*28,337*	*6,610*	*30.4*
B. Average population	12,703	12,317	12,100	−217	−1.8%
C. Authorized positions	17,301	18,838	18,798	−40	−0.2%
D. Cost per client	$41,808	$46,727	$50,244	$3,517	7.5%

ANALYSIS AND RECOMMENDATIONS

A. PROGRAMS FOR THE DEVELOPMENTALLY DISABLED

The Department of Developmental Services operates the eight state hospitals (Agnews, Camarillo, Fairview, Lanterman, Napa, Porterville, Sonoma, and Stockton) that have programs for the developmentally disabled.

The budget proposes expenditures of $357,702,000 (all funds) for programs to serve developmentally disabled clients in 1984–85. This is an increase of $12,117,000, or 3.5 percent, above estimated current-year expenditures. The proposed General Fund appropriation of $349,666,000 is $10,671,000, or 3.1 percent, above estimated current-year expenditures.

Table 2
State Hospitals
Programs for the Developmentally Disabled
Expenditures, Funding Sources, Population, Positions, and Cost Per Client
1982–83 through 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
A. Expenditures and funding sources (in thousands)	$321,299	$345,585	$357,702	$12,117	3.5%
General Fund	*$312,189*	*$338,995*	*$349,666*	*$10,671*	*3.1%*
Federal funds	*823*	*834*	*834*	—	—
Reimbursements	*8,287*	*5,756*	*7,202*	*1,446*	*25.1%*
B. Average population	7,687	7,397	7,119	−278	−3.8%
C. Authorized positions	10,865	11,406	11,223	−183	1.6%
D. Cost per client	$41,798	$46,720	$50,246	$3,526	7.5%

The budget projects an average population of 7,119 developmentally disabled clients in 1984–85, which is 278 clients, or 3.8 percent, below current-year levels. The budget proposes 11,223 positions in programs for developmentally disabled clients, which is 183 positions, or 1.6 percent, below current-year authorized levels. The average cost per client in 1984–85 is projected to be $50,246, an increase of $3,526, or 7.5 percent, above the cost per client in the current year. The increases in costs and cost per client makes no allowance for any salary or benefit increases that may be authorized by the Legislature for 1984–85.

Table 2 displays expenditures, funding sources, population, positions, and cost per client in programs for the developmentally disabled.

Budget Changes

Table 3 shows the proposed changes to the current-year budget. The $12.1 million increase (all funds) is due principally to the full-year cost of 1983–84 employee salary and benefit increases, merit salary adjustments, and increases in operating expenses due to inflation. The size of the increase proposed for 1984–85 is considerably smaller than it otherwise would be due to the savings resulting from population decreases.

Table 3
State Hospitals
Programs for the Developmentally Disabled
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
1983 Budget Act	$326,651	$333,169
Baseline adjustments, 1983–84		
1. Transfer of case management funds to regional center budget	−893	−893
2. Elimination of vacant positions	−785	−785
3. 1983–84 salary and benefit increases	14,123	14,123
4. Reestablishment of clients' rights position	32	32
5. Automation project savings	−71	−71
6. Other adjustments	−62	10
Adjusted base budget, 1983–84	$338,995	$345,585
Baseline adjustments, 1984–85		
1. Full-year cost of 1983–84 employee salary and benefit increases	$9,332	$9,332
2. Merit salary adjustments	2,569	2,569
3. Fees paid to Department of Personnel Administration for collective bargaining	104	104
4. Transfers between budget items		
a. Hospital data center charges	833	833
b. CALSTARS funding (Sonoma)	52	52
5. Reimbursement and other adjustments	33	1,479
Caseload and cost adjustments		
1. Full-year effect of 1983–84 population decrease	−5,227	−5,227
2. 1984–85 population decrease	−2,633	−2,633
3. Workers' compensation rate increases	672	672
4. Six percent increase in operating expenses	2,065	2,065
Program change proposals		
1. Reductions in operating expenses	−415	−415
2. Automation project	45	45
3. Reductions in salary savings	1,740	1,740
4. Equipment augmentation	1,416	1,416
Cost-of-living adjustment on education funds	85	85
Proposed budget, 1984–85	$349,666	$357,702

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

The major program changes proposed for 1984–85 involve the increased cost of reductions in salary savings and an augmentation for equipment purchases.

Client Characteristics

Developmentally disabled clients in state hospitals suffer from multiple disabilities. Approximately 20 percent are medically fragile and must be kept in continuing medical care or infirmary units because of their medical problems. Another 10 percent are blind or deaf. A large part of the population is unable to walk, speak, or take care of basic daily needs without assistance from hospital staff. Table 4 displays some characteristics of developmentally disabled clients.

Table 4

Characteristics of Developmentally Disabled Clients In State Hospitals

RETARDATION LEVEL:	71% are profoundly retarded, 17% are severely retarded, 12% are mildly or moderately retarded
UNDERSTANDING:	47% do not understand spoken words, 35% understand a few words, 18% understand conversation
DRESSING:	61% must be dressed, 27% dress with help, 12% dress independently
WALKING:	32% are in wheelchairs or beds, 8% walk with assistive devices, 60% can walk
TALKING:	73% do not talk, 16% say a few words, 11% can speak
EATING:	23% must be fed, 40% need help, 37% can feed themselves
TOILETING:	48% need diapers, 34% need help toileting, 18% are independent
SELF-INJURY:	31% frequently hurt themselves, 10% sometimes hurt themselves, 59% seldom or never hurt themselves
VIOLENCE:	11% are frequently violent, 28% are often violent, 15% are seldom violent, 46% are never violent
PROPERTY DESTRUCTION:	28% frequently destroy property, 10% often destroy property, 9% seldom destroy property, 53% never destroy property

Individual Hospital Budgets

Table 5 displays basic budgetary data for the eight hospitals that have programs for the developmentally disabled. Hospital populations range from 270 at Napa to 1,278 at Porterville. Hospital budgets range from $18.4 million at Napa to $60.1 million at Sonoma. Cost per client ranges from $43,074 at Porterville to $65,052 at Napa.

Variations in cost per client are attributable to many factors, including the average level of client disability, the classifications of positions utilized, the percent of staff at the top salary step, the ratio of support staff to clients, and variations in operating costs. The number of treatment staff varies from 299 at Napa to 1,233 at Sonoma. Allotments of treatment staff are determined by staffing standards that consider the number of clients served and the level of illness. The number of support staff varies from 166 at Napa to 661 at Fairview. Allotments of support staff vary between hospitals for historical reasons specific to each hospital.

Table 5
State Hospitals
Programs for the Developmentally Disabled Population, Operating Budgets, Cost per Client, Treatment and Support Positions
1984–85

	Average Population	*Operating Budget (in thousands)*	*Cost Per Client*	*Authorized Treatment Positions*	*Authorized Support Positions*	*Ratio of Support to Treatment Positions*
Agnews	1,048	$50,985	$48,209	1,098	592	.54
Camarillo	543	30,672	50,389	553	339	.61
Fairview	1,060	53,332	49,724	997	684	.69
Lanterman	1,145	55,385	47,723	1,131	661	.58
Napa	270	18,419	65,052	299	166	.55
Porterville	1,278	55,842	43,074	1,160	625	.54
Sonoma	1,230	60,128	48,363	1,233	725	.59
Stockton	545	32,939	59,327	484	474	.98
Totals	7,119	$357,702	$50,246	6,955	4,266	.61

Hospital Population Adjustments

We recommend approval.

The department projects that the average number of developmentally disabled persons residing in state hospitals in 1984–85 will be 7,119, which is 278, or 3.8 percent, below the average for 1983–84. Table 6 shows the average developmentally disabled population, by hospital, since 1980–81.

Table 6
State Hospitals
Programs for the Developmentally Disabled
Average Population
1980–81 through 1984–85

	Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Change 1983–84 to 1984–85*	
						Number	*Percent*
Agnews	1,001	1,031	1,047	1,054	1,048	−6	−0.6%
Camarillo	544	594	577	563	543	−20	−3.5
Fairview	1,302	1,274	1,183	1,115	1,060	−55	−4.9
Lanterman	1,364	1,280	1,211	1,183	1,145	−38	−3.2
Napa	381	376	350	319	270	−49	−15.4
Patton	252	69	—	—	—	—	—
Porterville	1,548	1,485	1,419	1,339	1,278	−61	−4.5
Sonoma	1,507	1,408	1,321	1,253	1,230	−23	−1.8
Stockton	663	604	579	571	545	−26	−4.5
Totals	8,562	8,121	7,687	7,397	7,119	−278	−3.8%

The budget proposes to reduce treatment staff in 1984–85 by 244.5 positions. This reduction is the net effect of (1) a decrease of 293.5 positions related to the population decline and (2) an increase of 49 positions related to changes in the remaining clients' level of disability. The population

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

decline will reduce staff costs by $3,440,000 in 1984–85 and $6,887,000 annually thereafter. The level-of-disability adjustment will increase staff costs by $1,015,000 in 1984–85 and annually thereafter. The savings in 1984–85 is less than the savings in future years because the population decline takes place gradually throughout the year. Table 7 shows the staffing adjustments by hospital and the related savings and costs.

Table 7
State Hospitals
Programs for the Developmentally Disabled
Position Changes Related to Population Changes
June 1984 to June 1985

		Position Change		
	Population Change	*Due to Population Change*	*Due to Change in the Level of Disability*	*Total*
Agnews	5	3.5	−7	−3.5
Camarillo	−25	−26.0	—	−26.0
Fairview	−40	−37.0	5	−32.0
Lanterman	−60	−59.0	37	−22.0
Napa	−60	−57.0	—	−57.0
Porterville	−75	−70	5	−65.0
Sonoma	10	8.0	8	16.0
Stockton	−60	−56.0	1	−55.0
Totals	−305 [a]	−293.5	49	−244.5

[a] The reduction in *average* population level from 1983–84 to 1984–85 is 278.

Purchases of Replacement Equipment

We recommend approval.

The budget proposes an augmentation of $1,416,000 for equipment purchases in 1984–85. The request would establish an annual base equipment budget of $2,317,000, which would be sufficient to allow equipment replacement on a 12-year cycle. The current base budget allows replacement on a 27-year cycle.

The department states that the equipment budget has been underfunded for many years and, as a result, the current inventory is in very poor condition. The department provided a list of items that need replacement, in priority order, for each hospital. The list indicates the age of the item and reason the item needs to be replaced. The list contains a wide range of items that need replacement, including vehicles, laboratory equipment, grounds maintenance equipment, patient furniture, kitchen and laundry machinery, medical equipment, and so on. The department indicates that the replacement list is of limited value under current circumstances because a large percent of available funds would have to be used to replace critical items that stop working, rather than replace functioning items before they break down.

We recommend approval of the request for a substantial increase in the hospitals' equipment budget because (1) the current replacement schedule—27 years—does not reflect the useful life of much of the hospitals' equipment, (2) the list of items to be replaced appears to address real needs, and (3) our site visits to the state hospitals tend to confirm the department's position that much of the existing equipment is in very poor condition.

Reducing Costs at Stockton State Hospital

We recommend adoption of supplemental report language requiring the department to submit a report by December 1, 1984, that (1) evaluates the feasibility and (2) estimates the costs and savings over a 10-year period associated with two options for reducing support staff and operating expenditures at Stockton State Hospital.

Our analysis indicates that the support staffing and operating expenditures at Stockton State Hospital are excessive. Specifically:

- Stockton will in 1984–85 have approximately 87 support positions per 100 clients. The other hospitals serving developmentally disabled clients will have approximately 58 support positions per 100 clients. On the average, the other hospitals that care for developmentally disabled clients have 40 percent less support staff per treatment position than Stockton.
- Stockton's salary and benefit cost for support positions will be approximately $24,100 per client in 1984–85. The support cost per client in the other hospitals will be approximately $15,400.
- Stockton's operating expenses are approximately 60 percent higher than the other hospitals. In 1984–85, Stockton's annual operating expense per client is projected to be $11,670 compared to $7,190 for the remaining hospitals.

We recommend adoption of supplemental report language requiring the department to report to the Legislature not later than December 1, 1984, on the following two options to reduce costs at Stockton:

1. *Closing the Facility.* This option would follow the same basic approach used to phase the developmentally disabled population out of Patton State Hospital. Some patients from Patton were transferred to other state hospitals, and the balance of the population was transferred to community facilities that were developed for hospital patients. Under this option, it is possible that the quality of service to clients could be improved while overall service costs are reduced.

2. *Reducing the Size of the Facility.* This option would reduce support staff and building utilization to promote efficiency and reduce unit costs.

Specifically, we recommend the following supplemental report language be added:

> "The Department of Developmental Services shall, by December 1, 1984, submit a report with recommendations to the Legislature that evaluates (1) the feasibility and (2) the savings and costs of a program to reduce the unit costs for support of clients currently residing at Stockton State Hospital. The report shall, at a minimum, evaluate the options of (1) closing the facility through transfer of clients to other state hospitals and to community facilities developed for Stockton clients and (2) reducing the size of the physical plant and the number of support positions in order to reduce unit costs and produce net savings in the hospital system."

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

B. ISSUES INVOLVING ALL STATE HOSPITAL PROGRAMS

In this section, we discuss state hospital issues involving both the Department of Development Services (DDS) and the Department of Mental Health (DMH).

Salary Savings Requirements

We recommend approval.

The budget requests an increase of $5,586,000 for personal services costs in the 11 state hospitals. This increase would permit a reduction in projected "salary savings" rates in the hospitals.

The term "salary savings" refers to personal services costs for authorized positions that will not be incurred due to vacancies. Vacancies arise for many reasons, but most often result from delays in filling vacated or new positions and delays in implementing new programs. Salary savings also result when positions are filled with personnel that are paid salaries lower than those which their predecessors were paid.

For hospitals operated by DDS, the current-year budget assumes that salary savings will amount to 7.6 percent of personal services costs. The budget requests an increase of $3,415,000 so that the projected salary savings rate can be reduced to 6.8 percent. The budget proposes to fund the increase in part by reducing budgeted overtime funds by $1,200,000. Consequently, the net requested increase is $2,215,000. This amount will provide approximately 76 additional positions, which is an increase of 0.6 percent in the number of filled positions.

For hospitals operated by the Department of Mental Health (DMH), the current-year budget assumes that salary savings will amount to 7.1 percent of personal services costs. The budget requests an increase of $2,171,000 so that the project salary savings rate can be reduced to 5.5 percent. This amount will provide approximately 70 additional positions, which is an increase of 1.7 percent in the number of filled positions.

The departments state that budgeted state hospital salary savings rates should be reduced because:

- The current salary savings requirements prevent the state hospitals from placing enough staff on the wards to meet staffing standards established for licensing and certification. The departments indicate that while they have been able to meet the required minimum staffing ratio of one psychiatric technician to eight clients in the current year, they have only been able to do so by borrowing staff from those hospital programs that are authorized to have a richer staff-to-client ratios.
- The current high salary savings rates were first budgeted in 1977–78, when a large number of new positions were added to the state hospitals that could not immediately be filled, creating a high vacancy factor. This high vacancy factor was incorporated into the budget. Since that time, however, the departments have not experienced a problem in filling authorized positions. Thus, continuation of high salary savings rates *force the departments to hold authorized positions vacant* to avoid spending more than budgeted. The departments indicate that the vacancy factor would have returned to the historical 3 percent level if the budget had not maintained an artificially high vacancy requirement.

- Other large state institutions that provide care to clients on a 24-hours, 7 day-a-week basis, such as the Department of Corrections, Veterans' Home, and Youth Authority, have salary savings rates varying from 2.5 to 2.7 percent, which are well below the 7.1 to 7.6 percent state hospital rate.

Our analysis confirms that the current salary savings requirements are artificially high, and on this basis, we recommend approval of the request for an augmentation. The purpose of the salary savings adjustment is to avoid overbudgeting, not to *artificially* reduce expenditures. Consequently, we believe the salary savings amount should be based on the best available estimate of *normal* position vacancies.

We have no basis for determining what the current "normal" vacancy rate is for the state hospitals. This rate will tend to vary over time as personnel system requirements change, as private-sector jobs become easier or more difficult to obtain, as state salaries become more or less competitive, and as hospital administrators hold positions vacant for other reasons. The normal vacancy rate, however, appears to be lower than the current salary savings requirement. Consequently, we recommend approval of the salary savings proposal.

Workers' Compensation Benefit Increases

We recommend approval.

The budget proposes $1,204,000 for costs related to workers' compensation benefit increases mandated by Ch 922/82 (AB 684). This measure substantially increased the temporary and permanent disability benefits paid to injured workers. The departments estimate that the costs of the additional workers' compensation benefits mandated by Ch 922/82 will increase each year until 1987–88, when they will level off at $4,480,000 annually.

Review of the department's calculations indicates that the mandatory benefit increases will increase workers' compensation costs by the amounts requested. Therefore, we recommend approval of the requested augmentation.

Operating Expense Reductions

We recommend that the departments explain during budget hearings the effect of the operating expense reductions.

The budget proposes reductions of $721,000 in the amount requested for operating expenses, in order to reflect operating economies. Table 8 shows the percent and dollar reductions proposed.

The budget provides little information about the impact of the proposed reductions. The DDS budget justification material indicates that the department will (1) impose additional controls on office supplies, clinical forms, equipment maintenance contracts, use of office copiers, and travel and (2) reduce staff training, including training needed to retain professional licensure. The Department of Developmental Services reduced its hospital utilities budget by $145,000, or 1 percent, in the belief that the reduction can most easily be absorbed in that line item.

Because we are unable to determine the effect of the operating expense reductions we recommend that the departments explain during budget hearings what effects the reductions will have on hospital operations.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

Table 8
State Hospitals
Operating Expense Reductions
1984–85

	Department of Developmental Services		*Department of Mental Health*	
	Amount	*Percent*	*Amount*	*Percent*
General expense	$110,000	10%	$50,000	10%
Printing	27,000	10	8,000	10
Training	143,000	10	53,000	10
Equipment	100,000	10	55,000	10
Data processing (excludes Health and Welfare Data Center)	3,000	10	—	—
Consultant and professional services, external	—	—	25,000	25
In-state travel	1,000	20	—	—
Out-of-state travel	1,000	50	—	—
Utilities	145,000	1	—	—
Totals	$530,000		$191,000	

Report on Support (Non-Level-of-Care) Staffing

Language added by the Legislature in the 1983 Budget Act required the departments to address the problem of uneven distribution of support staff within and between hospitals. This requirement was prompted by the fact that some units within hospitals are understaffed and others are overstaffed according to the staffing standards proposed by the hospitals themselves.

Specifically, the budget language required the department to place a hiring freeze on vacant positions in overstaffed areas and to redirect positions into understaffed areas. It also required the departments to report by December 1, 1983, on their progress towards implementing non-level-of-care staffing standards.

At the time this analysis was prepared, the department had not submitted the report required by the Budget Act language. Until we have received and reviewed the report, we are unable to advise the Legislature on what additional actions, if any, are warranted to provide adequate support staffing within the hospitals.

Laundry Study

We recommend that by April 15, 1984, the DDS submit to the Legislature a report on the condition of the laundries in the state hospital system and a recommendation for reducing laundry costs.

The laundry equipment in state hospitals is old, labor intensive, and in many instances no longer functions. Replacing parts is often impossible due to the age of the machines or very expensive if special replacement parts are machined. The department is currently concluding a study of the state hospital laundries. Preliminary data indicate that (1) state hospitals are expending 20.5 cents per pound to process approximately 41 million pounds of laundry per year and (2) costs could be reduced to 16 cents per pound or lower by improving the current state hospital laundry system or contracting with the Department of Corrections.

We recommend that by April 15, 1984, the department submit to the

Legislature its completed laundry study and recommendations for addressing the current problems. The material submitted by the department should identify options for reducing laundry costs, including improving the current state hospital laundries and contracting with the Department of Corrections. For each option, the material should estimate initial and ongoing costs and savings, estimate the payback period for new equipment, indicate the phase-in period required to implement the changes, and discuss advantages and disadvantages.

C. PROGRAMS FOR THE MENTALLY DISABLED

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

The budget proposes state hospital expenditures of $250,249,000 for mentally disabled clients in 1984–85. This is an increase of $20,293,000, or 8.8 percent, above estimated current-year expenditures. The budget proposes an appropriation of $229,114,000 from the General Fund for these programs, which is an increase of $15,129,000, or 7.1 percent, above estimated current-year expenditures.

Table 9
State Hospitals
Programs for the Mentally Disabled
Expenditures, Funding Sources, Population, Positions, and Cost Per Client
1982–83 through 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
A. Expenditures and funding sources (in thousands)					
County clients	$121,350	$131,942	$143,029	$11,087	8.4%
Judicially committed clients	82,950	82,043	86,085	4,042	4.9
Other clients [a]	5,491	15,971	21,135	5,164	32.3
Totals	$209,791	$229,956	$250,249	$20,293	8.8%
General Fund	*$204,300*	*$213,985*	*$229,114*	*$15,129*	*7.1%*
Federal funds	—	—	—	—	—
Reimbursements	*5,491*	*15,971*	*21,135*	*5,164*	*32.3*
B. Average population					
County clients	2,615	2,562	2,543	−19	−1.7%
Judicially committed clients	2,318	2,105	1,969	−136	−6.5
Other clients [a]	83	253	469	216	85.4
Totals	5,016	4,920	4,981	61	1.2%
C. Authorized positions					
Department of Mental Health	3,684	4,389	4,441	52	1.2
Department of Developmental Services	2,752	3,042	3,131	89	2.8
Totals	6,436	7,431	7,572	141	1.9%
D. Cost per client					
County clients	$46,405	$51,500	$56,244	$4,744	9.2%
Judically committed clients	35,785	38,975	45,244	6,269	16.1
Other clients [a]	66,156	63,126	45,064	−18,062	−28.6
Totals	$41,824	$46,739	$50,241	$3,502	7.5%

[a] Includes clients from the Department of Corrections, Youth Authority, and county alcohol and drug programs.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

The budget projects an average population of 4,981 mentally disabled clients, which is 61 clients, or 1.2 percent, more than the current-year level. In addition, it proposes funding for 7,572 positions in programs for mentally disabled clients, which is 141 positions, or 1.9 percent, above the current-year authorized level.The average cost per client in 1984–85 is projected at $50,241, which represents an increase of $3,502, or 7.5 percent, above the cost per client in the current year. The increase in the projected cost per client makes no allowance for any salary or benefit increases that may be authorized by the Legislature for 1984–85.

Table 9 displays expenditures, funding sources, population, positions, and cost per client in programs for the mentally disabled in the prior, current, and budget years.

Table 10
State Hospitals
Programs for the Mentally Disabled
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
1983 Budget Act	$204,992	$221,139
Baseline adjustments, 1983–84		
1. 1983–84 salary and benefit increases	9,141	9,845
2. Reduction in Metropolitan State Hospital drug program contract	—	−879
3. Other adjustments	−148	−148
Adjusted base budget, 1983–84	$213,985	$229,957
Baseline adjustments, 1984–85		
1. Full-year cost of 1983–84 salary and benefit increases	$6,599	$7,082
2. Merit salary adjustments	961	1,041
3. Staffing adjustments	−219	1,835
4. Fees to Department of Personnel Administration for collective bargaining	62	67
5. Other adjustments	17	17
Caseload and cost adjustments		
1. Hospital population reduction	−$3,259	−$3,259
2. Workers' compensation rate increases	329	349
3. Six percent increase in operating expenses	1,525	1,644
Program change proposals		
1. Reduction in salary savings requirement	$2,479	$2,646
2. Enriched staffing standards	5,244	5,959
3. Experimental program for sex offenders (50 beds)	112	872
4. Department of Corrections increase (50 beds)	—	760
5. Increase in county billings under Welfare and Institutions Code Section 4117	404	404
6. Reductions in operating expenses	−306	−306
7. Reductions in expenses for advisory groups	−7	−7
8. New furniture for patients at Camarillo and Napa	1,188	1,188
Proposed budget, 1984–85	$229,114	$250,249

Budget Changes

Table 10 shows the adjustments proposed in the budget for mentally disabled programs at the state hospitals. The $20.3 million increase (all funds) is due principally to the full-year cost of 1983–84 employee salary and benefit increases, merit salary adjustments, increases in operating expenses due to inflation, and proposals to (1) reduce the salary savings requirements ($2.6 million), (2) add 209 new positions to enrich staffing ($6 million), (3) increase by 100 the number of Department of Corrections inmates at Atascadero ($1.6 million), and (4) purchase new furniture for patients at Napa and Camarillo ($1.2 million). Partially offsetting these increases are savings of $3.3 million due to reductions in judicially committed and county populations.

Client Characteristics

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 for specified periods of time under the provisions of the Lanterman-Petris-Short Act (LPS).

Judicially committed clients include persons who are legally categorized as (1) incompetent to stand trial, (2) not guilty of a crime by reason of insanity, or (3) 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 11
State Hospitals
Programs for the Mentally Disabled
Average Population, Annual Discharges, and Average Length of Stay
By Legal Category

Legal Category	*Average Population*	*Number of Annual Discharges*	*Average Length of Stay*
A. Involuntary clients			
72-hour observation	40	625	4 days
14-day treatment	147	2,893	10 days
180-day treatment	17	40	82 days
Temporary conservatorship	153	699	41 days
Conservatorship	1,711	1,587	305 days
B. Voluntary clients	454	2,495	83 days
C. Not guilty by reason of insanity			
Homicide	218	23	7.7 years
Robbery	62	20	2.7 years
Assault	394	79	2.4 years
Burglary	42	14	1.7 years
Rape, child molestation, other sexual offenses	78	9	3.5 years
Arson	78	19	2.7 years
Other	79	35	N/A
D. Mentally disordered sex offender	829	364	2.5 years
E. Incompetent to stand trial	382	540	N/A
F. Other clients			
Contract drug program	87	1,378	N/A
Contract alcohol program	42	286	N/A
Department of Corrections clients	32	43	N/A
Youth Authority clients	59	56	N/A
Other	61	65	N/A

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

Table 11 shows the average lengths of stay in state hospitals for the different categories of clients.

Budget Data on Individual Hospitals

Table 12 displays the average population, the operating budget, the cost per client, and the number of treatment and support positions for each of the five state hospitals that have programs for the mentally disordered. Atascadero and Patton hospitals are secure facilities that serve judicially committed clients. Camarillo, Metropolitan, and Napa State Hospitals principally provide treatment to individuals admitted by counties pursuant to provisions of the Lanterman-Petris-Short Act. Metropolitan State Hospital provides services to a large number of clients who remain in the hospital for short 72-hour evaluation and 14-day involuntary treatment periods, in addition to patients who remain for long periods. Napa and Camarillo primarily provide long-term treatment to county-admitted patients.

Table 12
State Hospitals
Programs for the Mentally Disabled
Population, Operating Budgets, Cost per Client, Treatment and Support Positions
1984–85

	Average Population	*Operating Budget (in thousands)*	*Cost per Client*	*Authorized Treatment Positions*	*Authorized Support Positions*	*Ratio of Support to Treatment Positions*
Atascadero	1,134	$47,349	$41,754	1,088	444	.41
Camarillo	610	37,166	60,928	745	368	.49
Metropolitan	955	55,278	57,883	900	698	.78
Napa	1,274	63,107	49,534	1,276	745	.58
Patton	1,008	47,349	46,973	823	487	.59
Totals	4,981	$250,249	$50,241	4,832	2,742	.57

Hospital Population Projections

The department projects that the average number of mentally disabled persons residing in state hospitals will increase from 4,920 in 1983–84 to 4,981 in 1984–85. This is an increase of 61 clients, or 1.2 percent. Table 13 shows the average mentally disabled population, by hospital, since 1980–81.

Mental Health Initiative: State Hospitals

The budget proposes the addition of 209 state hospital treatment positions, at a cost of $5,959,000. The proposed augmentation is part of a three-year plan to increase treatment staff by 632 positions in state hospital programs for the mentally disordered. The cost of these 632 positions will be $18 million per year.

Table 13
State Hospitals
Programs for the Mentally Disabled
Average Population
1980–81 through 1984–85

	Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Change 1983–84 to 1984–85* Number	Percent
Atascadero	1,031	1,138	1,103	1,058	1,134	76	7.2%
Camarillo	799	733	641	605	610	5	.8
Metropolitan	835	865	875	928	955	27	2.9
Napa	1,342	1,292	1,298	1,298	1,274	−24	−1.8
Patton	1,010	1,110	1,088	1,026	1,008	−18	−1.7
Stockton	79	42	11	5	0	−5	−100
Totals	5,096	5,180	5,016	4,920	4,981	61	1.2%

The three-year staffing augmentation is associated with treatment program changes, hospital license category revisions, and major capital outlay proposals. The department states that the improvements will enable all five hospitals serving the mentally disordered to obtain accreditation by the Joint Commission on Accreditation of Hospitals, and the three hospitals serving county-admitted clients to be certified to receive Medi-Cal and Medicare payments. Currently, Napa is fully accredited and its acute programs are certified on the condition that certain capital outlay improvements are made. The other hospitals serving the mentally disabled are neither accredited nor certified.

The major components of the department's proposal include the following:

1. Treatment program improvements including:
   - Creation of two new ward classifications (subacute-intermediate care and special treatment program-skilled nursing), recategorization of existing wards, and a shift of patients to different wards where appropriate.
   - Revisions in the licensure of beds and requests for certification in order to qualify for Medi-Cal and Medicare funding.
   - Revised staffing standards to provide more scheduled treatment activities for patients.
   - Annual automatic staffing adjustments, based on surveys of patients' level of illness.
2. Physical plant improvements costing $16.9 million in 1984–85 and over $100 million over a five-year period, including:
   - Building improvements to meet minimum fire, life, and safety standards for hospitals except Atascadero.
   - Environmental improvements similar to those already provided to developmentally disabled clients for mentally disabled patients at Camarillo, Napa, and Metropolitan. Environmental improvements include the provision of sleeping rooms containing no more than four individuals per room, toilet and bathroom facilities affording individual privacy, private clothing wardrobes for personal items, improved furniture in day rooms, drapes on windows, and other improvements to make the living areas appear less institutional.

The proposed *treatment* program improvements are discussed below. The *capital outlay* improvements are discussed under Item 4440-301-036.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

New Ward Classifications

The department proposes to create (1) subacute-intermediate care wards for patients who do not require acute psychiatric care but require more care than is provided on psychiatric rehabilitation-intermediate care wards and (2) special treatment program-skilled nursing wards for geriatric patients and others who require more services than they currently receive in gero-psychiatric or psychiatric rehabilitation-intermediate care programs. In addition, the department proposes the elimination of the gero-psychiatric category and adjustments in the number of beds currently classified in other ward categories. Table 14 shows how patients would be reassigned from existing to proposed ward categories. Most patients would be reclassified from existing psychiatric rehabilitation and acute psychiatric wards to subacute-intermediate care. Gero-psychiatric patients would generally be reassigned to special treatment program-skilled nursing wards.

Table 14
State Hospital
Programs for the Mentally Disabled
Comparison of Existing to Proposed Population Distribution [a]

	Existing Population Distribution	*Percent of Total*	*Proposed Population Distribution*	*Percent of Total*	*Change*
A. Existing ward categories					
1. General acute care	110	2.3%	45	.9%	−65
2. General skilled nursing	25	.5	139	2.9	114
3. Acute psychiatric	1,389	28.6	810	16.6	−579
4. Acute-children	158	3.3	158	3.3	—
5. Acute-adolescent	157	3.3	157	3.3	—
6. Gero-psychiatric	244	5.0	—	—	−244
7. Psychiatric rehabilitation—intermediate care	2,764	57.0	779	16.1	−1,985
B. Proposed ward categories					
1. Subacute-intermediate care	—	—	2,457	50.7	2,457
2. Special treatment program-skilled nursing	—	—	302	6.2	302

[a] Excludes the drug program at Metropolitan, which is funded through contract and not subject to staffing standards.

Licensing and Certification Changes

Licensing. Table 15 shows the department's proposed changes in the number of licensed beds at each hospital and compares the number of beds with the budget's population projections. The proposed changes in licensed beds would be completed after five years of capital outlay improvements.

Table 15 indicates that the department's long-range plan is to reduce the number of acute psychiatric beds and increase the number of skilled nursing and intermediate care beds in order that the number of beds in each category more closely match the type of patients served by the facility. Table 15 also indicates that a significant number of currently licensed beds will not be required at Camarillo, Metropolitan, Napa, and Atascadero and will consequently be delicensed. Patton State Hospital is identified as the only hospital to receive additional licensed beds because anticipated growth in penal code commitments would be located at Patton under the department's plan.

Table 15
State Hospitals
Programs for the Mentally Disabled
Comparison of Planned Licensure Categories
And Population Projections

	Current Licensed Beds	*Proposed Licensed Beds*	*Proposed Licensing Change*	*Proposed Population Distribution 6/30/85*	*1988 Population Projection*
1. Camarillo					
General acute care	88	34	−54	19	—
Acute psychiatric	994	276	−718	251	—
Skilled nursing	—	102	102	85	—
Intermediate care	—	308	308	255	—
Subtotals	1,082	720	−362	610	674
2. Metropolitan					
Acute psychiatric	1,372	392	−980	295	—
Skilled nursing	—	136	136	126	—
Intermediate care	—	587	587	537	—
Subtotals	1,372	1,115	−257	958	1,073
3. Napa					
General acute care	71	49	−22	18	—
Acute psychiatric	850	443	−407	295	—
Skilled nursing	300	237	−63	211	—
Intermediate care	300	536	236	752	—
Subtotals	1,521	1,265	−256	1,276	1,268
4. Atascadero					
Acute psychiatric	1,225	195	−1,030	237	—
General acute care	29	—	−29	8	—
Intermediate care	—	875	875	928	—
Subtotals	1,254	1,070	−184	1,173	1,094
5. Patton					
Acute psychiatric	80	80	—	97	—
Skilled nursing	40	40	—	19	—
Intermediate care	850	1,202	352	881	—
Subtotals	970	1,322	352	997	1,455
6. All hospitals					
General acute care	188	83	−105	45	—
Acute psychiatric	4,521	1,386	−3,135	1,175	—
Skilled nursing	340	515	175	441	—
Intermediate care	1,150	3,508	2,358	3,353	—
Totals	6,199	5,492	−707	5,014	5,564

Certification. The department indicates that it intends to seek certification of all programs for the mentally disabled at Camarillo, Metropolitan, and Napa State Hospitals. If these programs are certified, the department estimates that the state will be able to bill the Medi-Cal program for an additional $12.7 million in federal funds annually. The department does not intend to seek certification for programs at Atascadero and Patton because the penal code clients treated at those two hospitals generally are not eligible for Medi-Cal or Medicare reimbursement.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

In order to become certified, hospital programs must:

- Be correctly licensed and treat patients in programs that are appropriate to their level of illness and adequately staffed.
- Have buildings that ultimately will meet fire, life, and safety standards and minimum privacy and individual space requirements.
- Have functioning utilization review programs.

Certified programs can bill the Medi-Cal program if the patient is less than 22 or over 64 years of age. Consequently, all services provided in children's, adolescent, and geriatric programs are potentially billable. In addition, services provided during the month of admission and the month of discharge to adults who are between 22 and 64 years of age are billable. Table 16 indicates the amount of additional federal funds that could be obtained, by patient category, if all programs are certified.

Table 16

State Hospitals
Programs for the Mentally Disabled
Estimated Revenues Resulting from Certification

Category of Patient	*Federal Funds (in thousands)*
Children	$3,008
Adolescents	2,007
Over age 64	5,092
Other adults	4,405
Subtotal	$14,512
Current revenue	−1,763
Net additional revenue	$12,749

Revised Staffing Standards

The department proposes to revise staffing standards applying to programs for the mentally disabled. Staffing standards are budget formulas that specify a given number and mix of treatment staff per 100 patients for each type of treatment program.

The staffing standards that currently are in use were developed by the department in 1979, in conjunction with the Department of Health Services' Licensing and Certification Division. The standards were designed to comply with state licensing regulations and federal certification requirements. The existing standards are ward-specific—that is, they specify numbers of staff for each individual ward, not numbers of staff for each ward category systemwide.

The proposed staffing standards were developed by the executive directors of the state hospitals in 1981. The executive directors believe their proposal will (1) allow the hospitals to become accredited and certified, if appropriate, and (2) significantly improve the quality of treatment programs. The proposed staffing standards specify the number of staff for each ward category.

Table 17 compares the existing and proposed staffing standards per 100 patients, by ward category.

Table 17
State Hospitals
Programs for the Mentally Disabled
Comparison of Existing to Proposed
Staffing Standards

	Number of Treatment Staff Per 100 Patients		
	Existing		
	Range	*Average*	*Proposed*
A. Existing ward categories			
1. General acute care	113–169	130	130
2. General skilled nursing	110	110	127
3. Acute psychiatric	97–119	108	114
4. Acute-children	164–180	171	167
5. Acute-adolescent	125–139	132	142
6. Gero-psychiatric	80–88	86	—
7. Psychiatric rehabilitation-intermediate care	67–79	70	74
B. Proposed ward categories			
1. Subacute-intermediate care	—	—	97
2. Special treatment program-skilled nursing	—	—	98

The budget proposes an increase of 209 positions in 1984–85 and 391 additional positions over the next two years, to fully comply with the new standards. The proposed staffing augmentation would increase the number of direct patient care staff by 4.6 percent in 1984–85 and by 13 percent at the end of the three-year phase-in period.

Increases are proposed in all existing ward categories except for general acute care and acute-children, which currently has the highest staffing ratio. A major reason for the increase in positions, however, is the proposed change in patient distribution among ward types. On the average, there would be more patients in ward types with richer staffing ratios. For example, the new subacute-intermediate care wards, with a proposed staffing ratio of 97 staff per 100 patients, would contain patients currently residing primarily in psychiatric rehabilitation-intermediate care wards, which have a current staffing ratio of 70 and a proposed staffing ratio of 74. (The increases in staff needed for these patients would be offset partly by staffing reductions due to reclassifications of some patients from acute psychiatric, with a current staffing ratio of 108 and a proposed staffing ratio of 114, to subacute-intermediate care wards.)

The staffing increases are intended to provide additional scheduled treatment for patients. The department estimates that state hospital patients needing a subacute level of care currently receive an average of approximately 1.5 hours of scheduled treatment per day. Scheduled treatment activities include group therapy, individual therapy, rehabilitation activities, recreation, and patient government. Consequently, patients often have large blocks of unscheduled time. Because generally they are physically restricted to hospital day rooms or sleeping areas on their wards, most patients are unable to use their free time productively. The proposed staffing increase, together with improved use of existing staff, would increase average scheduled treatment from approximately 1.5 hours to approximately 4.4 hours per patient per day.

Table 18 shows that the proposed percentage increase in psychologists, teachers, social workers, and rehabilitation therapists is much greater than the percentage increase in psychiatrists or psychiatric technicians. The types of staff showing large increases are those involved with treatment activities instead of ongoing medical and ward supervision of patients.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

Table 18

Proposed Increases in Authorized Patient Care Positions By Classification

Classification	*Estimated 1983–84*	*Proposed Increase 1984–85*	*Percent Increase*	*Proposed Increase 1983–84 through 1986–87*	*Percent Increase*
Psychiatrists	264	6	2.3%	19	7%
Psychologists	93	19	20.4	58	62
Social workers	244	26	10.6	79	32
Rehabilitation therapists	174	16	9.2	48	28
Teachers	39	7	17.9	22	56
Psychiatric technicians	3,695	135	3.6	406	11
Totals	4,509	209	4.6%	632	14%

Level-of-Illness Adjustments

The budget proposes a system to adjust state hospital staffing as the patient population becomes more (or less) difficult to care for. The department believes that the population of state hospitals gradually is becoming more difficult to treat in psychiatric, medical, and behavior management terms, and that as the change in population occurs staffing should be adjusted accordingly.

The proposed level-of-illness system would involve an annual "level-of-care survey" of the state hospital population. The department would summarize the survey data related to patients' age, behavior patterns, physical needs, and degree of psychiatric dysfunction. Each patient would be assigned to the category of ward designed to suit his or her needs. Over time the number of wards in a specific category would increase or decrease, depending on the number of patients needing the types of services offered in that category.

More Information Needed

We withhold recommendation on the proposed staffing increase of 209 positions, pending receipt of additional information on the treatment program changes and how they would be implemented. We recommend that the department submit this information to the Legislature by April 1, 1984.

The information supplied by the department to support its proposal for 209 new positions did not address many significant questions that should be answered before the Legislature acts on the proposal. These questions involve both the prospective benefits of the treatment program changes and how the proposed changes would be implemented. For discussion purposes, the questions may be grouped in four broad areas:

- ***What assurances will the Legislature have that the staff augmentations are, in fact, used to increase of level of scheduled treatment provided to patients?*** The department's budget materials do not provide any specific goals for the new staff or propose a system for monitoring achievement of the new staff.
- ***Can the Legislature be confident that the department's level-of-illness assessments are accurate and objective?*** The reclassification of patients among ward categories is a major cause of the need for new

staff under the proposal. Annual level-of-illness adjustments could also have a major fiscal effect.

- ***What is the relationship between the proposed staffing standards and other standards developed by outside agencies?*** For example, all the staffing improvements may not be needed for accreditation or certification purposes. In these cases, additional justification would seem to be needed.
- ***What are the benefits of the proposed program changes?*** The department has been unable to say if the additional staffing will reduce average length of stay, improve the functioning of patients once they are discharged, or lower the readmission to state hospitals.

Without information that addresses these questions, it is impossible for us to advise the Legislature regarding the proposed staffing augmentation and associated treatment program changes. Consequently, we withhold recommendation on the proposed staffing augmentation, pending the receipt of additional justification from the department.

A fuller discussion of the questions listed above, and the specific information that we believe the Legislature needs before it can act on the proposal, follows.

Performance Criteria. It is important that the Legislature understand exactly what services are to be provided by the 209 proposed positions that will cost $5.9 million. Without clear performance criteria, the additional staff could, in time, be diverted away from scheduled treatment into other patient care or bureaucratic activities. In order to assure the Legislature that a well-defined scheduled treatment program is implemented with the proposed positions, we recommend that the department submit the following material.

- Clear and measurable scheduled treatment performance criteria for each ward category. Such criteria would commit the department to deliver a given number of hours of group therapy and other treatment activity per patient per week. The criteria would vary by ward category and employee classification.
- A proposal for a management information system that is capable of monitoring the delivery of scheduled treatment activities at the ward level.
- A description of how the department will monitor and evaluate the quality of scheduled treatment services delivered at the ward level.

Criteria for Level-of-Illness Adjustments. Because of the significant fiscal effect that reassignment of patients to different wards has (and would continue to have if level-of-illness adjustments are applied in the future) under the department's proposal, it is important that a well-defined objective classification system be designed before level-of-illness adjustments are authorized by the Legislature. For this reason, we recommend that the department submit proposed criteria governing the application of level-of-illness staffing adjustments and demonstrate how the proposed 1984–85 adjustments would be made under the criteria. Of particular importance in this regard are the criteria that would be used for assigning patients to acute, subacute, and psychiatric rehabilitation wards.

Staffing Increases and Accreditation and Certification Issues. A major objective of the proposed increase in staffing standards is accreditation and certification of the hospitals. It is not clear, however, what portion of the staffing increase relates to the requirements of the certification and accrediting agencies. This appears to be particularly true of programs at

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

Napa and Metropolitan, which according to current department timetables, are to be certified by July 1984, even without the addition of more staff.

There may be a substantial difference between the amount of staffing needed to achieve accreditation and certification and the amount of staffing desired in order to improve treatment programs. Consequently, we recommend that the department prepare estimates, by hospital and by program, of the staffing increases that would be required just to gain certification of programs at Camarillo, Metropolitan, and Napa and accreditation at Atascadero and Patton. We further recommend that the department's report indicate when certification can be anticipated for each of the affected programs and discuss by program the major problems that must be corrected before certification can be achieved.

Benefits of Staff Augmentation. The department cannot quantify the benefits that might result from additional scheduled treatment staff in terms of reduced length of stay, improved patient functioning, or lower readmission rates. Although the department probably could not obtain this type of information without a long-term study, plans to develop the information should be made now. Over a period of years, the Legislature can anticipate that additional staffing proposals will be submitted. If no measurements are ever made of the effects that more treatment staff have on the functioning level of mentally disordered clients, the Legislature will find itself having to make decisions on these proposals on the basis that more staff are *assumed* to produce better results.

We recommend that the department design a long-term study that would determine the effects of the proposed staffing increases. This study, together with an estimate of the cost that would be incurred for contracting with an outside organization to conduct the study, should be submitted to the Legislature.

Implementation Lag

We recommend deletion of $731,000 because even if the 209 new positions are approved by the Legislature, it will take at least two months to fill these positions ($330,000 from Item 4440-011-001 and $401,000 from Item 4440-121-001).

The proposal assumes that the 209 new positions requested in the budget can be filled within two and one-half weeks. Given the significant delays associated with testing, recruiting, and interviewing prospective employees and processing personnel paperwork, especially with an augmentation of this amount, such a timetable is unrealistic. Consequently, we recommend that if the augmentation is approved, the funding level in the budget be based on the assumption that it will take two months to fill the 209 positions. This results in a savings of $731,000 in salaries and benefits.

Other State Hospital Issues

Population Changes

The budget proposes a net reduction of 31.5 positions and $1,518,000 as a result of population changes in the state hospitals. Table 19 displays the position and funding changes associated with each component of the projected population change.

Table 19
State Hospitals
Programs for the Mentally Disabled
Position and Funding Changes Related to Population Changes [a]
June 1984 to June 1985

	Population Change	*Position Change*	*1984–85 Costs/ Savings (–) (all funds)*
1. Mentally disordered sex offenders	–330	–223	–$5,687,000
2. Penal code clients	94	87	2,428,000
3. Department of Corrections clients	50	49.5	760,000
4. Sex offender pilot project	50	55	951,000
Totals	–136	–31.5	–$1,518,000

[a] Excludes a reduction of 32 positions and $879,000 in reimbursements in the Metropolitan State Hospital drug program. This program is funded through a contract with Los Angeles County.

3-28-84 Recommend delay of treatment phase until 1985-86

Sex Offender Pilot Project

We ~~withhold recommendation~~ on 55 positions and $872,000 requested for the treatment of sex offenders, pending receipt of information describing the treatment and evaluation components of the proposed sex offender pilot project. Recommend deletion

The budget proposes 55 new positions and $\boxed{\$950{,}000}$ to provide a 50-bed experimental program for the treatment of sex offenders at Atascadero State Hospital. Fifty-two positions and $872,000 are requested in the state hospitals item and three positions and $78,000 are requested in the departmental support item.

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 sex offenses. The 1983–84 budget contained funds for such a program. The Legislature, however, did not approve funds for the program because the department had not adequately developed plans for either the treatment or evaluation components.

The department is again requesting funds to establish an experimental treatment program for sex offenders. The department has still, however, not released its detailed treatment and evaluation proposal.

We withhold recommendation until the department submits a written description of the treatment and evaluation proposal for an experimental sex offender project. As of the preparation of this analysis, the proposal was under review within the department.

Department of Corrections Client Increase

We recommend approval. Recommend deletion

The budget proposes 49.5 new positions and $\boxed{\$760{,}000}$ in reimbursements from the Department of Corrections to provide an additional 50 beds for treatment of mentally disordered inmates transferred from state correctional facilities to Atascadero State Hospital. The funding request assumes that an average of 25 beds would be staffed in 1984–85. By 1985–86, the entire 50 beds would be filled and staff costs would increase to $1,520,000.

In each of the last two Budget Acts, the Legislature approved staff and funds for 250 beds for mentally disordered inmates transferred to Atascadero.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

We recommend approval of the requested augmentation because (1) state correctional facilities are overcrowded and are unable to provide the level of care required by psychotic inmates and (2) the augmentation is consistent with prior legislative action.

Technical Budgeting Error

We recommend deletion of 10.8 positions and $353,000 to correct for technical budgeting errors.

The budget contains a special adjustment to delete and then add back positions associated with 50 beds at Atascadero as part of the population change proposals related to mentally disordered sex offenders and penal code clients. Our analysis indicates that the special adjustment is unnecessary and improperly results in the addition of 10.8 unjustified positions.

The special adjustment deletes the positions at a lower staffing standard than that used to add the positions back. The result of the special adjustment is to augment the budget by 10.8 positions and $353,000. The increase of 10.8 positions would be in addition to the 54 positions currently authorized for the 50 beds. The currently authorized position level is based on the acute psychiatric level of care and is sufficient to provide needed services.

County Claims

We recommend approval.

The budget proposes an augmentation of $404,000 in order to permit state hospitals to reimburse counties for services that are billable under Section 4117 of the Welfare and Institutions Code.

Section 4117 requires state hospitals to pay county court and custody costs for state hospital patients who are returned to their local jurisdictions for restoration of sanity hearings, certain *habeas corpus* hearings, and trials for crimes committed in state hospitals. Until two years ago, few county claims were submitted under provisions of Section 4117. Currently, several counties submit claims for court costs and custody provided in local acute care facilities.

In 1982–83, the department paid claims totaling $650,000, which was $404,000 more than the amount budgeted. The budget proposes to recognize the trend in increased county claims. We recommend that the request be approved.

Reallocation of Staff

We recommend approval.

The budget proposes a net increase of $6,500 to adjust existing staffing standards in order to equitably distribute currently authorized treatment staff among the five hospitals that serve mentally disordered clients. Current staffing standards provide fewer positions to certain wards at Atascadero and Patton than are provided to the same type of ward in the remaining three hospitals.

Under the department's proposal, the same type of ward would receive the same staffing in all hospitals. Table 20 shows that under the department's proposal, Atascadero and Patton State Hospitals would receive 39.1 and 30 additional positions, respectively, while Camarillo and Metropolitan would lose 28.9 and 38.1 positions, respectively.

We recommend approval of this request in order to permit patients with similar disabilities to be cared for by similar numbers of treatment staff. Within their overall allocation of treatment positions, hospitals can make staffing adjustments between wards where unique situations warrant such adjustments.

Table 20
State Hospitals
Programs for the Mentally Disabled
Staff Adjustments, Costs, and Savings
Resulting from Staffing Standards Adjustment

	Atascadero	*Patton*	*Camarillo*	*Metropolitan*	*Napa*	*Totals*
A. Staff adjustments						
Psychiatrist	13.3	4.2	–.2	–6.7	–11.3	–.7
Psychologist	1.4	1.5	.6	–1.7	–.8	1.0
Psychiatric social worker	7.7	6.2	2.0	–19.9	2.5	–1.5
Rehabilitation therapist	5.7	1.1	.2	–1.8	–2.7	2.5
Teacher	—	—	–2.5	—	1.5	–1.0
Psychiatric technician	11.0	17.0	–29.0	–8.0	9.0	—
Totals	39.1	30.0	–28.9	–38.1	1.8	–0.3
B. Costs and savings (–) (in thousands)	$1,714	$1,005	–$716	–$1,392	–$605	$6

Furniture for Patients

We recommend approval.

The budget proposes expenditure of $1,188,000 for clothing wardrobes, privacy curtains, and window drapes at Camarillo and Napa. Currently, mentally disordered patients do not have individual wardrobes in which to store clothing and personal articles. Usually, such items are kept in locked group storage rooms or in unlocked night stands or boxes in the dormitory areas. In addition, mentally disordered patients do not have privacy curtains around bathtubs or in dressing areas next to showers. They also do not have curtains on the windows in day rooms or sleeping areas.

The Department of Developmental Services proposes to acquire from the Prison Industries Authority (1) 1,862 individual wardrobes with locks for all mentally disordered clients residing in Camarillo and Napa at a cost of $838,000 and (2) privacy curtains and window drapes in 41 units at a cost of $350,000. The department indicates that it is requesting these items of equipment in order to (1) respond to state licensing citations and concerns expressed by the Joint Commission on Accreditation of Hospitals and (2) provide limited privacy and personal space, while waiting for completion of the building remodeling program.

We recommend approval because the Legislature has provided these items to developmentally disabled clients in state hospitals and has previously directed that living area improvements, including furnishings, should be made available for mentally disabled state hospital residents.

The department has provided us with assurance that future capital outlay requests for Napa or Camarillo will not include wardrobes or curtains and that the costs of reinstalling these items after remodeling will be paid from the hospital operating budgets, rather than the capital outlay budget.

35—77958

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY

Item 4300-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 113

Requested 1984–85	$10,985,000
Recommended approval	4,552,000
Recommended reduction	1,358,000
Recommendation pending	5,075,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Transfer savings to the General Fund. Recommend that the $1,358,000 in recommended reductions be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's fiscal flexibility in meeting high-priority needs statewide. 1082
2. ***Fire and Life Safety and Environmental Improvements, Phase I—Camarillo State Hospital. Reduce by $17,000.*** Recommend reduction because seven items included in the project were not part of the original work approved by the Legislature. 1083
3. Fire and Life Safety and Environmental Improvements, Buildings 254, 256, 257—Napa State Hospital. Recommend that the department explain why Building 255 will not be renovated for fire/life safety. Withhold recommendation on this item, pending receipt of a master plan for state hospital construction under the administration's Mental Health Initiative. 1083
4. Fire and Life Safety and Environmental Improvements, Children's Units—Camarillo State Hospital. Withhold recommendation, pending receipt of a cost estimate from the Office of State Architect and a master plan for state hospital construction under the administration's Mental Health Initiative. 1083
5. Swing Space and Trailer Lease—Camarillo State Hospital. Withhold recommendation on "swing" space at Camarillo, pending receipt of a project cost estimate from the Office of State Architect, and a master plan for state hospital construction under the administration's Mental Health Initiative. 1084
6. ***Fire Detection System—Napa State Hospital. Reduce by $37,000.*** Recommend reduction because the project estimate contains excessive fees for construction contingency and architectural/engineering expenses. 1085
7. ***Central Fire Reporting System—Sonoma State Hospital. Reduce by $273,000.*** Recommend deletion because adequate fire and life safety protection work has been completed at the hospital. 1085
8. Central Supply—Sonoma State Hospital. Withhold recommendation to remodel Frederickson Receiving Center, 1086

pending receipt of a cost estimate from the Office of State Architect.

9. Centrifugal Chiller—Fairview State Hospital. Withhold recommendation, pending receipt of a project cost estimate from the Office of State Architect. 1087
10. ***Emergency Power Generator—Sonoma State Hospital. Reduce by $19,000.*** Recommend deletion of funds for preliminary plans and working drawings for the installation of an emergency power generator because the proposed generator is overdesigned, and the department has not demonstrated that existing generators cannot furnish sufficient emergency electrical power for fire safety and critical patient care. (Future Savings: $568,000) 1087
11. ***Install Chiller in Central Plant—Lanterman State Hospital. Reduce by $178,000.*** Recommend deletion of funds for preliminary plans and working drawings, because the proposed chiller is overdesigned and the department has not justified the need for replacing the existing chiller system. (Future Savings: $1,100,000) 1088
12. ***Handicapped Accessibility—Statewide. Reduce by $49,000.*** Recommend reduction to eliminate funds for overbudgeted construction contingency and architectural/engineering services. 1089
13. Upgrade 5KV Distribution System—Fairview State Hospital. Withhold recommendation on funds for preliminary plans and working drawings, pending receipt of a cost estimate from the Office of State Architect. 1089
14. Energy Management System—Sonoma State Hospital. Withhold recommendation pending (1) verification from the department that this project will not affect the air conditioning/ventilation of patient-occupied areas, and (2) receipt of a cost estimate from the Office of State Architect. 1089
15. ***Domestic Water Supply System—Napa State Hospital. Reduce by $70,000.*** Recommend deletion of preliminary plan and working drawing funds to improve the domestic water system at Napa because the department has not demonstrated that the present system is either inadequate or does not meet current code requirements. (Future Savings: $450,000) 1090
16. ***Minor Capital Outlay—Statewide. Reduce by $715,000.*** Recommend deletion of 11 projects which are not justified or for which there exists a less costly alternative, and recommend reduction of funds for 10 energy projects to correct for overbudgeting. 1091

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of $10,985,000 from the General Fund, Special Account for Capital Outlay (SAFCO), for the Department of Developmental Services' capital outlay program in 1984–85. 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
1984–85 Capital Outlay Projects
Item 4300-301-036
(in thousands)

Sub-Item/Project Title	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Estimated Future Cost*[b]
(1) Fire and Life Safety and Environmental Improvements—Items to Complete, Phase I	Camarillo	c	$325	313 ~~$308~~	—
(2) Fire and Life Safety and Environmental Improvements—Buildings 254, 256, and 257	Napa	c	3,478	3855 ~~pending~~	—
(3) Fire and Life Safety and Environmental Improvements—Children's Unit	Camarillo	pw	388	pending	$3,870
(4) Swing Space and Trailer Lease	Camarillo	pwc	370	pending	—
(5) Fire Detection System—Buildings 147, 176, 177, 178, 181, 183	Napa	wc	657	630 ~~620~~	—
(6) Install Central Fire Reporting System	Sonoma	pwc	273	—	—
(7) Upgrade Frederickson for Central Supply Services	Sonoma	pwc/e	347	237 ~~pending~~	—
(8) Replace Number 3 Centrifugal Chiller	Fairview	pwc	175	pending	—
(9) Install Emergency Power Generator	Sonoma	pw	19	—	568
(10) Install Chiller in Central Plant and Connect to Acute Hospital	Lanterman	s/pw	178	75 ~~—~~	1,100
(11) Handicapped Accessibility—Phase 2	Statewide	pwc	1,379	1337 ~~1,330~~	—
(12) Upgrade 5KV Distribution System	Fairview	pw	83	11 ~~pending~~	428
(13) Energy Management System	Sonoma	pwc	234	pending	—
(14) Improve Domestic Water Supply	Napa	pw	70	—	450
(15) Minor Projects	Statewide	pwc	3,009	2,916 ~~2,294~~	—
Totals			$10,985	pending	$6,416

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

Transfer to General Fund

We recommend that the savings resulting from our recommendations on Item 4300-301-036—$1,358,000—be transferred from the Special Account for Capital Outlay to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend reductions amounting to $1,358,000 in the Department of Developmental Services capital outlay program. 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 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.

$12,000

Fire and Life Safety/Environmental Improvements—Camarillo State Hospital

We recommend that Item 4300-301-036(1) be reduced by ~~$17,000, because~~ the department has included funding for additional items which were not part of the original project approved by the Legislature.

The budget includes $325,000 under Item 4300-301-036(1) for fire and life safety and environmental improvements at Camarillo State Hospital. Specifically, the department is proposing additional modifications to seven building units which previously were altered under the statewide hospital fire/life safety program. These additional items include replacement of waste drain pipe and sewer laterals, installation of exit signs, and operator handles, arms and locks for all windows.

The Legislature previously appropriated a total of $280,000 for this project in the 1982 Budget Act. These funds were deferred by the Department of Finance due to the Governor's freeze on capital outlay expenditures in 1982–83.

In resubmitting the project as part of its 1984–85 capital outlay program, the department has requested funding for seven items which were not part of the original project approved by the Legislature in 1982. These items, which include such alterations as installing metal corner guards at unspecified locations within the building units would require a total of $17,000, according to the most recent cost estimates. These items are not related to fire and life safety/environmental improvements, and are not needed to make the buildings functional. Furthermore, the department has not provided adequate justification for this expansion in project scope. Consequently, we recommend that these items be deleted, and that the project be funded at ~~$308,000~~, for a savings of ~~$17,000~~.

$313,000 $12,000

Fire and Life Safety and Environmental Improvements for Children's Units—Napa State Hospital and Camarillo State Hospital

We recommend that prior to budget hearings on this item, the department provide an explanation as to why Building 255 at Napa has been eliminated from the fire/life safety improvement program. We withhold recommendation on Items 4300-301-036~~(2)~~ and (3), pending receipt of (1) a master plan for the state hospital construction component of the administration's proposed Mental Health Initiative, and (2) a project cost estimate from the the Office of State Architect.

The budget includes $3,478,000 under Item 4300-301-036(2) to make fire/life safety and environmental improvements to three Children's Unit buildings at Napa State Hospital, and $388,000, under Item 4300-301-036(3) to prepare preliminary plans and working drawings for similar improvements to the Children's Unit at Camarillo State Hospital. The department estimates that the future cost of renovations at Camarillo will be $3,870,000.

now recommend approval of Napa project at $3,855,000

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Napa State Hospital. Preliminary plans and working drawings have been completed for the project at Napa State Hospital. Funding for this work originally was provided in the Budget Act of 1981. At that time, the project included buildings 254, 256, 257, *and 255.* The department indicates that building 255 has been dropped from the project because it presently is occupied by developmentally-disabled clients. The department has no plans to modify this building and indicates that the building will not be vacated in the near future. The Legislature has made clear its intention that all buildings housing developmentally-disabled clients are to be renovated for fire/life safety and environmental improvements. For this reason, we recommend that prior to hearings on the Budget Bill, the department provide the Legislature with an explanation as to why this building is not now included in the project.

Camarillo State Hospital. The Children's Unit project at Camarillo State Hospital would modify the existing buildings to bring them into compliance with existing fire and life safety codes and environmental standards. This project also proposes to replace the existing gas-fired heating and hot water supply system, which is 30 years old and requires excessive maintenance, with a more energy-efficient steam-operated heating system.

At the time this *Analysis* was prepared, the Office of State Architect had not prepared a cost estimate for either of these projects. Moreover, both of the projects have been included as part of the administration's "Mental Health Initiative"— a multi-year program to upgrade the quality of care and facilities for the state's mental health client population. In our analysis of the Department of Mental Health's Capital Outlay program, we recommended that the department prepare a master plan for state hospital construction as it relates to this new Mental Health Initiative, *before* the Legislature is asked to approve related capital outlay projects.

Accordingly, we withhold recommendation on these two projects at Napa and Camarillo, pending receipt of (1) a master plan for state mental health hospital construction proposed in connection with the administration's Mental Health Initiative, and (2) cost estimates for both projects from the Office of State Architect.

Swing Space and Trailer Lease—Camarillo State Hospital

We withhold recommendation on Item 4300-301-036(4), "swing" space, pending receipt of (1) a master plan for hospital construction in connection with the administration's Mental Health Initiative, and (2) a cost estimate from the Office of State Architect.

The budget includes $370,000 under Item 4300-301-036(4) to remodel four living units for swing space ($250,000) and to lease and install three trailers for a period of four years ($120,000) at Camarillo State Hospital. This swing space would provide temporary housing for child, adolescent and adult psychiatric clients during various phases of the fire/life safety and environmental improvement work for mental health clients at Camarillo. The three trailers will provide classrooms for the children's use during the four-year construction program. This request is directly related to the alterations to the Children's Units requested under Item 4300-301-036(3), and discussed above.

This project is part of the administration's Mental Health Initiative. As previously noted, we have recommended that in order to assure that the Legislature has adequate information regarding the capital outlay work required under the Mental Health Initiative, the department should prepare a master plan which outlines the hospital construction portion of the initiative.

In addition, we have not yet received an estimate of the total cost for this project from the Office of State Architect. Without this information, we have no means of determining the adequacy of the funds included in the budget.

Until the master plan and the cost information are available, we withhold recommendation on Item 4300-301-036(4) for swing space at Camarillo.

Fire Detection System—Napa State Hospital $27,000

We recommend that Item 4300-301-036(5) be reduced by ~~$37,000~~ to correct for overbudgeting of contract contingency and architectural and engineering costs.

The budget includes $657,000 to install fire detection systems at Napa State Hospital. The State Fire Marshal surveyed six buildings at this hospital and determined that they did not meet fire safety requirements. Three of the buildings are used for employee housing, and the other three buildings house various activities including housekeeping, the electric shop and the neuro-assessment clinic. The project consists of providing safe exiting corridors and stairs, and installation of fire alarms, smoke detectors, exit signs, fire extinguishers and automatic fire sprinkler systems. A total of $22,000 has previously been transferred to the Office of State Architect (OSA) for the preparation of preliminary plans for this project.

The OSA estimate for this project includes a total of $142,600 for architectural and engineering fees, construction contingency and non-basic services. This represents 27 percent of the estimated contract cost. The State Administrative Manual (SAM) states that, unless specifically justified, an amount equal to 20 percent of estimated contract costs is sufficient to cover contingency costs for alteration projects. The department indicates that it has returned this estimate to the state architect for revision to reduce these costs.

Based on the SAM guidelines, we recommend that the excess amount budgeted for contingencies be deleted, for a savings of ~~$37,000.~~ $27,000

Install Central Fire Reporting System—Sonoma State Hospital

We recommend deletion of Item 4300-301-036(6) because adequate fire and life safety protection work has already been completed at the hospital.

The budget includes $273,000 under Item 4300-301-036(6) to install a central fire reporting system at Sonoma State Hospital. The project involves installation of electronic fire reporting and recording equipment at control panels in 32 resident living units at the hospital. Each panel will be connected via telephone cable to new reporting components in the fire house and telephone switchboard. The new system will provide an instantaneous fire alarm from the reporting area directly to the firehouse and telephone switchboard.

Under the Fire and Life Safety/Environmental Improvement Program, Sonoma State Hospital recently was equipped with automatic local fire warning and suppression systems. These systems are located within each of its resident-occupied buildings. The department indicates that the installation of a central fire reporting system was included in the fire/life

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

safety program, but was deferred due to a lack of funding.

The fire and life safety projects which have been completed at Sonoma were approved by the Legislature with the department's assurance that *all* proposed construction met existing fire and life safety code requirements, and that *no additional work* would be required. The department has not adequately explained why this project is required, given its past assurances that all required fire and life safety work had been completed.

Consequently, we recommend that the funds for this item be deleted, for a savings of $273,000. recom approval at $237,000

Upgrade Frederickson for Central Supply Services—Sonoma State Hospital

$51,050 for PWC

We withhold recommendation on Item 4300-301-036 (7), pending receipt of a project cost estimate from the Office of State Architect.

The budget includes $347,000 for preliminary plans, working drawings, construction and equipment to alter the Frederickson Receiving Center at Sonoma State Hospital. The alterations are proposed in order to provide appropriate space for the hospital's central supply operation.

$186,500 for equip.

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

In the past two budget years, the department has proposed to remodel the Paxton Building at Sonoma State Hospital to house the hospital's central supply operation. Funding for preliminary plans and working drawings were proposed in the 1982 Budget Bill, but were deleted at the Department of Finance's request. Funding to alter Paxton was again requested in the 1983 Budget Bill, but again was deleted at Finance's request, due to the reduction in tidelands oil revenue.

The project proposed in the 1984–85 budget would remodel the third-floor of the Frederickson Receiving Center to provide a new central supply facility for the hospital. Presently, this space is an unoccupied patient living unit. The project would involve remodeling the building interior in order to provide proper areas and traffic patterns for the receiving, decontamination, sterilization, dispensing and storage of sterile medical supplies and equipment. The department indicates that moving the central supply operation to Frederickson would correct the noted licensing deficiency, and would be a less expensive alternative than the Paxton project proposed in 1982–83 and 1983–84.

The department's request for the budget year also includes funds for the purchase and installation of new equipment related to the central supply operation. In our analysis of the Paxton project in 1983–84 (see 1983–84 *Analysis*, p. 955), we raised concerns regarding the department's intention to procure this equipment as part of the contract for modifications to the buildings. In 1982, the Office of State Architect's (OSA) cost estimate indicated that the manufacturer's quoted price for this equipment was approximately $150,000. Because the department had planned to include the equipment portion of the project as part of the overall contract, the OSA estimate for equipment acquisition included markups for the subcontractor and general contractor, construction contingencies, and architectural and engineering services, which increased the cost of acquiring the equipment to almost $300,000.

The department estimates the cost of the needed equipment in 1984–85 to be $182,000.

At the time this *Analysis* was prepared, the OSA had not prepared a revised cost estimate for this project. Without this information, we cannot determine the adequacy of the funds included in the budget for preliminary plans, working drawings, and construction, nor the means by which the department is planning to procure and install the new equipment for central supply. Accordingly, we withhold recommendation on the funds included for this item, pending receipt of a cost estimate from the OSA.

Replace Number 3 Centrifugal Chiller—Fairview State Hospital

We withhold recommendation on Item 4300-301-036(8), pending receipt of a project cost estimate from the Office of State Architect.

The budget includes $175,000 under Item 4300-301-036(8) to replace an oversized chiller at Fairview State Hospital with a more efficient, appropriately sized machine. The net discounted payback for this project is 2.4 years, and annual savings are estimated at approximately $73,000.

Although our analysis indicates that this project is justified, we have not received an estimate of the project cost from the OSA. Without this information, we cannot determine the adequacy of the funds included in the budget for the project. Accordingly, we withhold recommendation on Item 4300-301-036(8), pending receipt of this cost information.

Emergency Power Generator—Sonoma State Hospital

We recommend deletion of $19,000 requested under Item 4300-301-036(9) for an emergency power generator, because the proposed generator is larger than what is required, and the department has not demonstrated that existing generators are incapable of furnishing sufficient emergency electrical power for life safety and critical patient care needs. (Future savings: $568,000).

The budget includes $19,000 under Item 4300-301-036(9) to prepare preliminary plans and working drawings for an emergency electrical generator plant at Sonoma State Hospital. The project would install a 2,000 KVA electrical generator to augment the hospital's existing 2,400 KVA emergency generator capacity. The estimated future cost of the project is $568,000.

The department indicates that the existing emergency electrical generators at Sonoma cannot furnish sufficient electrical energy to meet the needs of the hospital. According to the department, in the event of an electrical power failure, the hospital would not have sufficient electricity to operate its heating and cooling systems, emergency medical equipment, lighting and other required equipment.

The electrical code specifies that emergency electrical systems in health facilities must serve those circuits which are essential to life safety and critical patient care. Consequently, it is not required that the entire hospital be connected to an emergency electrical system. The department has not provided any information which identifies those circuits which are served by *existing* emergency electrical generators, and whether all the systems which are presently connected are *essential* to life safety and critical patient care.

Furthermore, the size of the proposed emergency generator is larger than the hospital's total electrical demand. The department indicates that present electrical demand for the *entire* hospital is approximately 3,300 KVA and that existing emergency generators can provide 2,400 KVA—73

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

percent of the *total* electrical demand. The department, however, is proposing that an additional 2,000 KVA generator be installed which would provide 1,100 KVA *more* than what is needed for the entire hospital!

Finally, the state recently completed fire/life safety and environmental improvements at this hospital. These improvements were intended to meet all code requirements, including those related to emergency electrical power service. In sum, we find that the existing emergency system allows the hospital to operate at nearly 75 percent of its *total* electrical need. During those infrequent, and usually short periods of time when the *entire* electrical service to the hospital fails, the hospital should be able to reduce electrical use in non-patient areas such as administration and other support areas in order to accommodate needs related to life safety and critical patient care.

In view of the amount of emergency electrical power available, we recommend deletion of Item 4300-301-036(9), for a savings in 1984–85 of $19,000, and a savings in future years of $568,000. now recommend approv

Install Chiller in Central Plant—Lanterman State Hospital of study and pp funds

We recommend deletion of Item 4300-301-036(10), install chiller in central plant and connect to the acute care hospital, because the size of the proposed chiller is larger than required to meet the air-conditioning needs of the acute care hospital, and the department has not justified replacing the existing chiller systems. (Future savings: $1,100,000). $10,000 study

The budget proposes $178,000 for preliminary plans and working drawings to install a new 1,300-ton chiller at Lanterman State Hospital. The new chiller would be connected to the acute hospital unit to provide cooling needed to meet the temperature requirements of the acute care unit. The estimated future cost for construction of the project is $1,100,000. $65,000 pp

The department indicates that the existing air conditioning system for the acute care hospital is twenty years old, and that parts for the system must be specially fabricated. The department, however, has not provided information indicating that the temperature requirements inside the acute care unit cannot be sustained.

The proposed project would replace two chillers (one 250-ton unit and one 150-ton unit) presently connected to the acute hospital with a single 1,300-ton absorption chiller. Thus the cooling capability would be increased by 900 tons, or more than triple the existing system.

Clearly, sufficient cooling capability must be available for the acute care hospital. The proposed 1,300-ton chiller, however, is overdesigned and unnecessary. The department, in effect, acknowledges this by admitting that the chiller is sized to provide cooling for a schoolhouse which has not yet been approved. In addition, the new chiller would also replace six chillers presently connected to other patient-occupied space, the research and administration buildings and the recreation hall. We have no indication that the six chillers which are presently connected to these buildings are functioning improperly.

Lacking adequate justification for either the need or the size of the proposed chiller, we recommend deletion of the funds for this item. If there is a specific problem with the air-conditioning system of the acute care hospital, a proposal addressing this specific problem would warrant legislative consideration.

reco approval of $1,337,000 for 4 major projects at Lant/ Stockton/ Sonoma/ Camarillo

Handicapped Modifications Phase II—Statewide

We recommend that Item 4300-301-036(11), statewide handicapped accessibility, be reduced by ~~$49,000~~ to correct for overbudgeting of construction contingencies and architectural/engineering services.

The budget includes $~~1,379,000~~ under Item 4300-301-036(11) to implement Phase II of the department's handicapped access plan. Phase I, which included handicapped modifications to patient-occupied buildings, was integrated with other fire and life safety and environmental improvement projects at the state hospitals. Phase II is designed to modify all public areas at the state hospitals to provide access to physically handicapped individuals.

The Office of State Architect (OSA) estimate for this project includes $268,000 for architectural/engineering fees, non-basic services and construction contingencies. This is equal to 25 percent of the estimated contract cost. The State Administrative Manual (SAM) indicates that, unless specifically justified, an amount equal to 20 percent of the estimated contract cost is to be budgeted to cover these costs for alteration projects. No justification to exceed this amount has been provided. Based on the 20 percent allowance, these costs should not exceed $219,000. Consequently, we recommend approval of the handicap access project in the reduced amount of $1,330,000, for a savings of $49,000.

Upgrade 5 KV Electrical Distribution System—Fairview State Hospital

reco approval of $11,000 for FW

We withhold recommendation on Item 4300-301-036(12), pending receipt of a project cost estimate from the Office of State Architect.

The budget includes $83,000 under Item 4300-301-036(12) to upgrade the electrical distribution system at Fairview State Hospital. Specifically, the department proposes to upgrade the existing 5 KV electrical distribution system to meet existing code requirements and to complete the underground loop system. Funds are included in the budget for preliminary plans and working drawings. The estimated future cost of constructing this project is $428,000.

The work to be funded includes installation of new cable and switch gear. Completion of the loop system will allow the hospital to repair portions of the distribution system without shutting down major portions of the hospital. This work is needed and should proceed in the budget year. At the time this *Analysis* was prepared, however, a cost estimate for the project was not available from the Office of State Architect. Therefore, we withhold recommendation, pending receipt of this estimate.

Energy Management System—Sonoma State Hospital

We withhold recommendation on Item 4300-301-036(13), pending (1) verification from the department that this project will not affect the air conditioning/ventilation of patient-occupied areas, and (2) receipt of a project cost estimate from the Office of State Architect.

The budget proposes $234,000 to install an energy management system at Sonoma State Hospital. The proposed system would provide the means to monitor and manage the hospital's electrically operated equipment and provide motor shutdown in areas of nonessential use or in areas where short period shutdowns of electric motors are feasible.

The Legislature has funded a major improvement project at Sonoma to air-condition patient-occupied buildings to assure that proper temperatures and ventilation are maintained in these areas. Although we encour-

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

age energy conservation measures, we believe it would be unwise and inappropriate to modify this system in a manner that would affect the air-conditioning or ventilation in these patient areas. Consequently, prior to budget hearings, the department should verify that this system will *not* affect the air-conditioning/ventilation in patient-occupied areas.

The department estimates that this project will result in an annual savings of $213,000, indicating the payback period to be 1.1 years. On this basis, the project appears to be justified. At the time this *Analysis* was prepared, however, the Office of State Architect (OSA) had not yet completed a project cost estimate. Without this information, we cannot determine the adequacy of the amount requested.

Accordingly, we withhold recommendation on this request, pending the department's verification of the effect on patient areas, and receipt of the cost information.

a study will fund from support budget

Improve Domestic Water System—Napa State Hospital

We recommend that $70,000 requested under Item 4300-301-036(14) be deleted because the department has not demonstrated that the present water system is either inadequate or fails to meet existing code requirements. (Future Savings: $450,000).

The budget includes $70,000 under Item 4300-301-036(14) to renovate the domestic water supply system at Napa State Hospital. Funds provided in the budget year would be used to prepare preliminary plans and working drawings. The estimated future cost for construction of this project is $450,000.

The department indicates that the water pressure of the existing system varies as much as 30 p.s.i. (pounds per square inch) during the day, and that a number of isolation valves in the main lines next to fire hydrants are inadequate. The department contends that in the event of a fire, sufficient water pressure *may* not be available to enable the hospital to quickly extinguish the fire.

The department has not provided any data to substantiate its contention that the existing system is not adequate. In addition, the department's data regarding water pressure and other supply system problems are based on a study that was completed 13 years ago.

Moreover, Title 24, Section T17-210 of the State Administrative Code specifies that water supply systems of public health facilities shall be designed to supply water to the fixtures and equipment on the uppermost floor at a *minimum* pressure of 15 p.s.i. during maximum demand periods. The department has not submitted any information to indicate that the pressure of the water system at Napa State Hospital falls below this code requirement.

Consequently, we recommend that the $70,000 included in Item 4300-301-036(14) be deleted, because (1) the study upon which this project is based is *13 years old* and can no longer be considered an accurate assessment of the current water system's condition, and (2) the department has provided no new information to substantiate problems with the system.

rec. approval of $378,000 addition to minors for 4 handicapped access projects

Minor Capital Outlay

We recommend that Item 4300-301-036(15) be reduced by $715,000 to delete eleven projects which are not justified, and to reduce funding for ten projects which are overbudgeted.

The budget proposes $3,009,000 from the General Fund, Special Account for Capital Outlay, for 47 minor capital outlay projects for the Department of Developmental Services. Table 2 summarizes, by descriptive category, the requested projects and our recommendations for each category.

Table 2
Department of Developmental Services
1984-85 Minor Capital Outlay Projects
(in thousands)

Category	Budget Bill: Number of Projects	Budget Bill: Amount	Analyst's Recommendation: Number of Projects	Analyst's Recommendation: Amount
Projects to Eliminate Program Deficiencies	19	$1,335	9	$672
Health and Safety	10	529	9	516
Site Improvements	4	227	4	227
Energy Conservation	14	918	14	879
Totals	47	$3,009	36	$2,294

We recommend deletion of $145,000 requested to construct exterior balconies on Building 54 at Agnews State Hospital. The department indicates that this project would provide outdoor space for patients in wards on the second and third levels of the building. Presently, staff must take the non-ambulatory patients living on the upper floors of this building down to the first floor and out the main door in order for these patients to go outside. According to the department, construction of the balcony would eliminate the need for staff supervision of the patients' movements. We recommend that funds for the project be deleted because (1) the department has not indicated that the current ratio of treatment staff to patients at this unit does not permit adequate supervision of patient movements, and (2) the hospital can and should determine those residents who should be located most appropriately on the first level in order to facilitate access to outdoor spaces, and then reassign space accordingly.

We recommend deletion of $132,000 proposed to restore the Nelson Treatment Center at Sonoma State Hospital. This facility, which originally provided treatment and classroom services, was remodeled extensively four years ago in order to provide living quarters for clients who were displaced during the fire/life safety, environmental remodeling of their living units. The department now proposes that the improvements installed four years ago, such as plumbing fixtures, walls, cabinet work and utility services, be removed and that the building be restored to its former condition.

When the funds were requested for construction of "swing" space at the various state hospitals, it was determined by the department that the alterations to this space would be permanent improvements, and that the hospital would develop appropriate plans to utilize the space efficiently once the remodeling program was completed. The department has provided no information justifying demolition of these improvements—im-

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

provements funded by the Legislature only four years ago, and we recommend the funds proposed for this work be deleted.

We recommend deletion of $18,000 proposed to install a computerized gasoline pump control system at Camarillo State Hospital. The department indicates that it is unable to control unauthorized use of gasoline by its employees because the hospital does not have sufficient resources to monitor the filling station 24 hours per day. To control the loss of fuel, this project would install a computerized card key control system on the gasoline pumps to monitor and record the quantity of fuel which is dispensed each time the pump is used.

We believe the hospital administration should be able to manage its supply of gasoline without the addition of an expensive computerized card key system. In addition, it is not clear why the station must remain open 24 hours a day. It would seem that gasoline needs could be met during normal working hours, with the pumps kept locked at all other times. If gasoline is required before or after normal working hours, those individuals who require gas could be given keys. For these reasons, we recommend that the funds be deleted.

We recommend deletion of $101,000 proposed for air conditioning of the canteen/dining room at Porterville State Hospital. This project was funded in the 1979 Budget Act, in the amount of $68,500, and the project was assigned to the Office of State Architect (OSA). The work involves replacing the existing air conditioning system by connecting the building to the central chiller plant. The project, however, has not proceeded because adequate funds are not available to cover OSA's current estimate of construction costs. Our analysis indicates that the OSA has spent over $15,000 in design services for a project originally estimated to cost $65,000 to construct—over 23 percent of the original budget.

We recommend that the department reevaluate this project. The original intent of this proposal was to replace existing equipment to reduce maintenance/energy costs. This however, was on the basis of a construction cost of $65,000. The estimated cost is now $101,000—a 55 percent increase. In view of this, the department should reassess the benefit of spending an additional $36,000 for this work versus less costly modifications to the existing system. Based on the information available, the original project is not justified. The existing system is providing cooling to the building, therefore denial of this project should not cause a hardship. A less costly project with a maintenance/energy cost-benefit would warrant legislative consideration. The project as proposed, however, is not justified and we recommend deletion of the $101,000 included for this project.

We recommend ~~deletion of~~ $21,000 proposed for floor-mounted protective T.V. cabinets at Camarillo State Hospital. The department indicates that approximately 15 television sets are destroyed each year and many others are damaged. This project would manufacture and install 40 floor-
approval mounted galvanized sheet metal enclosures, at a cost of $475.00 per television, to help prevent damage to the television sets.

Our analysis indicates that there are other less costly alternatives to this project. For example, television sets could be mounted from the ceilings and controlled remotely in order to eliminate some of the damage. Because other less-costly alternatives are available for solving this problem, we recommend that the requested funds be deleted.

We recommend deletion of $13,000 requested to install a fire sprinkler system in the basements of the Cohen and Malone buildings at Sonoma State Hospital. The department indicates that all combustible materials will be removed from these basements and stored in other locations at the hospital. Removal of this material negates the need for a fire sprinkler system. Consequently, we recommend deletion of this item.

We recommend a reduction of $39,000 to correct for overbudgeting of ten energy conservation projects. The budget includes $918,000 for 14 minor capital outlay energy projects. All of these projects have payback periods of less than three years and on that basis we recommend that they be approved. Our analysis indicates, however, that ten of these projects have been budgeted at a higher construction cost index than the Department of Finance has approved for the 1984–85 budget year. To correct for this overbudgeting, we recommend that funding for these projects be reduced by a total of $39,000.

We recommend a reduction of $246,000 for five projects for which there is no description and/or justification for the work being proposed. The five projects are:

recommend approval

— Remodel Dental Office—Fairview State Hospital ($15,000)
— Modify Main Kitchen—Lanterman State Hospital ($49,000)
— Remodel Pharmacy—Porterville State Hospital ($108,000)
— Covered Addition to Acute Annex Loading Dock—Porterville State Hospital ($21,000)
— Expand Demand Oxygen System—Porterville State Hospital ~~($53,000)~~ $30,000

We recommend that the $246,000 for this work be deleted.

Supplemental Report Language

For purposes of project definition and control, we recommend that supplemental report language be adopted by the fiscal subcommittees which describes the scope of each of the capital outlay projects approved under this item.

Projects by Descriptive Category

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

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

general improvements of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The fire/life safety project at Camarillo ($308,000) and the fire detection system at Napa ($620,000) fall under category one. The 14 energy projects ($879,000) fall under category five. The statewide handicapped project ($1,330,000) and the remaining minor projects ($1,428,000) fall under category seven.

Health and Welfare Agency

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS

Items 4440-001 and 4440-101
from the General Fund — Budget p. HW 116

Requested 1984–85	$384,066,000
Estimated 1983–84	342,454,000
Actual 1982–83	352,267,000
Requested increase (excluding amount for salary increases) $41,612,000 (+12.1 percent)	
Recommendation	Pending

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
4440-001-001—Department support		General	$19,498,000
4440-001-890—Department support		Federal	(535,000)
4440-101-001—Local assistance		General	364,568,000
4440-101-890—Local assistance		Federal	(13,554,000)
Total			$384,066,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Mental Health Initiative: 1099
   a. $35 Million Augmentation: Withhold recommendation, pending receipt of information indicating (a) what services would be provided with the $35 million augmentation and (b) on what basis the augmentation and the 2 percent cost-of-living adjustment would be allocated to the counties.
   b. Reductions in Administrative Requirements: Recommend the department submit information by April 1, 1984, indicating what management data would be collected from counties under the proposal. 1102
   c. Office of Mental Health Social Services (OMHSS): With- 1104

hold recommendation on the transfer of staff and $5,098,000 to counties, pending receipt of information comparing the costs of providing OMHSS services before and after the transfer.

d. Service Area Teams: Withhold recommendation on proposed reductions of $364,000 and 32 positions, pending receipt of information that describes the residual responsibilities and proposed staffing configurations of the teams. 1106

e. Headquarters Reduction: Withhold recommendation on the proposed reductions of $872,000 and 84 positions, pending receipt of information (a) identifying activities and associated positions and costs proposed to be discontinued and (b) documenting "zero-base" budget requirements for the functions that will remain after the proposal has been implemented. 1107

2. Sex Offender Pilot Project. Withhold recommendation on $78,000 and three new positions, pending receipt of information describing the treatment and evaluation components of the proposed project. 1108

GENERAL PROGRAM STATEMENT

The Department of Mental Health directs and coordinates statewide efforts aimed 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 serve the mentally disabled exclusively, and manage programs for the mentally disabled located at Camarillo and Napa State Hospitals, 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 694.9 authorized positions in the current year.

This analysis covers department support and local mental health programs. The analysis of the budget for state hospital programs for the mentally disabled is contained in our analysis of the state hospitals (Items 4300-111, 4440-011, and 4440-121).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $441,266,000 (all funds) for the support of the Department of Mental Health's activities in 1984–85. This is an increase of $38,913,000, or 9.8 percent, above estimated current-year expenditures.

Proposed General Fund expenditures on behalf of the department and its programs are $384,066,000, which is $41,612,000, or 12 percent, above the level of estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

The proposed increase of $38.9 million reflects:

- The administration's local mental health initiative, which (1) provides an augmentation of $35 million to local mental health programs,

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

(2) allows counties significant additional flexibility in designing local mental health programs, and (3) eliminates a substantial number of department positions.

- A 2 percent cost-of-living increase for local mental health programs.

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

Table 1
Department of Mental Health
Expenditures and Funding Sources
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Department support	$27,814	$30,136	$22,213	$7,923	−26.3%
Subventions to local mental health programs	379,327	372,217	419,053	46,836	12.6
Totals	$407,141	$402,353	$441,266	$38,913	9.7%
General Fund	*$352,269*	*$342,454*	*$384,066*	*$41,612*	*12.1%*
Reimbursements	*44,669*	*44,751*	*43,111*	*−1,640*	*−3.7*
Federal funds	*10,203*	*15,148*	*14,089*	*−1,059*	*−7.0*

Department Support

The budget proposes total expenditures of $22,213,000 for support of the Department of Mental Health in 1984–85. This is a decrease of $7,923,000, or 26 percent, below estimated current-year expenditures. The budget proposes a reduction of 440.9 positions, or 63 percent, by the end of 1984–85. Due to the gradual elimination of personnel, salary and benefits are proposed to decline only by 24 and 27 percent, respectively. Table 2 shows five-year trends in expenditures, source of funds, and authorized positions for departmental support. Operating costs are reduced by 30 percent.

Table 2
Department of Mental Health
Trends in Department Support
1980–81 through 1984–85
(dollars in thousands)

	Expenditures				*Source of Funds*			
	Salaries	*Benefits*	*Operating Expenses*	*Totals*	*Reimbursements*	*Federal Funds*	*General Fund*	*Authorized Positions*
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	710	29,214	805.7
1982–83	15,996	4,287	7,531	27,814	1,990	1,216	24,608	650.5
1983–84	15,956	5,267	8,913	30,136	3,820	1,014	25,302	694.9
1984–85	12,122	3,863	6,228	22,213	2,180	535	19,498	254.0
Change from 1983–84								
Amount	−3,834	−1,404	−2,685	−7,923	−1,640	−479	−5,804	−440.9
Percent	−24.0	−26.7	−30.1	−26.3	−42.9	−47.2	−22.9	−63.4

Budget Changes. Table 3 shows the department's proposed adjustments to current-year expenditures. The major changes are the result of the administration's local mental health initiative that would (1) transfer 299 positions in the Office of Mental Health Social Services to counties and (2) eliminate 116 positions from various divisions of the department.

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

	General Fund	*All Funds*
1983 Budget Act	$24,575	$29,709
Baseline adjustments, 1983–84		
1. Elimination of vacant positions	−62	−62
2. Reductions in county-funded projects	—	−403
3. Salary and benefit increases	725	829
4. Transfer of funds to local assistance item	−191	−191
5. Reappropriation of unexpended balance of family survival program funds	254	254
Adjusted base budget, 1983–84	$25,301	$30,136
Baseline adjustments, 1984–85		
1. Adjustments for one-time costs and savings	−217	−241
2. Full-year savings from 1983–84 position reduction	−186	−186
3. Full-year funding of 1983–84 salary and benefit increases	496	578
4. Retirement contribution adjustment	−13	−15
5. Social security rate adjustment	51	58
6. Six percent increase on operating expenses	269	307
7. Expiration of federally funded manpower program	—	−494
Program change proposals		
1. Mental health initiative		
a. Transfer 299.4 Office of Mental Health Social Services (OMHSS) positions to counties	−4,967	−6,640
b. Eliminate 32.5 service area team positions	−364	−381
c. Eliminate 84 headquarters positions		
1. 7.5 OMHSS overhead positions	−79	−103
2. 76.5 other positions	−793	−793
2. Reductions in operating expenses	−63	−76
3. New positions for evaluation of sex offender pilot project	78	78
4. Reductions in boards and commission expenses	−15	−15
Proposed budget, 1984–85	$19,498	$22,213

Local Mental Health Programs

The budget proposes an appropriation of $364,568,000 from the General Fund for assistance to local mental health programs in 1984–85. This is an increase of $47,416,000, or 15 percent, from estimated current-year expenditures. Total proposed expenditures for local mental health programs in 1984–85, including expenditures from reimbursements and federal funds, are $419,053,000, which is $46,836,000, or 13 percent, above estimated current-year expenditures. Table 4 displays local assistance expenditures and funding sources for the past, current, and budget years.

Budget Changes. Table 5 shows the department's proposed adjustments to estimated current-year expenditures for local mental health programs.

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

Table 4
Department of Mental Health
Local Assistance Expenditures and Funding Sources
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
General Fund	$327,659	$317,152	$364,568	$47,416	14.9%
Reimbursements [a]	42,679	40,931	40,931	—	—
Federal funds	8,989	14,134	13,554	−580	−4.1
Totals	$379,327	$372,217	$419,053	$46,836	12.6%

[a] Reimbursements are federal funds claimed by local mental health programs for services provided to Medi-Cal eligible persons.

The General Fund increase of $47.4 million results primarily from the administration's local mental health initiative proposal, which includes a $35 million augmentation for county mental health programs and $5.1 million to fund the transfer of 299 positions from the department to the counties. The other elements of the 1984–85 increase are:

- An increase of $6,344,000 for a 2 percent cost-of-living adjustment for local mental health programs.
- An augmentation of $974,000 to reimburse San Diego County for overmatching.

Table 5
Department of Mental Health
Local Assistance—Mental Health Programs
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
1983 Budget Act	$316,961	$371,446
Baseline adjustments, 1983–84		
1. Transfer from support to cover local assistance shortfall, 1983–84	191	191
2. Federal disaster assistance	—	580
Adjusted base budget, 1983–84	$317,152	$372,217
Baseline adjustments, 1984–85		
1. Termination of one-time federal funds	—	−580
Program change proposals, 1984–85		
1. Mental health initiative		
a. Budget augmentation	35,000	35,000
b. Office of Mental Health Social Services positions transfer from department support	5,098	5,098
2. San Diego overmatch adjustment	974	974
3. Cost-of-living adjustment (2 percent)	6,344	6,344
Proposed budget, 1984–85	$364,568	$419,053

ANALYSIS AND RECOMMENDATIONS

The administration proposes a major initiative that would restructure many elements of the current local mental health programs. The major elements of the proposal are as follows:

1. Local programs:
   - A $35 million augmentation for county programs, to be allocated based on an "equitable allocation formula."

- Elimination of county matching requirements for locally provided services.
- No changes in control of state hospital funds.
- Increases in the counties' flexibility in designing local programs.
- Significant reductions in county administrative requirements.

2. Department support:
   - Transfer to the counties of 299 positions and $5.1 million associated with the Office of Mental Health Social Services, which provides case management services for patients released from hospitals.
   - Reduce by 32 positions, or 66 percent, staffing for the service area teams, which review county plans and budgets and monitor county programs.
   - Elimination of 84 positions, or 28 percent, from existing headquarters staff.

Conceptually, many of the elements of the initiative appear to have merit and, if approved by the Legislature, could result in significant administrative savings in the department and counties. The department, however, has failed to document either the reasons for the proposed position reductions and transfers, or the need for the positions that remain. Consequently, substantive review of what the department's organizational structure, functions, and responsibilities would be under the administration's proposal was impossible prior to the time this analysis was prepared. *The Legislature needs significantly more information on the effects of the staff reductions and the need for the positions that remain.*

Below we describe the elements of the proposed initiative and identify the specific information that we believe the Legislature needs in order to assess the merits of the initiative.

Mental Health Initiative—Local Programs

$35 Million Augmentation and Allocation Procedures

We withhold recommendation on the proposed $35 million augmention, pending receipt of information indicating (1) how the funds would be used and (2) on what basis the $35 million and the $6.3 million proposed as a 2 percent cost-of-living adjustment would be allocated to counties.

The budget proposes an augmentation of $35 million to county mental health programs. There is no indication in the budget, however, of how these funds would be allocated or used.

The department indicates that it would allocate the $35 million to counties based on an "equitable allocation formula" that will be developed by April 1984. The budget contains no definition of the term "equitable allocation formula," nor does it indicate to what extent the current base funding amount of $317 million is equitably distributed. The department, however, does not intend to reallocate funding in the base using the "equitable allocation formula." At the time this analysis was prepared, the department had not determined whether it would use the new formula to distribute $6.3 million proposed for a 2 percent cost-of-living adjustment (COLA) for local programs.

Even though the proposed $35 million augmentation lacks supporting detail, a substantial augmentation appears consistent with the Legislature's actions taken in the 1983 Budget Act. The 1983 Budget Act as passed by the Legislature would have provided county programs with a $10 million COLA and $21 million in order to prevent program reductions in the county base budget that had been proposed by the administration. The Governor vetoed $28 million, including the COLA originally proposed in the budget, for a total reduction of $28 million. The 1983–84 reductions followed reductions of $15.2 million in 1982–83.

Lacking any details on how the $35 million would be allocated or used, however, we are unable to provide the Legislature with an analysis of the proposed augmentation. Accordingly, we withhold recommendation until the department has developed a means for allocating the funds, explained the basis for the allocation formula, and explained specifically what services the $35 million would purchase.

County Matching Requirements

Current law requires counties of over 100,000 population to provide a 15 percent match toward the cost of state and local hospital services and a 10 percent match toward the cost of other services.

The budget proposes to eliminate all matching requirements for locally provided services. The matching requirement on state hospital services would continue. The department estimates that the county match on locally provided services currently totals $30.8 million. Under the proposal, counties could continue to use these funds for mental health programs or divert them to other activities.

After the voters approved Proposition 13 in 1978, the state waived matching requirements under local mental health programs for one year. During that period, most counties continued to budget county funds for mental health programs. Therefore, it is possible that elimination of county matching requirements would have only a minimal short-term impact on local mental health services. It is also possible, however, that without matching requirements, counties would replace county funds with state funds made available from the $35 million augmentation or, alternatively, reduce mental health services available in the county. The Legislature may wish to consider establishing a county maintenance-of-effort requirement in conjunction with reducing county matching requirements.

Control of State Hospital Funds

Under the proposed initiative, the department would continue to control the appropriation for state hospital services for county-admitted patients ($143 million in 1984–85). Counties could request a reduction in their utilization of state hospital days and thereby receive a portion of the funds that would otherwise be spent by the hospitals on county patients. The amounts transferred from the hospitals' budget to the counties would be determined through negotiations with the department. Conversely, if counties wished to increase their admissions to state hospitals, the additional county costs would be determined through negotiation.

Changes in the Flexibility of Counties in Designing Their Own Programs

Current law limits the flexibility of counties in designing their mental health programs by (1) requiring department approval of county plans and budgets, (2) providing funds for community residential treatment programs on a categorical basis, (3) requiring counties to comply with statewide patient fee collection procedures, and (4) specifying maximum reimbursement rates.

The proposed initiative would delete many of the state controls on county programs. The specific changes are discussed below.

Planning and Budget Submissions. Current law requires counties to submit a substantial amount of planning and budget information as well as descriptive information on its programs. It also requires the department to review and approve county plans and budgets. Through this process, the department exercises some influence over the allocation of funds between service categories, although counties generally have been able to design their own service delivery systems with little direction from the state.

Under the proposal, counties would be required to spend their allocations of funds to provide mental health services. They would be required to offer some service in each of the existing service categories of administration, 24-hour care, day services, outpatient services, continuing care, and outreach. Counties would be able to decide, however, the amount of service that would be provided in any service category. Under the mental health initiative, counties would submit a grant application with a general description of county goals, programs, and population to be served, together with written assurances that the county will comply with the minimum state requirements.

Categorical Funding. Current law establishes a community residential treatment system. Operators of these programs are reimbursed under contracts with county mental health programs. The current-year budget includes $15.3 million in categorical funds for such programs.

Under the mental health initiative, funds would not be earmarked for community residential treatment systems. Counties could spend the funds on whatever services they determined had the highest priority.

Patient Fee Collection. Under current law, counties must collect fees from patients according to a statewide sliding fee schedule. Under the proposal, the statewide patient fee schedule would be eliminated, and counties would be allowed to determine their own fee schedules.

Maximum Reimbursement Limits. Current law establishes maximum reimbursement limits for mental health services equal to 125 percent of the statewide average cost for a given service. For example, if the statewide average cost for one day of hospital care is $300, the department would not reimburse a county more than $375 per day for hospital care.

Under the proposal, county mental health directors could enter into any fee arrangement with other county departments or private contractors. Current maximum reimbursement limits would be repealed.

Comments. Elimination of the department's role in county program design and budget formulation would probably have little immediate impact on the operation of the county mental health program and would result in administrative savings at the state level. Changes in the department's authority could, however, limit the Legislature's ability to set funding priorities in future years in the event it wishes to play a larger role in determining what services should be purchased with state funds.

Elimination of categorical funding for the community residential treatment system could lead to reductions in these programs in some localities.

Elimination of the current sliding fee schedule could result in a wide variety of collection practices. Some counties might eliminate fees, while others might increase them. We have no basis for projecting the net effect of this change on revenues to local mental health programs. Nor can we project what effect fee schedule changes might have on patients.

With passage of Medi-Cal reform legislation in 1982, the Legislature

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

introduced the concept of maximum state reimbursements for mental health services. As a result, counties that purchase services at prices above the reimbursement limits risk having to pay the excess costs from county funds. Whether the ceiling has caused counties to make more efficient purchases of services with available state dollars is unknown. Consequently, we have no basis for determining the effect of removing maximum reimbursement limits.

Reductions in Administrative Requirements

We recommend that by April 1, 1984, the department submit a report to the Legislature indicating what management data would be collected from the counties, how the data would be processed, and what resources would be available to interpret and analyze the data for the Legislature and department management.

The mental health initiative proposes changes in administrative procedures that alter in a dramatic way the relationship between the department and county mental health programs. These changes affect claiming procedures, audits, and reporting requirements.

Submission of Claims. Currently, counties are required to submit claims in order to obtain reimbursement for the cost of services they provide. In practice, however, the department advances counties $\frac{1}{12}$ of their annual allocation each month, rather than paying counties on the basis of claims.

Under the proposed initiative, submission of claims would not be required at all, except for claims involving federal Medi-Cal funds. Instead, counties would receive $\frac{1}{12}$ of their annual allocations each month. The department indicates that it intends to recover unspent funds after the end of the fiscal year.

The current special system for processing Medi-Cal claims would remain intact so that counties could continue to claim federal funds. County mental health programs currently receive approximately $40.9 million annually in federal Medi-Cal funds through this special claims processing system jointly operated by the Departments of Mental Health and Health Services.

Auditing. Currently, the department audits local mental health programs to determine whether counties spent their mental health allocations in a manner consistent with county plans and budgets. Under the proposal, the state would not audit county mental health programs. Instead, county mental health programs would arrange for audits by independent organizations and would forward the audit results to the state. The state would recover funds not spent in conformity with the state's minimum standards, as established in the initiative proposal, by reducing future allocations.

Reporting. Currently, counties have substantial reporting requirements. They are required to submit a large amount of planning information, as well as budgets, cost reports, county plans, client-specific service data, and other statistical material. Under the mental health initiative, counties would no longer be required to submit a large part of this data. The department has not specified which data submissions would be discontinued.

Comments. Although elimination of claiming could affect availability of statistics in the future, it would have little effect on cash flow to counties and would permit a reduction in departmental administrative costs.

Elimination of most departmental auditing responsibilities could affect the department's ability to determine that county allocations are spent for mental health services. The substitution of independent audits for state audits undoubtedly would result in some loss of uniformity in the application of audit guidelines. The effect on costs is not clear. The department has not provided any information to document that independent audits would be less costly than state-conducted audits.

A significant reduction in reporting requirements could significantly impair the Legislature's ability to assess the need for funds at the local level in future years. Without timely and accurate management data, the state cannot determine what mental health services are being provided by local programs and how effectively and efficiently General Fund resources are being used. The department's current data system is, however, inadequate to meet the state's management information needs. Continuation of the current system would not in itself resolve the problem of insufficient information. The Legislature has expressed its intent to improve the quality of data on local mental health programs as recently as 1983, when it added language to the 1983 Budget Act requiring the department to collect and the counties to submit client-specific data. We believe that some level of reporting should continue in order that the Legislature will have the information it needs to make policy decisions in future years.

The department has not presented details on the level of management reporting that would be required under its proposed initiative. Accordingly, we recommend that by April 1, 1984, the department submit to the Legislature information on what management data would be collected under its proposal, how the data would be processed, and what resources would be available to interpret and analyze the data for the Legislature and department management.

Mental Health Initiative—Department Support

As part of the mental health initiative, the budget proposes to eliminate by April 1, 1985, 116 positions in the department, including 84 from headquarters and 32 from service area teams. The position reduction will allow reductions in department support expenditures amounting to $1,236,000 in 1984–85 and approximately $4.1 million in 1985–86.

In addition, the budget proposes to transfer the 299 positions associated with the Office of Mental Health Social Services to county mental health programs by December 30, 1984. The position transfer will reduce department support expenditures by $4,967,000 in 1984–85 and approximately $10 million in 1985–86. These funds, plus a portion of funds associated with headquarters staff savings, would be transferred to local assistance.

Together, these position changes would reduce the department's authorized level of positions from 651 to 236 positions by June 30, 1985, a 64 percent reduction. The budget provides nine-month funding for the positions to be eliminated and six-month funding for the positions to be transferred, in order to avoid lay-offs.

Table 6 shows the department's authorized positions and proposed reductions. Under the administration's proposal, the number of headquarters positions would be reduced from 302 to 219, or by 28 percent. The service area teams would be reduced from 50 to 17 positions, or by 66 percent. The Office of Mental Health Social Services would be eliminated.

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

In total, the number of field positions would be reduced from 349 to 17, or by 95 percent. Our discussion of the staffing reductions is divided into three sections. The first section discusses the transfer of the Office of Mental Health Social Services, the second discusses service area team reductions, and the final section discusses headquarters position reductions.

Table 6
Department of Mental Health
Proposed Position Reductions

	Authorized Positions	Proposed Positions[a]	Change Amount	Change Percent
A. Positions proposed for elimination				
1. Headquarters				
Director's office	21.4	17.0	−4.4	−21%
Deputy director of clinical services	5.0	5.0	—	—
Division of Financial and Information Management	131.0	89.5	−41.5	−32
Division of State Hospital Programs	14.6	14.0	−0.6	−4
Division of Community Programs	46.0	24.0	−22.0	−48
Division of Human Resources and External Relations	39.5	32.0	−7.5	−19
Division of Planning, Evaluation, and Promotion	45.0	37.0	−8.0	−18
Subtotals	302.5	218.5	−84.0	−28%
2. Service area teams	49.5	17.0	−32.5	−66
Subtotals	352.0	235.5	116.5	−33%
B. Positions proposed for transfer				
Office of Mental Health Social Services	299.4	—	−299.4	−100
Totals	651.4	235.5	−415.9	−64%

[a] Excludes 18 positions associated with a federally funded project.

Transfer of the Office of Mental Health Social Services

We withhold recommendation pending receipt of additional information and review of the legislation proposed to accomplish the transfer. We recommend that by April 1, 1984, the department submit information comparing the costs of providing OMHSS services before and after the proposed transfer.

The budget proposes transferring the entire staff of the Office of Mental Health Social Services (OMHSS) and associated funds to the counties, permitting reductions in support expenditures of $4,967,000 in 1984–85 and approximately $10 million in 1985–86. These funds, plus a portion of funds associated with headquarters staff savings, would be transferred to local assistance.

The OMHSS staff arrange essential community services for mentally disordered individuals released from state and local psychiatric hospitals. Responsibilities of OMHSS caseworkers include locating suitable housing, arranging psychiatric treatment services, assisting clients in obtaining welfare benefits, and performing many other services.

The department has already transferred previous OMHSS staff and functions to 41 counties. Such transfers have had minor impact on program efficiency or operations. The same employees continue to perform the same functions after they become county employees. The remaining counties have been either unwilling or unable to accept responsibility for OMHSS service and related staff that remain. This is probably due to a variety of reasons. Counties with salary and benefit levels that are higher than the state's would incur additional costs were they to employ OMHSS staff, even if the full amount of the savings realized by the state was passed along to them. In addition, some counties' civil service regulations do not permit the transfer of staff from the state to the county. Finally, county officials have been reluctant to increase the number of county employees.

The department intends to address these problems through legislation that would transfer OMHSS staff and responsibilities to counties while assuring that employee rights and benefits will be protected.

Table 7 displays, by classification and region, the 299 OMHSS positions that the department proposes to transfer to those 17 counties that have not assumed direct responsibility for OMHSS staff and functions.

Table 7
Office of Mental Health Social Services
Positions Proposed for Transfer to Counties[a]

	Northern California	*Bay Area*	*Central Coast*	*Southern California*	*Los Angeles Area*	*Totals*
Supervisors	4.0	5.0	2.0	2.0	17.0	30.0
Social workers	23.5	30.2	14.5	15.0	109.5	192.7
Clerical	10.7	13.5	5.0	5.5	42.0	76.7
Totals	38.2	48.7	21.5	22.5	168.5	299.4

[a] Affected counties are Los Angeles (169.4 positions), San Francisco (25.5), Alameda (20.0), San Diego (20.0), Sonoma (15.5), Santa Clara (10.0), Monterey (8.5), Kern (9.0), Shasta (6.0), Humboldt (5.5), Imperial (2.5), Santa Cruz (2.0), San Mateo (2.0), Marin (1.0), Lassen/Plumas (0.75), Amador (0.5), and Modoc (0.25).

Information Needed. We withhold recommendation on the proposed transfer, pending receipt of additional information from the department. Given the limited information available at the time this analysis was prepared, we were unable to determine if OMHSS services could be provided by counties at less cost than by the state. Moreover, it is not clear if the legislation needed to transfer the positions will result in costs that are reimbursable by the state.

We recommend that by April 1, 1984, the department provide information that compares the cost of providing OMHSS services by the state with the costs of providing these services through the county. This information should include county-specific worksheets that clearly identify positions, average salaries, salary costs, benefit costs, salary savings, operating expenses, and overhead support costs in each county, before and after the transfer.

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

Service Area Team Reduction

We withhold recommendation on the proposed service area team reductions, pending the receipt of information that describes the residual responsibility and proposed staffing configurations of the teams.

The budget proposes to eliminate 32.5 of the 49.5 authorized service area team positions, for a reduction of 66 percent. Table 8 displays the proposed reductions, by region.

Table 8
Department of Mental Health
Proposed Service Area Team Reductions

	Northern California	*Bay Area*	*Central Coast*	*Southern California*	*Los Angeles Area*	*Totals*
Authorized positions	15.5	6	6	8	14	49.5
Proposed positions	5	3	3	4	2	17
Change						
Positions	−10.5	−3	−3	−4	−12	−32.5
Percent	−68%	−50%	−50%	−50%	−86%	−66%

Service area teams are located throughout the state and represent the department at the county level. The service area teams perform detailed reviews of county plan and budget submittals and process changes to the plans and budgets. The staff monitor county programs and report problems to department headquarters. They also communicate state policy concerns to the counties and county problems to the state.

Under the proposed mental health initiative, counties would submit to the department a general description of county goals, programs, and population to be served, together with written assurances that the county will comply with the basic program requirements. As a result, the need for service area teams would be greatly reduced.

Information Needed. We are unable to determine how many positions should be authorized for service area teams if the administration's proposal is approved. The department's written budget material provides virtually no discussion of the responsibilities and workload that would remain with the service area teams. In addition, as Table 8 shows, the department proposes particularly large service area team reductions in the Los Angeles and northern state areas. The department has not explained why the disproportionate staff changes would be appropriate.

In the absence of this information, we withhold recommendation on the proposed service area team reductions. We recommend that by April 1, 1984, the department submit budget justification material that (1) states in detail what the residual responsibilities and workload of the service area teams would be under the proposal and (2) proposes to the Legislature a staffing configuration to carry out the identified responsibilities and workload.

Headquarters Position Reductions

We withhold recommendation on the proposed reduction pending receipt of information from the department (1) identifying specific activities and associated positions and costs proposed to be discontinued and (2) showing "zero-base" staffing requirements after implementation of the proposal.

The budget proposes a reduction of 84 headquarters positions, which will result in savings of $872,000 in 1984–85 and approximately $3.4 million in 1985–86. The department has prepared no written justification describing the reductions in headquarters functions or workload that will result from the mental health initiative proposal. Consequently, we are unable to determine if either the proposed reduction of 84 positions, or the continuation of the remaining 219 positions is justified. Without budgetary support material, we are unable to advise the Legislature what an appropriate staffing level for the department would be.

Accordingly, we withhold recommendation on the proposed reduction pending receipt of additional information. We recommend that by April 1, 1984, the department (1) identify the specific activities that would be discontinued under the proposal and the number and cost of positions associated with the activities and (2) "zero base" its staffing requirements. Each of the department's responsibilities in state hospital and local mental health program management—and the specific workload that results from those responsibilities—should be identified and estimated at the section level.

Other Issues

San Diego County Augmentation

We recommend approval.

The budget proposes a General Fund augmentation of $974,000 to San Diego County's allocation for local mental health programs. The purpose of the augmentation is to restore funds to the county's base budget in order that San Diego be treated exactly as other counties were treated in 1981–82.

Background. Following passage of Proposition 13, the Legislature waived for one year the normal 10 percent county matching requirement for local mental health program services. Notwithstanding the waiver, several counties contributed up to 10 percent of their county's program costs in 1980–81. Subsequently, the 1981 Budget Act appropriated $9 million for those counties that had voluntarily contributed up to a 10 percent match. The purpose of the augmentation was to maintain the programs of those counties that had continued contributing at a constant expenditure level. Through a series of oversights, San Diego County's contribution was overlooked when the $9 million budget augmentation was calculated. As a result, San Diego never received the augmentation that other counties received. In the interim years, the county has continued to provide the funds necessary to maintain its program.

Under the budget proposal, San Diego County will have the option of (1) using the $974,000 in additional revenues to expand its mental health program or (2) using the funds to replace amounts formerly financed with county funds, thereby freeing up funds for unrelated purposes. The department informs us that the county mental health department will recommend to the Board of Supervisors that the augmentation be used for mental health program expansion. We recommend approval because the

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

augmentation would be consistent with the Legislature's earlier decision to provide funding to all counties that had voluntarily maintained county matching funds in 1980–81.

Sex Offender Pilot Project

We withhold recommendation on three new positions proposed for evaluation of the sex offender pilot project, pending receipt of information describing the treatment and evaluation components of the pilot project.

The budget proposes to add three new evaluation positions, at a cost of $78,000. These positions would evaluate the experimental treatment program for 50 sex offenders that is proposed for Atascadero State Hospital. We withhold recommendation on the evaluation positions until the department submits its description of the treatment and evaluation components of the proposed pilot project.

Legislative Mandates

We recommend approval.

The budget proposes $731,000 in Item 9680-001-001 to reimburse the cost of two mandated local programs. This amount includes: (1) $657,000 for costs resulting from Chapter 1061, Statutes of 1973, which requires local programs to provide specified services and administrative positions, and (2) $74,000 for costs resulting from Chapter 991, Statutes of 1979, which established a special due-process procedure to extend commitments of mentally disordered sex offenders.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 135

Requested 1984–85	$16,894,000
Recommended approval	322,000
Recommended reduction	15,870,000
Recommendation pending	702,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Transfer to the General Fund. Recommend that $15,870,000 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. 1110
2. Mental Health Initiative. Recommend that the department prepare a master plan for state hospital construction projects proposed in connection with the Mental Health Initiative, and submit the plan to the Legislature prior to hearings on the budget. 1110

3. ***Fire and Life Safety and Environmental Improvements, CTW Building—Metropolitan State Hospital. Reduce by $10,303,000.*** Recommend reduction because funding for construction will not be needed in the budget year. Withhold recommendation on $359,000 requested for working drawings, pending receipt of clarifying information from the department. 1112
4. Fire and Life Safety and Environmental Improvements, R & T Building—Metropolitan State Hospital. Withhold recommendation on $343,000 requested for preliminary plans and working drawings, pending receipt of additional information from the department. 1113
5. ***Upgrade Electrical Distribution System—Metropolitan State Hospital. Reduce by $142,000.*** Recommend deletion of preliminary planning and working drawing funds because the department has not developed adequate information to substantiate the need for this project. (Future Savings: $1,945,000). 1114
6. ***Heating and Air Conditioning—Atascadero State Hospital. Reduce by $626,000.*** Recommend deletion of working drawing funds for air conditioning and heating at Atascadero because a less expensive, energy-efficient alternative for meeting the hospital's needs is available. 1114
7. ***Patton State Hospital. Reduce Items 4440-301-036(3), (5), and (7) by $1,719,000, $809,000, and $607,000 respectively.*** Recommend deletion of three projects included in the budget for Patton State Hospital because the Legislature has stated its intentions that a plan be developed to transfer all penal code patients out of Patton. (Future Savings: $3,676,-000). 1116
8. ***Modular Buildings—Atascadero State Hospital. Reduce by $1,348,000.*** Recommend deletion of Item 4440-301-036(6) because the project is not cost-effective and would not be required if penal code patients are transferred from Patton State Hospital. 1117
9. ***Minor Capital Outlay. Reduce by $316,000.*** Recommend that two projects be reduced by $26,000 to eliminate overbudgeting and five projects be deleted because of inadequate justification ($290,000). 1118

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of $16,894,000 from the General Fund, Special Account for Capital Outlay (SAFCO), for capital outlay projects to be undertaken by the Department of Mental Health. Table 1 summarizes the requested projects and our recommendations.

Transfer to General Fund

We recommend that the savings resulting from our recommendations on Items 4440-301-036—$15,870,000—be transferred to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Table 1
Department of Mental Health
1984–85 Capital Outlay Projects (in thousands)

Sub-Item/Project Title	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Estimated*[b] *Future Cost*
(1) Fire and Life Safety and Environmental Improvements—CTW Building	Metropolitan	wc	$10,662	195 ~~pending~~	—
(2) Upgrade Electrical Distribution System	Metropolitan	pw	142	85 —	$1,945
(3) Security Improvements	Patton	c	1,719	—	—
(4) Heating and Air Conditioning of Patient Occupied Buildings	Atascadero	w	626	—	10,152
(5) Install Emergency Electrical Power	Patton	c	809	—	—
(6) Modular Buildings	Atascadero	pwc	1,348	—	—
(7) Fire and Life Safety and Environmental Improvements—R & T Building	Metropolitan	pw	343	100 ~~pending~~	2,795
(8) Fire and Life Safety and Environmental Improvements—Building 70	Patton	pw	607	—	3,676
(9) Minor Projects	Statewide	pwc	638	514 ~~822~~	—
Totals			$16,894	pending	$18,568

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

We recommend reductions in the Department of Mental Health's budget for capital outlay amounting to $15,870,000. Approval of these recommendations, which are discussed individually below, would leave an unappropriated balance of tideland oil revenues in the Special Account for Capital Outlay 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.

The State Mental Health Initiative

The capital outlay projects proposed for the state's mental health hospitals in 1984–85 are part of the administration's "Mental Health Initiative" —a multi-year program intended to upgrade the quality of hospital care and facilities for the state's mental health client population. As part of this initiative, the department will undertake activities designed to:

- Achieve accreditation of all mental health programs.
- Achieve certification of Lanterman-Petris-Short (LPS) programs for federal financial participation.
- Achieve proper security for penal code patients.

From a capital outlay perspective, the primary focus of the Mental Health Initiative is the department's goal of bringing state mental health hospitals into full compliance with existing federal and state fire and life safety standards, state licensing regulations, and handicapped accessibility requirements. To facilitate this and other objectives, the department has developed a schedule of capital outlay projects which will be completed at all state mental health hospitals during the next five years. The cost of the entire capital outlay program included as part of the Mental Health Initiative is estimated at over $100 million.

Background. In 1979, the Department of Mental Health prepared a "Plan of Correction" for facilities that it believed would be needed to serve the mentally disabled population in state hospitals during 1982. This plan envisioned a reduction of 1,500 beds from the number occupied in 1979, bringing total hospital capacity for mentally disabled patients to 3,600 by June 30, 1982. This included 2,000 beds for penal code clients.

In our *Analysis of the 1982–83 Budget Bill* and during 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) a number of renovation projects were deferred as a result of the state's fiscal condition, 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. Recognizing the lack of progress, 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 submitted to the Legislature in January 1983. In that report, the department indicated that its major goal was the correction of fire/life safety and environmental deficiencies, and the improvement of security at the state mental health hospitals. Presumably, the capital outlay portion of the Mental Health Initiative is directed at this goal.

Master Plan Should be Developed. Although the Legislature has indicated its support for upgrading the condition of the state's mental health hospitals, it has done so with the expectation that the department would prepare a comprehensive, long-range plan which specifically addressed all aspects of the proposed hospital construction program. Such a plan was in fact, prepared by the Department of Developmental Services before the Legislature entered into the recently completed multi-million dollar program to upgrade state hospitals for the developmentally-disabled. A similar master plan should be prepared before action is taken on capital outlay projects that are part of or related to the Mental Health Initiative.

At a minimum, this plan should:

1. Identify all capital outlay projects proposed as part of the Mental Health Initiative, the specific work to be completed, and the estimated cost of each.

2. Include a schedule for completion of these capital outlay projects, including timetables for all project phases.

3. Develop long-range goals and objectives for the mental health hospital system, and for each individual hospital, including population projections, and identification of proposed modifications and the types of patients to be treated at each hospital.

Although some components of the plan already have been prepared, the department has not yet compiled them into a document which explains, in clear detail, the goals and objectives of the Mental Health Initiative as it relates to state hospital construction. In order for the Legislature to properly review individual projects for capital improvements to state mental health hospitals, it first must have the department's master plan which outlines the needs of the mental health system, as well as the department's proposed plan of correction.

Accordingly, we recommend that the Department of Mental Health prepare a capital outlay master plan for the state mental health hospitals.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

The Department should submit this plan for legislative review prior to hearings on the budget for 1984–85.

Fire and Life Safety Improvements, CTW Building—Metropolitan State Hospital

approval $195,000

We recommend that Item 4440-301-036(1) be reduced by $10,303,000, because construction funds will not be required in the budget year. We ~~withhold~~ recommen~~dation on $359,000~~ requested for working drawings, ~~pending receipt of additional information from the department.~~

The budget proposes a total of $10,662,000 under Item 4440-301-036(1) for fire and life safety and environmental improvements to the Chronic Treatment West (CTW) Building at Metropolitan State Hospital in 1984–85. These funds would be used for the preparation of working drawings and for construction. The remodeling work planned for the CTW Building includes construction of privacy partitions, installation of equipment to provide comfort conditioning, roof replacement and other modifications to correct fire and life safety code deficiencies.

The Legislature has appropriated funds for preliminary plans and working drawings for the CTW building and according to the Office of State Architect (OSA), preliminary plans and working drawings were completed as of February, 1980. The Department of Finance indicates, however, that additional working drawing funds are required to add comfort conditioning which was not included in the completed working drawings. In addition, changes in code requirements since 1980 may require additional modifications to the working drawings.

Neither the OSA nor the department has provided any information regarding either what additional work will be incorporated into the working drawings or how much of the work which has been completed is useable. Accordingly, we withhold recommendation on funds for working drawings, pending receipt of this clarifying information from the department.

Request for Construction Funds is Premature. The department is also requesting $10,303,000 for construction work on the CTW building during the budget year. Our *Analysis* indicates, however, that construction funds are not required in the budget year because adequate "swing" space will not be available to house CTW building residents during project construction.

The swing space, which must be available before the CTW Building project can proceed, is presently occupied by Chronic Treatment East (CTE) Building residents. According to the Office of State Architect, fire/life safety and environmental improvement work on the CTE building is scheduled for completion no earlier than April, 1985. Assuming that working drawings for the CTW building are complete, and allowing sufficient time for the bidding process and relocation of CTE residents, our *analysis* indicates that construction on the CTW building could not begin any earlier than June, 1985. In addition, past experience with construction projects of this size indicates that a June 1985 construction date is optimistic and, more likely, construction on the CTW building would begin sometime in the 1985–86 fiscal year.

Finally, because of the potential change in scope of the project—comfort conditioning/code changes—the estimated construction cost cannot be verified.

For these reasons, we conclude that construction funds should not be appropriated in the budget year and we recommend that they be deleted.

Fire and Life Safety and Environmental Improvements, R & T Building—Metropolitan State Hospital approval of $100,000

We ~~withhold~~ recommend~~ation on $343,000~~ requested in Item 4440-301-036(7), ~~pending receipt of information identifying (1) fire/life safety work previously completed on the R & T building and all work which will be completed in the future, and (2) remodeling work proposed for the air conditioning system~~.

The budget includes $343,000 for preliminary plans and working drawings for fire and life safety and environmental improvements for 180 clients in the Receiving and Treatment (R&T) Building at Metropolitan State Hospital. Six units in this building would be remodeled to provide patient privacy in bedrooms and restrooms, handicap access and to bring the units into compliance with existing codes for fire and life safety. This project would also remodel the existing air conditioning system and install security screens on the windows. The estimated future cost of construction for this project is $2,795,000.

The R & T Building presently is used as swing space for fire/life safety projects which will involve the CTE and CTW Buildings at Metropolitan. The six swing space units in the R & T Building previously have been modified for interim fire and life safety improvements in order to comply with the State Fire Marshal's requirements so that the building could be used as swing space. The department indicates, however, that the Fire Marshal has recently re-inspected these units and has determined that not all of the required interim fire/life safety modifications have been made. The Fire Marshal has indicated that these modifications must be made immediately or the hospital will not receive fire clearance for these units.

The R & T Building project for which funds are requested in 1984–85 would make fire and life safety modifications to these units. Given the Fire Marshal's recent assessment of the fire safety condition of this building and the department's stated intentions to address those concerns immediately, we are unsure what specific fire/life safety work there will be left to do as part of the department's proposed R & T Building project. We recommend that the department provide information specifying what fire/life safety work will be completed in order to satisfy the State Fire Marshal's interim safety requirements, and what additional work, if any, will be included in the proposed R & T Building project to bring these units into compliance with applicable fire and life safety codes.

Moreover, the department indicates that the proposed R & T project also involves the remodeling of the existing air conditioning supply system to comply with Title 19 requirements. The department, however, has not provided any information identifying either existing deficiencies or the work proposed to be undertaken.

We recommend that the department report to the Legislature prior to budget hearings describing (1) all fire/life safety work which has been or will be completed on the R & T Building prior to initiation of this project and what work remains to be done, and (2) the remodeling work proposed for the air-conditioning system and the *specific* deficiencies that the work is designed to correct. We withhold recommendation on Item 4440-301-036(7), pending receipt of this clarifying information from the department.

rec approval of $85,000 for PW deleting improvements to 200 and 300 wards and leaving system above ground.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Upgrade Electrical Distribution System—Metropolitan State Hospital

We recommend that Item 4440-301-036(2) be deleted because the department has not developed adequate information to substantiate the need for this project, a reduction of $142,000. (Future savings: $1,945,000).

The budget proposes $142,000 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 $1,945,000. The department is requesting this project based on the results 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 since the 1976 report was completed.

The project includes not only improvements to the primary electrical distribution system, but also includes 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 cogeneration project that is planned at this hospital—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 pending cogeneration project, it would not be prudent for the state to undertake this portion of the work.

The department indicates that this project is necessary because the existing electrical distribution system will not be able to provide sufficient electrical capacity for the air conditioning system which will be installed in the CTE building. The department, however, has not provided any information identifying how much additional electrical capacity will be needed. In fact, it is not clear that any additional capacity is needed. The 1976 OSA study indicated that an additional load of 600 KVA, 25 percent more than what was then being used, could be handled by the existing system. Moreover, given the electrical power which will be available when the cogeneration project is on line, the electrical distribution system may be able to meet the needs of the proposed air conditioning system.

For these reasons, we recommend deletion of the $142,000 included for this item. (Future savings: $1,945,000.)

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

We recommend that Item 4440-301-036(4) be deleted because the department should install a less expensive, energy-efficient alternative system in lieu of this project, for a $626,000 reduction.

The budget proposes $626,000 under Item 4440-301-036(4) for working drawings to install air-conditioning and heating for patient-occupied buildings at Atascadero State Hospital.

The project initially was funded for preliminary plans and working drawings in the 1979 Budget Act, in the amount of $530,800. The 1979 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 method of air-conditioning would be 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 for working drawings ($222,800) 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 1984–85 request for $626,000 would—for the third time—provide funds for working drawings covering the project. This amount is $403,200 (81 percent) more than the amount provided in 1979 for the same purpose. Based on the completed preliminary plans, the estimated future cost of this project is $10,152,000.

Legislative Recommendation Ignored. The 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 previously 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 which, coupled with energy-efficient modifications, could provide 78 degree temperatures for essentially the entire cooling season and produce significant savings in capital costs and future energy costs. The alternative project would be capable of providing a 78 degree 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 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 degrees in patient-occupied areas. Consequently, we recommend that the requested working drawing funds be deleted, for a savings of $626,000. An alternative proposal which addresses the energy-conserving alternative to installing air conditioning at this hospital would warrant legislative consideration.

Bill: Assembly Sub 1 approves new Patton plan on 4/26/84. See me for details.

Randy

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Status of Patton State Hospital Has Not Been Decided

We recommend that three projects at Patton State Hospital, Items 4440-301-036(3), (5) and (7), be deleted because the Legislature has stated its intentions that a plan be developed to transfer all penal code patients out of Patton.

The 1984–85 budget includes funding for three projects at Patton State Hospital. Specifically, the budget includes $1,719,000 for various security improvements under Item 4440-301-036(3), $809,000 to provide emergency electrical power under Item 4440-301-036(5) and $607,000 under Item 4440-301-036(8) for preliminary plans and working drawings for fire/life safety and environmental improvements to Building 70. The security improvements and emergency electrical power projects previously have been considered by the Legislature. The proposed project for Building 70 is requested for the first time in the budget year.

Program Changes at Patton. For a number of years, Patton State Hospital housed programs for both the developmentally disabled (DD) and the mentally disabled (MD). In evaluating proposals to remodel the buildings occupied by developmentally disabled clients at Patton State Hospital, the Department of Developmental Services determined that it would be more cost-effective to discontinue the DD program at this hospital. Consequently, in 1980 the department initiated a program calling for Patton's DD clients to be placed in the community or transferred to other state hospitals.

Patton State Hospital is currently occupied solely by MD clients. A substantial portion of these clients are judicially committed offenders and clients committed under the penal code. At the present time, the building which houses these offenders is seriously overcrowded. It has a capacity of approximately 650 clients, while occupancy exceeds 900 clients.

Security Problems. The Legislature has been very concerned about the security at Patton State Hospital for a number of years. In an attempt to improve security, the Legislature previously has approved increases in the number of security staff along with funds for capital improvements. In addition, the department has entered into an interagency agreement with the Department of Corrections to secure correctional officers for the purpose of upgrading security at the hospital.

Plan to Transfer Penal Code Patients. In 1982, the Legislature enacted SB 1574 (Chapter 1549, Statutes of 1982) which contained a number of provisions regarding the future of Patton State Hospital. For instance, Section 36 of SB 1574 prohibited the transfer of inmates from the Department of Corrections to Patton. In addition, Section 35 transferred responsibility for the security of penal code patients at Patton to the Department of Corrections. It further required the Department of Corrections and the Department of Mental Health to jointly develop a plan to transfer all penal code (PC) patients out of Patton no later than January 1, 1986. This plan was to address whether the transferred patients should be moved to other state hospitals or to correctional facilities, or both, for commitment and treatment.

In September 1983, the departments released a report that *did not* include a specific plan for transferring Patton's PC patients. Instead, the report identified three transfer options:

1. Expand Atascadero State Hospital to accommodate additional Patton penal code patients.

2. Construct a new facility in Southern California for Patton penal code patients, to be administered by either the Department of Corrections or the Department of Mental Health.
3. Allow the Department of Mental Health to assume responsibility for operating Camarillo State Hospital, and transfer Patton penal code patients to this facility.

The third option contains three separate sub-options, each describing different alternatives for relocating clients presently housed at Camarillo.

The report estimates that the cost of these options could range from $174 million for option two, to $29.6 million for one of the alternatives under option three. It also indicates that *none* of the proposed options would result in the transfer of Patton penal code patients by the legislatively mandated January 1, 1986 deadline. In order to meet that deadline, the report recommends the adoption of an interim short term action plan which would provide for the temporary transfer of Patton penal code patients to six other state hospitals: Metropolitan, Atascadero, Camarillo, Napa, Stockton and Agnews. The report estimates that the cost of transferring the Patton penal code patients and making necessary security modifications at these six hospitals would be approximately $4 million.

The department has not provided sufficient information to substantiate the estimated cost for any of the listed options or for the interim short-term plan. The Legislature has not yet determined whether any one of the three options is acceptable, or if other alternatives for housing these penal code patients will be approved. The Legislature however, has clearly stated its intention that all penal code patients be removed from Patton State Hospital. Consequently, we recommend that the three capital outlay projects included in the budget for Patton State Hospital be deleted.

Installation of Modular Buildings—Atascadero State Hospital

We recommend that Item 4440-301-036(6) be deleted because the project is not cost-effective, and would not be required should penal code patients be transferred from Patton State Hospital, for a savings of $1,348,-000.

The budget includes $1,348,000 to install nine prefabricated modular buildings at Atascadero State Hospital. These modular buildings would be used as patient treatment activity centers. Existing space currently used for this purpose would be converted into patient bed-space, providing the hospital with additional capacity of 97 beds. The department indicates that the hospital has been cited for overcrowding patients.

The department's decision to install modular buildings as opposed to constructing a new patient housing facility is based upon its contention that construction of a new facility is more expensive than installing modular units.

Although the *initial* costs of constructing a new facility *may* be greater than installing modular units, our analysis indicates that the increased maintenance costs associated with modular units result in modular buildings being more expensive than new facilities in the long run. In addition, there are no assurances that the initial costs of constructing/installing modular units to meet the state's needs will be less than a conventionally constructed facility.

Moreover, the department's report to the Legislature regarding the transfer of penal code patients out of Patton State Hospital identifies two relocation options which involve Atascadero State Hospital. Should the

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Legislature choose to approve one of these options, the increased Penal Code population at Atascadero would require the construction of additional facilities. In that case, the hospital's present overcrowding problem could be remedied by the new construction, and modular buildings would not be needed.

In any event, the department's proposed solution does not evaluate thoroughly all costs associated with modular units. Consequently, we recommend that the $1,348,000 proposed for this project be deleted from the budget.

Minor Capital Outlay — recs approval of increase in handicapped access minor to $271,000.

We recommend that Item 4440-301-036(9), minor capital outlay, be reduced by $316,000 to eliminate funding for five projects which are not justified ($290,000), and to reduce two projects by $26,000 to correct for overbudgeting.

The budget includes $638,000 under Item 4440-301-036(9) for minor capital outlay projects at the Department of Mental Health facilities. Table 2 shows the requested projects and our recommendations on each.

Table 2
Department of Mental Health
Minor Capital Outlay
1984–85
(in thousands)

Project	*Location*	*Department Request*	*Analyst's Recommendation*
Alter Sallyport and Visitor Area	Atascadero	$132	~~$115~~ 120
Flood Protection—Maintenance Tunnel	Atascadero	32	—
Install On-Line T.V.	Metropolitan	122	—
Improve Patient Visiting Area Security	Atascadero	21	21
Replace Lights	Atascadero	8	—
Protect Roof Equipment—G.T. Building	Metropolitan	15	15
Improve Security of Perimeter Road	Atascadero	38	—
Improve Admissions Facility	Atascadero	90	30
Replace Lights	Metropolitan	17	17
Expand Upholstery Shop	Atascadero	~~24~~	~~24~~ dept. withdraws
Handicap Access	Statewide	271 ~~139~~	271 ~~130~~
Totals $12,000		$638	$514 ~~$322~~

We recommend a reduction of ~~$17,000~~ to one project proposed at Atascadero to alter the main sallyport and a ***reduction of $9,000*** to a statewide project for handicapped accessibility modifications. A review of the cost estimates prepared by the Office of State Architect and the department indicates that an excessive amount has been budgeted for architectural/engineering services and other contingencies related to these two projects. To keep these project budgets within state guidelines, a total of $26,000 should be deleted from Item 4440-301-036(9).

We recommend deletion of $32,000 requested to install four new automatic valves on water mains located in the hospital utility tunnel at Atascadero. The department states that these valves, which currently are manually operated, would be automatically activated to avoid flooding of the maintenance tunnel if a major earthquake should occur in the area.

We find, however, that in the event of a major earthquake, the existing manually operated shutoff valves could be used should the earthquake cause any damage to the water system. Manual valves are relied upon in other state facilities with utility tunnels, and we see no reason to install an expensive redundant system at Atascadero.

We recommend deletion of $122,000 to install on-line closed circuit T.V. at Metropolitan State Hospital. This project would provide for the installation of approximately 50 video monitors (at a cost of $2,440 per monitor) in employee breakrooms to provide training for the nursing staff. The department has not provided any information regarding the operation of this system.

The department indicates that the nursing staff currently receives overtime pay and compensatory time-off (CTO) to attend 12 hours of annual training required by licensing standards. Presently, nurses must leave the hospital to attend training sessions, and the department indicates that installing video monitors will allow some training to take place at the hospital site, saving CTO and overtime hours. It is not clear however, that any training which would take place at the hospital would not also require the use of CTO and/or overtime hours *or* that an expensive video monitoring system is necessary in order to offer the training sessions at the hospital. In addition, the department has not provided sufficient justification for either the project cost or the savings attributed to the project. Consequently, we recommend that funds for the project be deleted for a savings of $122,000.

We recommend deletion of $8,000 to replace 50 300-watt incandescent light fixtures with flourescent strip lighting at Atascadero State Hospital. The information submitted in support of this project does not substantiate the claimed energy savings for the project. Our analysis indicates that these 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 21 hours per day, rather than for eight hours per day, as proposed for the new lights. The department could realize the majority of the claimed savings by turning off the existing lights when the area is not is use. Moreover, the department could realize energy savings without the installation of strip lighting by simply replacing incandescent fixtures as they burn-out, with screw-type flourescent bulbs. Accordingly, we recommend deletion of the project for a savings of $8,000.

We recommend deletion of $38,000 to install security fencing and two electronic gates on the back perimeter road at Atascadero. The department states that the addition of this fence will prevent possible escapes from two courtyard areas. The courtyards presently are secured by approximately 16-foot high wall barriers and patients are monitored by hospital staff. The department has not provided any data to show that there currently is a security problem in these areas. Consequently, we recommend that the funds be deleted. — approval of $70,000

We recommend ~~deletion of $90,000~~ to construct an addition to the admissions building at Atascadero State Hospital. The department indicates that the present facility is inadequate, and does not meet the needs of the hospital. The project would construct a 690 square foot, two-room addition.

Our analysis indicates that the present admissions unit should be sufficient to meet the needs of the hospital. The department has not provided adequate information to justify the need for an addition which would increase the size of the admissions unit by 70 percent. Further, the depart-

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

ment has not justified the $130 per square foot cost of the addition. This cost is excessive, given the type of space and limited size of the proposed facility. Consequently, we recommend that the funds be deleted, for a savings of $90,000.

Supplemental Report Language

For purposes of project definition and control, we recommend that supplemental report language be adopted by the fiscal committees which describes the scope of each of the capital outlay projects approved under this item.

Projects by Descriptive Category

To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which our analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature. The six minor projects ($322,000) we have recommended be approved fall under category seven.

Health and Welfare Agency
EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General Fund and various funds — Budget p. HW 137

Requested 1984–85	$105,613,000
Estimated 1983–84	123,477,000
Actual 1982–83	63,001,000
Requested decrease (excluding amount for salary increases) $17,864,000 (−14.5 percent)	
Total recommended reduction	8,053,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5100-001-001	—EDD, support	General	$37,625,000
5100-001-184	—EDD, support	Benefit Audit	1,000,000
5100-001-185	—EDD, support	Contingent	10,679,000
5100-001-514	—EDD, support	Employment Training	55,000,000
5100-001-588	—EDD, support	Unemployment Compensation—Disability Insurance	(53,219,000)
5100-001-870	—EDD, support	Unemployment Administration	(357,524,000)
5100-001-908	—EDD, support	School Employees	(580,000)
5100-001-932	—EDD, support	Local Public Entity Employees	(271,000)
5100-001-979	—EDD, support	Consolidated Work Program	(62,545,000)
5100-011-890	—EDD, support	Federal Trust	(357,524,000)
5100-021-890	—EDD, support	Federal Trust	(62,545,000)
5100-101-185	—EDD, local assistance	Contingent	1,309,000
5100-101-588	—EDD, local assistance	Unemployment Compensation—Disability Insurance	(978,020,000)
5100-101-870	—EDD, local assistance	Unemployment Administration	(11,419,000)
5100-101-871	—EDD, local assistance	Unemployment	(2,984,000,000)
5100-101-890	—EDD, local assistance	Federal Trust	(231,826,000)
5100-101-908	—EDD, local assistance	School Employees	(43,634,000)
5100-101-932	—EDD, local assistance	Local Public Entity Employees	(7,327,000)
5100-101-979	—EDD, local assistance	Consolidated Work Program	(231,826,000)
5100-111-890	—EDD, local assistance	Federal Trust	(2,994,303,000)
Total			$105,613,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Future Administrative Options. Recommend adoption of supplemental report language requiring the Employment Development Department (EDD) to report to the Legislature on the options for improving or making more cost-effective the administration of EDD programs that are available to the state due to program automation. 1129
2. *Data Processing. Reduce: Item 5100-001-001 by $91,000;* 1130

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Item 5100-001-588 by $134,000; and Item 5100-001-870 by $1,594,000. Recommend that $1,819,000 be deleted because sufficient documentation of the need for this augmentation has not been provided to the Legislature.

3. Unemployment Insurance Administration. Recommend reduction of $1,622,000 from Item 5100-001-870 and 67.4 positions proposed for the administration of the Unemployment Insurance (UI) program to correct for overbudgeting. 1131
4. ***Benefit Audit Fund. Increase Item 5100-001-184 by $2 million. Reduce Item 5100-001-185 by $2 million.*** Recommend (1) increased expenditures of $2 million from the Benefit Audit Fund to reflect more accurate estimate of expected fund revenues, and (2) a corresponding reduction of $2 million to the EDD Contingent Fund, because the additional Benefit Audit Fund revenues can support proposed Contingent Fund activities. 1132
5. ***Salary Savings. Reduce Item 5100-001-001 by $2,474,000; Item 5100-001-185 by $5,488,000; Item 5100-001-588 by $1,996,000; and Item 5100-001-514 by $104,000.*** Recommend reduction of $10,062,000 in various items to reflect a more reasonable estimate of normal salary savings. Further recommend that EDD submit an expenditure plan for $529,000 in salary savings that will accrue to federal employment and training programs in 1984–85. 1133
6. ***Contingent Fund. Reduce Item 5100-001-001 by $7,488,000. Augment Item 5100-001-185 by $7,488,000.*** Recommend substitution of $7,488,000 from the EDD Contingent Fund for a comparable amount from the General Fund requested to support EDD activities, so as to increase the Legislature's fiscal flexibility. 1135
7. Employment Service Staffing. Recommend that, prior to budget hearings, EDD advise the fiscal committees on (a) the effect of eliminating 134.6 positions from the Employment Services (ES) program and (b) how the department proposes to use $7.7 million in discretionary ES funds in 1984–85. 1142
8. Local Service Provision. Recommend that, prior to budget hearings, EDD submit to the fiscal committees information justifying its proposal to eliminate 171.9 positions currently providing services for local service delivery areas under the Job Training Partnership Act. 1143
9. Training Program Cost Statistics. Recommend adoption of Budget Bill language requiring EDD to incorporate average daily attendance (ADA) reimbursement for EDD trainees in EDD cost data. Further recommend adoption of supplemental report language directing the department to report on the extent to which local educational agencies claim ADA reimbursement for training provided under EDD programs. 1144
10. Employment Program Assessment Process. Recommend EDD report to the fiscal committees on its plan to improve assessment process used by Displaced Worker programs. 1145

11. Job Training Partnership Act. Recommend that, prior to budget hearings, the department submit to the fiscal committees a plan for 1984–85 that describes the following aspects of the Job Training Coordinating Council's proposal: 1146
    a. The strategy used to implement the Job Training Partnership Act. 1149
    b. Improving the quality of information contained in local plans. 1150
    c. Its efforts to coordinate Economic Development activities with the Department of Economic and Business Development. 1153
    d. Redefining Title III participation criteria so that the long-term unemployed are not arbitrarily excluded from participation. 1155
    e. Improving the Title III programs by implementing the department's recent findings on Displaced Worker programs. 1155
    f. Requiring all Title III applications to contain specified information. 1155
    g. Requiring local plans to justify administrative support requests. 1155
    h. Coordination between the Coordinating Council and the Employment Training Panel (ETP). 1155
12. Training For Veterans Augment Item 5100-101-979 by $762,000. Recommend the legislature adopt Budget Bill language requiring the Job Training Coordinating Council apply for federal job training funds targeted to provide services to veterans. 1158
13. Employment Training Panel. Recommend that: 1159
    a. The Budget Bill be amended to list separately appropriations for administration and training. 1161
    b. Adoption of Budget Bill language requiring the ETP to support all outreach activities from the allocation for administration. 1161
    c. The ETP advise the fiscal committees of its plans to stay within the legislatively mandated 5 percent cap on administrative costs. 1161
    d. Reduction of $583,000 from the Employment Training Fund budgeted to support the costs of collecting the Employment Training Tax. Further recommend that these funds be redirected to provide additional ETP training. 1163
    e. The ETP submit a plan to establish training standards for the panel's training programs. 1163

GENERAL PROGRAM STATEMENT

The Employment Development Department (EDD) is responsible for administering the employment services program, 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

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

training programs.

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

The Budget Act authorized 12,675 positions in EDD for the current year. The department, however, administratively increased the number of positions by 313.2, due to funding increases for federally-funded extended UI benefit programs for a revised total of 12,988.2 positions in 1983–84.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $105,613,000 from various *state* funds for support of EDD in 1984–85. This is a decrease of $17,864,000, or 15 percent, from estimated current-year expenditures. This reduction is primarily due to the fact that $20.5 million in special fund support for the Employment Training Panel (ETP) programs carried over from the prior to the current year will not be available in the budget year. The reduction, moreover, makes no allowance for the cost of any salary or staff benefit increase that may be approved for the budget year.

General Fund Request

The budget proposes an appropriation of $37,625,000 from the General Fund to support the EDD in 1984–85. This represents a net increase of $2,474,000, or 7.0 percent, over estimated current-year expenditures. The budget proposes the following major changes in General Fund support for EDD in 1984–85:

- A $747,000 increase to fund the full-year cost of the 1983–84 salary increase, merit salary adjustments, and benefit costs.
- A $1,128,000, or 11 percent, increase for operating expenses and equipment.
- A 10 percent reduction in funding for the Job Agent and the Service Center programs, for a combined savings of $871,000.
- A $1,495,000 increase for the collection of personal income tax withholding, due to an increase in the number of required monthly payments by employers.

These and other budget changes are listed in Table 1.

Table 1
Employment Development Department
Proposed General Fund Budget Changes
1984–85
(in thousands)

	Adjustment	*Totals*
1983–84 Expenditures, Revised		$35,151
A. Baseline adjustments		
1. Increase in existing personnel costs		
a. Full-year funding of 6 percent salary increase	$612	
b. Merit salary adjustment	172	
c. Benefits	−37	
Subtotal		$747
2. Operating expenses and equipment		$1,128

3. One-time expenditures (Employment Preparation Program—Ch 832/82)		−$25
B. Program Change Proposals		
1. Employment and employment-related services		
a. Job agent	−$258	
b. Service center	−613	
2. Increased Personal Income Tax collections workload	1,495	
Subtotal		$624
1984–85 Expenditures, Proposed		$37,625
Change from 1983–84:		
Amount		$2,474
Percent		7.0

Total Revenues and Expenditures

Table 2 details the department's total revenues and expenditures, by program. As the table shows, total expenditures of $4,854,090,000 are projected for 1984–85. This is a decrease of $221,757,000, or 4.4 percent, below the current-year level. Of the $4.9 billion, $828 million (17 percent) is for programs and administration. The remaining $4.0 billion (83 percent) is for the payment of Unemployment Insurance (UI) and Disability Insurance (DI) benefits.

The $828 million proposed for programs and administration is $34.6 million, or 4.0 percent, below current-year expenditures. This reduction is due to (1) a $20.6 million reduction in the amount of funds available to the (Employment Training Panel) because funds carried over from the prior to the current year will not be available in the budget year and (2) a $24.1 million reduction in support for the federal Comprehensive Employment and Training Act (CETA). Partially offseting these reductions are the following increases: (1) a $7.0 million increase in federal support to the Employment Service program, (2) a 2.7 percent, or $6.1 million, increase in support for administration of the UI program, and (3) $4.1 million, or 8.2 percent, in additional administrative funding for the DI program.

Table 2

Employment Development Department
Expenditures and Revenues, By Program
All Funds
1982–83 through 1984–85
(in thousands)

				Change 1983–84 to 1984–85	
	1982–83	*1983–84*	*1984–85*	*Amount*	*Percent*
Employment Programs					
Employment Service	$83,526	$98,936	$105,916	$6,980	7.1%
Work Incentive (WIN) Program	24,035	36,466	38,077	1,611	4.4
Food Stamp Recipients	1,908	4,330	4,622	292	6.7
Service Centers	5,681	6,345	6,074	−271	−4.3
Job Agent	2,419	2,675	2,557	−118	−4.4
California Worksite Education and Training Act (CWETA)	10,015	—	—	—	—
Youth Employment	6,992	1,252	1,118	−134	−10.7
Employment Preparation	5,141	8,403	8,810	407	4.8

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Employment Assistance—Displaced Workers	66	—	—	—	—
Employment Training Panel	3,897	73,538	52,936	−20,602	−28.0
Comprehensive Employment and Training Act (CETA)	33,953	24,601	—	−24,601	−100.0%
Business-Labor Councils	832	991	1,063	72	−29.2
Contracts with Service Delivery Area	10,050	13,140	6,057	−7,083	−53.9
Job Training Partnership Act:	—	(298,371)	(294,371)	(−4,000)	(−1.3)
Adult and Youth Training	—	157,390	157,390	—	—
Displaced Workers	—	20,153	18,153	−2,000	−9.9
Educational Linkages	—	16,143	16,143	—	—
Governor's Discretionary	—	12,107	12,107	—	—
Administrative	—	12,089	10,089	−2,000	−16.5
Older Worker Training	—	6,053	6,053	—	—
Summer Youth	—	74,436	74,436	—	—
Totals, Employment Programs	$188,515	$569,048	$521,601	−$47,447	−8.3%
Unemployment Insurance (UI)	($3,526,385)	($3,546,428)	($3,277,058)	(−$269,370)	(−7.6%)
Administration	217,674	224,529	230,678	6,149	2.7
Benefits	3,308,711	3,321,899	3,046,380	−275,519	−8.3
Disability Insurance (DI)	(873,995)	(938,279)	(1,031,757)	(93,478)	(10.0)
Administration	43,753	49,685	53,737	4,052	8.2
Benefits	830,242	888,594	978,020	89,426	10.1
Former Inmates Program	(3,705)	(2,172)	(970)	(−1,202)	(−55.3)
Administration	199	172	—	−172	−100.0
Benefits	3,506	2,000	970	−1,030	−51.5
Personal Income Tax	14,828	16,745	19,067	2,322	13.9
Employment Training Tax	1,552	2,013	2,064	51	2.5
General Administration	(27,634)	(31,478)	(31,142)	(−336)	(−1.1)
Distributed	(26,659)	(30,316)	(29,569)	(−747)	(−2.5)
Undistributed	975	1,162	1,573	411	35.4
Total Budget	$4,609,955	$5,075,847	$4,854,090	−$221,757	−4.4%
Totals, Program	(467,496)	(863,354)	(828,720)	(−34,634)	(−4.0)
Totals, UI and DI Benefits	(4,142,459)	(4,212,493)	(4,025,370)	(−187,123)	(−4.4)
Revenue					
General Fund	$44,198	$35,151	$37,625	$2,474	7.0%
Disability Insurance Fund	872,977	937,511	1,031,046	93,535	10.0
EDD Contingent Fund	13,354	12,275	11,988	−287	−2.3
Employment Training Fund	5,449	75,551	55,000	−20,551	−27.2
School Employees Fund	38,112	40,375	44,214	3,839	9.5
Local Public Entity Employees Fund	6,084	7,241	7,598	357	4.9
Federal Unemployment Fund	3,232,759	3,255,418	2,982,884	−272,534	−8.4
Federal Unemployment Administration Fund	377,866	386,316	368,943	−17,373	−4.5
Federal Trust Fund	—	298,371	294,371	−4,000	−1.3
Benefit Audit Fund	—	500	1,000	500	100.0
Reimbursements	19,156	27,138	19,421	−7,717	−28.4
Totals	$4,609,955	$5,075,847	$4,854,090	−$221,757	−4.4%

Position Adjustments

The EDD budget proposes to eliminate 1,106.4 personnel years in 1984–85. These reductions stem from two sources. First, federal fund reductions in UI administration and the CETA program necessitate reductions of 883.4 positions. The balance of the total reduction (223 positions) reflects the net effect of (1) proposed reductions totaling 379.9 positions and (2) proposed increases totaling 156.9 positions. The proposed *reductions* are as follows:

- 97 positions in the General Employment Services program, reflecting the department's decision to use these positions, instead, to provide additional staff support for other EDD programs.
- 171.9 positions in the Contracted Job Training Services program, reflecting the expected decrease in the amount of training services that local service delivery areas will ask the state to provide under the federal Job Training Partnership Act.
- 25 positions in the Job Agent and Service Center programs, resulting from proposed program efficiencies.
- 86 positions used for the overall administration of the department, reflecting the reduced level of staff support for all EDD programs.

Proposed budget-year *increases* in EDD staffing are as follows:

- 43.3 positions for the Job Training Partnership Act program.
- 64 positions for the collection of personal income tax withholding due to workload increases.
- 49.6 positions for the administration of the Disability Insurance program.

The net effect of these proposals would be to reduce the number of *positions* in the department to 11,881.8 in the budget year. The department projects that it will have salary savings in the budget year equal to 152.7 positions (or 1.3 percent), leaving the department with 11,729.1 *personnel years.*

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

Table 3
Employment Development Department
Personnel Equivalents by Program
1983–84 and 1984–85

			Difference	
	1983–84	*1984–85*	*Number*	*Percent*
Employment Services	2,398.4	2,301.4	−97.0	−4.0%
WIN	830.0	830.1	.1	—
EPP	167.8	167.8	—	—
CETA	62.9	7.0	−55.9	−88.9
Contracted Prime Sponsor	221.2	52.0	−169.2	−76.5
Other Employment Programs	383.8	357.2	−26.6	−6.9
Subtotals, Employment Services	4,064.1	3,715.5	−348.6	−8.6%
Unemployment Insurance	6,022.8	5,195.3	−827.5	−13.7
Disability Insurance	1,340.2	1,389.8	49.6	3.7
Personal Income Tax	478.0	542.0	64.0	13.4
Former Inmate Program	5.1	—	−5.1	−100.0
Employment Training Fund—Collection	44.6	44.6	—	—
Administration	884.3	802.3	−82.0	−9.3
Employment Training Panel	53.0	53.0	—	—
Job Training Partnership Act (JTPA)	96.1	139.3	43.2	45.0
Totals	12,988.2	11,881.8	−1,106.4	−8.5%

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

ANALYSIS AND RECOMMENDATIONS

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 1984–85 of $1,031,757,000 for the DI program. Of this amount $53.7 million, or 5.2 percent, is for administrative costs and $978 million is for the payment of benefits. This represents a total increase of $93 million, or 10 percent, over current-year expenditures. Benefit expenditures are estimated to increase by $89.4 million, or 10 percent, over the current year, and administrative expenditures are projected to increase by $4.1 million, or 8.2 percent, due to increased workload.

Legislation Affecting the Disability Insurance Fund

Increased Maximum DI Benefits. Chapter 903, Statutes of 1983 (AB 518), increased the maximum DI benefits available to eligible individuals from $175 to $224 per week, beginning January 1, 1984. In addition, Chapter 903 requires individuals eligible for the increased benefits to pay higher DI taxes. The EDD estimates that this change will result in a net *gain* to the DI Fund of about $20 million a year, reflecting:

- Total *revenue* increases of $140 million annually.
- Total *expenditure* increases of $120 million each year.

Increased Weeks of DI Benefits. Chapter 1266, Statutes of 1983 (SB 1041), increased from 39 to 52 weeks the maximum number of weeks of DI benefits an individual may receive. The department estimates that these additional weeks of benefits will cost approximately $48 million a year. Of this amount, $46.9 million is for the increased cost of the DI benefits themselves and $1.1 million is for additional administrative costs.

UNEMPLOYMENT INSURANCE PROGRAM

The purpose of the UI program is to reduce economic hardship by providing benefit payments to eligible workers who, through no fault of their own, are temporarily unemployed. The UI benefits are financed through employer payroll taxes that vary according to (1) the experience of the individual employers in terms of the amount of benefits paid to current or former employees 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 1984–85, the budget proposes $231 million for UI administration and $3,046 million for benefits. The level of administrative expenditures is $6.1 million, or 2.7 percent, above the current-year level. The $3.0 billion in proposed UI benefits is $276 million, or 8.3 percent, below estimated 1983–

84 expenditures. Of the $3.0 billion, (1) $2.9 billion is for regular benefits paid from the state's UI Trust Fund, (2) $11.4 million is for claimants employed by the federal government who file in California, and (3) $49.6 million is for benefits to local government and school employees.

Legislation Affecting the UI Program

Benefit Audit Fund. Chapter 1219, Statutes of 1983 (AB 718), established the Benefit Audit Fund in order to finance the administrative costs of detecting and collecting overpayments of UI benefits. The fund will be supported with revenues generated by a penalty of 30 percent of the overpaid benefits assessed against individuals who make false statements or withhold information in order to receive benefits.

Automation of the Benefit Payment Control Program. Chapter 1226, Statutes of 1983 (AB 1654), requires the department to place a high priority on automating the Benefit Payment Control program. This program compares UI payments against employer work records in order to find cases where an individual simultaneously received UI benefits *and* wages from an employer. Chapter 1226 also increases from three to six years the length of time during which a person's UI or DI benefits or state income tax refunds may be offset in order to recapture overpayments.

DEPARTMENTAL SUPPORT

EDD Needs to Inform the Legislature of Future Options

We recommend that the Legislature adopt supplemental report language requiring the department to submit a report to the Legislature describing options for improving, or making more cost-effective, the administration of EDD programs that are available to the state as a result of program automation. This report should include the advantages and disadvantages of each option, as well as an indication of the department's preference, if any.

The EDD currently is automating almost all aspects of the department's operations in order to increase administrative efficiency. It is increasing automation in the delivery of services under the UI, DI, and Employment Services programs. In addition, it is establishing automated management informations systems with the aim of providing improved program information in the JTPA, UI Appeals, and Tax Collection programs.

The automation of service delivery may have profound effects on the manner in which the department administers its program in the future. Four areas are most likely to be affected by automation:

1. *Employment and Training Program Information.* The automated management system currently being installed will collect and store data on each client. This information system could allow EDD to track the type and amount of services received by each person in order to (1) eliminate the provision of duplicate services to a single client and (2) measure program effectiveness *across* programs. Using the performance measures under development by the department in conjunction with data generated by this system will permit interprogram comparisons needed by both the administration and the Legislature to evaluate the performance of EDD's employment and training programs.

2. *Disability Insurance Programs.* The DI field offices currently are being automated in order to increase administrative efficiency and pro-

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

vide data necessary to prevent and detect fraudulent claims. Automation could allow the DI program to either reduce the number of regional offices, thereby reducing administrative costs, and/or further improve the quality of administrative services.

3. ***Unemployment Insurance Programs.*** The UI program is also automating its field offices. This activity will streamline administrative procedures and increase fraud detection capabilities. As a result of these automation efforts, the department is contemplating an increase in the number of local claims offices. Centralizing check-writing activities is also being considered.

4. ***Employment Services Program.*** Computerized job listings are planned for all Employment Services (ES) offices. Because of the easy availability of these computerized listings, the EDD is considering increasing the number of local ES offices in urban areas. One option being discussed is to locate small ES offices in shopping malls, where the program administrators can better understand the needs of, and develop a rapport with, local employers.

The department is already required to report to the Legislature concerning its automation activities. It is not required, however, to report how automation will affect the future administration of its programs. Because the final decisions on automation will affect program operations for years to come, the Legislature needs to be informed of the options available to the department and the department's intentions with respect to those options. Therefore, we recommend that the Legislature adopt supplemental report language requiring the department to submit a report to the Legislature describing the options for improving, or making more cost-effective, the administration of EDD programs that are presented by program automation. The following supplemental report language is consistent with this recommendation.

"The Employment Development Department shall, by October 1, 1984, submit to the Legislature a report describing the department's current and future automation activities, the options for improving, or making more cost-effective, the administration of EDD programs that are available to the state once such automated systems are in place, the advantages and disadvantages of each option and the department's preferred option, if it has a preference. This information should be provided for the following programs: the Disability Insurance program, the Unemployment Insurance program, the Employment Service program, and all other employment and training programs administered by the department."

$1,096,000

Need for Additional Data Processing Funding Not Documented

We recommend an ~~$1,819,000~~ augmentation requested from various funding sources for data processing activities be deleted because (1) the department has not demonstrated that the programs providing these funds would benefit from the data processing activity and (2) the department has not adequately documented its need for additional data processing support. (Reduce Item 5100-001-001 by $91,000, Item 5100-001-588 by $134,000, and Item 5100-001-870 by ~~$1,594,000.~~) 5100-001-985 by $355,000 +

The budget proposes to redirect $1,819,000 ($91,000 from the General Fund, $134,000 in DI funds, and $1,594,000 in federal funds) from operating expenses ~~and equipment categories to~~ data processing. While most

redirect $516,000 to training

expense categories would be reduced to free-up money for an expansion of data processing activity, most of the reductions are proposed in three categories: general expenses ($654,000), printing ($463,000), and training ($516,000).

The department proposes to spend these funds on seven different data processing activities, including the following:

- Support of ongoing automation efforts to automate job listings in the Employment Service and Work Incentive programs ($736,000).
- Purchase of equipment for the automation of UI offices in Alameda, San Mateo, and Santa Clara Counties ($458,000).
- Purchase of equipment to automate EDD district offices ($280,000).

Our review identified a number of problems with the proposal. First, we were unable to evaluate the need for the requested increase in data processing support for the following reasons:

- ***Need for Additional Data Processing Support Not Documented.*** The data supplied by the department were not adequate to establish that the department needs the additional data processing support. For example, the EDD is asking for $521,000 to purchase equipment in order to automate its Tax Branch, which collects the UI and DI taxes, as well as the personal income tax withholdings from employers. Since the study regarding the automation design is not yet complete, however, it is not clear what additional equipment is needed.
- ***Department Proposes Activities that Cost More than Available Funding.*** While the department is requesting an increase of $1.8 million for data processing support, it lists $2.0 million worth of activities to be funded with the redirected expenses. As a result, we cannot determine which activities will receive funding.

Second, the proposed automation projects would not directly benefit those programs that are being asked to fund the costs of the projects. Of the $1.8 million proposed for redirection to data processing, $134,000 would come from the DI program. According to supporting documents provided by the department, the additional data processing activities for the DI program would cost only $10,000. As a result, the DI Fund would be subsidizing other funds in the amount of $124,000. Because the need for the additional data processing funds has not been justified, we recommend a reduction of $1,819,000 from various items. If approved, this reduction will result in the following savings: $91,000 to the General Fund, $134,000 to the DI Fund, and $1,594,000 in federal funds.

Federal Supplemental Compensation Program Overbudgeted

withdrawn

We recommend a reduction of 67.4 positions and $1,622,000 in federal Unemployment Insurance funds because the Federal Supplemental Compensation program is authorized for only nine months of 1984–85.

The Federal Supplemental Compensation (FSC) program provides additional unemployment benefits to individuals who exhaust eligibility for the initial 26 weeks of UI benefits. The FSC, which was slated to expire September 30, 1983, was extended by Congress for an additional 18 months—from October 1, 1983, through March 1, 1985. Under the extension, the FSC program provides up to 12 weeks of additional UI benefits to unemployed individuals in California.

The 1984–85 budget proposes to add $6.5 million in federal funds and 269.6 positions to administer the additional workload which is anticipated from the continuation of FSC benefits. The proposed amount assumes that

Maintain at $1 million; add Budget Bill language to supplant contingent fund support w/ BAF revenues if BAF revenues exceed $1 million.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

the FSC program will continue for all of 1984–85. The federal law, however, extends the FSC program only through March 31, 1985. As a result, administrative support for the program is overbudgeted by $1.6 million and 67.4 positions.

To correct for this overbudgeting, we recommend that Items 5100-001-870 and 5100-001-890 be reduced by $1,622,000. In addition, we recommend the reduction of 67.4 positions budgeted to administer the FSC program after the date the program is scheduled to expire. (Note: If the FSC program is extended beyond March 31, 1985, authorization to continue the positions and associated support needed to administer the program can be obtained—with appropriate legislative review—pursuant to Section 28 of the Budget Bill, as it was following last year's extension.)

Budget Underestimates Revenues From UI Benefit Fraud Activities

7 ***We recommend (1) an increase of $2 million in expenditures from the Benefit Audit Fund (BAF), because the budget understates the amount of revenues that will be available to the BAF, and (2) a corresponding reduction of $2 million in expenditures from the Contingent Fund, because the additional BAF revenues can support the activities proposed for funding from the Contingent Fund.***

Chapter 1219, Statutes of 1983 (AB 718), established the Benefit Audit Fund (BAF). The fund is supported with penalties assessed against individuals who willfully violate UI law in order to receive UI benefits to which they are not entitled. The BAF monies are intended to support the cost of EDD's efforts to detect UI benefit fraud. While the federal government provides funding for fraud detection, the department indicates that such funding has been inadequate in past years.

The budget proposes $3,275,000 in state support for UI benefit fraud activities. Of this amount, $1 million is from the BAF and $2,275,000 is from the EDD Contingent Fund.

The department estimates that approximately $1 million in penalty revenues will be collected by the BAF in 1984–85. If collections are greater than $1 million, the amount of Contingent Fund expenditures for UI fraud detection will be reduced in recognition of the additional BAF revenues. Our analysis, however, indicates that BAF revenues in 1984–85 will be substantially greater than the $1.0 million estimated by EDD, for the following reasons:

- ***The Benefit Audit Activities Will Be Fully Operational By January 1985.*** The department estimates that BAF revenues will total $4 million per year once the penalty assessment and collection operation is fully established. The department has advised us that the program should be fully operational by January 1985. Therefore, we estimate collections of *at least* $1 million in the first half of 1984–85 and $2 million during the period January 1 through June 30, 1985.
- ***The EDD Originally Estimated BAF Revenues of $3.7 Million in 1984–85.*** When Chapter 1219 was being considered by the Legislature, the EDD itself projected BAF revenues of $3.7 million for 1984–85. The department could not explain why the revenue estimate contained in the budget ($1 million) was so much lower than its earlier estimate.

We estimate that BAF revenues will total at least $3 million during 1984–85. Because the BAF was established specifically to support fraud detection activities, while Contingent Fund monies can be used for a wider range of activities, we recommend that the Legislature amend the Budget Bill to increase expenditures from the BAF by $2 million, and reduce fraud detection expenditures from the EDD Contingent Fund by a corresponding amount.

Salary Savings Estimate is Underestimated $8,096,000

We recommend that salary savings budgeted for EDD be increased to reflect recent experience, permitting a reduction of ~~$10,062,000~~ in the appropriations from various funds ($2,474,000 from Item 5100-001-001, $5,488,000 from Item 5100-001-185, $1,996,000 from Item 5100-001-588 and $104,000 from Item 5100-001-514. We further recommend that, prior to budget hearings, EDD submit to the fiscal committees, a plan detailing how $529,000 in salary savings from federal employment program support will be used in 1984–85.

When budgeting for salaries and wages, agencies are required to recognize that salary levels will fluctuate and that not all authorized positions will be filled throughout the year. Savings in the cost of salaries and wages occur due to vacant positions, leaves of absences, delays in filling or establishing positions, turnover, and refilling positions at a lower salary than initially budgeted. To prevent overbudgeting, the State Administrative Manual requires each agency to include an estimate of salary savings as a percentage reduction to the gross salaries and wages request. The manual further requires that "the amount of savings should be estimated on the basis of past-year experience in administering the departmental hiring plan."

The EDD has budgeted $3,824,000, or 1.5 percent of salaries and wages, as salary savings in 1984–85. This estimate, however, does not reflect the actual experience of the department, as shown in Table 4.

Table 4

Employment Development Department Salary Savings
1980–81 through 1982–83
(in thousands)

	Total Salaries and Wages Estimated at Mid-Year	*Estimated Salary Savings*		*Actual Total Salaries and Wages*	*Actual Salary Savings*[a]	
		Amount	*Percent*		*Amount*	*Percent*
1980–81	$273,976	$3,869	1.4%	$263,971	$10,005	3.7%
1981–82	270,670	3,968	1.5	247,523	23,147	8.5
1982–83	287,498	2,434	0.8	258,992	28,506	9.9

[a] Difference between total salaries and wages at mid-year and actual expenditures for salaries and wages.

Table 4 shows that the actual salary savings rate has significantly exceeded the estimated rate in each of the last three years. Moreover, we find that the salary savings rate shown in the table may understate the true amount of salary savings realized in these years because they do not reflect salary savings that may have been used to (1) establish unbudgeted positions administratively or (2) enlarge temporary help blankets.

The average actual unspent salary savings percentage experienced by the department during the period 1980–81 to 1982–83 was 7.4 percent. The department advises that, due to changes in the way the Department of Finance budgeted positions for 1984–85, the past-year savings rate no longer is an accurate guide to future salary savings estimates. This is

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

because the Department of Finance has limited the number of positions available to the department for the administration of the UI program. Because of these reductions, EDD believes that salary savings will be smaller than in past years.

Our analysis indicates that, due to various factors working to reduce the department's salary savings in 1984–85, the budget should reflect a salary savings rate of 4.3 percent in 1984–85—nearly three times the rate assumed in the budget. Applying a 4.3 percent estimate to the proposed salary and wages for 1984–85 results in an estimate of salary savings for 1984–85 equal to $11.8 million. This is $7,939,000 higher than the $3,824,000 proposed in the budget.

Because staff benefits are budgeted on the basis of authorized expenditures for salaries and wages, the cost of these benefits is overbudgeted to the extent that salary savings are underbudgeted. Again, using the 4.3 percent rate, we find that staff benefits in 1984–85 are overbudgeted by $2,652,000. Thus, in total we estimate that the EDD has overestimated its salary and benefit costs for 1984–85 by $10,591,000 ($7,939,000 salary savings and $2,652,000 staff benefits).

Of the amount overbudgeted for salaries and benefits, we recommend that $10,062,000 be deleted from the appropriate items of the Budget Bill (based on the proportion of positions supported by the various funds). These reductions will free up funds for other uses, thereby increasing the Legislature's flexibility.

Specifically, we recommend that the Legislature:

1. Reduce the appropriation from the EDD Contingent Fund by $5,488,000. Of this amount, $3.6 million in salary savings attributable to the UI program would be used to replace a like amount from the Contingent Fund budgeted for administrative support of the UI program. In addition, $1,875,000 in salary savings attributable to the Employment Service (ES) program would be used to replace a like amount from the Contingent Fund budgeted for the support of ES program activities. Using the salary savings that will accrue to these two programs as we have suggested is permissible under federal law.
2. Reduce General Fund support for EDD by $2,474,000. The resulting savings would come from two sources: (a) salary savings attributable to General Fund-supported positions ($1,281,000) and (b) salary savings attributable to positions supported by federal funds in the WIN and Employment Preparation Program (EPP) ($1,193,000) which can appropriately be used to supplant General Fund support. It is not our intent that these recommendations reduce program services. Instead, we make our suggestions so that the Legislature may use these funds in a manner consistent with its priorities.
3. Delete $1,996,000 from the Unemployment Compensation-Disability Insurance Fund to reflect salary savings that would accrue under the DI program.
4. Revert to the Employment Tax Fund $104,000 proposed for support of the operation of the Employment Training Panel and the collection of the Employment Training Tax. These funds would then become available to provide training to additional eligible individuals.

We also recommend that EDD advise the fiscal committees how it will use $529,000 in salary savings that will accrue to federal employment programs in 1984–85.

We should note that these recommendations are intended to achieve two purposes: (1) recognition of the fact that vacant positions within the department will result in larger program savings than are reflected in the budget and (2) provide the Legislature with additional flexibility in using funds to accomplish its objectives. It is not our intent that these recommendations reduce the level of services provided by these programs. We cannot, however, inform the Legislature how the department proposes to use funds that will accrue as a result of these salary savings, or whether they are proposed to be used in a manner that is consistent with legislative intent.

$7,137,000

Substitute Contingent Fund for General Fund Support

We recommend that ~~$7,488,000~~ from the Contingent Fund be used in lieu of a corresponding amount from the General Fund to support EDD employment programs in 1984–85, for a General Fund savings of $7,488,000. (Reduce 5100-001-001 by $7,488,000. Increase 5100-001-514 by $7,488,000).

If our recommendations on the Benefit Audit Fund and salary savings are approved, it would free-up $7,488,000 in EDD Contingent Fund monies. This consists of:

- $2 million in Contingent Fund monies that would be replaced by $2 million from the BAF.
- $5,488,000 in Contingent Fund monies that would be replaced by $3.6 million in federal UI administrative funds and $1.9 million in federal funds for the Employment Service program made available by increased salary savings.

Under current law, there are no restrictions on the use of Contingent Fund monies except that these funds may not supplant available federal funds. Our review indicates that the department does not require these funds to efficiently administer its programs in 1984–85. If the freed-up Contingent Fund monies are used to replace a like amount from the General Fund proposed for the support of the department, an additional $7.4 million would be available to the Legislature in the General Fund for its priorities in 1984–85. Therefore, in order to increase the Legislature's fiscal flexibility, we recommend that $7,488,000 from the Contingent Fund be used in lieu of a like amount from the General Fund in financing EDD's budget program for 1984–85.

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 18 employment and training programs. 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 $990 million on these programs in the budget year. The General Fund will finance about 39 percent of these expenditures ($384 million), while the federal government will fund the remaining 61 percent ($606 million). The EDD is the dominant state agency in the employment and training field, accounting for 52 percent of the total funds expended at the state level in this program area.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

A Summary of EDD Programs

Table 5 summarizes the 18 employment and training programs that would be administered by EDD in 1984–85. The table indicates that:

- The budget proposes $516 million for EDD employment and training programs in 1984–85, of which $77.8 million, or 15 percent, is from the General Fund or state special funds. The federal government will finance 85 percent, or $438 million, of the costs of these programs.
- The amount of federal funds available in 1984–85 will be $20.4 million less than the amount available in the current year, primarily due to the termination of the federal Comprehensive Employment and Training Act (CETA).
- Employment and training services costing approximately $244 million will be available to the general adult population in 1984–85, a decline of $21.2 million. Many of these programs give priority to the economically disadvantaged.
- Services targeted to youth will total $132 million in the budget year. All but $1.1 million of these funds is provided under the JTPA.

Programs of Other State Agencies

Table 6 summarizes the employment and training programs provided by eight other state agencies and the community colleges. It indicates that:

- The Regional Occupation Centers and Programs (ROC/P) and the vocational and adult education programs account for $257 million, or 54 percent, of total expenditures in 1984–85. 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 is the second largest training agency in terms of total funding, with a training budget of $139 million in 1984–85.
- The General Fund supports about 65 percent of the expenditures shown in table 6, which is four times the General Fund share of EDD programs.

Services Provided

Employment and training services available through the various programs shown in Table 5 and 6 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.

Costs of State Employment and Training Programs Vary Widely

Tables 5 and 6 also show the cost per participant and the cost per job placement or "successful closure" for various employment and training programs, for 1982–83. As these tables show, the cost and success of these programs varies widely. The most expensive programs cost more than $10,000 per participant; the least expensive programs cost approximately $50 per participant. The cost per job placement under these programs ranges from $300 to $32,000. Tables 5 and 6 also reveal a number of important facts about the state's employment and training programs:

- ***Training is Relatively Expensive.*** The EDD training programs (that is, JTPA and Employment Training Panel programs) cost $1,390 and $2,380, respectively, per participant. Similarly, many of the non-EDD programs have an average cost of over $1,000 per participant. In contrast, the cost of EDD programs providing employment services range between $50 and $530 per participant.
- ***Wages Inflate Costs Per Participant.*** The highest cost programs in both Tables 5 and 6 pay wages to trainees. The Supported Work program, the Career Opportunities Development (COD) program, the California Conservation Corps programs, and the Office of Statewide Health Planning and Development Family Practice program (Song-Brown program) cost more than $10,000 per participant.
- ***Cost Per Placement also Depends on Placement Rates.*** While cost per participant is an important determinant of cost per successful closure, the program placement rate also is a significant factor. For example, the Employment Training Panel (ETP) program anticipates costs of $2,380 per participant and $2,770 per job placement. The Trade Adjustment Act (TAA) training, however, costs only $790 per participant but $3,590 per placement. The reason the ETP expects higher costs per participant and lower costs per placement compared with TAA training is the high placement rate anticipated by the ETP.
- ***High Costs Do Not Imply Ineffective Programs.*** Some of the programs in Tables 5 and 6 seem to have especially high costs. This data, however, does not reflect the most important criterion of program success: the magnitude of the improvement in an individual's income and employability. The Supported Work program, costing $27,270 per placement, has been shown to be extremely successful in helping long-term recipients of Aid to Families with Dependent Children (AFDC) increase their employability and income. The reverse is also true—low program costs do not imply effective programs—for the same reasons. Other than JTPA and Employment Training Panel programs, however, none of the EDD programs collect income data on their clients.
- ***EDD Performance Data is Inconsistent.*** The programs in Table 5 use four different definitions of "successful closure." The four definitions are (1) placing an individual in a job, (2) placing an individual in a job lasting at least 4 days or enrolling an individual in a training program, (3) placing an individual in a job lasting at least 30 days, and (4) placing an individual in a job lasting at least 90 days. In addition, most EDD programs include as a "successful closure" an individual who finds a job on his or her own, and not as a result of services received from EDD. On the other hand, the ES program does *not* count such individuals as a success. As a result of these differences, the costs listed in Table 5 are not strictly comparable.
- ***EDD Does Not Collect Useful Performance Data On All of Its Programs.*** Table 5 shows three programs for which comparable data on program performance is collected.

Table 5
Employment Development Department
Inventory of Employment and Training Services[a]
1983–84 and 1984–85
(in millions)

Program	Services Provided	1983–84 General Fund	1983–84 Federal Fund	1983–84 Total	1984–85 General Fund	1984–85 Federal Fund	1984–85 Total	1982–83 Cost Per Participant	1982–83 Cost Per Successful Closure
A. AFDC Recipients Only									
1. Work Incentive (WIN) Program	Employment and supportive services	$5.8	$30.6	$36.4	$6.0	$32.1	$38.1	$50	$575[b]
2. Job Search Assistance Project (JSAP)	Employment and supportive services	(included in WIN)						(c)	(c)
3. California Welfare Employment Skills Training Act (CWESTA)	Education and job placement services	(0.8)	—	(0.8)	(0.8)	—	(0.8)	(d)	(d)
4. Supported Work Program	Work projects that provide gradual performance objectives and wages	(0.3)	(0.6)	(0.9)	(0.2)	—	(0.2)	$10,100	$27,270[b]
5. Employment Preparation Program (EPP)	Employment and supportive services	5.6	2.8	8.4	5.9	2.9	8.8	(c)	(c)
Subtotal		$11.4	$33.4	$44.8	$11.9	$35.0	$46.9		
B. Youth									
6. Job Corps	Recruitment for the federal Job Corps Program	—	$1.3	$1.3	—	$1.1	$1.1	NA	NA
7. Job Training Partnership Act, Title IIA-Youth	Employment services, training, and placement services	—	56.5	56.5	—	56.5	56.5	(d)	(d)
8. Job Training Partnership Act—Title IIB	Summer subsidized employment, employment, training and supportive services	—	74.4	74.4	—	74.4	74.4	(d)	(d)
Subtotal		—	$132.2	$132.2	—	$132.1	$132.1		
C. Displaced Workers									
9. Job Training Partnership Act—Title III	General employment services, training, and remedial education	—	20.2	20.2	—	18.2	18.2	(d)	(d)
10. Employment Training Panel	On-the-job training	$73.5[e]	—	73.5[e]	$52.9[e]	—	52.9[e]	$2,380	$2,770[f,g]

11. Trade Readjustment Act	Employment services, training and relocation allowances	—	4.9	4.9	—	4.8	4.8	$790	$3,590 [b]
Subtotal		$73.5	$25.1	$98.6	$52.9	$23.0	$75.9		
D. Other Targeted Programs									
12. Disabled Veterans Outreach Program (DVOP) and Local Veterans' Employment Representatives (LVER)	Community outreach, employment services	—	$10.8	$10.8	—	$12.2	$12.2	(c)	(c)
13. Food Stamp Recipient Registration Program	General employment services	—	4.3	4.3	—	4.6	4.6	$60	$930 [b]
Subtotal		—	$15.1	$15.1	—	$16.8	$16.8		
D. General Population									
14. Job Agents	Intensive employment services	$2.7	—	$2.7	$2.6	—	$2.6	$530	$1,120 [g]
15. Service Centers	Employment and training services in eight centers located in economically depressed areas	6.4	—	6.4	6.1	—	6.1	$340	$780 [h]
16. Employment Service	General employment	2.6	$80.6	83.2	3.2	$85.7	88.9	$50	$300 [i]
17. Jobs Training Partnership Act—Title IIA-Adults	Employment services, training, and supportive social services	—	147.3	147.3	—	145.3	145.3	$1,390	$3,610 [b,f]
18. Governor's CETA Special Grant	(1) Vocational education programs	—	7.1	7.1	—	—	—	—	—
	(2) Employment and training programs	—	17.0	17.0	—	—	—	—	—
	(3) Business-Labor Councils	1.0	0.5	1.5	1.1	—	1.1	—	—
Subtotal		$12.7	$252.5	$265.2	$13.0	$231.0	$244.0		
Total, EDD		$97.6	$458.3	$555.9	$77.8	$437.9	$515.7		

[a] Includes reimbursements by source of funding.
[b] The definition of "successful closure" is that a participant becomes employed while receiving program services.
[c] Data does not exist.
[d] Program has not been operating long enough to generate data.
[e] Program supported by funds from the Employment Training Fund.
[f] Projected program result.
[g] The definition of "successful closure" is that an individual is placed in a job for at least 90 days.
[h] The definition of "successful closure" is that an individual is placed in a job for at least 30 days.
[i] The definition of "successful closure" is that an individual is placed in a job expected to last at least 4 days or enrolled in a training program.

Table 6
Employment Services or Training Provided by Various State Agencies 1983–84 and 1984–85 (in millions)

		1983–84			1984–85			1982–83 Cost Per	
Program	*Services Provided*	*General Fund*	*Federal Fund*	*Total*	*General Fund*	*Federal Fund*	*Total*	*Participant*	*Job Placement*
1. Department of Rehabilitation									
• Vocational Rehabilitation Program	Vocational counseling, training, and supportive services to help clients keep and/or find a job	$18.6	$73.9	$92.5	$19.2	$76.6	$95.8	$3,540	$7,050
• Habilitation Services Program	Sheltered employment, work activity, and habilitation services	39.5	—	39.5	42.8	—	42.8	3,302	NA
2. State Personnel Board—Career Opportunities Development Program (COD)	On-the-job training in subsidized public sector jobs	4.5	(4.0 [a])	8.5	4.5	(4.2 [a])	8.7	10,660	22,390
3. Department of Education:									
• Regional Occupational Center and Programs	Vocational training	163.2	—	163.2	168.1	—	168.1	1,000 [e]	NA
• Vocational Education	Vocational training through the state's high schools	— [b]	63.3 [c]	63.3	— [b]	57.2	57.2	60 [e]	NA
• Adult Education	Short-term vocational training	30.0 [d]	—	30.0	32.0 [d]	—	32.0	130 [e]	NA
4. Community Colleges:									
• Apprenticeship programs	Classroom instruction for certified apprenticeship programs	9.9	—	9.9	10.2	—	10.2	550	NA
• Investment in People	Grants to establish instruction programs in high technology fields	1.9	—	1.9	1.9	—	1.9	720	NA
5. Department of Industrial Relations	Apprenticeship programs and on-the-job training	4.8	0.4	5.2	4.4	0.4	4.8	410	680
6. Department of Aging	General employment, training, and job development services	—	4.9	4.9	—	5.1	5.1	5,140	17,130
7. California Conservation Corps	Vocational training, remedial education, and employment in conservation projects	16.0	—	16.0	20.2	—	20.2	18,690	NA

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	3.1	—	3.1	3.0	—	3.0	32,400	32,400
9. Department of Social Services	Education, training, and employment services	—	24.2	24.2	—	28.6	28.6	NA	NA
Totals		$291.4	$166.7	$458.1	$306.3	$167.9	$474.2		

[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.
[e] Cost per total particpants, not based on ADA.

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Job Agents Could Increase Services

The budget proposes to eliminate seven positions and $258,000 in General Fund support for the Job Agent program. This represents a 10 percent reduction in the number of agents providing employment services. This program seeks to provide the employment services necessary for individuals to overcome specified barriers to employment. For example, a job agent may arrange skill training for an individual whose barrier is that he or she possesses no saleable skill.

To compensate for the reduced number of job agents, the department proposes to reduce from 120 to 90 days the length of time that clients may be served by the program. The EDD indicates that by shortening the potential service period, the existing level of service can be maintained in spite of the position reductions. The department advises that the average job agent client finds a job within 45 days. By reducing the potential service time by 30 days, the department advises that it would be able to spend more time helping those who have a better chance of finding a job. As a result, even with fewer agents, the department claims that it can maintain the existing level of service.

Our analysis indicates that by reducing the length of time a client can receive job agent services, the EDD can *partially* offset the effect of reducing the number of agents providing services. Our analysis also indicates that:

1. The two proposals are separable. The Legislature could choose to approve only the position reductions or only the productivity improvements. If it chooses to approve only the productivity increases (that is, the reduction in potential service time) and continue the existing number of Job Agents, the program could increase the services provided to unemployed individuals.

2. Reducing the length of time in which a client can receive services may reduce the number of hard-to-place individuals that find jobs as a result of Job Agent services. According to EDD documents, approximately 13 percent of all Job Agent clients found employment *after* 90 days in the program. Thus, limiting to 90 days the length of time a client may receive program services may result in fewer hard-to-place clients finding employment.

Legislature Has No Information on Position Reductions

We recommend that, prior to the budget hearings, the EDD advise the fiscal committees on (1) what effect the proposed reduction of 134.6 positions will have on the Employment Service (ES) program and (2) how it proposes to use discretionary ES funds in the budget year.

Effect of Reductions Not Known. The budget proposes to eliminate 134.6 positions from the ES program in 1984–85. The position reductions are *not* necessitated by a decrease in federal funding. On the contrary, federal support of the program is expected to total $77 million in the budget year, up $5 million, or 6.5 percent, from the current year. The EDD indicates that these positions were eliminated in order to "stay within the authorized position level." In other words, positions were eliminated from the ES program in order to offset increases in other areas of EDD's operations.

The department could not advise us of the impact that these reductions would have on the operation of the program in 1984–85. In addition, EDD could not indicate how it intends to use the $4.5 million in federal funds that would be freed-up as a result of eliminating these positions. The Legislature needs to have this information before it acts on the department's budget. Accordingly, we recommend that, prior to budget hearings, the department advise the fiscal committees regarding (1) the anticipated effect of the position reductions on the operation of the ES program and, (2) how it proposes to spend $4.5 million on funds that are freed-up as a result of the position reductions.

No Plan for Use of Discretionary Funds. Federal law permits the state to use 10 percent of its ES funds for discretionary purposes.

In the current year, the department is using $6.7 million in ES discretionary funds for three projects. Five million dollars is being used to provide employment and training services to special-needs individuals in conjunction with local SDAs. The remaining $1.7 million will support two special projects. One project will provide placement assistance for jobs resulting from the staging of the summer Olympics in Los Angeles in 1984. The second project earmarks funds for establishing an "Aerospace Employment Registry Office." This office is being developed to provide qualified workers to the aerospace industry in the Los Angeles area. The office has two goals: (1) recruit skilled workers for employment in the industry and (2) support training programs that specifically meet the needs of aerospace firms.

In 1984–85, the department will receive about $7.7 million in discretionary monies. The department advises that it has not yet developed a plan for the use of the discretionary funds in the budget year. In order to assure that the Legislature has an opportunity to participate in the allocation of these funds, we recommend that, prior to budget hearings, the EDD submit a plan describing how it intends to use $7.7 million in discretionary ES funds.

Proposal Limits Local Options Under JTPA

We recommend that, prior to budget hearings, the department submit to the fiscal committees information (1) documenting its assertion that local service delivery areas (SDA) will demand from EDD less employment and training services under the federal Job Training Partnership Act in 1984–85 and (2) justifying its proposal to assign one position to each SDA.

During the current year, EDD staff are providing employment and training services to local SDAs under the JTPA. For instance, EDD is providing assessment activities for many SDAs. All told, the department has allocated 227.9 positions and $13,140,000 to provide services for SDAs in 1983–84

The budget proposes to limit the amount of employment and training services provided by EDD staff to local SDAs in the budget year. As a result, the budget anticipates $6,057,000 in reimbursements from SDAs in 1984–85, a reduction of $7,083,000, or 54 percent, from the current-year level. The budget also requests 56 positions to provide those services, a decrease of 171.9 positions, or 75 percent.

The department believes that SDAs will not request the department to provide as many services to them as they did during the current year. Instead of using EDD, the department assumes that SDAs will use other

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training providers. The EDD indicates that the 56 remaining positions will allow the department to "provide services where there is a demonstrated community need."

We have several concerns with the department's proposal:

1. The proposal will reduce the options available to local SDAs. By eliminating these positions, the department is also eliminating its capacity to provide services for those SDAs that have few alternative employment and training providers.
2. The department could not provide information documenting its assertion that SDAs would request a lower level of employment and training services in 1984–85 than the level provided by EDD staff in 1983–84.
3. The department is not proposing to focus its remaining services on areas that need EDD-provided services the most. Instead, it is planning to provide one position to each SDA. By reducing to 56 positions the number of staff available to provide these services, and by assigning one position to each SDA, EDD further limits the program's flexibility in meeting the needs of SDAs.

Because of these concerns, we cannot adequately assess EDD's proposal for the budget year. For this reason, we recommend that, prior to budget hearings, the EDD submit to the fiscal committees information that:

1. Documents the department's assertion that SDA demand for employment and training services from EDD can be satisfied within the proposed level of support.
2. Justification of its proposal to assign one position to each SDA, rather than concentrate staff on those areas where, because alternative sources of employment and training services are few, assistance from EDD is most needed.

ADA Reimbursement Obscures Real Cost of EDD Training Programs

We recommend that the Legislature adopt Budget Bill language requiring EDD to include in its employment training program cost data the average daily attendance (ADA) reimbursement claimed by public education agencies in their role as providers of employment training for EDD programs. We further recommend that the Legislature adopt supplemental report language directing the department to report on the extent to which education agencies claim ADA reimbursement from the state for training provided for EDD.

Many training programs administered by the EDD use local education institutions to train program participants. The Employment Training Panel, for example, uses community colleges and Regional Occupation Centers and Programs (ROC/Ps) to provide training for electronics technicians, machinists, and office automation specialists.

The Department of Education and the Office of the Chancellor of the Community Colleges indicate that, whenever possible, community colleges and ROC/Ps claim reimbursement for the average daily attendance (ADA) of clients trained under contracts with EDD. According to the Department of Education, local public educational agencies are supposed to charge the EDD *only* for those costs not covered by ADA reimbursement.

Our analysis indicates that because ADA reimbursement helps support training under EDD programs, EDD program statistics do not reflect the total cost of training for many clients. For example, a community college may charge EDD $4,500 per trainee in electronics *and* claim ADA of approximately $2,000 per student. The EDD's performance data, however, will show a cost for this training of only $4,500 (the amount provided by EDD) not the total cost of $6,500. In this case, EDD's performance data—cost per trainee—would be understated by $2,000 a client.

In order to ensure that the Legislature has complete information on the total cost of training under various programs so that it can concentrate available funds where they are most effective, we recommend that the Legislature adopt the following Budget Bill language under Items 5100-001-001, 5100-001-514, 5100-001-870, 5100-001-979, and 5100-101-979:

"The Employment Development Department shall include as a cost in its training program performance data apportionment aid claimed by local public education agencies for the average daily attendance attributable to programs supported by funds appropriated in this item."

In addition, so that the Legislature will know the magnitude of the ADA subsidy, we recommend that it adopt supplemental report language requiring the EDD, in conjunction with the Department of Education and the Chancellor of the Community Colleges, to report to the Legislature concerning the amount of ADA aid claimed by local public agencies for EDD-supported programs. The following language is consistent with this Recommendation.

"The Employment Development Department, in conjunction with the Department of Education and the California Community Colleges, shall report by November 1, 1984, on the amount of apportionment aid claimed for ADA attributable to any employment or training program funded by the Employment Development Department in 1983–84, including Job Training Partnership Act programs administered by local service delivery areas."

EDD Acknowledges That Assessment Process Should Be Improved

We recommend that, prior to budget hearings, the EDD inform the fiscal committees of its plan to improve the process used to assess individuals for participation in displaced worker programs.

In November 1983, the EDD published an evaluation of displaced worker programs administered by the state. As part of this study, the EDD reviewed the assessment process used to determine the services displaced workers required in order to find a new job.

The EDD study concludes that "the importance of a complete and accurate assessment of needs and required services was not fully recognized" by many of the displaced worker programs. In addition, the EDD reported the following comments made by assessment workers:

- Often there was not enough time to do a complete assessment. Insufficient staffing levels during the beginning of the programs—when assessment work is the heaviest—caused assessments to be incomplete.
- Many of the assessment tools were outmoded or inadequate. For example, workers indicated that the results of some assessment tests did not provide sufficient guidance in order to determine which specific type and level of training a client should receive.
- Staff were not trained in the use of assessment tools.

Some training schools reassessed the clients referred to them for training because the Displaced Worker program assessments were inadequate.

We commend EDD for its evaluation of the displaced worker programs

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in general, and the assessment process in particular. Assessments are perhaps the most important step in the training process. If a person's skills are not adequately determined at the outset, subsequent training may be wasted because the training does not fit the needs of the individual. If assessment tools are not sufficient, EDD employment and training programs may not be as effective as possible. Accordingly, we recommend that EDD report to the fiscal committees prior to budget hearings on its plan to improve the tools and processes used to assess displaced workers.

JOB TRAINING PARTNERSHIP ACT

In 1982, the Congress enacted the Job Training Partnership Act (JTPA) in order to provide employment and training assistance to disadvantaged adults and youth, displaced workers, veterans, and migrant and seasonal farmworkers. The federal legislation requires both state and local government participation in the implementation and operation of JTPA programs. The JTPA replaced the Comprehensive Employment and Training Act (CETA).

Following enactment of the JTPA, the Legislature enacted the Family Economic Security Act (FESA) implementing the federal law within California. In addition, the Legislature enacted the Displaced Worker Assistance program, which provides for a joint local and state system of assistance to displaced workers (see Legislative Follow-up for further details).

The JTPA has five titles: Title I defines the administrative structure for the JTPA; Title II establishes the adult and youth training programs; Title III describes the displaced worker programs; Title IV establishes four federally administered employment and training programs; and Title V reauthorizes the Employment Service program.

In the following pages, we review California's progress in implementing the JTPA during 1983–84. At the time we prepared this analysis, most of the decisions for implementing the JPTA in 1983–84 had been made, and planning for 1984–85 was beginning. Implementation of the program in 1983–84 was carried out in less than six months—between July and December 1983. During this time, the EDD and the Job Training Coordinating Council (JTCC):

- Guided the design and implementation of the JTPA at the local level;
- Made special efforts to ensure that local EDD offices assisted and coordinated services with local JTPA programs; and
- Provided employment and training services at the request of the local programs.

Given the short time available to implement the new JTPA program, it was inevitable that some problems would arise. Regardless of these problems, the EDD did a good job of implementing the JTPA in a short period of time.

Federal Funding for JTPA is Constant in 1984–85

Table 7 shows the amount of federal funds available to California under the JTPA. Although the amounts of funds available for Titles II and III in the budget year are significantly higher than what was available in 1983–84, the actual funding levels authorized for the two fiscal years are the same. The apparent difference in funding levels is caused by the fact that, in the current year, funding for JTPA programs began in October 1983—

three months into the state's fiscal year. As a result, 1983–84 funding is for a nine-month period, whereas budget-year funding levels will support a full year of program operation.

Table 7
Job Training Partnership Act
Federal Funding Levels in California
1983–84 and 1984–85

Program	*1983–84*[a]	*1984–85*
Title II:		
Adult and Youth programs	$118,042,000	$157,390,000
Summer Youth programs	74,436,000	74,436,000
Vocational Education	12,107,000	16,143,000
Incentive grants	9,080,000	12,107,000
Administration	7,567,000	10,089,000
Older Workers	4,540,000	6,053,000
Subtotal	($225,772,000)	($276,218,000)
Title III—Displaced workers	$20,153,000[b]	$18,153,000
Title IV—Veterans	585,000	762,000
Title V—Employment services	72,277,000	77,308,000
Totals	$318,787,000	$372,441,000

[a] Titles II and III programs are being funded for nine months only.
[b] Includes $8.9 million in 1982–83 JTPA funds and $5.0 million in Department of Labor (DOL) discretionary funds allotted to specific programs by the Secretary of DOL.

Title I—Administrative Mechanisms Have Been Established for the JTPA

Title I of the JTPA establishes the major state and local administrative and oversight structures for the new employment and training programs. Title I requires that the state establish a Job Training Coordinating Council (JTCC) which is the state entity responsible for implementing and monitoring the operation of both Title II and Title III programs. In regard to Title II (adult and youth training), the JTCC makes recommendations to the Governor on (1) the designation of service delivery areas (SDA), (2) the Governor's Coordination and Special Services Plan, which establishes state JTPA goals and priorities, and (3) how special "set-aside" funds should be used. For Title III programs (displaced workers training), the council (1) determines the amount of funds to be set aside for "emergencies," (2) approves funding allocations to SDAs, and (3) establishes policies to guide economic development initiatives under the JTPA.

The SDAs design and administer at the local level both Title II and Title III programs. Under Title II, the SDAs have complete autonomy in creating training programs for adults and youth; the state has no direct role in these programs except to intercede where local plans conflict with federal law. Under Title III, however, SDA activity is optional. If an SDA wishes to receive Title III funding, it must apply to the Employment Development Department (EDD). If the area does not apply to the state, the EDD is permitted to establish displaced worker programs through other entities.

The Governor Designates SDAs. Any city or county can apply to the state to become a SDA. In addition, groups of cities or counties, known as consortiums, can apply. Federal law specifies, however, that applicants with a population (or combined population, in the case of a consortium) greater than 200,000 *must* be designated an SDA. Once an area is established as an SDA, a private industry council (PIC) is formed to guide the implementation of local programs.

Based on our review, we conclude that the designations made by the

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Governor tend to favor counties as SDAs to the extent permitted by federal law. In August 1983, the JTCC recommended and the Governor approved 50 SDAs, as shown in Table 8. Of the 50 SDAs, 11 are consortiums of cities or counties, 5 are cities, and the remaining 34 are counties. All 6 city or consortium SDAs have populations greater than 200,000, and had to be designated as SDAs under federal law.

Table 8

Job Training Partnership Act
Service Delivery Areas

Consortium SDAs	*County SDAs*	
Alameda Consortium	Butte	San Benito
Alpine Consortium	Contra Costa	San Francisco
Bellflower Consortium	Fresno	San Joaquin
Carson Consortium	Humboldt	San Luis Obispo
Colusa Consortium	Imperial	San Mateo
Cupertino Consortium	King	Santa Barbara
Del Norte Consortium	Los Angeles	Santa Clara
Duarte Consortium	Madera	Santa Cruz
Gardena Consortium	Marin	Shasta
Glendale Consortium	Mendocino	Solano
Kern Consortium	Merced	Sonoma
San Diego Consortium	Monterey	Stanislaus
City SDAs	Napa	Tulare
Long Beach City	Orange	Tuolumne
Los Angeles City	Riverside	Ventura
Oakland City	Sacramento	Yolo
Richmond City	San Bernardino	
San Bernardino City		

Administrative Allocations for Small County SDAs May Be Inadequate. The administration's policy of designating counties as SDAs wherever possible may result in inadequate funding for administrative costs in small counties. Federal law limits SDA administrative expenses to 15 percent of the local grant. As a result, small counties, which receive relatively small amounts of JTPA funding, may not receive adequate funds for administration.

Our review of SDA plans has identified four counties with allocations for administrative costs of less than $75,000. For example, the San Benito County JTPA allocation for 1983–84 totals $234,586. Of this amount, the allocation for administrative support (15 percent of the total) is $35,188, which may be inadequate to fully support the private industry council and the operation of the local programs. Adequate funding of administrative activities is important because many of these activities—such as program planning and evaluation—are critical to the success of subsequent skills training programs.

If an SDA's allocation for administration is inadequate, the SDA has two options. It can:

1. Subsidize JTPA administrative support with funds from another source.
2. Incorporate administrative costs into the cost of performance-based contracts. This is possible because federal law permits SDAs to purchase commercially available training courses on a competitive basis without requiring a breakdown of the cost components. As a result, SDAs could charge some administrative costs to their allocations for training by utilizing performance-based contracts.

Title II Programs—SDA Plans Have Been Approved

There are two major components to the Title II programs: Title IIa Adult and Youth Training programs and Title IIb Summer Youth programs. To date, state and local efforts to implement Title II have been aimed at the Adult and Youth Training programs. As of this writing, Summer Youth programs are still in the planning stages at the local level.

Adult and Youth Training Programs. The budget proposes the expenditure of $157.4 million in federal funds for Title IIa programs in 1984–85. These programs provide employment and skills training services to economically disadvantaged youth and adults. Federal law defines an economically disadvantaged person as an individual who:

1. Receives Aid to Families with Dependent Children (AFDC), general assistance, or food stamps; or
2. Is a member of a family receiving an income below the poverty threshold, adjusted for family size; or
3. Is a foster child receiving state or local cash payments; or
4. Is a handicapped adult earning less than the poverty threshold, regardless of family income.

Governor's Plan for Title II Program is Vague. Federal law requires the state to submit to the federal government a Governor's Coordination and Special Services Plan every two years as well as an annual statement of the Governor's goals and objectives for job training and placement programs within the state. The purpose of these plans is to declare the Governor's priorities for training and employment programs as a means of influencing the SDAs' design of these local programs.

These plans have been developed by the EDD and council staff, and were approved by the JTCC in November 1983. Our review indicates that the Governor's plans and goals for the Title II program in 1983–84 are vague and do not establish any theme or strategy for the state's JPTA program in 1983–84. In fact, many parts of the plans merely restate provisions of federal law. For instance, the main goals listed in the Governor's goals and objectives statement are:

1. Provide eligible economically disadvantaged individuals and displaced workers the vocational education, job training, and employment services needed to obtain private sector employment.
2. Encourage business retention and expansion that will result in the maintenance of existing jobs and the creation of new private sector jobs.

These goals are so general that they provide little guidance to SDAs.

A State Strategy Could Improve the Effectiveness of JTPA

We recommend, prior to the budget hearings, the EDD submit to the fiscal committees the proposed state strategy, approved by the Job Training Coordinating Council, for implementing the JTPA in 1984–85.

We reviewed the proposed Governor's Coordination and Special Services Plan for 1984–85 and concluded that it does not represent a significant improvement over the plan for the current year. As is true of the current-year plan, the 1984–85 plan does not contain an identifiable and comprehensive state strategy for the implementation of the JTPA.

Our analysis also indicates that a comprehensive state strategy for implementing JTPA could yield significant benefits to the state. Such a strategy could:

1. Increase the effectiveness of local programs by permitting the integration of all JTPA components at the local level.
2. Increase the effectiveness of other state employment and training

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programs by using JTPA discretionary funds to complement services provided by these other state programs.

Integrating the Components of JTPA. A predetermined state strategy would help the SDAs to integrate at the local level the various components of the JTPA. The existing JTCC procedures do not encourage such integration. In 1983–84, SDAs were required to submit up to 12 separate applications for funding under JTPA. The proliferation of guidelines and deadlines for so many applications made the local planning process difficult for some SDAs.

With advance knowledge of funding sources and program guidelines, SDAs could plan local programs so as to ensure that the component programs are coordinated. In fact, if the JTCC articulated a comprehensive state strategy that included SDA funding levels and program requirements, the council could design a single SDA application for all JTPA components. In this application, the SDA would describe the proposed use of funds and the way in which the programs would be coordinated.

Fitting JTPA into the State Training Network. The second benefit that a state strategy would yield is the opportunity to develop JTPA programs which complement—and improve—other employment and training services provided by the state. In addition to the funds spent under the JTPA, the EDD spends $143 million for employment and training services. To improve the overall effectiveness of these services, JTPA funding should be used as part of a coordinated employment and training strategy in California. For instance, where job opportunities are few, the council could target JTPA funds available for economic development. In those areas where Title III funding is not sufficient to meet local needs, the council could target JTPA funds available for special services activities to augment the local training budget.

In view of the potential benefits to be gained from a more comprehensive state strategy for implementing the JTPA, we recommend that EDD submit to the fiscal committees, prior to the budget hearings, a discussion of how the strategy proposed by the JTCC to guide the implementation of the JTPA in 1984–85 (1) encourages integration of JTPA component programs at the local level and (2) fits into the existing network of employment and training services.

SDA Applications for Title II Funds Need Improvement

We recommend that, prior to the budget hearings, the EDD inform the fiscal committees as to how the JTCC plans to improve the quality of information contained in local SDA plans.

Federal law requires each SDA to submit a plan to the state describing local priorities for JTPA funds, the types of services to be provided, and the administrative system to be used in delivering the services.

All 50 areas submitted plans approved by the JTCC to the EDD by December 1983. These plans were submitted on a form designed by the EDD.

We have conducted an extensive review of the SDAs' plans for 1983–84, and have drawn the following conclusions based on this review.

1. ***In many instances, the Title II form designed by the EDD did not provide the guidance necessary to ensure that plans were filled out in a uniform manner.*** For instance, the form did not adequately define categories such as "needs-based payments" or "employer-based training."

As a result, individual SDAs interpreted the terms differently, making it difficult to compare some of the information contained in the SDA plans.

2. ***The form requested irrelevant data, while ignoring pertinent information.*** For example, the EDD-designed form requested the cost per adult placed in a job *as calculated using a formula prescribed by the federal Department of Labor (DOL)*. The form, however, did not request an estimate of the cost each SDA actually expected to pay for employment and training programs. Our review of the SDA plans indicates that the requested DOL figure bore little relationship to the expected cost.

3. ***Many SDAs did not understand how to fill out the plans.*** As a result, we found numerous mistakes, inconsistencies, and missing data in the plans.

By July 1, 1984, the SDAs must submit a plan to the state for Title II programs in 1984–85. These plans, therefore, will have to be designed in the Spring of 1984, before the fiscal committees meet. In view of this, we recommend that, prior to the budget hearings, the EDD inform the fiscal committees of the steps it has taken to improve the quality of information contained in local plans.

Local Plans for Employment and Training Under JTPA Differ Widely. Given the importance of the JPTA, we compiled information on proposed SDA operations using only the data from the local plans that we consider reliable. The striking feature that emerges from this compilation is the wide variation in the types of training planned by the SDAs and the wide variation in expected outcomes from that training. Table 9 shows the types of training the SDAs plan to utilize and the average use of each type of training. The table shows, for example, that the planned use of remedial skills training by individual SDAs ranges from a high of 37 percent of job training slots to none at all. A similar pattern exists for the other types of training.

The variation reflected in our compilation of the SDA plans is *not* caused by a small number of highly unique plans. On the contrary, variation in the use of different types of training is widespread among the SDAs. This variation can be seen by examining the number of different types of training offered by the SDAs. For example, Table 9 shows the seven types of training that SDAs can provide. Only two SDAs, however, plan to offer all seven types of training; fifteen areas plan to offer four types of training; and three areas intend to offer only two types of training.

Table 9

Use of Training Alternatives Varies Widely Under Title II of the Job Training Partnership Act

	Percentage of Job Training Slots Anticipated by SDAs		
Training Description	*Average*	*High*	*Low*
Classroom—remedial skills	7.6%	36.6%	0.0
Classroom—occupational skills	33.2	84.5	0.0
On-the-job training	*	*	*
Work experience	6.9	37.3	0.0
Employer-based training	*	*	*
Other youth training	11.4	70.7	0.0
Job search assistance	*	*	*

SOURCE: Service Delivery Area Title II JTPA plans.

* Data were not included because definitions were not consistent enough to allow accurate classification.

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The SDA plans also anticipate widely different program outcomes, as shown in Table 10. For example, while the average SDA expects that 54 percent of adult trainees will be placed in jobs, the placement rate anticipated by individual SDAs ranges from 30 percent to 81 percent. The length of the adult training programs, which averages 19.4 weeks, ranges from a low of 9 weeks to a high of 30 weeks. In addition, there seems to be no relationship between the average *length* of training and expected placement rates. For instance, both Stanislaus and Santa Cruz counties expect the average adult training program to last 12 weeks. Santa Cruz County, however, expects a 77 percent adult placement rate, whereas Stanislaus County anticipates a 37 percent placement rate.

Table 10

Anticipated Effectiveness of Training Provided Under Title II of the Job Training Partnership Act Varies Widely

	Performance Anticipated by SDAs		
Performance Measure	*Average*	*High*	*Low*
Adult job placement rate	54.4%	80.6%	30.0%
Average weeks in training	19.4	30.0	9.0
Average wage after placement	$4.59	$6.00	$3.96
Cost per job placement	$5,156	$11,018	$2,122
Cost per total successes [a]	$4,640	$6,574	$1,565
Cost per participant	$1,982	$3,948	$689

[a] Success is defined as (1) an adult or youth placement in a job or (2) a youth staying in or returning to school.

SOURCE: Service Delivery Area Title II JTPA plans.

There are at least two reasons for this wide range of projected program outcomes. First, differing local economic conditions account for differences in the number of job opportunities for trainees. Second, the SDAs propose to target different eligible subpopulations for services, and plan to use different special program features when serving these individuals. Table 11 shows some of the optional program features that may affect placement rates and program costs. For example, 23 SDAs plan to provide "specialized services" to businesses in order to improve employment opportunities for JTPA participants, and 12 SDAs plan to provide economic development activities in conjunction with the training programs. These activities may increase employment opportunities—and program placement rates—in the areas where they are used.

Table 11

Job Training Partnership Act, Title II
Service Delivery Area Program Features

Program Feature	*Number of SDAs Using Feature*
Employer-related services	23
Economic development activities	12
Special targeting of services on welfare recipients	11

SOURCE: Service Delivery Area Title II JTPA plans.

It is also possible, however, that these program activities will lower placement rates. To the extent that SDAs spend JTPA funds to support these services or activities, the amount of funds available for training will be reduced. As a result, the SDAs may choose to fund less expensive training activities, thereby resulting in lower placement rates.

Special targeting of services on welfare recipients could also lower expected placement rates because welfare recipients often have fewer skills on which to build for placement in the labor market. Eleven SDAs plan to train recipients of General Assistance (GA) or AFDC in larger proportions than other economically disadvantaged groups within their local areas. As a result, these SDAs may experience lower short-term placement rates. The long-term effect of this targeting, however, is unknown.

Los Angeles County Plan Emphasizes Training for Welfare Recipients. The Los Angeles County is an example of an SDA that specifically targets welfare recipients for employment training. The county intends to provide JTPA training services mainly to GA and AFDC recipients. The county's plan reflects this special targeting. It anticipates that:

- The placement rate will be 32 percent, second lowest among all SDAs;
- The cost of placing an adult trainee in a job will average $8,705, third highest in the state; and
- 28 percent of all trainees will be enrolled in a work experience program, the second highest use of that type of training among all SDAs. Work experience—essentially, a highly structured and supervised job —is often provided to individuals who lack a basic grasp of good work habits such as the need for a good attendance record and high productivity.

State Discretionary Activities Under Title II

In addition to funding SDA programs, the JTPA allocates Title II funds to the state for four specified purposes. Of the federal Title II grant:

- 8 percent is earmarked for education coordination;
- 6 percent is set aside for incentive grants and technical assistance (incentive grants are used to provide bonuses to high-performing SDAs);
- 5 percent is allocated for state administration and auditing; and
- 3 percent is made available for training programs for older workers.

While the state has no authority to change the percentage of total *funds* set aside for these purposes, it does have discretion over the types of activities that are supported with these funds.

The State has Not Coordinated Its Economic Development Activities Under JTPA

We recommend that, prior to budget hearings, the EDD submit to the fiscal committees a plan approved by the state Job Training Coordinating Council which coordinates the economic development activities pursued as part of the JTPA with the economic development activities of the Department of Economic and Business Development.

Federal law allocates 5 percent of Title II funds for support of state administration and auditing. Federal law permits these funds to be used for a wide variety of activities other than administration and auditing. In the current year, the council used $2.5 million, or 33 percent, of these funds for economic development activities. These activities range from industry-wide training programs to joint-funding of local employment-related programs.

At the time this analysis was prepared, the EDD had received 13 applications from various local agencies for economic development funds. Of

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these applications, only two were recommended by the EDD to the JTCC for funding. This probably is due to the JTCC's policy of requiring that each economic development proposal be approved by the appropriate SDA. The JTCC felt that SDA approval was necessary to ensure local coordination. Only four of the applications, however, had secured the local SDA's approval. The EDD indicated that SDA approval was pending for a number of the other nine proposals.

While the council has insisted on coordination of economic development proposals at the local level, no coordination has taken place at the state level between the Council and the Department of Economic and Business Development (DEBD). Although a representative of the Business, Housing, and Transportation Agency is on the JTCC subcommittee overseeing the expenditure of these funds, this does not appear to be adequate to ensure that JTPA economic development strategies and priorities reflect those of the state's primary economic development agency, DEBD. At a minimum, the DEBD should be able to comment on each economic development proposal recommended for funding by the EDD.

Accordingly, we recommend that prior to the budget hearings, the EDD submit to the fiscal committees a plan approved by the JTCC for coordinating with the DEBD future economic development activities carried out under the JTPA.

Title III—Displaced Worker Programs Have Been Established

Title III of the JTPA authorizes a job-search assistance and training program for displaced workers. A wide range of services is available under Title III, including job-search assistance, skill training in high demand areas, pre-layoff assistance, and relocation assistance. In contrast to federal requirements covering Title II programs, the state is required to match federal grants for displaced workers on a dollar-for-dollar basis. Federal law permits one-half of UI benefits paid to displaced workers enrolled in a qualified training program to be applied toward the state match.

The JTPA delegates administration of Title III programs to the states. In California, Ch 537/83 (SB 73, Lockyer) and Ch 1234/83 (SB 178, Greene) established the Displaced Worker Assistance program. These measures emphasize the provision of services to displaced workers by the SDAs. Under the Displaced Workers program, the EDD contracts with SDAs to provide services to eligible individuals. The EDD is authorized to provide services directly to displaced workers, in instances where the SDAs do not propose to meet an identified need.

Title III Eligibility. Federal law specifies that the following three general categories of displaced workers are eligible for assistance:

1. Workers who (a) have been terminated, laid off, or are about to be laid off, (b) are eligible or have exhausted eligibility for UI benefits, and (c) are unlikely to return to their previous industry or occupation.
2. Those who have been terminated or are about to be terminated as a result of a permanent plant closure.
3. Long-term unemployed persons who have limited job opportunities in their previous occupation. This category includes older workers who encounter limited job prospects because of their age.

The budget proposes $18.2 million for Title III programs in 1984–85.

In the current year, the JTCC allocated $3.9 million, or 51 percent, of the 1983–84 Title III allotment to support 17 local displaced worker programs. All 17 programs will provide services to workers displaced due to plant closures. The remaining $3.7 million of Title III funds had not been allocated at the time this analysis was prepared.

Displaced Worker Programs Are Off to a Bad Start

We recommend that prior to the budget hearings the EDD submit to the fiscal committees a Title III plan for 1984–85 that (1) includes participation criteria which do not arbitrarily exclude the long-term unemployed, (2) reflects the experience learned from the department's evaluation of previous displaced worker programs, (3) requires the SDA applications to contain all essential program information, (4) requires SDAs to justify the need for administrative support, and (5) includes an agreement between the Job Training Coordinating Council and the Employment Training Panel establishing effective coordination between the two bodies.

No Title III State Plan in 1983–84. Federal law requires the state to submit to the Department of Labor a plan describing the use of displaced worker funds. The EDD indicates that no state plan was submitted in 1983–84. The department advises that it is in the process of developing the state's displaced worker plan for 1984–85.

Based on our review of the operation of the displaced worker program in 1983–84, we believe that improvements in this program can be made in 1984–85.

In order to improve the operation of the Displaced Worker program, we recommend that, prior to the budget hearings, the EDD submit to the fiscal committees a 1984–85 Title III state plan approved by the JTCC which incorporates the changes in program operations discussed below.

The State's Displaced Worker Program Restricts Services to the Long-Term Unemployed. The JTCC uses two primary criteria to evaluate Title III program proposed by SDAs. Specifically:

1. Proposals to serve individuals displaced by plant closures or layoffs must pinpoint a specific closure affecting local workers.
2. Proposals to serve the long-term unemployed must identify specific jobs awaiting trainees upon the successful completion of the program.

In 1983–84, the JTCC rejected all initial proposals to serve the long-term unemployed. Our analysis suggests that this is because proposals to serve the long-term unemployed must meet a higher standard than plant closure proposals. The former must identify specific jobs awaiting trainees, while the latter need not identify specific job opportunities.

The EDD indicates that the requirement that specific jobs be identified for the long-term unemployed is necessary because these individuals:

- May be eligible for adult and youth training programs under Title IIa;
- Live in areas without sufficient job opportunities to justify providing services; or
- May have undergone job training in a prior program without success. In these cases, the EDD feels that additional training would not really help unless specific jobs are available.

Our analysis indicates that the EDD's criteria for evaluating Title III proposals could potentially exclude individuals from receiving services under the JTPA merely because they are classified as long-term unemployed rather than as displaced workers due to plant closures. While some of the long-term unemployed may be eligible for Title IIa assistance, income criteria for this program would probably prohibit an individual whose spouse works from participating. In addition, while individuals may

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be *eligible* for Title IIa assistance, they may not receive such assistance because of an SDA policy to target general assistance or AFDC recipients for assistance.

Moreover, the EDD criteria may limit the effectiveness with which JTPA funds are used. Specifically, we find that:

1. Some SDAs with large numbers of long-term unemployed expect *increasing* employment opportunities in the near future. In fact, EDD rejected proposals to provide employment services to the long-term unemployed from areas where the *department* forecasts opportunities in all major industries.
2. The EDD could not provide evidence to support its assertion that most of the long-term unemployed have unsuccessfully undergone training similar to the proposed Title III program and therefore would not benefit from the provisions of additional services.

For these reasons, we recommend that, prior to the budget hearings, the EDD submit to the fiscal committees as part of its Title III plan, criteria for evaluating proposals that do not arbitrarily exclude the long-term unemployed from receiving employment services.

Approved proposals for displaced worker programs do not reflect lessons learned from past experience. In November 1983, EDD issued its evaluation of displaced worker programs administered under various state laws. In its evaluation, the department detailed a number of factors that influence the success of displaced worker training and job search assistance programs. The department concluded that:

- Supportive services, such as financial and stress counseling, are a necessary ingredient in helping displaced workers find employment.
- Training provided to workers did not always correspond to the needs of employers.
- Client follow-up contact was conducted infrequently. The study concluded that continuing contact with participants who have dropped out of the program could help eliminate barriers to participation.

While EDD recognized these problems, many of the Title III proposals it approved do not reflect that recognition. Our review of the approved Title III proposals for 1983–84 revealed that the SDA programs contain many of the same deficiencies that previous displaced worker programs exhibited. These problems include:

- ***Lack of Supportive Services.*** One SDA plan proposes no supportive services for displaced workers, and five SDAs plan to use 5 percent or less of program funds for supportive services. The council permitted SDAs to use up to 15 percent of program funds for supportive services.
- ***Failure to Match Employee Training to Employer Needs.*** Six of the approved SDA plans do not indicate what types of skill training will be offered to displaced workers or the methodology that SDAs proposed to use so as to insure that the training provided by the SDAs corresponds to the needs of local employers.
- ***Minimal Client Follow-Up.*** Only one of the SDA plans lists follow-up activities as an important element of the program's supportive services.

Under the Displaced Worker Assistance program, the EDD and the council are responsible for insuring that local programs "sufficiently meet the needs of displaced workers." By failing to apply the lessons learned from previous displaced worker programs, the state is not insuring that these programs are as effective as possible. For this reason, we recommend that the EDD submit, as part of its Title III plan for 1984–85, a proposal to improve the quality of displaced worker programs by avoiding the deficiencies encountered in previous programs.

The SDA Plans Do Not Contain Information Needed for Legislative Review. Chapters 537 and 1234 require that each SDA plan contain specified information. Our review found that many of the plans do not contain the required information. For example:

- Existing law requires SDAs to determine the types of job and training opportunities which exist in the local labor market area. Six of the approved plans do not contain such information.
- Existing law requires SDAs to provide sample measures or estimates of specified performance goals. None of the plans contained all of the required performance data. In addition, seven of the plans provided *no* performance data whatsoever.
- One approved plan in particular is so vague and contains so little information about the proposed program that we see no concrete basis on which the EDD could determine whether the plan meets the needs of displaced workers. The plan does not (1) specify local employment or training opportunities, (2) contemplate the provision of social services, (3) specify the number of individuals to be trained or the skills those individuals will learn, (4) detail the program performance goals, or (5) specify the manner in which fiscal control over the funds allocated to the SDA will be maintained.

Because these plans do not contain information necessary for effective monitoring and assessment of local programs by the Legislature, we recommend that EDD submit, as part of its Title III plan for 1984–85, a proposed SDA application form that requires SDAs to provide the program information required by state law.

Administrative Costs Not Justified. Federal law provides that up to 30 percent of the funds available for displaced worker programs may be used to support the administration of the programs and provide supportive services to clients. Federal law, however, does not specify what portion of the 30 percent allocation may be used for administration and what portion may be used for supportive services. The JTCC has established a policy of automatically approving any SDA request for administrative expenses that does not exceed 15 percent.

Most of the approved Title III plans for 1983–84 requested the full 15 percent of funds allocated for displaced worker programs for administration. Of the 17 approved SDA plans, only two requested less than 15 percent. One of the two SDAs requested 6.3 percent, the other requested 12 percent.

The SDA plans contain virtually no explanation or detail demonstrating the need for the requested administrative allocation. Without such detail, it is unclear how the council can determine whether the amounts requested for administrative costs are justified.

Our analysis indicates that the JTCC could reduce administrative expenditures at the local level if it requested and examined more detailed information on the administrative costs proposed by the SDAs. The JTCC could then use the resulting savings to assist additional displaced workers. For this reason, we recommend that prior to the budget hearings, the EDD submit to the fiscal committees, as part of its Title III plan for 1984–85, an SDA administrative cost worksheet approved by the JTCC

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that will provide the council with sufficient detail to determine the necessity of the administrative funding requests.

There Has Been No Coordination with the Employment Training Panel. Chapter 537 requires the department to "cooperate with the Employment Training Panel (ETP) in the coordination of training and services for displaced workers . . ." This coordination is essential for two reasons:

1. Both the panel and JTPA can serve workers that have been displaced or are likely to be displaced. While the eligibility rules for ETP programs include any unemployed individual who is eligible for UI benefits or who has exhausted eligibility for UI benefits, the panel can and does serve displaced workers. Therefore, coordination is essential in order to avoid duplication of services.

2. ETP funds can be applied towards the state match of federal JTPA displaced worker funds. Because of the different eligibility requirements, however, not all ETP expenditures qualify for the JTPA match. Consequently, coordination is needed to maximize the use of ETP funds for matching purposes.

Staff of the ETP indicate that there has been neither the EDD nor the Council has attempted to coordinate its activities with those of the panel. In addition, our analysis indicates that SDAs use ETP funds to match JTPA funds without first determining that they qualify as matching funds under federal law.

Accordingly, we recommend that prior to budget hearings, the EDD submit to the fiscal committees, an agreement with the ETP, approved by the JTCC, establishing effective coordination in order to (1) prevent duplication of services to displaced workers and (2) determine the correct amount of ETP expenditures that qualify for the purpose of matching federal Title III funds.

Title IV—Federally Administered Programs

Title IV of the JTPA establishes four federally administered employment and training programs in order to ensure that specific groups of individuals receive JTPA services. These programs target veterans, American Indians, migrant and seasonal farmworkers for services.

In implementing the veterans' programs, the Department of Labor established the following policies:

- States have the option of administering employment and training services for veterans. If a state decides to administer these funds, however, it must provide a dollar-for-dollar match. The match could be provided using any state or federal employment funds.
- Local SDAs could apply for employment and training funds for veterans in the event the state opted not to administer the funds.

The JTCC Should Apply for Federal Title IV Funds for Veterans

We recommend adoption of Budget Bill language requiring the JTCC to apply to the federal Department of Labor for Title IV funds for veterans in 1984–85. We further recommend that Item 5100-001-979 be augmented by $762,000 in anticipation of the receipt of federal funds for veterans' services.

In 1983–84, $585,000 in federal JTPA funds were available to California to support employment and training services for veterans. The JTCC, however, declined to apply for these funds. As a result, each SDA wishing to administer an employment and training program for veterans under Title IV had to apply separately for the funds.

The JTCC chose not to apply for the Title IV funds for two reasons: (1) the council believed that the state lacked the required matching funds and (2) the council believed that local SDAs should control the JTPA funds.

Our analysis indicates that the council's policy may unnecessarily forego federal funding for employment and training services for veterans, for the following reasons:

1. State funds were available in 1983–84 to match the federal JTPA Title IV funds. In fact, the Employment Training Panel earmarked enough training funds for veterans so that no other state matching funds would have been needed. Given the lack of coordination between the two programs, however, the availability of these matching funds was not known by the JTCC.

2. Only 28 SDAs applied for the Title IV veterans funding in 1983–84. It is possible that California will not receive the full amount of federal funding available to the state. In addition, veterans residing in areas that do *not* receive Title IV funds may be denied needed JTPA services.

It should be noted that in August 1983 the Legislature enacted ACR 47, which requested that the Governor use JTPA funds to develop employment and training programs for veterans.

Accordingly, we recommend the adoption of the following Budget bill language in order to ensure that California receives the full amount of federal funds available for veterans' programs in 1984–85.

> "The Job Training Coordinating Council shall apply to the federal government to allow the state to receive and administer Title IV-E funds for veterans' employment programs."

We further recommend that Item 5100-001-979 be increased by $762,000 in order to reflect the receipt of these funds.

EMPLOYMENT TRAINING PANEL

The Employment Training Panel (ETP), established by Ch 1074/82 (AB 3461), administers training programs for individuals covered by the Unemployment Insurance (UI) system. The act requires the panel to enter into "fixed-fee performance contracts" with employers or training agencies under which training is provided to eligible individuals. The "performance" feature of these contracts is that the employer or training agency is not paid for training a client unless the client is placed in an unsubsidized job for at least 90 days.

The panel's training programs are supported with funds raised by the Employer Training Tax (ETT). The ETT is a 0.1 percent payroll tax that is levied on all employers with a positive balance in their UI reserve account. (The amount in an employer's reserve account is the difference between the employer's contributions to the UI Fund and the amount of UI benefits paid to employees or former employees of the firm.) In 1984–85, the ETT is expected to generate revenues of just over $55 million. Because state law limits to $55 million the amount that can be deposited in the Employment Training Fund (ETF) during any one year, any additional collections in the budget year will revert to the UI Fund.

The ETF will have $78.6 million with which to support the panel's programs in 1983–84. Of this amount, $55 million represents current-year ETT collections and $23.6 million remains from deposits made in 1982–83. The panel expects to obligate the entire $78.6 million in 1983–84. As of December 1983, the panel had obligated $35 million of the total. About $19

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million had been allocated for 70 specific training programs. The balance —$16 million—had not been obligated for particular projects, but instead had been encumbered under one of the panel's several "master" contracts with various agencies. These agencies will use the funds to support future —and currently unspecified—training programs. Because the master contracts can have terms up to two years, the panel can obligate funds in one year and develop a specific training proposal for the funds in the next year.

The Panel Anticipates High Placement Rates

The panel expects its training programs to place a high percentage of trainees in jobs that last longer than 90 days. Table 12 summarizes the outcomes anticipated by the panel from its training programs. Of the training programs approved as of December 1983, the panel estimates that 84 percent of the participants will be placed in jobs for at least 90 days.

The high placement rate projected by the panel is due to three factors having to do with the design of the ETP program:

1. Employers who receive ETP subsidies are required to provide specific jobs to trainees who successfully complete training. This virtually guarantees high placement rates.

2. Performance-based contracting—where training costs are reimbursed for only those trainees who are placed in jobs for at least 90 days— ensures that employers and training agencies work hard to place trainees. The reimbursement rate agreed to by the ETP and training agencies assume that a certain percentage of the trainees will not complete the training course. If fewer trainees are placed than anticipated in the contract, however, the employer or training agency will not receive full reimbursement for its costs.

3. The ETP programs select trainees who are most likely to complete training successfully. This is done through intensive screening of applicants. As a result of this screening process the panel will train only those individuals it considers to be the highest quality workers. In addition, the ETP's eligibility rules permit the panel to select its trainees from a pool of experienced, proven workers.

Table 12

ETP Programs Anticipate High Placement Rates

1983–84

	ETP Anticipated Outcomes		
Performance Measure	*Average*	*High*	*Low*
Placement rate	84.3%	100.0%	65.7%
Average hourly wage after placement	$7	$23	$5
Cost per participant [a]	2,380	4,490	1,016
Cost per job placement [a]	2,768	5,223	1,047

[a] Costs do not include administrative costs.

SOURCE: ETP contract proposals.

Table 12 also shows that planned ETP outcomes—like the results from the Job Training Partnership Act—vary considerably among training agencies. As discussed above, JTPA program results vary because of the different training strategies used by the SDAs. The variation in ETP outcomes, however, is mainly due to the difference in the complexity of the skills being taught. For instance, training consumer service representatives ($1,155 per placement) is significantly less expensive than training computer technicians ($4,800). The cost differential is the result of two factors: (1) service representatives require fewer specialized skills than technicians, which means that training programs are shorter and less intense for service representatives than they are for technicians, and (2) technician training requires expensive equipment in order to adequately train individuals.

The panel does not anticipate that complex training programs will suffer from higher trainee-dropout rates. Our review of expected dropout rates identified no relationship between the difficulty of training and program dropout rates.

High Placement Rates Keep Costs Low

The relatively high placement rate anticipated for ETP programs will help to keep its costs low, relative to other training programs. Table 13, for example, compares the training costs for the JTPA Adult and Youth (Title IIa) programs with the costs anticipated under ETP programs. The table shows that the panel's costs per placement ($2,768) are lower than the cost anticipated for JTPA Title IIa programs ($3,610). This differential is due entirely to the panel's high placement rate, which as discussed above, results from the design of the ETP program.

Table 13

ETP Cost Per Placement Lower than JTPA

1983–84

	Average Anticipated Outcomes		
	ETP	*JTPA (Title IIa)*	*Difference*
Placement Rate	84.3%	54.4%	29.9
Average wage after placement	$7.00	$4.59	$2.41
Cost per participant [a]	2,380	1,387	993
Cost per job placement [a]	2,768	3,610	−842

[a] Costs do not include administrative or supportive services costs.

ETP Contracting Process

The panel does not provide training directly. Instead, training is provided through contracts negotiated by the panel with training agencies or employers. The first step in this process is for the staff of the panel to outline a tentative agreement with an interested employer. Included in the outline is the estimated number of trainees, the number of trainees that will be hired, the cost of training, and an indication of whether the panel contract anticipates training unionized workers.

This tentative agreement is then presented to the ETP, which decides whether the project warrants further negotiation. While the panel has never rejected a proposal, it has sometimes requested that changes be reflected in the final agreement. After the ETP approves the tentative agreement, the final contract is negotiated between the panel staff and the employer.

Total Administrative Expenditures Exceed Cap

We recommend that the Legislature (1) amend the Budget Bill to list separately appropriations for administration and training programs, in order to facilitate legislative review of the programs administered by the ETP, (2) adopt Budget Bill language requiring the panel to support all

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

outreach activities with funds from its administrative allocation. We further recommend that the panel advise the fiscal committees on its plans to stay within the legislatively mandated 5 percent cap on administrative expenses.

Legislative Control of Program Appropriation. Item 5100-001-514 appropriates $52,936,000 for the ETP programs in 1984–85. This amount includes funds for both the administration of the ETP and training programs operated by the panel. As a result, it is not possible to tell from the Budget Bill how much money is to be used for administration, as opposed to training and placing workers. It would seem that this is of special interest to the Legislature, given the objectives of the program and the 5 percent cap that the Legislature placed on the amount of funds available for administration in enacting Ch 39/83 (SB 13, Lockyer).

In order to facilitate legislative review of the ETP's budget and ensure that funds appropriated by the Legislature are spent in accordance with legislative intent, we recommend that the Legislature separately identify within this Budget Bill item the amounts proposed for administration and training programs.

Outreach Activities Should Be Supported With Administrative Funds. The panel's staff is responsible for identifying employers who are interested in receiving training subsidies from the ETP. In addition, the panel uses other state and local agencies to perform these outreach—or marketing—activities. In the current year, the panel has used the following six agencies to help locate employers interested in receiving panel training subsidies: the California Manufacturers Association, La Cooperativa, the State Department of Economic and Business Development, Los Angeles City College, the San Diego Employment and Training Consortium, and the Technology Exchange Center. As of December 1983, 16 training projects with employers have been developed under these marketing contracts.

A wide range of activities are conducted for the panel by these agencies. Some agencies locate and negotiate preliminary training proposals, which are then forwarded to the panel staff for further negotiation. Other agencies also help interested employers design the training proposals, which are then submitted to the ETP for approval. The activities each agency promises to perform determines the rate at which the agency is reimbursed for ETP outreach. In 1983–84, the rate ranged from $300 to $800 for each person placed in a job for at least 90 days through a program developed by the agency.

In 1983–84, the panel is supporting contracted marketing activities with $2,370,000 earmarked for training, not with funds budgeted for administrative support. This is in addition to $2.2 million that is budgeted for administration of the panel and its staff in the current year.

Our analysis indicates that these outreach activities should be funded from the allocation for administrative support rather than with training funds, for the following reasons:

1. ***By contracting with other agencies to locate employers interested in receiving training subsidies, the panel is using the staff of the contracting agencies in lieu of its own staff in 1983–84.*** In the absence of these contracts, the ETP would have to increase its administrative staff. The panel indicates that use of outside agencies will decline in 1984–85 as the panel increases its staff size and capabilities.

2. ***Using funds earmarked for training programs to support these out-***

reach activities may allow the panel to circumvent the 5 percent cap imposed by the Legislature on the panel's administrative spending. In enacting Chapter 39, the Legislature placed a 5 percent cap on the panel's administrative expenditures. If contracted outreach activities are analogous to the activities performed by the panel's staff, as we believe they are, but are not considered to be an administrative expense, then the panel can circumvent the 5 percent cap by including the cost of these contracts in the training expenses category.

To ensure that the panel's administrative expenses stay within the ceiling established by the Legislature, we recommend that the Legislature adopt the following Budget Bill language under Item 5100-001-514:

> "All activities to market, negotiate, or otherwise locate employers or other agencies interested in providing training with funds supplied by the Employment Training Panel shall be supported with funds allocated for the administration of the Employment Training Panel."

Administrative Expenses Exceed Cap. The 1984–85 budget proposes total administrative expenses for the panel of $2,774,000, or 5 percent of the $55 million ETP budget. If the Legislature adopts our previous recommendation and counts the $1.5 million in contracted outreach activities planned for 1984–85 as administrative support, the panel's administrative expenditures would total $4.3 million, or 7.8 percent, of the panel's budget. Under these circumstances, the panel's total administrative expenses for 1984–85 would exceed the 5 percent allowed by Chapter 39. Accordingly, we recommend that the ETP advise the fiscal committees on how it proposes to stay within the 5 percent administrative cap.

ETT Collection Costs Overbudgeted 531,000

We recommend a reduction of ~~$583,000~~ from the Employment Training Fund budgeted to support the costs of collecting the Employment Training Tax. We further recommend that these funds be redirected to provide additional training under the Employment Training Panel's programs.

The budget proposes $2,064,000 and 44.6 positions to collect the Employment Training Tax (ETT) in 1984–85. In the current year, $2,013,000 is budgeted for this activity.

On November 8, 1983, the EDD notified the panel that the actual 1983–84 collection cost will be $1,445,000, or $568,000 (28 percent) less than the amount budgeted. This current-year decrease results from a tentative agreement between EDD and the Department of Labor regarding the proportion of total collection costs for all taxes collected by the EDD (Unemployment Insurance, Disability Insurance, and Personal Income Tax withholding that the ETT must bear).

The EDD indicates that the appropriate amount needed to reimburse EDD for ETT collections in 1984–85 is $1,481,000 or $583,000 less than the amount proposed in the budget. For this reason, we recommend a reduction of $583,000 and 12.6 positions from the ETT support budget and a corresponding increase in the amount budgeted for training subsidies under the ETP.

Training Standards Could Maximize Benefits of ETP Program

We recommend that prior to budget hearings, the ETP submit to the fiscal committees its proposal to establish training standards in order to ensure that high quality training is provided by ETP programs.

The staff of the ETP spends considerable time reviewing employer

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

training plans designed as part of ETP proposals. The ETP indicates that plans must be carefully reviewed to ensure that (1) the plans provide adequate training for the proposed job and (2) the plans can be completed in the time allotted.

According to the panel staff, employers do not always know how to design a training program appropriate to the skills needed by the firm's employees. For example, one employer proposed a six-month training program covering subjects that the staff indicates would normally take at least a year to teach. The staff believes that condensing such training would have prohibited trainees from learning the skills needed for the job. As a result, the panel reviews most proposals for adequacy and feasibility.

We believe these reviews are essential to maintaining high-quality training in ETP-subsidized programs. Moreover, we believe the ETP should develop training standards against which proposals may be compared. These standards could be developed for each generic skill, such as welding, electronics, or drafting, in addition to the specific skills needed by each employer. The development of skill-training standards would:

1. Provide a yardstick against which all proposals could be evaluated, thereby ensuring uniform, high-quality training.
2. Ensure that trainees receive all vocational skills associated with a job, not just those skills required by each employer, making the training more valuable to workers.
3. Ensure that employers train workers that are as productive as possible. Economic forces create incentives for employers to provide the minimum amount of training to its workers. By ensuring high training standards, firms will receive well-trained, highly productive workers, making the ETP training more valuable to employers, as well.

These standards could be developed as the need for them arises. Standards for electronics technicians, for example, should be developed as quickly as possible because the panel has received many proposals to train workers in this field. For skills less in demand, such as auto assembly workers, standards would not have to be developed until proposals for training workers in such fields had been submitted.

In order to ensure that the training provided to ETP trainees is as valuable as possible, we recommend that prior to the budget hearings, the ETP submit to the fiscal committees a plan for developing training standards to ensure that generic vocational skills and specific employer-related skills are provided by ETP programs.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 5100-301 from the Unemployment Administration Fund and the Federal Trust Fund — Budget p. HW 160

Requested 1984–85	$1,050,000
Recommended approval	1,030,000
Recommended reduction	20,000

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay

We recommend that Items 5100-301-870(2) and 5100-301-890(2) be reduced by $20,000 to correct for overbudgeting of floor recovering costs and architectural and engineering services.

The budget includes $1,050,000 from the Unemployment Administration Fund (transferred from the Federal Trust Fund) for 20 minor capital outlay projects ($200,000 or less per project) and project planning for the Employment Development Department (EDD). Table 1 summarizes the projects, by descriptive category. The Department of General Services, Office of Space Management (OSM), has provided cost estimates for each project.

Table 1
Employment Development Department
1984–85 Minor Capital Outlay by Descriptive Category
(in thousands)

Category	*Number of Projects*	*Budget Bill Amount*
Floor covering replacement	6	$175
Search workshops and training rooms	2	31
Alterations to reduce program deficiencies	7	239
Provisions of modified or enlarged space	5	580
Project Planning	—	25
Totals	20	$1,050

Floor Covering Costs Overestimated. The department requests $175,000 for removal and replacement of worn floor coverings at six EDD facilities. In each case, the project involves removal of worn-out vinyl asbestos tile and replacement with new tile *or* carpeting. The OSM's estimate of the floor recovering project at the Redding facility includes $18,000 for removal of the present tile. The OSM indicates that this was calculated using an estimate for removal of $1.50 per square foot. In contrast, the estimated removal cost for the other floor covering projects is approximately 50 cents per square foot. No justification has been presented for the higher cost at Redding. Consequently, we recommend that the project be reduced to 50 cents per square foot, for a savings of $12,000.

In addition, a floor recovering project at the Eureka EDD facility is budgeted at $24,000. The estimate provided by the OSM and the department, and included in the budget by the Department of Finance, indicates that the cost of this project will be $38,000. We are unable to determine the difference between the estimated and the budgeted amount. The department should explain this difference before the project is approved.

Architectural and Engineering Services Overbudgeted. The State Administrative Manual specifies that architectural/engineering and contingency costs for alterations to existing facilities should not exceed 20 percent of the total contract cost of a project. Our analysis indicates that for two of the proposed projects (floor covering replacement at the Salinas office and alterations at the Stockton office) these costs have been overbudgeted. No justification has been presented as to why these projects require additional architectural/engineering service costs. Consequently, we recommend that budgeted amounts for these two projects be reduced by $8,000.

Health and Welfare Agency

DEPARTMENT OF REHABILITATION

Item 5160 from the General Fund and Federal Trust Fund — Budget p. HW 160

Requested 1984–85	$62,193,000
Estimated 1983–84	58,322,000
Actual 1982–83	58,000,000
Requested increase (excluding amount for salary increases) $3,871,000 (+6.6 percent)	
Total recommended reduction	None
Recommendation pending	41,733,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5160-001-001	—Support	General	$16,670,000
5160-101-001	—Local Assistance	General	45,523,000
5160-001-890	—Support	Federal Trust	(78,911,000)
5160-001-942	—Support	Vending Stand Account	(1,285,000)
Total			$62,193,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Unbudgeted Federal Funds. Recommend that, prior to the budget hearings, the Department of Rehabilitation submit to the fiscal committees a plan describing its intended use of $6.8 million in unbudgeted federal vocational rehabilitation funds. 1171
2. Administrative Reductions. Recommend the department submit to the fiscal committees additional information supporting its administrative efficiency proposals. 1171
3. Work Activity Program Service Reductions. Recommend the department submit a report to the fiscal committees detailing the effect of Work Activity program service reductions caused by current-year funding shortfalls. 1173

DEPARTMENT OF REHABILITATION—Continued

4. Work Activity Program Budget Proposal. Withhold recommendation on $41,733,000 in General Fund support for the Work Activity program until the department submits to the fiscal committees information (a) advising the committees of program funding levels needed to fully fund expected caseload in 1984–85 and (b) describing the estimating process used by the department to compute its revised 1984–85 Work Activity program caseload estimate. 1173

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation (DOR) 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 training for physically or mentally disabled persons who are not ready for, or who are unable to benefit from, vocational rehabilitation.

The 1983 Budget Act authorized 1,820.7 positions for the department in the current year. An additional 40 positions have been administratively established in order to avoid layoffs, bringing total authorized positions in 1983–84 to 1,860.7.

OVERVIEW OF THE PROPOSED BUDGET

The budget proposes an appropriation of $62,193,000 from the General Fund for support of the Department of Rehabilitation in 1984–85. This is an increase of $3,871,000, or 6.6 percent, above estimated current-year General Fund expenditures. This increase will grow by the cost 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 $146,473,000, an increase of $8.3 million, or 6.0 percent, above estimated current-year expenditures. Table 1 displays program expenditures and funding sources for the prior, current, and budget years.

DEPARTMENT OF REHABILITATION—Continued

Table 1
Department of Rehabilitation
Program Expenditures and Funding Sources
1982–83 through 1984–85 (in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change 1983–84 to 1984–85 Amount*	*Percent*
Expenditures					
Vocational Rehabilitation	$82,116	$83,239	$86,932	$3,693	4.4%
Habilitation Services	39,961	39,776	43,038	3,262	8.2
Support of Community Facilities	4,991	4,539	5,990	1,451	32.0
Administration	10,406	10,667	10,513	−154	−1.4
Totals	$137,474	$138,221	$146,473	$8,252	6.0%
General Fund	*$58,000*	*$58,322*	*$62,193*	*$3,871*	*6.6%*
Federal Trust Fund	*74,343*	*74,804*	*78,911*	*4,107*	*5.5*
Vending Stand Account	*1,278*	*1,185*	*1,285*	*100*	*8.4*
Reimbursements	*3,853*	*3,910*	*4,084*	*174*	*4.5*

The budget proposes significant program changes in 1984–85. Among those changes, the budget proposes the following *increases* in funding:

- A $3.7 million increase in the Vocational Rehabilitation program resulting from increases in federal funding.
- A $1.4 million, or 30 percent, increase in Support to Community Facilities in order to improve local programs and rehabilitate more disabled individuals.

The budget also proposes *reductions* in program and administrative support, as follows:

- Reduction of $482,000 ($386,000 federal funds and $96,000 General Fund) in operating expenses resulting from administrative efficiencies.
- Elimination of 15 positions and $251,000 ($201,000 federal funds and $50,000 General Fund) by reducing administrative support.
- Elimination of 2.5 positions and $55,000 ($46,000 federal funds and $9,000 General Fund) in support for the Business Enterprise program.

In addition, the budget proposes the following General Fund changes to support the cost of continuing the current level of services in the budget year, as shown in Table 2:

- A 6 percent increase for operating expenses and equipment intended to offset the effects of inflation, at a General Fund cost of $442,000.
- A 2 percent, or $893,000, cost-of-living increase for local assistance items from the General Fund.
- A $2.4 million General Fund increase for an anticipated caseload increase of 730 clients in the Work Activity program.

Table 2
Department of Rehabilitation
Proposed General Fund Budget Changes
1984–85 (in thousands)

	Adjustments	*Totals*
1983–84 Revised Expenditures		$58,322
1. Baseline Adjustments		
a. Increase in existing personnel costs		
(1) Merit salary adjustments	$18	
(2) Full-year cost of salary increase	282	
Subtotal		$300

b. Operating expenses and equipment inflation adjustment		$442
c. Cost-of-living adjustment		$893
Total, Baseline Adjustments		$1,635
2. Program Change Proposals		
a. Work Activity program caseload adjustment	$2,391	
b. Administrative and program reductions	−59	
c. Operating expense reductions	−96	
Total, Program Change Proposals		$2,236
3. Total Changes for 1984–85		$3,871
4. Proposed Budget, 1984–85		$62,193

ANALYSIS AND RECOMMENDATIONS

LEGISLATIVE FOLLOW-UP

Department Implements Expenditure Limits For The Work Activity Program

Chapter 323, Statutes of 1983 (AB 223, the 1983 Budget Act trailer bill) amended the law in order to allow the department to limit the Work Activity Program (WAP) expenditures to the amount appropriated in the annual Budget Act. These changes were necessitated by a court ruling eliminating the ability of the department to control program expenditures by (1) limiting client access to the program or (2) reducing provider reimbursement rates.

In order to control WAP expenditures, Chapter 323 requires the Department of Rehabilitation to contract with program providers for a specified maximum number of reimbursable service days. Chapter 323 requires that the department reduce services to clients if Budget Act appropriations are not sufficient to fully fund the services. Decisions to reduce services must be made for each individual by regional center case managers and case responsible persons, in consultation with the department's habilitation specialists.

All WAP providers signed DOR service contracts by November 1983. In addition, the department also has issued emergency regulations specifying the process by which WAP services can be reduced. (For further details, see discussion of the WAP below.)

Reader and Interpreter Services Not Eligible for Federal Funds

The 1983 Budget Act required the DOR to investigate whether federal Vocational Rehabilitation (VR) funds can be used to support reader and interpreter services for disabled students enrolled in the University of California, California State University, or the California Community Colleges. Of particular interest to the Legislature is whether VR funds can be transferred to the schools or whether the DOR must authorize and certify *each* client for such services.

Subsequent to the enactment of the 1983 Budget Act, the federal Rehabilitation Services Administration notified the DOR that federal rules require the department to *individually certify* each reader and interpreter service client in order for the client to qualify for federal funding. Given this requirement, the Department of Finance has reverted $788,000 in VR funds ($630,000 federal funds and $158,000 General Fund), as required by the 1983 Budget Act. During the current year, reader and interpreter services to the disabled are being provided with General Fund support made available through the community colleges and universities.

DEPARTMENT OF REHABILITATION—Continued

VOCATIONAL REHABILITATION SERVICES

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 Security 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 25 percent of the federal appropriations for the basic support program. Services to SSI and SSDI recipients are supported entirely by federal funds. The budget proposes an expenditure of $97,121,000 from all funding sources for vocational rehabilitation services and associated administration in 1984–85. This is an increase of $3.5 million, or 3.8 percent, above estimated current-year expenditures. Of the total, $15,158,000 is from the General Fund, $76,594,000 is from federal funds, and $5,369,000 is from reimbursements and fees.

The $76,594,000 in federal funds that the Vocational Rehabilitation program is budgeted to receive represents all but $2,317,000 of the $78.9 million in federal funds that the department has budgeted for expenditure in 1984–85. The balance is proposed for grants to community facilities.

Federal Funds Available in 1984–85

Because the federal and state fiscal years overlap, the total amount of federal funds available to the state in 1984–85 depends on the amount of federal funds appropriated by Congress in both federal fiscal years (FFY) 1984 and 1985. Generally, the department allocates 73 percent of the total federal award to the state fiscal year in which they are received and 27 percent of the funds to the next state fiscal year. Hence, the proposed 1984–85 expenditure of federal funds includes 27 percent of the FFY 84 appropriation and 73 percent of the anticipated FFY 85 appropriation (the remainder of the federal FY 85 money will be available in state fiscal year 1985–86).

Table 3
Department of Rehabilitation
Availability of Federal Funds
1983–84 and 1984–85
(in thousands)

Appropriation Source	*1983–84*	*1984–85*
Federal Funds for Basic Support received in:		
FFY 83	$20,114	—
FFY 84	55,937	$20,689
FFY 85	—	58,707
Carryover from prior year	3,282	5,546
Other Federal Funds	1,017	806
Total Federal Funds Available	$80,350	$85,748
Proposed Expenditure of Federal Funds	$74,804	78,911
Unbudgeted Federal Funds	$5,546	$6,837

Federal funding levels for the Vocational Rehabilitation program are projected to increase in FFY 85. The budget assumes that congressional appropriations for basic support services will increase 5 percent above current support levels. This would result in an increase of $50 million above the national FFY 84 appropriation of $1,004 million, and would result in an additional $3.8 million in program support available for California in 1984–85. The final appropriation figure for FFY 85 will not be known until October 1984 at the earliest.

Table 3 displays the federal funds available to California for vocational rehabilitation services in 1983–84 and 1984–85, assuming federal program appropriations of $1,004 million in 1983–84 and $1,054 in 1984–85. The table shows that $80.4 million in federal funds are available in 1983–84. This amount is $5.5 million, or 7.4 percent, more than what the department anticipates it will spend.

Carryover in 1984–85 is Underestimated

We recommend that, prior to the budget hearings, the Department of Rehabilitation submit to the fiscal committees a plan describing how it intends to use $6.8 million in unbudgeted federal vocational rehabilitation funds.

Historically, the department has carried over unspent federal funds from one fiscal year to the next. The amount of the carryover in any year depends upon the anticipated level of federal appropriations and estimated current-year spending.

Our analysis indicates that the department will carry over $5.5 million in federal fund from the current to the budget year. The 1984–85 budget does not anticipate spending any of these funds. In addition, the budget leaves $1.3 million in 1984–85 federal funds unbudgeted. In total, the budget leaves $6.8 million in available federal funds unspent in 1984–85.

These funds cannot be used unless the state provides a 20 percent nonfederal match for them. Thus, the amount needed to permit the expenditure of all unbudgeted federal funds available in 1984–85 is $1.7 million. This match could be provided through a combination of additional state funds, reimbursements, or fees.

To ensure that the Legislature has an opportunity to review and approve the proposed use of all funds available to the department, we recommend that, prior to the budget hearings, the department submit to the fiscal committees a plan describing how it intends to use the $6.8 million in unbudgeted federal funds.

Legislature Needs More Information on Efficiency Proposals

We recommend that, prior to the budget hearings, the department submit to the fiscal committees additional information supporting its administrative efficiency proposals.

The budget proposes $733,000 in funding reductions for the Vocational Rehabilitation program in 1984–85, of which $587,000 is in federal funds and $146,000 is in General Fund support. The reductions reflect administrative efficiencies that the department expects to achieve. All savings would accrue to programs supported with federal vocational rehabilitation funds. As a result, the savings would consist of 80 percent federal funds and 20 percent General Fund monies.

The department proposes to achieve the savings by:

1. Eliminating 15 positions during the year, for a savings of $251,000 ($201,000 federal funds and $50,000 General Fund).
2. Reducing operating expenses by $482,000 ($386,000 federal funds and $96,000 General Fund). This amount includes $135,250 for a Client Assistance program.

At the time this analysis was prepared, the department had not pro-

DEPARTMENT OF REHABILITATION—Continued

vided information detailing the effects of these proposals. For example, the department had not provided information on:

1. *Personnel Reductions.* The department could not indicate which positions are proposed for elimination or what effect these reductions would have on the department's operations.

2. *Operating Expense Reductions.* The DOR could not state whether a reduction of $137,250 in funds for the Client Assistance Project would actually occur. In 1983–84, this project, which supports five community groups that provide referral and advocacy services for department clients, received $197,250 in support from the department. While the budget proposes to reduce funds for the project, the DOR has indicated that it will review the proposed reduction before the end of 1983–84. As a result, it is not clear what the administration's intentions are with respect to the project.

In order to assure that the Legislature has the information it needs to establish funding priorities and policies for the DOR, we recommend that, prior to the budget hearings, the department submit:

1. A list of the positions proposed for elimination and an estimate of the impact these reductions will have on the department's operations.

2. A statement indicating whether $137,250 in Client Assistance Project funds are indeed proposed for elimination.

WORK ACTIVITY PROGRAM

The Work Activity Program (WAP) 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.

Large Service Reductions are Likely in the Current Year

Caseload is Growing Rapidly. The WAP has grown rapidly in recent years. In 1974–75, the program served 3,100 clients at a cost of $10 million. Between 1978–79 and 1982–83, WAP caseload grew by an average of 1,000 clients each year. In 1982–83, an average of 11,325 clients were served, at a General Fund cost of $40.1 million.

For 1983–84, the department anticipated a caseload increase of 460 clients over 1982–83. By October 1983, however, the DOR had referred more than 800 new clients to work activity centers, 340, or 74 percent, more than the number of new clients budgeted for the *full-year.*

Based on caseload growth during the first four months of the fiscal year, the department determined that it had sufficient funds to support only 89 percent of projected WAP costs for the November 1983-to-June 1984 period. This projection, moreover, assumed no additional growth in caseload after October 1983. As a result, those centers adding new clients after October 1983 would receive an even smaller percentage of their allowable costs under the program.

Deficiency in Current-Year Funding. The department estimates that the current-year funding shortfall will total $3.9 million. This shortfall is attributable to two factors. First, the program caseload has grown much faster in the current year than what the department projected. Second, reimbursement rates to providers are higher than originally projected. The department indicates that, due to an error, it originally projected an annual reimbursement rate of $3,275 per client for 1983–84. The department now estimates that the reimbursement rate in the current year will be $3,426 per client.

Because of the projected funding shortfall, work activity clients may experience reductions in services in 1983–84. This is because amendments to the Lanterman Act made in the budget companion bill, Chapter 323 (AB 223), require the department to *reduce* the level of services to work activity clients in order to keep program expenditures within the amounts appropriated by the annual Budget Act.

The department has issued emergency regulations outlining the process by which services can be reduced. The steps in the process are as follows:

1. The department will notify work activity centers of the expected reduction in the level of services.
2. Each work activity center will then advise the appropriate regional center of the number of service days available and how the reductions affect the provision of services.
3. The work activity center also must devise a plan to reduce services to its clients. This plan must ensure that both *current* and anticipated *new* clients receive services.
4. Using information provided by the centers, the regional center directors and case-responsible persons will reduce services to current clients.

These reductions must reflect individual needs of clients, as well as other factors such as availability of alternative programs, the effect of reduced client earnings, and the likelihood that the client will regress without needed services.

Legislature Needs Information on Effects of Service Reductions

We recommend that, prior to the budget hearings, the department submit to the fiscal committees a report detailing how the work activity programs are achieving service reductions necessitated by the current year funding shortfall.

At the time this analysis was prepared, information from the department on how the work activity centers were reducing services was not complete. It is essential that the Legislature have this data if it is to understand the impact of capping program expenditures by reducing services.

So that the Legislature will have adequate information of the effect of service reductions, we recommend that, prior to the budget hearings, the department submit a report to the fiscal committees analyzing the effect of the service reductions in the current year on (1) the level of work activity service *needed* by clients, and (2) the ability of the centers to provide quality habilitation and training services. This report should include the following data:

1. The number of centers and clients experiencing service reductions.
2. The average percentage reduction in service for those centers reducing services.
3. The number of clients referred by regional centers but not receiving work activity services as a result of current-year funding shortfalls.

Work Activity Budget Proposal for 1984–85 is Unrealistic

We withhold recommendation on $41,733,000 in General Fund support requested for the Work Activity program until the department (1) advises the fiscal committees of the Work Activity program funding levels needed to fully fund expected caseload in 1984–85 and (2) submits a detailed plan describing the process used by the department for reestimating Work

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Activity program caseload in 1984–85.

Work Activity Program Request Is Not Sufficient To Fund Caseload. The budget proposes $42,762,000 ($41,733,000 in local assistance and $1,029,000 in state administration) in General Fund support for the Work Activity program in 1984–85. This represents an increase of $3.2 million, or 8.3 percent, above the current-year level. This increase results from (1) an anticipated caseload increase of 730 clients, or 6.2 percent, above budgeted levels, for the current year and (2) the cost of a 2 percent cost-of-living increase.

The budget also proposes that the companion bill to the Budget Bill amend existing law to permanently continue the department's authority to reduce services to work activity clients in order to avoid incurring costs in excess of the General Fund appropriation. The proposed amendment is identical to language adopted in 1983 for the current year only. Without the amendment, the Department of Finance (DOF) estimates that an additional $1.5 million in General Fund support for the WAP will be necessary.

Our analysis indicates that the Work Activity program faces a much greater funding shortfall in 1984–85 than that acknowledged by the DOF. We base this conclusion on the following findings:

1. ***The 1984–85 estimate does not provide for unanticipated caseload growth during the current year.*** The budget proposes a total caseload of 12,493 clients in 1984–85. The department's October 1983 estimate of WAP expenditures, however, projects a 1983–84 caseload of 12,537. Thus, the caseload estimate for 1984–85 proposed in the budget is *lower* than the number of clients that the department expect to be referred to the Work Activity program during the current year. This is not realistic.

2. ***The budget proposal assumes that Work Activity program reimbursement rates in 1984–85 will be lower than those provided in 1981–82.*** The budget proposal for 1984–85 assumes that annual Work Activity program costs will be $3,275 per client. This rate is lower than the actual reimbursement rate for 1981–82, and is $265, or 8.1 percent, per client below the rate that the department itself forecasts for 1984–85. This is not realistic either.

We estimate that work activity caseload in 1984–85 could be underfunded in the budget by as much as $8.5 million. A shortfall of this magnitude could jeopardize the ability of work activity programs to guarantee clients' rights to receive habilitation services, as provided for by the Lanterman Act. This is a major policy issue that the Legislature will have to address. At the present time, we are unable to determine the level of funding needed to ensure that the Work Activity program can fulfill its statutory mandate. Accordingly, we withhold recommendation on $41,733,000 in General Fund support for the Work Activity program. So that the Legislature can determine funding requirements for the program, we recommend that the department advise the fiscal committees of the amount that would be needed to fully fund the expected caseload. This estimate should recognize funding needs resulting from:

1. The additional caseload in the current year that was not anticipated by the 1983–84 budget estimates.
2. Actual expected 1984–85 Work Activity program reimbursement rates.

Department's Caseload Projections Lack Credibility. The Legislature has repeatedly questioned the reliability of the department's caseload projections. This concern, for example, resulted in language in the *Supplemental Report of the 1981 Budget Act,* which required the Departments of Rehabilitation and Developmental Services to analyze trends in client population and service needs. In our 1983–84 *Analysis,* we expressed concern that the department's methodology for projecting future Work Activity program caseload was based entirely on past trends.

During the hearings on the 1983–84 budget, the department stated it would improve the reliability of its caseload estimates by:

1. Establishing work activity client profiles, in order to determine the number of regional center clients that are potential Work Activity program clients.
2. Determining the number of special education students that could realistically become Work Activity program clients.
3. Estimating the potential impact on work activity caseloads of any planned release of clients from state hospitals.

The department's 1984–85 Work Activity program caseload does not reflect these improvements. Instead, the caseload estimates are calculated simply as a percentage of the entire regional center caseload.

The department indicates that it will design an improved forecasting procedure prior to reestimating a 1984–85 caseload projection for the May 1984 revision of expenditures. Our review of the additional data DOR plans to use as part of this new procedure suggests that it will not significantly improve the reliability of the department's projects. For example, the new estimating procedure will not attempt to incorporate into the estimate special education students who are not currently regional center clients.

So that the Legislature may review the department's plans for increasing the reliability of caseload estimates, we recommend that the DOR submit a detailed report describing the process used by the department for revising 1984–85 Work Activity program caseload estimates. The department should include in this report:

1. The number of new referrals to the Work Activity program made by the regional center each year since 1980–81. For each year, data such as client age and previous program activity (special education, day training, etc.) should be included.
2. The number of special education students potentially eligible for the Work Activity program in each year since 1980–81.
3. The number of special education students potentially eligible for the program in 1984–85.
4. An estimate by the regional centers of the number of regional center clients that will be referred to the Work Activity program from each type of previous program activity.
5. An estimate by the Department of Developmental Services of the potential impact on the Work Activity program of any planned release of clients from state hospitals.

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