HEALTH AND SOCIAL SERVICES

Overview of Health and Social Services

This section provides an overview of major health and social services expenditures issues. The first part of this section provides information on various health issues, including Medi-Cal, indigent health, mental health, and drug and alcohol programs. The second part of this section provides information on various social services issues, including Aid to Families with Dependent Children (AFDC), foster care, developmental services, and in-home supportive services.

Health

Health services expenditures from state funds are estimated to decrease in 1992-93, primarily due to the elimination of almost $1 billion (General Fund) for one-time Medi-Cal accrual accounting costs in the current year. If the one-time costs are excluded, health services expenditures are estimated to increase by 7.6 percent in 1992-93, primarily due to the net effect of anticipated (1) increases in realignment revenues and caseload, utilization, and other costs and (2) decreases that reflect various expenditure reduction proposals.

Expenditures for health programs are proposed to total $8.2 billion from all state funds ($5.8 billion General Fund) in 1992-93. These expenditures are 14.6 percent of all state funds and 13.2 percent of General Fund expenditures proposed in the Governor's Budget for 1992-93. The General Fund level of expenditure represents an increase of $403.7 million, or 7.5 percent, from estimated expenditures in the current year, after adjusting for the Medi-Cal accrual accounting change mentioned above.

Chart 1 shows that health expenditures from all state funds increased by $3.7 billion, or 83 percent, between 1985-86 and 1992-93. This is an average annual increase of 9 percent. The chart also shows that when adjusted for inflation, these expenditures increased by $1.7 billion, or 37 percent, for an average annual growth rate of 4.7 percent.

The changes in health program expenditures in 1991-92 and 1992-93 are attributable primarily to three factors:

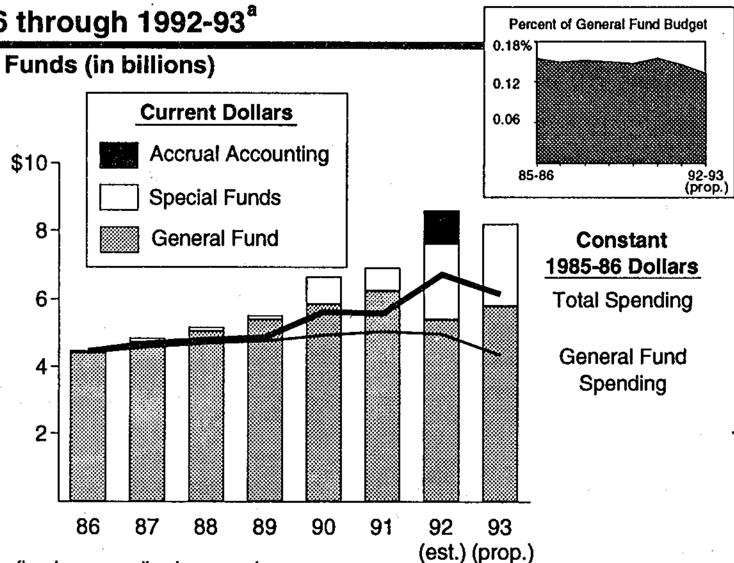
- The 1991-92 implementation of "realignment," which transferred over $1.6 billion in funding for mental health and public health programs from the General Fund to the Local Revenue Fund, which is funded through state sales taxes and vehicle license fees.

- The 1992-93 elimination of $992.4 million (General Fund) in one-time Medi-Cal costs in the current year associated with the change from cash to accrual accounting.
- Anticipated savings of $223 million (General Fund) in 1992-93, to reflect the proposed elimination of various optional Medi-Cal benefits and reduction of other Medi-Cal services and rates.

Chart 1

Health Expenditures Current and Constant Dollars 1985-86 through 1992-93[a]

All State Funds (in billions)



[a] Data are for fiscal years ending in years shown.

In addition, during 1991-92 the responsibility for hazardous waste management and related activities was transferred from the Department of Health Services (DHS) to the new California Environmental Protection Agency (Cal-EPA), though the fiscal effect of this transfer is small relative to other changes in the health services area.

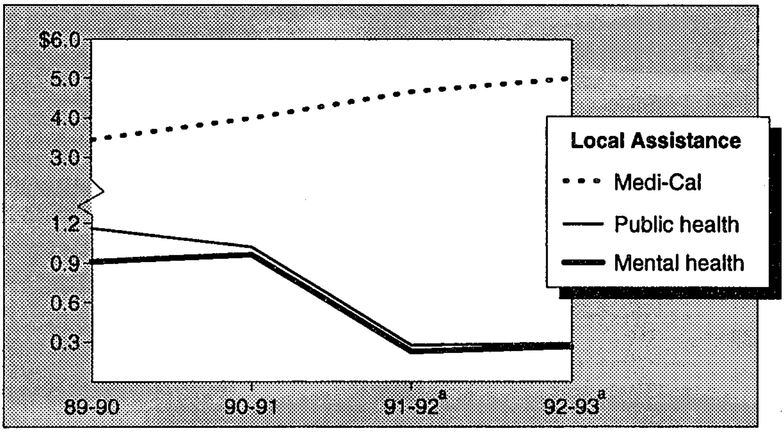
Spending by Major Programs

Chart 2 shows General Fund expenditures for the three major health programs — Medi-Cal, public health, and mental health — from 1989-90 through 1992-93. Over the entire four-year period, the figure shows that General Fund expenditures for the Medi-Cal Program have grown substantially (by 45 percent), while funding for public health and mental health (adjusted for realignment) have declined by 75 percent and 70 percent, respectively. These declines reflect primarily (1) various General Fund reductions (primarily in the Medically Indigent Services Program and in community mental health programs) enacted in 1990-91 and (2) the implementation of program realignment in 1991-92.

Chart 2

Health Expenditures By Major Program 1989-90 through 1992-93

General Fund (in billions)



[a] In 1991-92, excludes Medi-Cal accrual accounting expenditures and reflects "realignment" implementation.

Factors Driving Program Costs

This section examines the specific factors responsible for increases in Medi-Cal, other health services programs, and mental health programs. (See Item 4260, Department of Health Services, for additional information on Medi-Cal caseload trends.) Table 1 summarizes these factors, which are discussed below.

Table 1

Major Health Services Programs Factors Affecting Program Costs

Medi-Cal

- Increases in women of child-bearing age, children, and the elderly.
- A new state program to provide pregnancy services to women with incomes up to 185 percent of the federal poverty level. (This program was subsequently mandated by the federal government.)
- Federal statutes requiring Medi-Cal to serve (1) newly legalized persons, (2) undocumented persons, (3) low-income Medicare beneficiaries, and (4) certain persons who become ineligible for Aid to Families with Dependent Children (AFDC).
- Court decisions requiring Medi-Cal to expand services or increase rates to providers.

Other Health Services

- Increases in women of child-bearing age, children, and the elderly.
- An increase in persons with AIDS.
- The provision of services to substance abusers and their children.
- The provision of new medical tests, such as Triple Marker Screening for Down's syndrome in the Genetic Disease Testing Program.
- The provision of new medical services, such as heart transplants in the California Children's Services Program.

Mental Health

- The establishment of new state programs, including the Conditional Release Program for parolees and the Primary Prevention Program for young school children.
- The provision of additional staff to achieve and maintain accreditation of the state hospitals.
- A federal decision not to pay for nursing home services for persons with primarily a mental illness.

All Programs

- Increases in the cost of providing medical care that have occurred despite cost containment measures.

The major factors that affect program costs in the health area are as follows:

Demographic Changes. Most of the major health programs are "entitlement" programs — that is, individuals and families who meet specified income and other criteria are entitled to receive a particular level of services, and the state has very little flexibility to limit funding for these services. These entitlement programs include the Medi-Cal, Child Health and Disability Prevention, and California Children's Services Programs. These programs have experienced large caseload increases in recent years partly because California's general population has grown, and specific population groups served by the larger health programs — women of child-bearing age, children, and the elderly — have grown faster than the general population.

With other health programs (such as the AIDS and family planning programs and various mental health programs), the state has considerable flexibility in choosing a funding level and can therefore change both the (1) number of people served and (2) the level of services provided. Thus, for these programs, demographic changes have not led directly to increased costs, though they have resulted in *pressure* to increase costs.

Federal Policy Changes. As shown in Table 1, federal policy changes have led to increased Medi-Cal and mental health costs, but have not generally affected most other health programs. For the Medi-Cal Program, the state has been *required* to implement various changes, such as expanding services to certain pregnant women. (We discuss the effect of these federal requirements on the Medi-Cal caseloads and costs in Item 4260, Department of Health Services.)

For mental health, there have been no federal *requirements* imposed on the state. A federal decision, however, not to pay for nursing home services for persons with primarily a mental illness led to increased pressure for, and funding of, Institutions for Mental Diseases administered by the Department of Mental Health (DMH).

State Policy Changes. Various state policy changes have increased costs in all the health programs. As shown in the table, these policy changes range from the provision of new medical tests and services to the creation of entire new programs, such as the DMH-administered Conditional Release Program.

Judicial Requirements. Various court settlements have increased costs for health and mental health programs. For example, the costs of complying with the recent settlement of *Clark v. Kizer*, a lawsuit regarding Medi-Cal beneficiary access to dental services, will be at least $64 million (General Fund) annually and could be higher if the Governor's proposal to eliminate optional adult dental benefits is not enacted.

Societal Changes. The AIDS epidemic has led to increased pressure for funding various AIDS-related programs. Based on our field visits and discussions with health experts, it appears that other societal changes, such as increases in the number of unmarried teenage women having children and children born to substance-abusing mothers, may have increased demand for various health services.

Inflation. Costs of the major health programs have increased despite cost-containment measures, in part because medical care costs have increased more rapidly than the costs of other goods and services.

Major Budget Changes

Table 2 shows the major changes proposed for health programs in the budget. The single largest change — a reduction of $992 million to eliminate one-time Medi-Cal accrual accounting costs — will have no programmatic effect.

The other changes include:

- *Caseload, Utilization, and Cost Increases.* These include proposed increases of $434 million for Medi-Cal and $16 million for the County Medical Services Program.
- *Proposition 99-Related Changes.* These include proposed reductions in 1992-93 of $23 million for the California Healthcare for Indigents Program and $40 million for mental health programs from the Cigarette and Tobacco Products Surtax (C&T) Fund. The budget also proposes various changes in 1991-92, including the use of Proposition 99 funds for Medi-Cal perinatal services and the elimination of an anti-smoking media campaign.
- *Program, Service, and Provider Payment Reductions.* These include reductions totaling $223 million in the Medi-Cal Program, primarily for proposals to eliminate certain optional benefits and payments to hospitals and nursing facilities.

Table 2

Health Services Programs
Proposed Major Changes for 1992-93
(General Fund and State Special Funds)

Medi-Cal Local Assistance	Requested:	$5 billion	
	Decrease:	$658 million	(-12%)
+	$434 million to fund caseload, utilization, and other costs		
−	$992 million to eliminate one-time accrual accounting costs		
−	$119 million to reduce certain inpatient hospital payments and long-term care rates		
−	$93 million to eliminate various optional benefits		
Public Health Local Assistance	Requested:	$583 million	
	Increase:	$20 million	(+3.6%)
+	$16 million to fund caseload and utilization costs beyond expected local realignment revenues for the County Medical Services Program		
−	$23 million to reduce funds for the California Healthcare for Indigents Program (CHIP) paid from tobacco tax revenues		
Mental Health	Requested:	$268 million	
	Decrease:	$3 million	(-1%)
−	$40 million to eliminate local mental health funding provided through tobacco tax revenues		
+	$28 million for school-based early mental health services, of which $18 million is for program expansion		

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. A fuller discussion of these issues is contained in our analysis of the affected department or program, which follows this overview.

- ***Optimistic Budget Assumptions.*** The proposed health budget relies on two optimistic assumptions. First, the budget proposal assumes that the federal government will provide California with $637.1 million in State Legalization Impact Assistance Grant (SLIAG) funds. The state budget was prepared before the President's SLIAG funding proposal was available. The President's SLIAG funding proposal for the entire United States is less than one-half the amount that the budget assumes will be received by California alone. If the President's proposal is approved by Congress, California would probably receive at least $180 million, or $457.1 million less than is assumed in the budget. (See Control Section 23.50, Allocation of Federal Immigration Reform Monies.)

Second, the budget assumes that the state will use $122.8 million in Proposition 99 funds to replace a like amount of General Fund expenditures for Medi-Cal in 1991-92 and 1992-93. Specifically, the budget assumes that the Legislature will enact legislation that will result in General Fund savings of $60 million in the current year and $62.8 million in the budget year by shifting the cost of some Medi-Cal pregnancy-related services from the General Fund to the C&T Fund. The budget proposes that C&T funds be provided from the Health Education, Research, and Unallocated Accounts and that the funds be used to match federal funds. The Legislative Counsel indicates that this proposed use of the funds could not be implemented by the Legislature, but would require voter approval. (See Item 4260, Department of Health Services.)

- ***Realignment.*** The 1991 realignment legislation significantly altered the structure of public, indigent, and mental health programs in California. In addition, several major indigent health court cases that would affect the implementation of realignment were pending at the time this analysis was prepared. The Legislature faces a number of issues related to realignment. (See *The 1992-93 Budget: Perspectives and Issues.*)
- ***Medi-Cal: Eligibility.*** Traditional Medi-Cal eligibles (primarily AFDC and SSI/SSP recipients) account for the majority of Medi-Cal expenditures. However, federal mandates requiring expansion of Medi-Cal eligibility to new categories of recipients account for over one-third of the *increase* in Medi-Cal costs since 1988-89. Federal restrictions limit the Legislature's ability to control Medi-Cal costs by reducing Medi-Cal eligibility. (See Item 4260, Department of Health Services.)
- ***Medi-Cal: SB 855 Program.*** This program provides $1.6 billion in supplemental payments to disproportionate-share hospitals. At least $720 million of the funds constitutes new money for hospitals and therefore provides a substantial contribution toward reducing the uncompensated care burden these hospitals face. (See Item 4260, Department of Health Services.)
- ***Medi-Cal: Various Savings Proposals.*** The budget proposes to save $159.5 million (General Fund) by eliminating optional Medi-Cal services and reducing payments to hospitals and nursing facilities. These proposals are incomplete and would shift costs to counties and hospitals. In addition, a proposal to save $60.8 million (General Fund)

by limiting coverage of acute inpatient hospital days would result in similar cost shifts and may reduce the DHS's ability to expand the use of in-home medical care services. (See Item 4260, Department of Health Services.)

- ***Children's Mental Health Services.*** The administration's proposed expansion of children's mental health services gives priority to one relatively new program while proposing only a small expansion for a second, which has shown significant results in reducing both state and county long-term expenditures. (See Item 4440, Department of Mental Health.)
- ***Proposition 99: Mental Health Funding.*** Although the Legislature expressed its intent that the administration identify strategies for replacing $40 million in Proposition 99 funding for local mental health programs in 1992-93, the budget does not do so. The elimination of these funds primarily will affect "under-equity" counties — those whose share of total mental health resources is less than their relative need. (See Item 4440, Department of Mental Health.)
- ***Proposition 99: Anti-Smoking Campaign.*** The administration proposes to eliminate an anti-smoking media campaign. If the Legislature wishes to restore funding for this program, it must reduce other health education programs or identify a different funding source for the Medi-Cal perinatal services discussed earlier. (See Item 4260, Department of Health Services.)
- ***State Hospitals — Quality of Care.*** Under-delivery of planned scheduled treatment continues in the state hospitals. In addition, substantial variation across hospitals in the amount of treatment provided to patients has significant implications for counties that are required to purchase state hospital services. (See Item 4440, Department of Mental Health.)

Social Services

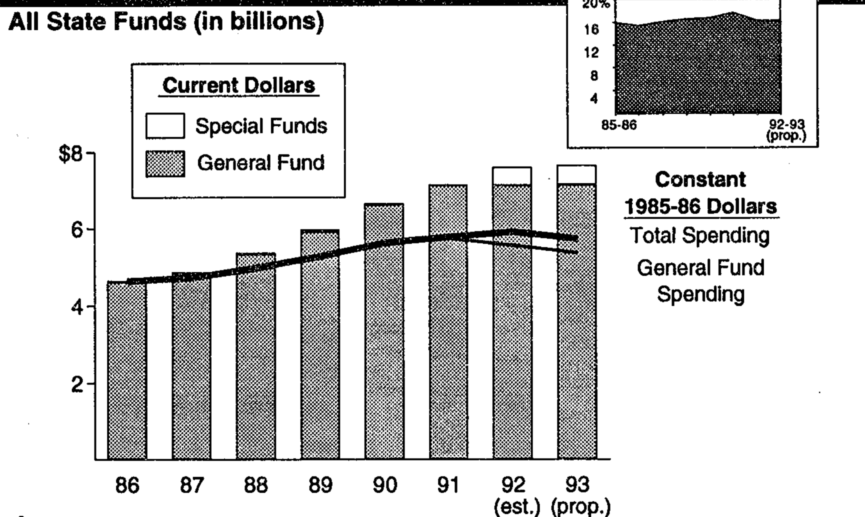
General Fund expenditures for social services are estimated to remain virtually unchanged in the budget year, as increases to fund projected caseload growth are offset by savings resulting from the Governor's "welfare reform" proposals. These savings would be achieved primarily through reductions in the maximum aid payments (MAPs) under the Aid to Families with Dependent Children (AFDC) Program.

General Fund expenditures for social services programs are proposed to total $7.1 billion, which is 16 percent of total General Fund expenditures proposed in the Governor's Budget for 1992-93. This level of expenditures represents an increase of $13 million, or 0.2 percent, above estimated expenditures in 1991-92.

Chart 3 shows that General Fund expenditures for social services programs are projected to increase by $2.5 billion, or 55 percent, between 1985-86 and 1992-93. This is an average annual increase of 6.5 percent. As the chart shows, General Fund expenditures increased steadily through 1990-91, but are estimated to increase only slightly in 1991-92 (when realignment legislation shifted over $400 million of state costs for social services programs to the counties) and in 1992-93. The chart also shows that expenditures from all state funds are projected to increase by 65 percent since 1985-86.

Chart 3

Social Services Expenditures Current and Constant Dollars 1985-86 through 1992-93[a]



[a] Data are for fiscal years ending in years shown.

Chart 3 also displays the spending for these programs adjusted for inflation. On this basis, General Fund expenditures increased by 16 percent between 1985-86 and the budget year, which represents an average annual rate of increase of 2.2 percent. (This is attributable to increases in the number of persons participating in social services programs; spending per person did not increase by more than the rate of inflation.) Combined General Fund and special funds expenditures are estimated to increase by 24 percent from 1985-86 to 1992-93, on a constant dollar basis. This represents an average annual rate of increase of 3.1 percent.

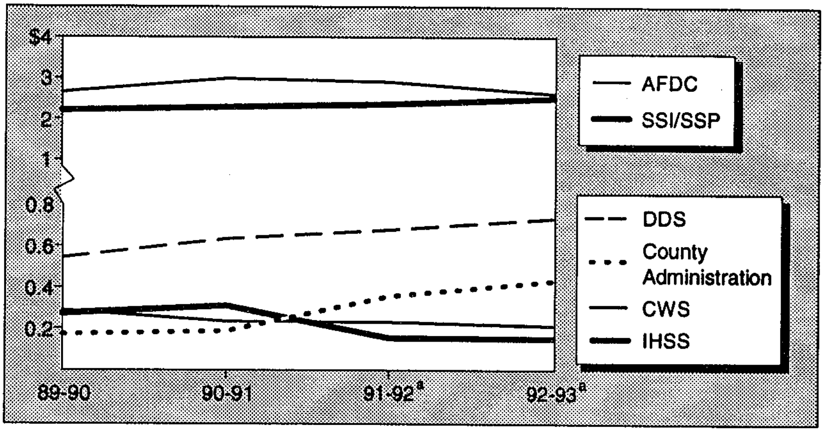
Spending by Major Programs

Chart 4 shows General Fund expenditures for the six major social services programs from 1989-90 through 1992-93. Proposed expenditures for 1992-93 generally reflect caseload projections, suspension of COLAs, and specific program reductions that will be discussed below.

Chart 4

Social Services Expenditures By Major Program 1989-90 through 1992-93

General Fund (in billions)



[a] Realignment legislation changed the state/county share of program costs, beginning in 1991-92.

The chart shows that expenditures for AFDC, the largest welfare program, are estimated to decrease in the current year — due primarily to suspension of the COLA, reductions in MAPs, and realignment of the state/county sharing ratios for the Foster Care Program — and are proposed to decrease further in the budget year, primarily as a result of additional reductions in the MAPs.

The significant decrease in 1991-92 General Fund expenditures for the In-Home Supportive Services (IHSS) Program and the increase in General Fund support for county administration of social services programs were both due to the shifts in state/county costs resulting from the realignment legislation.

Factors Driving Program Costs

This section examines the specific factors responsible for cost increases in social services programs in recent years. The cost increases can be categorized into those costs that are due to caseload increases and those that are due to increases in the average cost per case.

Caseload Increases. All of the major welfare and social services programs are designed to help individuals and families in specific target groups. As the number of people in each of these target groups increases, the caseloads of the programs increase as well. More than half of the increased costs of the major social services programs in recent years is attributable to increased caseloads, which was the result of a variety of factors. These include demographic factors — the most important of which is the increase in population of the target groups — and social and programmatic factors. (For a detailed discussion of these factors in the two largest social services programs, please see our report on the AFDC Program in *The 1991-92 Budget: Perspectives and Issues* and our analysis of the Supplemental Security Income/State Supplementary Program (SSI/SSP) in the *Analysis of the 1991-92 Budget Bill*.)

Average Cost Per Case. The statutory cost-of-living adjustments (COLAs) for AFDC and SSI/SSP grants are the most important factors in increasing the average cost per case in social services programs. The state COLAs, however, were suspended in 1990-91 and 1991-92, and current law provides for continuation of the suspension through 1995-96 for the AFDC Program (specifically, the COLA on the MAP) and calendar 1996 for the SSI/SSP Program. Current law also provides, however, that the federal COLA for the federally funded SSI portion of the SSI/SSP grant be "passed through" to the recipients during the years that the state COLA is suspended.

Major Budget Changes

Table 3 summarizes the major General Fund changes proposed for social services programs in 1992-93.

Most of the proposed expenditure increases for 1992-93 are due to anticipated increases in caseloads and the state share of associated administrative costs at the county level. The budget also proposes $15 million from the General Fund to establish a new "Job Club" Program to provide employment assistance workshops to AFDC recipients who are not participating in the Greater Avenues for Independence (GAIN) Program.

The budget also contains three major proposals to effect significant state savings in 1992-93: (1) a package of proposed welfare reforms, consisting primarily of reductions in expenditures in the AFDC Program, (2) elimination of the food stamps "cash-out" for the SSI/SSP Program, and (3) a reduction in the amount required to fully fund the projected level of services for the IHSS Program. We describe these proposals below, and discuss them in more detail in our analyses of the programs.

Table 3

Social Services Programs
Proposed Major Changes for 1992-93

AFDC	Requested:	$2.6 billion	
	Decrease:	$282 million	(-9.7%)
+	$299 million for basic caseload increases		
+	$38 million for additional caseload due to expiration of five-year prohibition on AFDC for newly legalized persons (IRCA)		
−	$590 million for welfare reform proposals		
−	$29 million for full-year effect of the current-year reduction in maximum aid payments		
SSI/SSP	Requested:	$2.5 billion	
	Increase:	$147 million	(+6.2%)
+	$216 million for caseload increases		
−	$88 million for elimination of food stamps "cash-out"		
County Administration	Requested:	$432 million	
	Increase:	$73 million	(+20%)
+	$38 million for AFDC administration		
+	$33 million for food stamps administration		
Developmental Services	Requested:	$733 million	
	Increase:	$54 million	(+7.9%)
+	$66 million for increase in caseload and services in regional centers		

Welfare Reform Package. The major provisions of the Governor's proposed welfare reforms would modify the AFDC Program (Family Group and Unemployed Parent components), as summarized below. These provisions would require legislation and, in most cases, a waiver of federal regulations.

- *AFDC MAP Reductions.* The budget proposes a 10 percent reduction in the MAP for the first six months a family is on aid, and an additional reduction (with specified exemptions) of 15 percent after six months. The "need standard" — which is the basis for determining actual grants, up to the MAP — would not be reduced and would continue to increase for annual COLAs, as provided by current law. The impact of the MAP reductions would be primarily on nonworking recipients (those who currently get the maximum grant). The 10 percent reduction would reduce the monthly MAP for a family of three (currently $663) by $66, partially offset by an increase in food stamps of $20. The 15 percent reduction would reduce the MAP by an *additional* $90 for a family of three, partially offset by an increase of $27 in food stamps.
- *Maximum Family Grant.* The AFDC MAP, which varies with family size, would not increase for children conceived while a family is on aid.
- *Residency Requirement.* AFDC grants for persons from another state would, during their first 12 months of residence in California, be based on the lesser of the grant they would receive using California's requirements or the MAP in their former state.
- *Elimination of Pregnancy Benefits.* All AFDC pregnancy-related payments would be eliminated. This includes grants to pregnant women who have no other children, but who would qualify for AFDC if they did have children, as well as a special $70 monthly payment for these women and for pregnant women who are recipients of a regular AFDC grant.
- *Teen Parents.* The budget proposes to establish the Cal Learn Program, which would provide $50 monthly increases or reductions to AFDC grants for parents under age 19 and attending high school, based on their school attendance. The budget also proposes to require parents under age 18, with some exceptions, to reside with their parents, legal guardian, or adult relative, or in certain other living arrangements in order to receive AFDC.

Table 3 understates the savings that would be realized from the welfare reform package because (1) the budget proposes implementation of these changes on March 1, 1992, thereby resulting in savings in the current as well as budget years and (2) the proposed changes would affect some other social services programs besides AFDC. Taking into account these factors, the budget estimates that the proposed reforms (including the new Job Club Program) would result in net General Fund savings of $71 million in 1991-92 and $638 million in 1992-93. Most of these savings are due to the proposed reductions in the MAPs for the AFDC Program.

Elimination of Food Stamps "Cash-Out" for SSI/SSP Recipients. Under current law, California is permitted to provide cash in lieu of food stamps to SSI/SSP recipients. This is referred to as the food stamp "cash-out." The budget proposes to eliminate the cash-out, which is state funded, and instead permit the recipients to apply for food stamps, which are federally funded. This would result in an estimated net General Fund savings of $73 million in 1992-93.

Projected Increase in IHSS Service Level Not Funded. The budget proposes $150 million from the General Fund ($744 million from all funds) for the IHSS Program in 1992-93, which is less than 1 percent below estimated current-year expenditures. Proposed expenditures for this program represent a reduction of $47 million from the General Fund (and $36 million in county funds) below the amount needed to fully fund the projected increases in caseload as well as the average number of hours of service per case. The budget, however, indicates that the additional cases will be served, so the reduction will be taken entirely in the level of services provided. The impact would be a 10 percent reduction in services below the amount projected for 1992-93, based on past trends.

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. A fuller discussion of these issues is contained in our analysis of the affected department or program which follows this overview.

- *Governor's Welfare Proposals for the AFDC Program.* As indicated above, the Governor's package of welfare proposals is the dominant issue in the social services area. The major proposals would reduce the maximum grants, thereby reducing the incomes available to nonworking recipients. In our analysis of the AFDC Program, we present several alternative approaches that would result in a lower level of savings in the short run, but which better reflect the job readiness of AFDC parents while still offering the prospect of significant savings. (See Item 5180, Aid to Families with Dependent Children.)
- ***Proposal to Eliminate the Food Stamps "Cash-Out" for SSI/SSP Recipients.*** The budget proposal to reduce the state-funded portion of the SSI/SSP grant and permit the recipients to receive food stamps (which are federally funded) would reduce the SSI/SSP grant by $10 and make recipients eligible for $10 in food stamps. As discussed in our analysis of the SSI/SSP Program, however, the families of some recipients could experience a net reduction in food stamps. (See Item 5180, Supplemental Security Income/State Supplementary Program.)
- ***Proposal Not to Fully Fund the Projected Need for Services in the IHSS Program.*** The budget proposal is 10 percent less than the amount needed to fully fund the anticipated needs of recipients. Current law

authorizes a reduction in the service level, according to specified priorities. In our analysis of the program, we present several alternatives for controlling costs. (See Item 5180, Social Services Programs.)

State Council on Developmental Disabilities and Area Boards on Developmental Disabilities

Items 4100 and 4110

Expenditures

Requested 1992-93	$5,538,000
Estimated 1991-92	6,026,000
Actual 1990-91	5,389,000
Requested decrease $488,000 (-8.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The State Council on Developmental Disabilities is responsible for planning, coordinating, monitoring, and evaluating the service delivery system for persons with developmental disabilities.

There are 13 regional Area Boards on Developmental Disabilities responsible for protecting and advocating for the rights of persons with developmental disabilities.

Overview of the Budget Request

The budget proposes an appropriation of $5.5 million from federal funds for the support of the state council and area boards in 1992-93. This is a decrease of $488,000, or 8.8 percent, below estimated current-year expenditures.

Emergency Medical Services Authority
Item 4120

Expenditures

Requested 1992-93	$6,675,000
Estimated 1991-92	6,571,000
Actual 1990-91	6,432,000

Requested increase $104,000 (+1.6 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Emergency Medical Services Authority (EMSA) reviews local emergency medical services programs, establishes statewide standards for training and certification of paramedics and other emergency personnel, and plans and manages medical responses to disasters.

Overview of the Budget Request

The budget proposes funding the EMSA at the current-year level, with minor workload and federal grant changes.

The budget proposes a total of $6.7 million ($4 million from the General Fund) for support of the authority's programs in 1992-93. This is an increase of $104,000 (1.6 percent) above estimated current-year expenditures. The increase is due to:

- A net increase of $64,000 for a federal Office of Traffic Safety grant to establish an injury prevention project. The total grant amount is $174,000.
- Various other workload adjustments.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 7.8 percent from the General Fund in 1991-92. (This reduction is 5.3 percent of the authority's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Health and Welfare Agency Data Center
Item 4130

Expenditures

Requested 1992-93	$71,027,000
Estimated 1991-92	73,344,000
Actual 1990-91	53,228,000

Requested decrease $2,317,000 (-3.2 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

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

Overview of the Budget Request

The proposed HWDC budget is essentially a workload budget.

The budget proposes an appropriation of $71 million from the Health and Welfare Agency Data Center Revolving Fund to support the data center's operations in 1992-93. This is a decrease of $2.3 million, or 3.2 percent, below estimated current-year expenditures. The decrease is primarily due to completion of projects undertaken in prior years. In addition, there are increases in the budget to support the increased workload of the data center's user departments.

Office of Statewide Health Planning and Development
Item 4140

Expenditures

Requested 1992-93	$37,384,000
Estimated 1991-92	36,971,000
Actual 1990-91	32,533,000

Requested increase $413,000 (+1.1 percent)

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Options for Funding Song-Brown Family Physician Training Program.** The Legislature has the option of (a) expanding the Song-Brown program (with the adoption of Budget Bill language) or (b) using proposed matching funds to supplant up to $1.4 million in existing General Fund support of the program. 23

General Program Statement

The Office of Statewide Health Planning and Development (OSHPD) (1) develops state health plans, (2) administers demonstration projects, (3) operates health professions development programs, (4) reviews plans and inspects health facilities construction projects, and (5) collects health cost and utilization data from health facilities.

Overview of the Budget Request

The OSHPD budget is essentially a workload budget, with the exception of a proposal to significantly expand the Song-Brown Family Physician Training Program.

Expenditures for support of the office from all funds are proposed at $37.4 million in 1992-93. This is an increase of $413,000, or 1.1 percent, above estimated current-year expenditures. The budget proposes expenditures of $4.9 million from the General Fund to support the OSHPD in 1992-93. This is a decrease of $893,000, or 15 percent, below estimated current-year General Fund expenditures.

The increase in expenditures from all sources is due primarily to:

- An increase of $2.1 million to expand the Song-Brown Family Physician Training Program (which is discussed below).
- Increases of (1) $215,000 for additional support of the Health Facilities Construction Loan Insurance (Cal-Mortgage) Program and (2) $89,000 for a new grants funding coordinator position.
- A decrease of $2.8 million to reflect the elimination of various one-time and carry-over funds.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 8.4 percent from the General Fund in 1991-92. (This reduction is 1 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Several Options for Funding Song-Brown Family Physician Training Program

We find that the Legislature has the option of (1) expanding the Song-Brown program (as proposed by the budget) or (2) using the proposed matching funds to supplant up to $1.4 million in existing General Fund support of the Song-Brown program. If the Legislature wishes to expand the program, we recommend that it adopt Budget Bill language specifying its priorities for expansion and ensuring that proposed additional funds shall only be used once existing funds elsewhere in the budget have been exhausted and a minimum level of matching funds have been raised.

The budget proposes to increase funding for the Song-Brown program by $2.1 million (75 percent) as follows: (1) $700,000 from the General Fund, (2) $700,000 from University of California (UC) funds, and (3) $700,000 from physician donations.

Background. The Song-Brown program was enacted in 1973 in response to a shortage of primary care medical personnel. It provides financial support for training family physicians, family physician assistants, and family nurse practitioners to increase the supply of these personnel, particularly in medically underserved areas. In the current year, the program is budgeted $2.8 million to support training for 510 family physicians, 96 family physician assistants, and 75 family nurse practitioners. Twenty-three hospital-based family physician residency programs receive Song-Brown funds, including 12 county hospitals, 4 UC hospitals, and 7 community hospitals.

Previous studies have shown the program has generally been effective in increasing the numbers of family physicians, physician assistants, and family nurse practitioners who are trained in California. No recent evaluations are available, however, to show whether, or for how long, those trained by the program practice in the state's medically underserved areas. A 1986 study by the California Area Health Education Center System, however, showed that roughly one-half of the program's *recent* graduates at that time chose to practice in medically underserved areas.

Proposal. The budget proposes that each $1 from the General Fund would only be committed after $2 in matching funds ($1 from UC and $1 from physician donations) becomes available. The maximum $700,000 General Fund amount assumes that (1) the suggested physician donation will be $25 per physician, (2) roughly 80 percent of the state's physicians will make a $25 donation, and (3) UC will provide a $1 match for each $1 in donations received, up to $700,000 (the proposed UC budget does not reflect any changes due to this proposal).

If the entire $2.1 million does not become available because matching funds are lower than anticipated, the OSHPD plans to fund the following projects in priority order (with each project being fully funded before the OSHPD moves to the next highest priority) until funds are exhausted:

- $800,000 to train 15 additional family physicians, physician assistants, and nurse practitioners, with the goal of having them practice in rural areas.
- $600,000 to provide up to 20 family physicians with advanced obstetrical training, with the goal of having them practice in rural or medically underserved areas.
- $300,000 to develop new training approaches to prepare primary care health workers, with the goal of having them serve refugees.
- $200,000 to provide technical assistance to help five existing family physician residency program outpatient centers move from being fee-for-service programs to managed care programs.
- $200,000 to add training in the provision of home care for the frail elderly and persons severely disabled with AIDS to certain existing training programs.

Legislative Options. The Song-Brown program is a General Fund supported health program that is not mandated to provide a particular level of service. Thus, the Legislature could use up to $1.4 million of the proposed $2.1 million — the UC and physician fee monies — to supplant existing

General Fund monies provided to the program. This would free up these funds either to increase the General Fund reserve or for other legislative priorities.

Should the Legislature choose to expand the Song-Brown program, we recommend that it establish its own priorities for the use of the proposed funding increase. Once these priorities are established, our review indicates that any expansion proposal should be structured to ensure that:

- New funds are not provided unless programs supported by existing funds elsewhere in the budget are insufficient. For example, we have identified an existing $300,000 Medi-Cal loan program — designed to assist health programs to convert to managed care models — which may reduce or eliminate the need for the technical assistance that the OSHPD proposes to provide in Priority 4 above. Other state or federal funds may be available to fund the other priorities.
- General Fund monies are not committed until it is apparent that the required matching funds will be available to complete at least one full project. For example, at least $265,000 in physician donations would be required in order to generate sufficient UC and General Fund monies to fund the office's first priority at the $800,000 level.

Summary. As indicated above, one option for the Legislature is to use up to $1.4 million in proposed matching funds to replace existing General Fund monies for the Song-Brown program. Should the Legislature instead choose to use these funds (and the proposed additional $700,000 General Fund match) to expand the Song-Brown program, we recommend that the Legislature adopt Budget Bill language (1) specifying how it wants the OSHPD to spend the funds, (2) requiring that proposed additional funds shall only be used to the extent existing funds elsewhere in the budget are insufficient, and (3) specifying the minimum level of matching funds that must be available before General Fund monies are committed. The actual Budget Bill language required would depend on the Legislature's priorities.

Legislative Oversight: Health Facilities Construction Reviews

The OSHPD reviews health facility construction plans and inspects construction projects to assure that the facilities meet state laws, including those related to seismic safety. The cost of such reviews and inspections is paid fully through fees charged to health facilities based on the dollar value of the anticipated construction projects. These fees are deposited in the Architecture Public Building Fund (APBF) within the Hospital Building Account.

Primarily as a result of the current recession, many health facilities have chosen to eliminate or scale back their construction plans. In cases where the construction plans are eliminated, the OSHPD's workload declines along with the APBF revenues. In cases where the plans are just scaled back, however, the current fee system is structured so that fee revenues decline faster than the amounts needed to fund the OSHPD's workload. Thus, the OSHPD must either raise the fees or use the APBF reserve funds. At the end of 1990-91, the APBF reserve was estimated to be $493,000, or only 2.7 percent of the expenditures made in that year. In September 1991, the OSHPD raised its fees by 9 percent (from 1.5 percent of total construction project value to 1.64 percent of value) to better cover its workload costs and help reestablish the reserve.

At the time of this analysis, the OSHPD was developing alternative fee proposals to ensure that the APBF revenues are sufficient to fully fund the OSHPD's construction review and inspection workload. We will report during budget hearings, as appropriate, on whether additional legislative actions are necessary to ensure sufficient reserves for this program.

Additional Construction Plan Review Information Available This Spring

Chapter 865, Statutes of 1991 (AB 47, Eastin), centralizes health facility construction plan review and approval within the OSHPD. At the time this analysis was prepared, plans to implement Chapter 865 were not available. The Governor's Budget notes that any budget changes needed once the plans become available will be proposed later this spring. We will report on this issue during budget hearings, as appropriate.

California Department of Aging
Item 4170

Expenditures

Requested 1992-93	$135,679,000
Estimated 1991-92	137,826,000
Actual 1990-91	135,674,000

Requested decrease $2,147,000 (-1.6 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Department of Aging (CDA) is the single state agency charged to receive and administer funds allocated to California under the federal Older Americans Act (OAA). In addition, the Legislature has designated the CDA as the department principally responsible for developing and implementing a comprehensive range of noninstitutional services for older Californians and functionally impaired adults. The department delivers OAA services through local agencies on aging, other public and private nonprofit organizations, and service providers.

Overview of the Budget Request

The proposed CDA budget is essentially a workload budget, except for a reduction in federal funds.

The budget proposes total program expenditures of $135.7 million for the CDA in 1992-93. This includes $87.3 million in federal funds, $33.4 million from the General Fund, $400,000 from the Nutrition Reserve Fund, and $14.5 million in reimbursements. General Fund expenditures proposed for 1992-93 are $51,000, or 0.2 percent, less than estimated current-year expenditures. Total expenditures proposed for 1992-93 are $2.1 million, or 1.6 percent, less than estimated current-year expenditures. This decrease is primarily due to (1) one-time federal funds in the current year for congregate meals and grants for various supportive services that will not be available in the budget year and (2) a reduction in reimbursements for start-up grants to provide Adult Day Health Care services to AIDS patients. The budget proposes an increase in federal funds of $392,000 and 0.7 personnel-years to continue expanded employment services for senior citizens.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 5.7 percent from the General Fund in 1991-92. (This reduction is 1.6 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Table 1 summarizes the department's expenditures and funding sources in the prior, current, and budget years.

CALIFORNIA DEPARTMENT OF AGING—Continued

Table 1

California Department of Aging Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Change from 1991-92	
				Amount	Percent
Expenditures					
State administration	$9,286	$9,700	$9,420	-$280	-2.9%
Older Americans Act (OAA) programs					
Local assistance					
Congregate nutrition	$39,820	$40,280	$39,551	-$729	-1.8%
Home-delivered meals	21,686	21,557	21,359	-198	-0.9
Employment services	5,636	6,008	6,008	—	—
Social services	27,304	27,844	27,311	-533	-2.0
Ombudsman	2,999	3,452	3,295	-157	-4.8
Special projects	3,813	3,815	3,765	-50	-1.3
Subtotals, OAA	($101,258)	($102,956)	($101,289)	($-1,667)	(-1.6%)
Long-term care (LTC) programs					
Local assistance					
Multipurpose Senior Services Program	$20,709	$20,749	$20,749	—	—
Linkages/alzheimers/respite	4,221	4,221	4,221	—	—
Adult day health care	200	200	—	-$200	-100.0%
Subtotals, LTC programs	($25,130)	($25,170)	($24,970)	($-200)	(-0.8%)
Totals	**$135,674**	**$137,826**	**$135,679**	**-$2,147**	**-1.6%**
General Fund	*$35,547*	*$33,461*	*$33,410*	*-$51*	*-0.2%*
Federal funds	*85,487*	*89,222*	*87,320*	*-1,902*	*-2.2*
Nutrition Reserve Fund	—	*400*	*400*	—	—
Reimbursements	*14,640*	*14,743*	*14,549*	*-194*	*-1.3*
Personnel-Years	**148.2**	**150.8**	**150.3**	**-0.5**	**-0.3%**

Commission on Aging
Item 4180

Expenditures

Requested 1992-93	$973,000
Estimated 1991-92	847,000
Actual 1990-91	977,000
Requested increase $126,000 (+14.9 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Commission on Aging (CCA) is mandated to act in an advisory capacity to the California Department of Aging (CDA) and to serve as the principal state advocate on behalf of older persons. The CCA also sponsors the California Senior Legislature, composed of 120 seniors who hold an annual session to develop legislation that addresses the needs and concerns of older Californians.

Overview of the Budget Request

The proposed CCA budget is essentially a workload budget.

The budget proposes expenditures of $973,000 from various funds to support the CCA in 1992-93. This amount is $126,000, or 15 percent, above estimated current-year expenditures. This increase is primarily due to increased expenditures to fund the biennial election for the California Senior Legislature. Proposed expenditures from the General Fund amount to $221,000, the same as estimated current-year expenditures.

This commision, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. (This reduction is 5.9 percent of the commission's total budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Department of Alcohol and Drug Programs
Item 4200

Expenditures

Requested 1992-93	$289,465,000
Estimated 1991-92	312,331,000
Actual 1990-91	266,244,000

Requested decrease $22,866,000 (-7.3 percent)

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Federal Funding Picture Uncertain.** The amount of federal block grant funding is uncertain. As a result, the Legislature faces at least two major trade-offs: (1) expanding state administration versus maintaining local assistance programs and (2) expanding a program that is aimed primarily at the prevention of casual drug use versus maintaining programs that are aimed at those most likely to become heavy drug users.

Findings and Recommendations

Analysis Page

1. **Anticipated Federal Grant Decreases May Mean Big Program Reductions.** The budget estimates a reduction of $18.8 million in available federal funds; however, pending Congressional action could provide additional funding. Recommend that the Legislature establish its priorities in Budget Bill language. 34
2. **Budget Proposes Redirections of Local Assistance Funding to Administrative Activities. Reduce Item 4200-001-001 by $230,000 and Item 4200-001-890 by $284,000. Increase Item 4200-102-001 by $230,000 and Item 4200-101-890 by $284,000.** Recommend that the proposed redirection for perinatal 35

program support be approved in part and that the remaining redirections be rejected.

3. **Friday Night Live/Club Live (FNL/CL) Expansion.** Proposal expands a program that does not target prevention efforts at high-risk youth while other targeted programs are being reduced. Recommend that the FNL/CL Program not be expanded and that the Legislature consider redirecting program funding to other, targeted prevention programs. 36

General Program Statement

The Department of Alcohol and Drug Programs (DADP) directs and coordinates the state's efforts to prevent or minimize the effect of alcohol-related problems, narcotic addiction, and drug abuse.

Overview of the Budget Request

The budget proposes a significant reduction in total expenditures for the department, due primarily to an anticipated net reduction in federal funds and available carry-over balances from prior-year grant awards.

The budget proposes total expenditures of $289.5 million from all funds for alcohol and drug programs in 1992-93. The proposed expenditures are $22.9 million, or 7.3 percent, below estimated total expenditures in the current year, as shown in Table 1. The budget proposes an appropriation of $93.2 million from the General Fund for the DADP in 1992-93, which represents no change from 1991-92.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1992-93. The major changes proposed in the budget are decreases of (1) $10.5 million due to the elimination of a carry-over funding balance from the current-year federal Alcohol, Drug, and Mental Health Services (ADMS) block grant; (2) $4.1 million in funds from the federal Waiting Period Reduction Grant; (3) $2.2 million in funds from the federal Office of Treatment Improvement grants, including those for services to the Juvenile Justice and Residents of Public Housing target populations; and (4) $1.7 million in federal funds to support the Community Drug-Free School Zones Programs.

In addition, the budget proposes to redirect $950,000 (all funds) from local assistance to fund various support activities, including the establishment of 10.4 positions to administer the perinatal substance abuse projects. Funding for these projects was increased from $5.6 million in 1990-91 to $34.6 million in the current year, and is proposed at $33.1 million for 1992-93.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Table 1

Department of Alcohol and Drug Programs Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Alcohol	$80,965	$82,651	$80,822	-2.2%
Drugs	132,436	138,888	123,385	-11.2
Pilot projects:				
Combined alcohol and drug services	23,207	21,008	18,892	-10.1
Perinatal substance abuse projects	5,558	34,582	33,066	-4.4
Inmate/parolee treatment	—	6,182	7,733	25.1
Subtotals, local assistance	$242,166	$283,311	$263,898	-6.9%
State operations	24,078	29,020	25,567	-11.9
Totals	**$266,244**	**$312,331**	**$289,465**	**-7.3%**
General Fund	*$78,563*	*$93,186*	*$93,187*	—
Federal funds	*177,502*	*192,238*	*168,368*	*-12.4%*
Other state special funds	*1,591*	*2,344*	*2,002*	*-14.6*
Reimbursements	*8,588*	*24,563*	*25,908*	*5.5*
Personnel-Years[a]	**246.4**	**280.3**	**280.7**	**0.1%**

[a] Includes 10.4 positions administratively established in 1991-92.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 5 percent from the General Fund in 1991-92. (This reduction is 1.5 percent of the department's total budget from all funds.) The reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Table 2

Department of Alcohol and Drug Programs Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	Federal Funds	Other Funds[a]	Totals
1991-92 Expenditures (revised)	$93,186	$192,238	$26,907	$312,331
Workload and cost adjustments	—	265	52	317
Full-cost of Los Angeles and San Diego Service Networks	—	—	1,634	1,634
Program reductions	—	(-$18,773)	(-$495)	(-$19,268)
Reductions in expenditures from federal grants				
ADMS block grant	—	-10,524	—	-10,524
Adolescents in juvenile justice, residents of public housing, and other grants	—	-2,185	—	-2,185
Treatment waiting list reduction	—	-4,121	—	-4,121
Drug-free schools and communities	—	-1,704	—	-1,704
Community youth activity program	—	-239	—	-239
Drinking driver program	—	—	-495	-495
Redirections from local assistance	($466)	($284)	($200)	($950)
Expand perinatal support	(466)	—	200	(666)
Expand licensing and certification staff	—	(140)	—	(140)
Fund staff counsel position	—	(88)	—	(88)
Expand Friday Night Live support	—	(56)	—	(46)
Other changes				
Eliminate 1990-91 carry-over	—	-5,230	—	-5,230
Computer system improvements	—	—	124	124
Expiring positions	—	-132	—	-132
Other	1	—	-312	-311
1992-93 Expenditures (proposed)	**$93,187**	**$168,368**	**$27,910**	**$289,465**
Change from 1991-92				
Amount	$1	-$23,870	$1,003	-$22,866
Percent	—	-12.4%	3.7%	-7.3%

[a] Includes federal and other reimbursements, generally through the Short-Doyle/Medi-Cal Program.

Analysis and Recommendations

Anticipated Federal Grant Decreases May Mean Big Program Reductions

Although the budget reflects a significant net decrease in various federal grants and carry-over funds, the ultimate federal funding level will not be clear until the late spring. To ensure that the Legislature's priorities are reflected in whatever the department's ultimate funding level is, we recommend that the department submit to the Legislature a prioritized list of program expenditures and that the Legislature adopt Budget Bill language based on its review of this information and its own priorities.

The department advises that for federal fiscal year 1992 (FFY 92 — October 1, 1991 to September 30, 1992), the total substance-abuse portion of the ADMS block grant for California is projected to be $141 million. This amount assumes an increase of $9.8 million from the FFY 91 funding level. However, the department estimates a reduction of approximately $20.3 million in available carry-over funding from prior-year grant awards that have partially supported expenditures in 1990-91 and 1991-92. The net effect of these changes is a *reduction* of $10.5 million (or 8 percent) in available federal funds, for a total of $146.6 million, in 1992-93.

The department also reports, however, that the ADMS allocation to California may ultimately be $10 million to $20 million higher than the amount currently reflected in the budget, as a result of pending Congressional action. Due to the $20.3 million reduction in prior-year carry-over balances, this would result in a net increase of up to $10 million in ADMS-supported funding for 1992-93.

The ultimate federal funding level will not be clear until the late spring. It is possible that some increase in the ADMS and other federal grants will occur. In view of this, we recommend that the department submit to the Legislature a prioritized list of drug program expenditures. We further recommend that the Legislature adopt Budget Bill language based on a review of this information that reflects its priorities for the expenditure of available federal funds.

Department Needs to Make Tough Choices

For the first time in several years, the department is faced with declining resources, although there is no indication that the need for substance abuse prevention and treatment services has abated. Thus, the department faces the task of making difficult choices to ensure that services and activities that are most cost-effective are given funding priority.

In our view, the budget request does not indicate that such choices have been made for 1992-93. We discuss two related issues below — the trade-offs between (1) expanding state administration versus maintaining services funded through local assistance and (2) expanding a program aimed primarily at the prevention of casual drug use versus maintaining programs aimed at those most likely to become heavy drug users. Accordingly, we believe the Legislature will need to review the administration's proposed budget for the department to ensure that funding priority is given to those activities which are most likely to address effectively the state's substance abuse problems.

Proposed Funding Redirections Expand Administration at the Expense of Direct Services

We recommend that the Legislature (1) approve a portion of the proposed redirection of funds from the perinatal projects to departmental support (reduce Item 4200-001-001 by $230,000 and increase Item 4200-102-001 by $230,000) and (2) reject the remaining proposals for redirections from local assistance (reduce Item 4200-001-890 by $284,000 and increase Item 4200-101-890 by $284,000).

Proposal. The budget proposes to redirect a total of $950,000 from local assistance funding ($466,000 General Fund, $484,000 federal funds and reimbursements), to support 14 positions in departmental administration. (Of these positions, 10 were administratively established in the current year.) These redirections are:

- $666,000 for support of the perinatal substance abuse program (10 positions).
- $140,000 for additional licensing and certification staff (2 positions).
- $88,000 to fund a staff counsel position (1 position).
- $56,000 for an additional position to administer the FNL/CL Program (1 position).

The proposal to expand support of the perinatal substance abuse program would be funded by a redirection of $466,000 from the General Fund currently budgeted in the local assistance item, and $200,000 in federal reimbursements through the Short-Doyle/Medi-Cal Program.

Of the additional 14 positions requested, 6 positions would carry out activities related to compliance with federal requirements under the Short-Doyle/Medi-Cal Program, and can be funded in part through federal reimbursements. We believe these positions are justified and should be approved.

Analyst's Concerns. Although we do not, in general, question the merits of the four additional perinatal positions or the remaining four positions also proposed through redirections, we are concerned that this proposal would reduce treatment services beyond the reductions that may occur in 1992-93 due to the amount of available federal funds. The result would be a $550,000 reduction in direct treatment and prevention services in order to fund additional departmental administration positions.

Accordingly, we recommend that the Legislature (1) approve the proposed redirection of reimbursement authority from the perinatal projects item ($236,000 in General Fund and $200,000 in federal reimbursement authority) and (2) reject the remaining three proposals for redirections from the local assistance to the department's support item ($230,000 General Fund and $284,000 federal funds).

Friday Night Live Expansion Fails to Prioritize Prevention Efforts Toward High-Risk Youth

We recommend that the Legislature reject the proposed redirection of Drug-Free Schools and Communities (DFSC) funds to expand the FNL/CL Program, and use the funds instead for more targeted approaches. In addition, we recommend that the Legislature review base funding for the program to determine whether some or all of the funds currently supporting the FNL/CL Program may be more effectively used in other prevention and treatment programs targeted at high-risk youth.

The budget proposes to expand the FNL/CL Program by $206,000 (including the support position we discussed above) for a total funding level of approximately $1.7 million in 1992-93. Of this amount, $1 million is in local assistance and $631,000 is in support. The proposal would expand the FNL/CL Program to all 58 counties, and would be funded through a redirection of federal DFSC grant funds.

The FNL/CL Program provides grants ranging from $3,000 to $15,000 to fund FNL chapters at high schools and junior high schools, consisting of students who pledge to be alcohol- and drug-free. The program organizes assembly presentations, classroom activities, and alcohol- and drug-free social events. In addition, the program also provides training and technical assistance to FNL/CL chapters, and sponsors conferences.

In our earlier analysis on drug use in California (please see *The 1990-91 Budget: Perspectives and Issues*), we reviewed data on the prevalence of drug use among young people. These data show that casual drug use has been declining steadily in recent years, while heavy drug use may be on the rise. We also reported findings in the literature which show that casual adolescent drug use usually does *not* result in long-term consequences while regular and heavy use does. Accordingly, we have recommended that an effective prevention strategy should emphasize *targeted* programs aimed at high-risk youth — those most likely to become heavy drug users. These programs include early intervention programs that target high-risk youth who have begun to use alcohol or drugs, and drop-in centers that provide information and alternative drug-free activities for high-risk youth. We have recommended that the Legislature give funding priority to such programs.

The administration's proposal essentially does the opposite. As Table 3 shows, a number of targeted treatment and prevention programs will no longer be funded by the department in 1992-93, while the FNL/CL Program would be expanded. In particular, the High-Risk Multiple Problem Youth Program and the California Conservation Corps programs reflect targeted prevention approaches, while the Waiting Period Reduction Grant Program and the Female Offender Project provide targeted treatment services.

Table 3

Department of Alcohol and Drug Programs Proposed Program Eliminations Due to Reductions in ADMS and DFSC Grant Levels

(in thousands)

Waiting Period Reduction Grant	$7,000
Comprehensive Alcohol and Drug Prevention Education	1,183
Female Offender Project	636
High-Risk Multiple Problem Youth Program	633
California Conservation Corps project	221
Master Plan funding; completed evaluations	1,745
Miscellaneous expired projects and contracts	810
Total reductions	**$12,228**

Due to the budget constraints facing the department for 1992-93, we believe it is particularly important that the state's support for drug and alcohol treatment and prevention programs give priority to those types of programs which are most likely to prove effective. Accordingly, we recommend that the Legislature reject the proposed redirection of $150,000 in DFSC funds to expand the FNL/CL Program and use the funds instead for more targeted prevention and treatment approaches. In addition, we recommend that the Legislature review base funding for the FNL/CL Program to determine whether some or all of the funds currently supporting FNL/CL may be more effectively used in other prevention and treatment programs targeted at high-risk youth.

Child Development Programs Advisory Committee

Item 4220

Expenditures

Requested 1992-93	$234,000
Estimated 1991-92	233,000
Actual 1990-91	243,000
Requested increase $1,000 (+0.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Child Development Programs Advisory Committee (1) reviews and evaluates the effectiveness of child development programs and the need for children's services and (2) provides policy recommendations to the Governor, the Superintendent of Public Instruction, the Legislature, and other relevant state agencies concerning child care and development.

Overview of the Budget Request

The budget proposes no workload or program changes for the committee.

The budget proposes total expenditures of $234,000 from the General Fund to support the committee in 1992-93. This is $1,000, or 0.4 percent, more than estimated current-year expenditures. The increase reflects higher employee compensation costs.

The committee, along with many other state departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 11 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Department of Health Services
Item 4260

Expenditures

Requested 1992-93	$13,975,114,000
Estimated 1991-92	15,729,314,000
Actual 1990-91	10,999,558,000

Requested decrease $1,754,200,000 (-11.2 percent)

Fiscal Recommendations

Total recommended reduction	$500,000
Total recommended federal fund increases	$500,000
Recommendation pending	$12,546,536,750

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DEPARTMENT OF HEALTH SERVICES—Continued

Findings and Recommendations

Analysis Page

Department Support

1. **Allocation of Reductions.** Based on its priorities, the department has allocated General Fund reductions of $29.8 million throughout its divisions, which has resulted in a loss of $4.5 million in federal funds and 529.6 positions. 47

Public Health

2. **County Medical Services Program (CMSP) Funding Increase.** Withhold recommendation on $68.9 million from various funds ($44.7 million General Fund) for the CMSP, pending review of detailed information recently submitted by the department. 63
3. **Rural and Community Health Administration Costs.** Withhold recommendation on $2 million from the General Fund for the administration costs of various rural and community health programs, including the "realigned" programs, pending additional information. 63
4. **AIDS Drug Subsidy Program.** The proposal to increase the number of drugs provided through the AIDS drug subsidy program is consistent with previous legislative intent. Withhold recommendation on the actual amount proposed ($5 million from the General Fund), however, pending receipt of cost information. 66
5. **Family Planning Rate Increase.** Make no recommendation on $6 million (General Fund) to continue a rate increase the department granted to providers of family planning services in 1991-92 because (a) this is a policy decision for the Legislature and (b) we have no analytical basis for assessing the proposed funding level. 67
6. **Maternal and Child Health Information.** Recommend that the department report at budget hearings on its findings regarding the potential restructuring of maternal and child health programs, including plans for integrating the Check-Up Program with existing programs. 69
7. **Occupational and Childhood Lead Initiative. Reduce Item 4260-111-080 by $500,000 and increase Item 4260-101-890 by $500,000.** Recommend (a) that the department report on a number of implementation issues and (b) a reduction of $500,000 for case management services due to the availability of federal funds. 70

8. **Elimination of Proposition 99 Funds.** If the Legislature wishes to restore funding for the department-administered anti-smoking media campaign from Proposition 99 funds, it must reduce other health education programs or identify a different funding source for Medi-Cal perinatal services. 74

9. **Office of Drinking Water.** Recommend that the department report on various small water district issues. If pending legislation to delay implementation of federal drinking water requirements is enacted, recommend a technical conforming reduction of $7,833,000. 76

10. **Low-Level Radioactive Waste.** Recommend that the department provide a status report on various issues related to the proposed acquisition of a low-level radioactive waste disposal site in the Ward Valley. 77

Medi-Cal

11. **Medi-Cal Local Assistance Estimates.** Withhold recommendation on $12.4 billion ($5 billion General Fund) requested for Medi-Cal local assistance, pending review of the May revision. 81

12. **Federal Mandates Expand Eligibility.** Federal mandates have required expansion of Medi-Cal to four new, nontraditional, categories of people. 87

13. **Significant Caseload Growth.** Traditional eligibility categories account for most of the increase in the number of eligibles, but the rate of growth has been higher for nontraditional categories. 88

14. **Cost Increases.** Federal mandates requiring expansion of Medi-Cal eligibility to new categories account for over one-third of the increase in Medi-Cal costs since 1988-89. The average cost per eligible for nontraditional eligibles is more than 25 percent higher than the average cost across all eligibility categories. 92

15. **Options for Reducing Costs.** Federal restrictions limit the Legislature's ability to control costs. Even within these limits, reducing Medi-Cal eligibility would increase the uncompensated care burden on counties and hospitals. 95

16. **Optional Services.** The department's estimate of savings from reducing optional services is incomplete. Recommend that the department provide a revised savings estimate that reflects specified issues. 97

17. **Hospital Inpatient Days.** The administration's proposal to limit hospital days will shift costs to hospitals. 101

18. **Hospital Day Limit/In-Home Medical Care Services.** The department's proposal to limit hospital days may reduce the department's ability to expand the use of in-home medical care services. Recommend that the department report on how it plans to achieve specified savings. 102
19. **Medicare Crossover Proposal.** Recommend that the department provide a revised savings estimate for its Medicare crossover claims proposal. 103
20. **New Rate Reimbursement Methodology for Nursing Facilities.** Recommend that the department report on its final rate methodology for freestanding nursing home facilities. 104
21. **Proposition 99.** A budget proposal to use Proposition 99 funds for Medi-Cal pregnancy-related services requires voter approval. Absent such a vote, the proposal would increase General Fund costs by $60 million in 1991-92 and $62.8 million in 1992-93. 105
22. **Senate Bill 855 Intergovernmental Transfers.** The SB 855 program provides $1.6 billion to disproportionate-share hospitals. Almost one-half of these funds constitute new money for hospitals and contribute substantially toward reducing the uncompensated care burden they face. 106
23. **Donated Funds Program.** Recommend that the department report on its decision to eliminate the donated funds program. 107
24. **1992-93 Long-Term Care Cost-of-Living Adjustment (COLA) Costs.** Recommend that in the May revision, the department incorporate cost estimates for long-term care COLAs. 108
25. **Maximum AFDC Payments.** The proposal to reduce the maximum AFDC payments could increase Medi-Cal costs by up to $17 million General Fund. If the Legislature reduces maximum AFDC payments, we recommend that it enact technical cleanup legislation regarding Medi-Cal eligibility. 109
26. **Dental Access Lawsuit.** The budget does not reflect costs of $89.8 million ($44.9 million General Fund) from a recent dental access lawsuit. If the Legislature does not eliminate adult dental services, the costs of the lawsuit will increase by an additional $162.4 million ($84.2 million General Fund). 109
27. **Capital Debt Financing Program.** The budget's proposal would either (a) eliminate expansion of a capital debt financing program during the budget year or (b) force local governments to finance new projects with revenue bonds. 110

28. **Accrual Accounting.** Recommend that the Legislature create a new item and adopt Budget Bill language that would maintain legislative oversight and give the Department of Finance necessary flexibility to account for Medi-Cal expenditures on an accrual basis. 111

General Program Statement

The Department of Health Services (DHS) is responsible for (1) providing access to health care for California's low-income population through the Medi-Cal Program and (2) administering a broad range of public, indigent, and environmental health programs.

Overview of the Budget Request

Although the budget for the DHS is proposed to decrease by 11 percent, this decrease primarily reflects the elimination of $2.2 billion (total funds) in one-time funds provided in the current year to change Medi-Cal accounting from a cash to an accrual basis. Excluding the effects of this change, the budget is proposed to increase by 3.3 percent.

The budget proposes expenditures of $14 billion from all funds for support of DHS programs in 1991-92, which is a decrease of $1.8 billion, or 11 percent, below estimated current-year expenditures. The largest proposed budget changes are (1) a one-time decrease of $2.2 billion ($992 million General Fund) due to the elimination of one-time costs for the change from cash to accrual accounting in the Medi-Cal Program, (2) an increase of $876 billion ($434 million General Fund) for Medi-Cal caseload and cost adjustments, and (3) a decrease of $448 million ($223 million General Fund) for various Medi-Cal savings proposals.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 0.5 percent from the General Fund in 1991-92. (This reduction is 0.2 percent of the department's total budget from all funds.)

Since Medi-Cal and other local assistance programs were not directly affected by the unallocated reduction, it is useful to look at the impact of the reduction solely on the department's support budget. The unallocated reduction is 19 percent of the department's support budget from the General Fund and 5.9 percent of the department's support budget from all funds. The unallocated reduction is proposed to be carried over into 1992-93.

We discuss the impact of these reductions on the department's support later in this analysis. In addition, in our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 1 shows the proposed budget, by program category, for 1992-93 and the two previous years.

Table 1

Department of Health Services Expenditures and Funding Sources 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
State operations				
Public and environmental health[a]	$151,421	$214,910	$220,849	2.8%
Health care services[b]	446,240	293,095	307,778	5.0
Administration[c]	7,286	6,175	2,240	-63.7
Reduction per Ch 278/91 (AB 99, Isenberg) — administrative costs	—	-126	-1,227	873.8
Subtotals, state operations	($604,947)	($514,054)	($529,640)	(3.0%)
Local assistance				
Public and environmental health[a]	$163,051	$100,807	$97,943	-2.8%
Medi-Cal	8,627,307	14,146,394	12,407,995	-12.3
Health care services[b] — excluding Medi-Cal	1,604,253	968,059	939,536	-2.9
Subtotals, local assistance	($10,394,611)	($15,215,260)	($13,445,474)	(-11.6%)
Totals	**$10,999,558**	**$15,729,314**	**$13,975,114**	**-11.2%**
General Fund	*$5,195,908*	*$6,053,013*	*$5,426,210*	*-10.4%*
State Legalization Impact Assistance Grant (SLIAG)	*397,657*	*192,784*	*195,931*	*1.6*
Federal funds (except SLIAG)	*4,734,771*	*7,697,622*	*6,791,683*	*-11.8*
Cigarette and Tobacco Products Surtax (C&T) Fund	*502,360*	*399,498*	*382,745*	*-4.2*
Other state funds	*139,500*	*1,234,996*	*1,054,937*	*-14.6*
Reimbursements	*29,362*	*151,401*	*123,608*	*-18.4*

[a] This table cannot be compared to Table 1 in the *Analysis of the 1991-92 Budget Bill* because of changes reflecting (1) a new Department of Health Services accounting system and (2) a new format in the Governor's Budget. Public and Environmental Health includes Data Collection and Statistics, Environmental Health, and Public Health Services — which includes the Office of AIDS, Infectious Diseases, and other programs.

[b] See note (a) above. Health Care Services includes Medical Services (Medi-Cal), Licensing and Certification, Rural and Community Health, and Family Health Services.

[c] See note (a) above. Administration includes departmental administration and distributed administration.

Analysis and Recommendations

Department Support

MAJOR ISSUES

- **Unallocated Reduction.** The department's proposal to allocate a $29.8 million General Fund reduction among its programs will result in (1) a net loss of $4.5 million in federal Medi-Cal funds and (2) at least $3 million in General Fund costs from reduced activities designed to reduce Medi-Cal costs.

The budget proposes expenditures for department support of $530 million (all funds) in 1992-93. This is an increase of $15.6 million, or 3 percent, above estimated 1991-92 expenditures. These expenditures account for 3.8 percent of the department's budget.

The department proposes 4,432 personnel-years in the budget year, which represents no change from the number authorized for the current year. Table 2 shows the expenditures proposed for department support by major program category.

The major changes in the department's support budget include:

- An increase of $7.8 million to ensure small water districts' compliance with drinking water standards. (We discuss this issue in the public health section).
- An increase of $5.5 million to provide Triple Marker Screening in the Genetic Disease Testing Program for the detection of Down's syndrome.
- An increase of $3.1 million for support of childhood and occupational lead poisoning prevention programs. (We discuss this issue later in the public health section.)
- An increase of $2.3 million for managed care staff in the Medi-Cal Program.

These and other increases are offset primarily by reductions to eliminate one-time funds and limited-term positions.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 2

Department of Health Services Support Expenditures and Personnel-Years — All Funds 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Public and environmental health				
Data collection and statistics	$10,331	$8,738	$8,437	-3.4%
Environmental controls	40,952	49,511	54,776	10.6
Public health services	100,138	156,661	157,636	0.6
Subtotals	($151,421)	($214,910)	($220,849)	(2.8%)
Health care services				
Medical services (Medi-Cal)	$141,840	$138,658	$141,541	2.1%
Licensing and certification	47,876	68,068	73,402	7.8
Rural and community health	15,409	14,024	12,322	-12.1
Family health services	241,115	72,345	80,513	11.3
Subtotals	($446,240)	($293,095)	($307,778)	(5.0%)
Departmental administration	$58,890	$52,999	$52,869	-0.2%
Distributed departmental administration				
Public and environmental health	-14,378	-12,479	-12,626	1.2
Health care services	-37,226	-34,345	-38,003	10.7
Subtotals	($7,286)	($6,175)	($2,240)	(-63.7%)
Reduction per Ch 278/91 (AB 99, Isenberg) — administrative costs	—	-$126	-$1,227	873.8%
Totals	**$604,947**	**$514,054**	**$529,640**	**3.0%**
Personnel-Years	**4,394.6**	**4,431.6**	**4,431.7**	**—**

Allocation of Various Reductions in 1992-93

Based on its priorities, the department has allocated General Fund reductions of $29.8 million throughout its divisions. One effect of these reductions is the net loss of $4.5 million in federal funds for Medi-Cal-related programs. The reductions will also result in additional program costs in some areas, loss of fee revenues to the General Fund, and elimination of 529.6 positions.

The budget proposes General Fund expenditures of $5.4 billion for the DHS in 1992-93. This amount reflects a reduction of $29.8 million as a result of various unallocated reductions made in the current year that are proposed to be carried over into the budget year.

Table 3 shows how the DHS will allocate its reductions in 1992-93, and the department's descriptions of the programmatic effects of the reductions. (We note that the department's plan for allocating its reduction is one of the most detailed, comprehensive plans we have received.)

DHS Rationale. The department indicated that it attempted to "minimize the overall negative (total funding) impact of General Fund reductions by spreading the General Fund reductions relatively proportionately between the broad range of programs receiving some appropriation of General Fund." As a result, reductions were made in programs that are supported by a variety of funds, including the General Fund and federal funds. The department stated that if it did not reduce programs with a federal match, federal grants, or fee collection activities, then programs supported only with General Fund monies would have been required to double their reductions.

DHS Considerations. In allocating the reductions, the department stated that it (1) tried to avoid layoffs and (2) retain sufficient infrastructure "upon which to build in future years if sufficient funding becomes available." In addition, the department also indicated that budget reductions were *minimized* (but generally not eliminated) for the following programs to reflect department priorities:

- Programs that prevent and control the spread of disease, including related laboratory functions.
- Programs that are "directly related to the Governor's prenatal and prevention initiatives."
- Programs that produce revenue.

Thus, other areas were reduced disproportionately, particularly in the areas of technical assistance to the public, contract and invoice processing, and data collection and analysis.

We also note that the department chose to implement disproportionate reductions in some activities that have been of strong interest to the Legislature. These reductions include (1) the cancer registry, (2) birth defects monitoring, (3) Medi-Cal fraud protection, and (4) infant botulism prevention.

Analyst's Comments. In addition to the programmatic effects identified above and in Table 3, we note three major fiscal effects of the reductions:

Federal Fund Interactions. The department's allocation of the reductions will result in a net loss of $4.5 million in federal funds, which reflects (1) decreases of $9.3 million and (2) increases of $4.8 million. The decreases are due primarily to the department's proposal to reduce Medi-Cal-related programs that are partially funded from federal funds.

The increases are due primarily to the availability of additional federal funds that were used to backfill General Fund reductions in the licensing and certification area.

General Fund Revenue Effect. The department also reduced funding for programs that are initially funded by the General Fund, but where fee revenues are ultimately used to repay the General Fund costs. The department did not provide an estimate of the resulting revenue loss, but we estimate that it could be at least in the several hundred thousand dollar range.

Potential Cost Increases. The department indicates that its elimination of contract negotiations for durable medical equipment and laboratory services for the Medi-Cal Program will result in a loss of at least $3 million in savings that could have been achieved through reduced rates. In addition, the reduction of a program that is designed to protect against Medi-Cal fraud may result in additional General Fund costs.

Summary. As is true for other departments, the allocation of reductions among programs reflects the department's priorities and not necessarily those of the Legislature. This is because the reductions were originally unallocated and the department was given flexibility to implement them based on its own criteria. We discuss various issues related to unallocated reductions further in our companion document, *The 1992-93 Budget: Perspectives and Issues.*

Table 3

Department of Health Services Allocation of Various Reductions in 1992-93[a]

(dollars in thousands)

Program Reduction	General Fund	Totals	Personnel-Years (PYs)	Department of Health Services Description of Programmatic Effects
Medi-Cal				
1. Closure of four Medi-Cal field offices and consolidation of drug treatment authorization request (TAR) units.	$849	$2,969	71.5	Reduced access to on-site review staff for hospital contractors. Delays in processing TARs.
2. Redesign TAR review process and eliminate second-level TAR review.	267	1,071	23.0	Potential increases in utilization of services and local assistance and in litigation to appeal denied TARs.
3. Consolidation of various Medi-Cal operation functions.	252	527	15.5	Potential reduction in recoveries from third-party payors.
4. Reduce Medi-Cal policy staffing.	766	1,597	43.2	Reduced ability to develop Medi-Cal eligibility and benefit policy, as well as reimbursement rates for services. Potential increase in eligibility errors, overpayments for services, and federal fiscal sanctions.
5. Reduce in-house legal staff.	35	140	4.0	Reduced ability to prosecute Medi-Cal provider fraud cases and defend civil lawsuits filed against the department.
6. Eliminate second-level provider appeals.	88	350	11.0	Probable significant increase in court cases filed against the department.
7. Reduce fiscal intermediary management staffing.	147	588	17.0	Reduced oversight of claims processing contracts.
8. Do not negotiate contracts for durable medical equipment (DME) and laboratory services.	81	162	4.0	Loss of savings of $3 million for laboratory services and unknown savings for DME.

Program Reduction	General Fund	Totals	Personnel-Years (PYs)	Department of Health Services Description of Programmatic Effects
9. Reduce Medi-Cal and Dental-Cal procurement staffing.	50	201	6.0	Require loans of staff in other areas for procurement activities.
Subtotals, Medi-Cal Program	($2,535)	($7,605)	(195.2)	Decrease in PYs from 1991-92 base:[b] 16 percent.
Audits and Investigations				
1. Eliminate certain drug utilization investigations and reduce other investigations.	$814	$1,813	46.0	Potential increases in provider or recipient Medi-Cal fraud. Closure of field offices.
Subtotals, Audits and Investigations	($814)	($1,813)	(46.0)	Decrease in PYs from 1991-92 base:[b] 10 percent.
Licensing and Certification				
1. Focus on federal certification activities of medical facilities. Eliminate Department of Justice (DOJ) services.	$4,834	$360	—	Most funds will be replaced by federal funds. Potential proposal to eliminate certain state licensing activities. Reduction in DOJ budget.
Subtotals, Licensing and Certification	($4,834)	($360)	—	Decrease in PYs from 1991-92 base:[b] None.
Rural and Community Health				
1. Eliminate public health monitoring and assistance unit due to realignment.	$511	$511	12.0	
2. Reduce staff who provide health data and analysis. Reduce staff in Office of State Registrar, which provides copies of birth, death, and marriage certificates.	339	339	11.5	Reduced access to vital statistical information, potentially resulting in up a three-month wait for copies of vital records.
3. Reduce technical support and review for primary care clinics and other providers.	583	583	14.0	Elimination of on-site reviews of clinics that receive state funding.
Subtotals, Rural and Community Health	($1,433)	($1,433)	(37.5)	Decrease in PYs from 1991-92 base:[b] 15 percent.

Program Reduction	General Fund	Totals	Personnel-Years (PYs)	Department of Health Services Description of Programmatic Effects
Family Health Services				
1. Reduce staffing in the Child Health and Disability and Prevention (CHDP) Program.	$163	$396	10.0	Elimination of nutritional consultation and educational materials provided to the counties.
2. Reduce various consulting, training, support, and other activities.	448	160	1.3	Most funds will be replaced by federal funds.
Subtotals, Family Health Services	($611)	($556)	(11.3)	Decrease in PYs from 1991-92 base:[b] 3 percent.
Office of AIDS				
1. Eliminate planning and training unit. Reduce staffing in education, prevention, pilot care, and treatment services.	$1,056	$1,104	25.0	Elimination of training on AIDS in the workplace, and reduced surveillance and technical assistance activities.
Subtotals, Office of AIDS	($1,056)	($1,104)	(25.0)	Decrease in PYs from 1991-92 base:[b] 24 percent.
Preventive Medical Services				
1. Reduce state and contract staff for the California Tumor Registry. Eliminate contract for training new tumor registrants. Eliminate certain cancer epidemiology studies positions.	$2,371	$2,371	5.0	Elimination of collection of certain cervical cancer data. Potential reduction in ability to maintain sufficient quality control over certain types of data. Reduced ability to track cancer epidemiological data.
2. Reduce the Infant Botulism Prevention Program to two staff.	194	194	5.0	
3. Eliminate contract funds for sexually transmitted disease (STD) control activities in four counties. Eliminate laboratory technical support for state and local STD control staff.	246	246	2.5	

DEPARTMENT OF HEALTH SERVICES—Continued

Program Reduction	General Fund	Totals	Personnel-Years (PYs)	Department of Health Services Description of Programmatic Effects
4. Eliminate technical assistance and contract monitoring oversight to 26 local public health department contractors. Reduce preventive medical services support staff.	224	224	4.5	
Subtotals, Preventive Medical Services	($3,035)	($3,035)	(17.0)	Decrease in PYs from 1991-92 base:[b] 13 percent.
Office of Drinking Water				
1. Reduce staff who develop and enforce drinking water standards.	$522	$522	10.5	Delayed adoption of required drinking water standards. Potential delay in health evaluations of new drinking water contaminants.
Subtotals, Office of Drinking Water	($522)	($522)	(10.5)	Decrease in PYs from 1991-92 base:[b] 10 percent.
Division of Laboratories				
1. Reduce staffing in various laboratories, including air, industrial hygiene, food, drug, sanitation, radiation, and viral disease laboratories.	$2,819	$2,819	55.5	Reduced ability to (a) provide laboratory services for various environmental and public health programs and (b) regulate local clinical and public health laboratories.
Subtotals, Division of Laboratories	($2,819)	($2,819)	(55.5)	Decrease in PYs from 1991-92 base:[b] 10 percent.
Environmental Health Division				
1. Reduce radiologic health staff.	$1,335	$1,335	19.0	Reduced inspection and certification of x-ray machines and operators.
2. Reduce food and drug testing staff.	1,458	1,458	29.0	Reduced testing and removal from sale of contaminated food, tableware, and medical devices and state reviews of proposed new drugs.
3. Reduce staff in the vector control and wastewater management programs.	333	333	6.0	
4. Limit operation of Birth Defects Monitoring Program to 13 counties.	3,050	3,050	—	

Program Reduction	General Fund	Totals	Personnel-Years (PYs)	Department of Health Services Description of Programmatic Effects
5. Reduce staff and contracts for various environmental health studies.	605	605	5.0	
Subtotals, Environmental Health Division	($6,781)	($6,781)	(59.0)	Decrease in PYs from 1991-92 base:[b] 16 percent.
Environmental Health Hazards Assessment				
1. Reduce contracts and staffing in the health hazards assessment program.	$732	$732	7.5	Reduced support of various environmental, toxics, food, and drinking water programs.
Subtotals, Environmental Health Hazards Assessment	($732)	($732)	(7.5)	Decrease in PYs from 1991-92 base:[b] 4 percent.
Administration				
1. Eliminate quality improvement office. Reduce staffing in civil rights and legal services offices.	$440	$923	16.0	Potential delays in discrimination complaint responses, civil rights compliance reviews, and various required hearings.
2. Eliminate recruitment unit and departmental word processing center. Reduce staff in accounting, budgets, and contracts management.	2,958	4,567	49.1	Potential reduction in ability to recruit and retain staff, particularly ethnic minorities. Potential delays in processing departmental contracts.
3. Implement 5 percent salary roll-back for DHS managers and supervisors.	1,251	2,084	—	
Subtotals, Administration	($4,649)	($7,574)	(65.1)	Decrease in PYs from 1991-92 base:[b] 8 percent.
TOTALS	$29,821	$34,334	529.6	Decrease in PYs from 1991-92 base:[b] 10 percent.

[a] These reductions are (1) the 1991-92 "trigger-related" reductions, (2) the reductions made by Control Sections 1.20 and 3.90 of the 1991 Budget Act, and (3) the reductions made through Budget Letter 91-24, in lieu of the price increase reductions.

[b] The percentage change in PYs is calculated using the 1991 Budget Act as the base. Thus, changes that occurred since the enactment of the 1991 Budget Act (most notably changes resulting from Proposition 99 legislation and the establishment of the Cal-EPA) or that may occur by June 30, 1992 would change the percentages shown here.

Public Health

MAJOR ISSUES

- **Realignment.** The 1991 realignment legislation significantly altered the structure of public and indigent health programs in California. We discuss realignment issues in our companion document, *The 1992-93 Budget: Perspectives and Issues.*

- **Proposition 99.** The administration proposes to eliminate an anti-smoking media campaign. If the Legislature wishes to restore funding for this program, it will have to reduce other health education programs or identify different funding sources for Medi-Cal perinatal services.

- **Maternal and Child Health.** The department will present its findings on restructuring maternal and child health programs this spring, pursuant to Ch 278/91 (AB 99, Isenberg). The department should also provide information on how it plans to integrate the proposed Check-Up Program (which would provide health insurance to children) with existing programs.

- **Childhood and Occupational Lead Programs.** The administration will implement childhood and occupational lead poisoning prevention programs in 1992-93, pursuant to legislation and a lawsuit settlement. The department should identify strategies for monitoring the effectiveness of these programs and pursue available federal funding to offset case management costs.

The Public Health Program provides state support for California's preventive health programs. To administer these programs, the department has established seven units with the following responsibilities:

1. The *Rural and Community Health Division* distributes funds to local health agencies, county hospitals, clinics, and indigent care programs.

2. The *Office of AIDS* is responsible for providing, contracting for, and coordinating services related to the AIDS epidemic and human immunodeficiency virus (HIV).

3. The *Family Health Services Division* addresses the special needs of women and children.

4. The *Preventive Medical Services Division* is responsible for infectious and chronic disease programs.

5. The *Laboratory Services Division* maintains two state laboratories and regulates other public and private laboratories.

6. The *Environmental Health Division* operates programs to control environmental hazards.

7. The *Office of Drinking Water* regulates public water systems in the state.

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

Budget Proposal

Department Support. The budget proposes $313.7 million for department support attributable to public health programs in 1992-93. (This amount includes $111 million in funding for special projects.) The request is $12.4 million, or 4.1 percent, more than estimated current-year expenditures for department support. Table 4 displays staffing and operating support for each public health program in the past, current, and budget years.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 4

Department of Health Services Public Health Support Budget Summary — All Funds 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Data collection and statistics	$10,331	$8,738	$8,437	-3.4%
Environmental health				
Food and drug	$11,830	$12,791	$12,135	-5.1%
Radiologic health	6,993	7,270	7,377	1.5
Drinking water	10,034	13,478	18,286	35.7
Environmental management	12,095	15,972	16,978	6.3
Special projects	(3,412)	(8,851)	(8,109)	(-8.4)
Subtotals, environmental health	($40,952)	($49,511)	($54,776)	(10.6%)
Public health services				
AIDS	$20,548	$37,421	$32,008	-14.5%
Occupational health	1,917	2,156	3,136	45.5
Chronic diseases	20,563	37,724	39,850	5.6
Infectious diseases	23,352	53,002	57,451	8.4
Epidemiological studies	10,014	7,676	8,186	6.6
Health risk assessment	23,744	18,682	17,005	-9.0
Special projects	(26,502)	(99,475)	(100,533)	(1.1)
Subtotals, public health services	($100,138)	($156,661)	($157,636)	(0.6%)
Rural and community health				
Primary health care	$7,251	$6,133	$7,236	18.0%
County health services[a]	8,158	7,891	5,086	-35.5
Special projects	—	—	(1,538)	—
Subtotals, rural and community health	($15,409)	($14,024)	($12,322)	(-12.1%)

Continued

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Family health services				
California children's services	$4,202	$5,743	$5,962	3.8%
Maternal and child health	5,215	6,160	6,389	3.7
Genetic disease testing	34,003	42,479	49,910	17.5
Women, infants, and children (WIC)[b]	193,580	13,341	13,597	1.9
Child health and disability prevention	2,439	2,448	2,454	0.2
Family planning services	1,676	2,174	2,201	1.2
Special projects	(193,580)	(2,388)	(605)	(0.7)
Subtotals, family health services	($241,115)	($72,345)	($80,513)	(11.3%)
Totals	**$407,945**	**$301,279**	**$313,684**	**4.1%**

[a] This includes the Local Health Services Program, which was "realigned" in 1991-92 and is discussed later in this analysis (also see Table 7).

[b] In 1990-91, WIC local assistance funds were scheduled in support. For information on WIC local assistance funds in 1991-92 and 1992-93, see Table 5 (Public Health Local Assistance).

The major increases proposed in the support budget would be used to:

- Provide Triple Marker Screening for the detection of Down's syndrome through the Genetic Disease Testing Program ($5.5 million, Genetic Disease Testing Fund).
- Regulate small water systems as required by Ch 1158/91 (AB 2158, Bentley) ($7.8 million, Small Water System Account).

Generally, the decreases in the support budget are due to the elimination of limited-term positions and one-time funds that are available in the current year due to legislation and reappropriations.

Local Assistance. The budget proposes $1 billion (all funds) in local assistance for public health services in 1991-92. This represents a decrease of $31.4 million, or 2.9 percent, below estimated current-year expenditures.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 5 presents local assistance expenditures, by program, for 1990-91 through 1992-93.

Table 5

Department of Health Services Public Health Local Assistance Expenditures and Funding Sources 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Public and environmental health				
Office of AIDS	$45,911	$53,280	$49,280	7.5%
Vital Records Improvement Project	—	300	300	—
Epidemiological studies	—	—	2,815	—[a]
Chronic diseases	106,011	42,010	40,573	-3.4
Infectious diseases	11,129	5,217	4,975	-4.6
Subtotals	($163,051)	($100,807)	($97,943)	(-2.8%)
Health care services				
Family health				
Family planning	$35,411	$62,935	$67,946	8.0%
Maternal and child health	27,149	26,224	24,517	-6.5
Genetically handicapped persons	11,261	11,932	12,739	6.8
California children's services[b]	81,533	61,668	66,947	8.6
Child health and disability prevention	52,672	47,485	69,098	20.2
Genetic disease prevention	1,670	—	—	—
Women, infants, and children[c]	—	322,293	322,293	—
Subtotals, family health	($209,696)	($542,537)	($563,540)	(3.9%)
Rural and community health				
Primary health care services	$41,401	$25,478	$23,682	-7.0%
County health services[b]	1,037,302	184,955	159,284	-13.9
California Healthcare for Indigents Program	315,854	215,089	193,030	-10.3
Subtotals, rural and community health	($1,394,557)	($425,522)	($375,996)	(-11.6%)
Subtotals, health care services	($1,604,253)	($968,059)	($939,536)	(-2.9%)
Totals	**$1,767,304**	**$1,608,866**	**$1,037,479**	**-2.9%**

Continued

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
General Fund	*$1,025,969*	*$280,317*	*$289,544*	*3.3%*
State Legalization Impact Assistance Grant (SLIAG)	*228,176*	*35,506*	*4,700*	*-86.8*
Federal funds (except SLIAG)	*31,196*	*247,820*	*246,113*	*-0.7*
Cigarette and Tobacco Products Surtax Fund	*478,088*	*307,460*	*290,256*	*-5.6*
County Medical Services Program Account	*2,404*	*88,793*	*94,646*	*6.6*
Childhood lead poisoning	—	—	*2,815*	—
Other state funds	*471*	*300*	*300*	—
Reimbursements and repayments	*1,000*	*108,670*	*109,105*	*0.4*

[a] Not a meaningful figure.

[b] Reflects "realignment" of the AB 8, Medically Indigent Services, County Medical Services, and California Children's Services Programs in 1991-92, which is discussed later in this analysis (also see Table 7).

[c] See Table 4.

Table 6 reflects proposed budget changes affecting local assistance expenditures in 1992-93.

The changes proposed in 1992-93 for local assistance are primarily due to:

- An increase of $39.2 million for various caseload adjustments.
- A decrease of $31.9 million in Cigarette and Tobacco Products Surtax (C&T) Fund monies for various health-related programs, due primarily to projected declines in C&T resources in the budget year.
- A decrease of $30.8 million in State Legalization Impact Assistance Grant (SLIAG) funds for various health services to newly legalized persons.
- A decrease of $16.9 million from the General Fund to reflect the elimination of one-time costs for the Medically Indigent Services Program.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 6

Department of Health Services Public Health Local Assistance Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	C&T Fund	All Funds
1991-92 Expenditures (Budget Act)	$246,764	—	$930,101
Baseline adjustments			
Various Cigarette and Tobacco Products Surtax (C&T) Fund changes	—	$339,619	339,619
Control Section 23.50 — IRCA and SLIAG reduction	—	—	-205,134
C&T adjustment, pending legislation	—	-20,800	-20,800
AIDS HIV testing	4,000	—	4,000
Subtotals	($4,000)	($318,819)	($118,485)
Caseload adjustments			
California Children's Services (CCS) Program	-$748	—	-$558
Genetically Handicapped Persons Program (GHPP)	-358	—	-477
Child Health and Disability Prevention (CHDP) Program	1,631	-$11,440	-9,809
County Medical Services Program (CMSP)	29,028	81	31,124
Subtotals	($29,553)	(-$11,359)	($20,280)
1992-93 Expenditures (revised)	**$280,317**	**$307,460**	**$1,068,866**

Continued

	General Fund	C&T Fund	All Funds
Caseload adjustments			
CCS Program	$4,829	—	$5,259
GHPP	802	—	807
CHDP Program	2,804	$8,809	11,613
CMSP	15,692	-8	21,537
Subtotals	($24,127)	($8,801)	($39,216)
Program change proposals			
Family planning rate increase	$6,000	—	$6,000
Increase childhood lead poisoning services	—	—	2,815
Reduce C&T appropriation, Ch 278/91 (AB 99, Isenberg)	—	-$31,870	-31,870
C&T adjustment, pending legislation	—	5,866	5,866
Eliminate various one-time costs	—	-1	-1,708
Eliminate expenditures for newly legalized persons	—	—	-30,806
Eliminate one-time Medically Indigent Services Program costs	-16,900	—	-16,900
Eliminate one-time AIDS HIV testing funds	-4,000	—	-4,000
Subtotals	(-$14,900)	(-$26,005)	(-$70,603)
1992-93 Expenditures (proposed)	**$289,544**	**$290,256**	**$1,037,479**
Change from 1991-92 (revised)			
Amount	$9,227	-$17,204	-$31,387
Percent	3.3%	-5.6%	-2.9%

RURAL AND COMMUNITY HEALTH

The budget proposes $353.5 million (all state-allocated funds) for county health services in 1992-93. This is a decrease of $47.8 million, or 12 percent, below estimated expenditures in the current year. Table 7 presents county health services expenditures for 1990-91 through 1992-93.

The changes proposed for county health services are primarily due to:

- A decrease of $22.1 million in C&T Fund monies for the California Healthcare for Indigents Program (CHIP). This reduction is primarily due to projected declines in C&T resources available in the budget year.
- A decrease of $29.6 million in SLIAG funds for public health services to newly legalized persons. (We discuss various SLIAG issues later in our analysis of Control Section 23.50.)
- An increase of $15.7 million (General Fund) for County Medical Services Program (CMSP) caseload growth, which we discuss below.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 7

Department of Health Services County Health Services Expenditures and Funding Sources 1990-91 through 1992-93

(dollars in thousands)

	Fund	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures					
Medically Indigent Services Program (MISP)	General	$248,107	$16,900	—	-100.0%
	SLIAG	180,323	—	—	—
County Medical Services Program (CMSP)	General	86,357	29,028	$44,720	54.1
	C&T	16,460	13,423	12,836	-4.4
	SLIAG	4,360	4,360	4,360	—
	CMSP	2,404	6,739	7,009	4.0
County health services (AB 8)	General	471,518	—	—	—
	CHS	471	—	—	—
Public health subvention	General	735	708	708	—
	SLIAG	26,047	29,595	—	-100.0
	Federal	520	585	585	—
County health services, managed counties	C&T	—	1,563	1,429	-8.6
California Healthcare for Indigents Program	C&T	315,854	215,089	193,030	-10.3
Children's hospitals	C&T	1,896	1,343	1,223	-8.9
Subtotals		$1,355,052	$401,387	$353,537	-11.9%
Realignment revenues available for county health services programs	LRF	—	$872,829	$979,658	12.2%
Statutory county match expenditures	—	$326,769	343,309	343,309	—
Totals		**$326,769**	**$1,216,138**	**$1,322,967**	**8.8%**
General Fund		*$806,717*	*$46,636*	*$45,428*	*-2.6%*
Local Revenue Fund		—	*872,829*	*979,658*	*12.2*
Cigarette and Tobacco Products Surtax (C&T) Fund		*334,210*	*231,418*	*208,518*	*-9.9*
State Legalization Impact Assistance Grant (SLIAG) Fund		*210,730*	*33,955*	*4,360*	*-87.2*
Federal funds		*520*	*585*	*585*	—
County funds		*326,769*	*343,309*	*343,309*	—
Other		*2,875*	*6,739*	*7,009*	*4.0*

CMSP Funding to Increase by 29 Percent

We withhold recommendation on $68.9 million from various funds ($44.7 million General Fund) for the CMSP, pending review of detailed information recently submitted by the department.

The budget proposes $68.9 million from various funds (including $44.7 million from the General Fund) for the CMSP in 1992-93. Expenditures for the CMSP from all state-allocated funds in 1992-93 are estimated to be $15.4 million, or 28.7 percent, higher than current-year expenditures. (In addition, the budget anticipates that counties will spend $86.6 million for the program.)

Under the CMSP, smaller counties provide indigent patient care to persons not eligible for the state Medi-Cal Program. The realignment legislation enacted in the current year transferred responsibility for the CMSP from the state to the counties, but provided that the state would fund program costs that exceed the growth in revenues to the Local Revenue Fund, which was created by the legislation to support county costs. (For further discussion of program realignment issues, please see our companion document, *The 1992-93 Budget: Perspectives and Issues*.)

During hearings on the realignment legislation last spring, we indicated that some General Fund amount (possibly in the millions of dollars) would be required for the program. Our comments were based on recent funding patterns for the program and the projected growth rate for realignment revenues. At that time, however, no information was provided by the department to suggest that the potential General Fund amount that would be necessary to support the program would be of the magnitude — $44.7 million — that the budget now proposes.

At the time this analysis was prepared, we had just received detailed information from the department on the reasons for the proposed increase. We withhold recommendation on funding for the CMSP pending review of this information.

Rural and Community Health Administration Costs

We withhold recommendation on $2 million from the General Fund for the administration costs of various rural and community health programs, including various programs that were "realigned" in the current year, pending additional information that will be available this spring.

The budget proposes $2 million from the General Fund for the administration of various rural and community health programs, including the Medically Indigent Services Program (MISP), the CMSP, and the AB 8 County Health Program, which were "realigned" in the current year. The department indicates that additional information will be available this spring

DEPARTMENT OF HEALTH SERVICES—Continued

on the workload changes related to rural and community health administration that (1) have occurred due to program realignment and (2) may occur due to a pending "recodification" of various health statutes. Accordingly, we withhold recommendation on the proposed funding from the General Fund for rural and community health administration activities, pending receipt of this additional information.

OFFICE OF AIDS

As of January 1, 1992, almost 38,660 Californians have been diagnosed with clinical AIDS and almost 26,362 have died. This is 6,660, or 20 percent, more diagnosed cases than had been diagnosed one year ago. While the exact number of Californians infected with human immunodeficiency virus (HIV) — the virus that causes AIDS — is unknown, estimates from the DHS indicate that between 100,000 and 150,000 additional individuals may be infected.

The Office of AIDS funds education and prevention programs, conducts pilot projects, administers testing and counseling assistance, coordinates the activities of different state agencies, and promotes AIDS vaccine research and development. Table 8 displays expenditures from all funds in the past, current, and budget years.

Table 8

Department of Health Services
Office of AIDS
Expenditures and Funding Sources
1991-92 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Department support				
Office of AIDS program support	$5,275	$4,795	$4,789	-0.1%
AIDS vaccine research and development fund	1,300	498	—	-100.0
Reappropriation of vaccine clinical trial funds	1,000	1,000	—	-100.0
Federal AIDS program support[a]	229	431	464	7.7
Subtotals, department support	($7,804)	($6,724)	($5,253)	(-21.9%)

Continued

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Special projects — federally funded[b]				
Ryan White Care Act consortia	—	$9,093	$15,500	70.5%
Home- and community-based HIV services	—	9,137	—	-100.0
Surveillance and seroprevalence	$3,318	3,957	3,673	-7.2
Confidential testing and counseling information and education	5,334	7,250	6,757	-6.8
Alternative treatment	4,092	—	—	—
Virology and epidemiology	—	800	825	3.1
Viral antigens vaccines studies	—	460	—	-100.0
Subtotals, special projects	($12,744)	($30,697)	($26,755)	(-12.8%)
Totals, department support including special projects	**$20,548**	**$37,421**	**$32,008**	**-14.5%**
Local assistance				
Education and prevention	$16,079	$15,134	$15,134	—
Block grants to counties	5,566	5,298	5,298	—
Epidemiological study	1,175	1,097	1,097	—
Confidential testing and education	2,217	3,204	2,104	-34.3%
Anonymous testing at alternative sites	5,156	8,076	5,176	-35.9
California Children's Services	947	1,052	1,052	—
Pilot care				
Home- and community-based care	6,912	6,642	6,451	-2.9
Adult day health care	200	(191)	191	—
Early intervention projects	2,414	2,582	2,582	—
AIDS drug subsidy program[c]	4,286	9,100	9,100	—
Residential AIDS shelters	768	661	661	—
AIDS Medi-Cal waiver[d]	191	434	434	—
Subtotals, local assistance	($45,911)	($53,280)	($49,280)	(-7.5%)
Totals, all funds (excluding special projects)	**$53,715**	**$60,004**	**$54,533**	**-9.1%**
Totals, all funds	**$66,459**	**$90,701**	**$81,288**	**-10.4%**
General Fund				
Support	*$6,275*	*$5,795*	*$4,789*	*-17.4%*
Local assistance	*45,911*	*53,280*	*49,280*	*-7.5*
Federal funds	*12,973*	*31,128*	*27,219*	*-12.6*
AIDS Vaccine Research and Development Fund	*1,300*	*498*	—	*-100.0*

[a] For AIDS Medi-Cal waiver program.

[b] Figures match the accrual accounting figures shown in the Governor's Budget. The department also estimates that (on a cash accounting basis) an additional $8.7 million was spent in 1990-91. Figures for 1991-92 and 1992-93 are estimates and subject to change.

[c] State funding only. Additional federal funding is included within the "Ryan White Care Act consortia" special project funds shown above.

[d] State funding only. Additional federal funding is included under Medi-Cal.

Budget Request

The budget proposes expenditures of $54.5 million ($54.1 million from the General Fund), excluding federal special projects, in 1992-93 for the Office of AIDS. This is a decrease of $5.5 million, or 9.1 percent, below estimated spending levels in the current year.

The $5.5 million decrease is due to:

- The elimination of $4 million in one-time funds provided in the current year to meet estimated increases in demand for HIV testing at alternative and confidential test sites.
- The elimination of $1.5 million in reappropriations of various one-time AIDS vaccine research and clinical trial funds.

In addition, the budget proposes $26.8 million in federal special project funds. This is a decrease of $3.9 million, or 13 percent, below estimated current-year expenditures. The department advises that it is not able to estimate the amount of federal funding that actually will be available in the budget year. This is because of the uncertainty of the level of AIDS funding that will be available in the federal fiscal year beginning on October 1, 1992.

Expanded AIDS Drug Subsidy Program — Detailed Information Not Available

We find that the proposed use of General Fund monies to increase the number of drugs provided through the AIDS drug subsidy program is consistent with previous legislative intent. We withhold recommendation on the actual amount proposed ($5 million from the General Fund), however, pending receipt of additional information on the estimated costs of the drugs.

The budget proposes to fund the AIDS drug subsidy program at $14.3 million ($9.1 million General Fund and $5.2 million from various federal funds). The General Fund amount includes $5 million that was provided in the current year to backfill a one-time decline in federal funding for the program.

The budget proposes to expand the number of drugs provided through the program, which provides full or partial subsidies of drugs for low-income persons infected with HIV who are not eligible for Medi-Cal. Prior to November 1991, the AIDS drug subsidy program provided two drugs — azidothymidine (AZT) and aerosolized pentamidine. In November the department announced an expansion of the program, which will add 11 new drugs over a period of six months. (The new drugs include the antiviral Didanosine, or ddI, which was recently approved by the federal Food and Drug Administration.)

According to the department, the expansion would be funded within existing resources during the current year. The DHS indicates that program expansion within existing resources is possible because of (1) reductions in the costs of AZT and aerosolized pentadimine, (2) reductions in the payments made to those counties which administer the program locally, due to tighter departmental review of reimbursement claims, and (3) a minor reduction in program enrollment.

The proposed expansion of the program is consistent with the Legislature's intent; and, therefore, we recommend approval of the program expansion.

The department has not provided, however, enough information to determine whether $5 million is the actual amount needed to add 11 new drugs to the program. Specifically, it is not clear what the budget-year costs will be for the 11 new drugs. Accordingly, we withhold recommendation on the proposed $5 million, pending receipt of additional cost information from the department.

FAMILY HEALTH

Family Planning: Current-Year Rate Increase Has Budget-Year Consequences

We make no recommendation on the proposed $6 million General Fund augmentation to continue a rate increase the department granted to family planning providers during the current year because (1) this is a policy decision for the Legislature based on its priorities and (2) we have no analytical basis to determine whether the proposed funding level is needed to accomplish the administration's stated objectives.

The budget proposes $70.2 million from the General Fund for family planning services in 1992-93. This amount consists of $2.2 million in support of the Office of Family Planning and $67.9 million for contracts with local agencies. Under these contracts, agencies provide clinical services primarily related to contraceptives and/or information and education.

Budget Reflects $6 Million Augmentation to Continue a Current-Year Rate Increase. The budget request of $67.9 million for local agency contracts reflects an increase of $6 million, or 10 percent, over estimated General Fund expenditures for local agency contracts in 1991-92. The proposed augmentation is to continue a 32 percent increase in reimbursements rates that the department granted in the current year for providers of family planning services. (Roughly 124 providers received state family planning contracts in the current year.) Under the rates proposed for continuation in 1992-93, providers would be reimbursed at rates equal to 85 percent of Medi-Cal reimbursement rates for comparable family planning services.

The department reports that it provided the rate increase in the current year by redirecting local assistance funds. The department indicates that these funds were available due to delays in implementing the administration's 1991 Teen Pregnancy Initiative and its proposal to provide the Norplant contraceptive device as an optional service in the program. Accordingly, the department was able to offset the $4 million current-year cost for the rate increase without reducing services. Because the current-year costs were funded through one-time savings, however, the department indicates it will require an additional $6 million (full-year effect) to continue for 1992-93 the higher reimbursement rate and current-year service levels.

Department's Rationale and Analyst's Comments. The department reports that, prior to the rate increase it granted in the current year, providers of family planning services were reimbursed at rates that were less than 50 percent of the actual cost of providing family planning services. In 1989-90, according to the department, two providers indicated that they dropped out of the program because they could no longer afford to provide services at the rates then paid by the state. In addition, the department indicates that 37 providers stated they would not accept funds approved for 1991-92 for service expansion unless they were paid at rates that more completely reimbursed service costs.

We do not dispute that rates for family planning services were low prior to the current-year increase granted by the department. In addition, the prior rate level may have presented difficulties for the department as it attempted to achieve the Legislature's objective of expanding family planning services during the current year. We note, however, that although the 1991 Budget Act directed the department to redistribute any unspent funds to family planning contract agencies, it is not clear that the Legislature intended to authorize an ongoing rate increase through this provision.

We are concerned that the department provided the rate increase without clear legislative direction, and that it did so from one-time funds, thereby requiring the Legislature either to approve a significant General Fund augmentation, or to implement service reductions or a rate rollback in 1992-93. In addition, the proposed increase, according to the department, is not intended to expand services, but to "maintain the infrastructure" of service providers for 1992-93. We have no analytical basis to determine what reimbursement rate level would be needed to accomplish this for 1992-93.

Thus, the proposed $6 million presents the Legislature with a policy choice of continuing the provider rate increase or funding other legislative priorities. Because the Legislature's intent with regard to this proposal is unclear, and because we have no analytical basis to determine whether the proposed funding level is needed to accomplish the administration's stated objectives, we make no recommendation on the department's proposal.

Additional Maternal and Child Health Information Available This Spring

We recommend that the department report at budget hearings on its findings regarding the potential restructuring of maternal and child health programs, including plans for integrating the Check-Up Program with existing programs.

Chapter 278, Statutes of 1991 (AB 99, Isenberg), declared that by July 1, 1992, there should be in place a complete consolidated program of perinatal care for women and their children. In order to achieve this consolidation, the department was required to report to the Legislature by January 31, 1992 on restructuring the existing health programs that serve women and children. Chapter 278 further required that the department's report:

- Make recommendations on how to assure coordination of services to promote measurable improvements in health outcomes.
- Identify programs appropriate for consolidation to promote the efficient and cost-effective delivery of maternal and child health services.
- Include information on clinical services, preventive and primary care, case management, outreach, immunizations, nutrition, and perinatal substance abuse services.

At the time this analysis was prepared, (1) various advisory groups convened by the department had been meeting for several months and were developing recommendations and (2) the department had submitted a brief status report on the process it is using to complete the report. The department indicates that additional information will be available this spring.

Recommendation. We believe that the department's findings will assist the Legislature in its budget deliberations on maternal and child health programs, and recommend that the department report at budget hearings on its findings. As we note later in our analysis of the Medi-Cal Program, the department proposes $20 million for a new health insurance program for children (the Check-Up Program). To assist the Legislature in its review of the program proposal, we further recommend that the department report at budget hearings on its plans for integrating the Check-Up Program with the Medi-Cal Program and other existing maternal and child health programs.

Impact of Realignment on California Children's Services (CCS) Program: Too Soon to Tell

The CCS Program provides medical diagnosis, treatment, and therapy to financially eligible children with specific handicapping conditions. The program is operated jointly by the state and the counties. Medi-Cal pays for services provided to children who are also eligible for Medi-Cal.

Budget Proposal. The department proposes $56.7 million (General Fund) for local assistance in the CCS Program during 1992-93. This is $4.8 million, or 9.3 percent, more than estimated General Fund expenditures for CCS local assistance in the current year. The increase is primarily due to caseload, treatment, and therapy cost increases.

Chapter 611, Statutes of 1991 (AB 1491, Bronzan), requires our office to report to the Legislature on the impact of (1) program realignment changes on the CCS Program and (2) related changes in eligibility and services for children who are not eligible for benefits under the Medi-Cal Program.

Chapter 611 and related legislation (1) increased the county share of CCS local assistance costs from roughly 25 percent to 50 percent beginning in 1991-92 and (2) established a new method of funding county administration costs beginning in 1992-93 that will provide incentives for case management and collection of various funds that may be used to support some CCS eligibles.

During the course of our field visits to counties and hospitals this fall, it became clear that it is too soon to tell what the impact of realignment will be on the CCS Program. In fact, various counties indicated that they do not anticipate *any* changes to the program in the current year. We will report to the Legislature as appropriate in the future on this issue. (We discuss program realignment issues further in our companion document, *The 1992-93 Budget: Perspectives and Issues.*)

ENVIRONMENTAL HEALTH, PREVENTIVE MEDICAL SERVICES, AND OFFICE OF DRINKING WATER

Occupational and Childhood Lead Initiative

We find that the administration's proposal has considerable merit. We recommend (1) that the department report at budget hearings on a number of implementation issues and (2) a reduction of $500,000 in the amount budgeted for case management services due to the availability of federal funds. (Reduce Item 4260-111-080 by $500,000 and increase Item 4260-101-890 by $500,000.)

Budget Proposal. The budget proposes $1.2 million (various funds) to implement the Occupational Lead Poisoning Prevention Program (OLPPP) established by Ch 798/91 (SB 240, Torres) and $9.5 million to implement the Childhood Lead Poisoning Prevention Program (CLPPP) established by Ch 799/91 (AB 2038, Connelly). The proposal also would continue funding for various childhood lead poisoning prevention activities initiated in the current year as part of the department's settlement of *Matthews, et al. v. Coye.*

Under the administration's proposal:

- The occupational health program would expand monitoring, investigation, and work-site education and prevention activities related to occupational lead poisoning cases, as required by Chapter 798.
- Several programs administered by the Department of Health Services and the counties would provide monitoring, investigation, screening, case management, and treatment of childhood lead poisoning cases. The treatment component was required by the terms of the department's settlement of *Matthews, et al. v. Coye.* The remaining components were required by Chapter 799.

There are three funding sources proposed for support of these activities: (1) the General Fund, (2) fee revenues imposed on industries involved in the handling or manufacturing of lead-carrying materials, and (3) county funds. Table 9 shows the various components of the programs, proposed new positions and expenditures, and their funding sources.

Background. Occupational lead poisoning generally occurs when workers in certain industries are exposed at the work site to lead compounds and ingest or inhale them. Childhood lead poisoning generally occurs more commonly from ingesting dust in older homes painted with lead paint or as a result of "take-home" exposure — that is, ingesting or inhaling lead particles from the clothing of a parent.

Children are most at risk of lead poisoning, and the effects of lead exposure on children can be both permanent and severe. According to the department, a variety of studies since 1987 have identified significant percentages of children in certain urban areas of California with blood lead levels that are high enough to result in adverse health effects. Our field visits indicate that a number of children in rural areas may also be affected.

Analyst's Comments and Recommendations. We have reviewed the administration's proposals to implement Chapters 798 and 799, and the settlement of the lawsuit, and find that the proposals have considerable merit.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 9

Department of Health Services Components of Occupational and Childhood Lead Poisoning Prevention Programs 1992-93

(dollars in thousands)

	Proposed New Expenditures	Positions	Fund Source	Programmatic Component
Occupational Program				
Public and environmental health				
Occupational health	$1,180	14.5	OLPPA, General Fund	Monitor and investigate occupational lead poisoning cases; work-site education and prevention
Totals, state operations	**$1,180**	**14.5**		
Childhood Program				
Public and environmental health				Monitor and investigate childhood lead poisoning cases; clinician education; case management
Epidemiological studies	$4,553	17.5	CLPPF	
State operations	(1,738)			
Local assistance	(2,815)			
Health risk assessment	62	1	CLPPF	
Child Health and Disability Prevention	4,577	2		Testing and treatment of childhood lead poisoning cases
State operations	(142)	(2)	CLPPF	
Local assistance	(4,435)		General Fund	
California Children's Services	315		General Fund and county funds	Treatment of handicapping conditions
Subtotals, state operations	**$1,942**	**20.5**		
Subtotals, local assistance	**7,565**	**—**		
Totals	**$9,507**	**23.5**		

OLPPA — Occupational Lead Poisoning Prevention Account
CLPPF — Childhood Lead Poisoning Prevention Fund

To achieve budgetary savings, and to assist the Legislature in its oversight capacity, we make the following specific findings and recommendations:

- *Proposal Does Not Recognize Available Matching Funds.* The budget proposes $2.8 million to fund case management activities and environmental assessments. Under the federal Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program, administered in California by the Child Health and Disability Prevention (CHDP) Program, 50 percent of expenditures for case management services for Medi-Cal eligible children may be offset with federal matching funds. The proposal does not reflect the availability of these funds.

  The department estimates that at least 60 percent of the children served will be Medi-Cal eligible. Accordingly, we recommend a General Fund reduction of $500,000 in the amount proposed for case management services to be offset by an increase of a like amount of federal funds. We also find that the Legislature has a couple of options for redirecting these funds within the CLPPP if it should choose to do so. We discuss these options later in this analysis.

- *Fee Collections for OLPPP in Excess of the Budgeted Amounts are Likely.* The department projected fee revenue collections to support the OLPPP for 1992-93 based on the assumption that approximately 8,000 firms would be required to pay fees under the legislation. Based on additional information, however, the department indicates that approximately 10,000 firms will be required to pay the fee. This means that the budget's estimated fee revenues may be understated by about $600,000 annually.

- *The Department Needs to Develop a Fee Schedule for the CLPPP.* The legislation authorizing the CLPPP requires the department to develop a fee schedule during 1992-93 and to begin assessing the fees in April 1993. To meet the proposed expenditures for the budget year (which are funded initially through a General Fund loan), the department will need revenues of about $5.5 million.

- *The Proposed Education and Outreach Programs May Not Reach Many "At-Risk" Children.* The proposal's education and outreach activities regarding childhood lead poisoning are directed at CHDP providers and county health departments. We believe this approach is appropriate since, as the department indicates, its first task is to educate providers regarding the identification of children most "at risk" of blood lead poisoning.

  However, we believe the approach may miss a number of children at risk for lead exposure. This is because the proposed outreach effort does not go beyond the provider "network," such as to community centers in neighborhoods that are most likely to have a high incidence of exposure. Accordingly, one option for a redirection of the funds freed up by the recommended reduction discussed above would be to target certain neighborhoods with educational outreach campaigns. We recommend that the department report at budget hearings on a strategy for doing this.

- ***Prevalence Studies Would Assist the Legislature and the Department in Evaluating the Success of the Programs.*** A second potential area for funding redirections would be to support prevalence studies. Because the effects of early blood poisoning are not observable, and frequently go unrecognized, it is difficult to identify areas where efforts may be falling short.

  Periodic prevalence studies would assist both the department and the Legislature in evaluating the program's effectiveness. We recommend that the department report at budget hearings on how it plans to evaluate the program, including the criteria it plans to use and the option of using prevalence studies.

Summary. For the reasons discussed above, we recommend (1) a General Fund reduction of $500,000 in the amount proposed for case management services due to the availability of federal funds and (2) that the department report at budget hearings on a variety of implementation issues. (Reduce Item 4260-111-080 by $500,000 and increase Item 4260-101-890 by $500,000.)

Proposed Elimination of Proposition 99 Funds

If the Legislature wishes to restore funding for the DHS-administered anti-smoking media campaign from Proposition 99 funds, it must reduce other health education programs or identify a different funding source for Medi-Cal perinatal services.

The budget proposes to eliminate the DHS-administered anti-smoking media campaign funded from the Health Education Account (HEA) of the Cigarette and Tobacco Products Surtax Fund (Proposition 99 funds). Chapter 278, Statutes of 1991 (AB 99, Isenberg), which reauthorized various Proposition 99 funded programs, allocated $16 million to the program in the current year. Proposition 99 specifies that HEA funds shall be available only for programs for the prevention and reduction of tobacco use, primarily among children, through school and community health education programs.

Budget Proposal. Table 10 shows that resources available for the HEA will decrease from $155 million in 1991-92 to $116 million in 1992-93, which represents a $39 million, or 25 percent, decrease. This decrease reflects reductions of (1) $34 million in one-time carry-over funds that were available in the current year and (2) $5 million in tobacco tax revenues and interest earnings.

Table 10

Proposed Allocation of Health Education Account Funds Cigarette and Tobacco Products Surtax (C&T) Fund 1991-92 and 1992-93

(dollars in thousands)

	1991-92	1992-93	Change From 1991-92 Amount	Change From 1991-92 Percent
Resources				
Revenues from surtax	$102,311	$98,905	-$3,406	-3.3%
Interest income	6,600	4,900	-1,700	-25.8
Carry-over from previous year	46,090	12,034	-34,056	-73.9
Totals, resources	**$155,001**	**$115,839**	**-$39,162**	**-25.3%**
Expenditures				
Department of Health Services (DHS)				
Health education				
Competitive grants	$14,021	$13,780	-$241	-1.7%
Local lead agencies	21,700	20,504	-1,196	-5.5
Tobacco oversight committee/ evaluation activities	2,300	2,007	-293	-12.7
Medi-Cal perinatal services	31,600	39,618	8,018	25.4
Child Health and Disability Prevention Program	24,206	33,015	8,809	36.4
Administration	1,178	1,020	-158	-13.4
Subtotals, DHS	($95,005)	($109,944)	($14,939)	(15.7%)
State Department of Education (SDE)				
Administration	$582	—	-$582	-100.0%
County offices of education	2,000	—	-2,000	-100.0
Local assistance	18,192	—	-18,192	-100.0
Subtotals, SDE	($20,774)	—	(-$20,774)	(-100.0%)
Major Risk Medical Insurance Board				
Perinatal insurance program	$27,188	—	-$27,188	-100.0%
Totals, expenditures	**$142,967**	**$109,944**	**-$33,023**	**-23.1%**
Reserve carried over to next fiscal year	$12,034	$5,895	-$6,139	-51.0%

The budget reflects the following significant funding changes in the HEA in the current year:

- The enactment of proposed legislation to use $31.6 million for Medi-Cal perinatal programs. Funding for this program from the HEA would be $39.6 million in 1992-93.
- The elimination of $16 million for the anti-smoking media campaign.

- The reduction of $6.4 million in State Department of Education (SDE) health education programs.

The budget indicates that the administration will seek legislation to implement these changes.

Table 10 shows that the budget proposes a net $39 million reduction in HEA expenditures, transfers, and reserves below revised current-year spending levels. This reflects a decrease of $20.8 million to eliminate health education programs administered by the SDE and a variety of other changes.

Options for 1992-93. In enacting Chapter 278, the Legislature, as discussed earlier, did not contemplate eliminating the anti-smoking media campaign in 1992-93. However, there are not sufficient funds in the HEA both to continue existing programs and to fund the proposed Medi-Cal perinatal program. Our review indicates that the Legislature has the following major options if it wishes to restore funding for DHS-administered HEA programs:

- Identify a different funding source to support expenditures for Medi-Cal perinatal programs. This would free up $31.6 million in the current year and $39.6 million in 1992-93. [As we discuss in our analysis of the Medi-Cal Program (later in the DHS analysis), the proposed use of HEA funds for Medi-Cal perinatal services could not be accomplished by the Legislature, but would require voter approval. Absent such a vote, the perinatal program would most likely have to be funded using General Fund dollars, thereby freeing up the HEA funds.]
- Reduce or delete DHS-administered grants to local agencies for tobacco use prevention and reduction programs. This would make up to $20.5 million available in the HEA in 1992-93.
- Reduce or delete the DHS-administered competitive grant programs for nonprofit organizations to provide health education and promotion activities. This would make up to $13.8 million available in the HEA in 1992-93.

We recommend that the Legislature consider the proposed elimination of HEA funds for the media campaign in light of its overall priorities for the use of these funds.

We discuss the other HEA programs in more detail in our write-up of the SDE (Item 4110).

Office of Drinking Water: Small Water Districts

We recommend that the department report at budget hearings on various issues related to new federal drinking water requirements for small water districts. If pending legislation to delay implementation of the federal

requirements is enacted, we further recommend a technical conforming reduction of $7,833,000 and 19.9 personnel-years (Small Water Account, General Fund) and $7,833,000 in associated fee revenues from the proposed budget, because the funds would not be required until 1993-94. (If legislation is enacted, reduce Item 4260-001-301 by $7,833,000 and reduce fee revenues to the General Fund by $7,833,000.)

The budget proposes $7,833,000 and 19.9 personnel-years from the newly created Small Water Account of the General Fund to implement federal drinking water requirements for small water districts. (Small water districts are those which serve between 5 and 200 "connections." A "connection" could be a house, an apartment building, a manufacturer, a park, etc.)

At the time this analysis was prepared, AB 2158 (Costa), which would delay implementation of the requirements until 1993-94, was pending before the Legislature. If AB 2158 or similar legislation is enacted, the funds proposed in the budget will not be needed in 1992-93.

In addition, the budget proposes to transfer certain property tax revenues that have traditionally been used by water districts to school districts. If this proposal is enacted, the affected small water districts would probably need to increase fees to their customers in order to pay their operating costs and the costs of meeting federal drinking water requirements. At the time this analysis was prepared, information on the specific impact of the proposed property tax transfer on small water districts was not yet available.

Recommendation. We recommend that the department report at budget hearings on the status of AB 2158 and on the impact of the property tax transfer proposal, because the Legislature will need this information to determine whether the $7.8 million in funds will be needed in 1992-93 and, if needed, whether small water districts will have sufficient funds available to pay the required fees. If AB 2158 or similar legislation to delay implementation of the federal requirements is enacted, we further recommend a technical conforming reduction of $7,833,000 and 19.9 personnel-years (Small Water Account, General Fund) and $7,833,000 in associated fee revenues from the proposed budget, because the funds would not be required until 1993-94.

Low-Level Radioactive Waste Disposal

We recommend that the department report at budget hearings on the status of the proposed acquisition of a low-level radioactive waste disposal site in the Ward Valley, and on various related issues.

The budget proposes $1,488,000 from the Low-Level Radioactive Waste Disposal Fund to meet various federal and state standards regarding the disposal of low-level radioactive waste.

Background. Various hospitals (including University of California and county hospitals), research organizations, utilities, and medical companies produce low-level radioactive waste. Currently, the waste produced in California is shipped to three low-level radioactive waste sites located in Nevada, Washington, and South Carolina.

Federal law requires states to handle the waste either within their borders or through arrangements with other states. Specifically, the law (1) permits states to refuse to accept waste from other states as of January 1, 1993 and (2) makes states liable for the commercial waste produced within their borders as of January 1, 1996 if they have not made certain provisions for disposing of such waste.

State law requires that a low-level radioactive waste facility be developed in California and charges the department with licensing and regulating the facility. The proposed facility would be located in the Ward Valley, in the southeast portion of the state (near Needles). At the time of this analysis, negotiations over site acquisition were in progress and it was not clear whether other states would continue to accept California's waste after January 1, 1993.

Recommendation. The Legislature will need to know by this spring whether contingency plans (such as for additional temporary storage of low-level radioactive waste) need to be incorporated into the Budget Bill. Accordingly, we recommend that the department report at budget hearings on other states' plans regarding disposal of California's low-level radioactive waste and on the progress of the Ward Valley negotiations.

California Medical Assistance (Medi-Cal) Program

MAJOR ISSUES

- **Medi-Cal Eligibility.** Federal mandates requiring expansion of Medi-Cal eligibility to new categories account for over one-third of the increase in Medi-Cal costs since 1988-89. Federal restrictions limit the Legislature's ability to control Medi-Cal costs by reducing Medi-Cal eligibility.

- **Hospital Day Limit.** A proposal to limit hospital days will shift costs to hospitals, including county hospitals, and may reduce the department's ability to expand the use of in-home medical care services.

Continued

- **Various Savings Proposals.** Proposals to save $159.5 million (General Fund) by eliminating optional services and reducing payments to hospitals and nursing facilities are incomplete and will shift costs to counties and hospitals.
- **Proposition 99.** A proposal to use certain Proposition 99 funds for Medi-Cal pregnancy-related services requires voter approval in order to be implemented. Absent such a vote, the proposal would increase General Fund costs by $60 million in 1991-92 and $62.8 million in 1992-93.
- **Senate Bill 855 Program.** A new program provides $1.6 billion in supplemental payments to disproportionate-share hospitals. At least one-half of these funds constitute new money for hospitals and therefore provide a substantial contribution toward reducing the uncompensated care burden faced by these hospitals.
- **Dental Lawsuit.** The budget does not reflect costs of $89.8 million ($44.9 million General Fund) from a recent dental access lawsuit. If the Legislature does not eliminate adult dental services, the costs of the lawsuit will increase by an additional $162.4 million ($84.2 million General Fund).

The California Medical Assistance Program (Medi-Cal) is a joint federal-state program initially authorized in 1966 under Title XIX of the federal Social Security Act. This program is intended to assure the provision of necessary health care services to public assistance recipients and to other individuals who cannot afford to pay for these services themselves.

The budget proposes Medi-Cal expenditures of $12.5 billion ($5 billion General Fund) in 1992-93. This represents a General Fund decrease of $660.5 million, or 12 percent, below estimated current-year expenditures.

Table 11 shows Medi-Cal expenditures for 1990-91 through 1992-93.

Table 11

Department of Health Services
Medi-Cal Program
Expenditures and Funding Sources
1990-91 through 1992-93

(dollars in thousands)

	Fund	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Health care services	General	$3,858,562	$5,434,226	$4,761,596	-12.4%
	All	8,268,336	13,604,181	11,820,233	-13.1
County administration	General	138,241	187,373	203,980	8.9
	All	304,867	471,195	496,706	5.4
Claims processing	General	15,316	25,649	20,308	-20.8
	All	54,104	71,018	71,056	0.1
Subtotals	General	($4,012,119)	($5,647,248)	($4,985,884)	(-11.7%)
	All	(8,627,307)	(14,146,394)	(12,387,995)	(-12.4)
State administration	General	47,464	46,773	47,620	1.8
	All	141,840	138,658	141,541	2.1
Totals	**General**	**$4,059,583**	**$5,694,021**	**$5,033,504**	**-11.6%**
	All	**8,769,147**	**14,285,052**	**12,529,536**	**-12.3**

Federal, State, and County Responsibilities Under the Medi-Cal Program

The state Department of Health Services (DHS) administers the Medi-Cal program. Other state agencies, including the California Medical Assistance Commission and the Departments of Social Services, Developmental Services, Alcohol and Drug Programs, and Mental Health, perform Medi-Cal-related functions under agreements with the DHS. County welfare departments, along with the health department in Los Angeles County, determine the eligibility of applicants for Medi-Cal. The federal Department of Health and Human Services, through its Health Care Financing Administration, provides policy guidance and financial support for the Medi-Cal Program.

Eligibility

Persons eligible for Medi-Cal fall into three major categories: categorically needy, medically needy, and medically indigent. We discuss Medi-Cal eligibility in detail below.

Scope of Benefits

Federal law requires the Medi-Cal Program to provide a core of basic services, including hospital inpatient and outpatient care; skilled nursing care; physician services; laboratory and x-ray services; home health care; early periodic screening, diagnosis, and treatment (EPSDT) for individuals under age 21; family planning; and rural health clinic services (as defined under Medicare). Many Medi-Cal services require prior state authorization and may not be paid for unless the service is medically necessary.

In addition, the federal government provides matching funds for additional optional services. California currently provides 28 of these 31 optional services, but the budget proposes to eliminate eight of these optional services. We discuss this proposal in more detail below.

State Administration Essentially Unchanged

The budget proposes expenditures of $141.5 million ($47.6 million General Fund) for state administration of the Medi-Cal Program in 1991-92. The General Fund amount represents an increase of $847,000 or 1.8 percent, above estimated spending levels in the current year. This increase primarily reflects (1) funding for unspecified savings proposals (these funds are not contained in the Budget Bill but are shown in the Governor's Budget as reserved for pending legislation) and (2) a funding shift from State Legalization Impact Assistance Grant funds to the General Fund for activities related to newly legalized persons. These costs are partially offset by (1) elimination of one-time costs related to managed care and (2) unallocated reductions in the current year that the budget proposes to continue in the budget year.

The budget proposes 1,366.7 positions in the DHS that can be attributed directly to the administration of the Medi-Cal Program. This is 2.3 positions, or 0.2 percent, less than the number of authorized positions in 1991-92.

Local Assistance Estimates Will be Updated in May

We withhold recommendation on $12.4 billion ($5 billion General Fund) requested for local assistance under the Medi-Cal Program, pending review of revised Medi-Cal expenditure estimates to be submitted in May.

The proposed expenditures for the Medi-Cal Program are based on actual program costs through August 1991. The department will present revised estimates in May, which will be based on program costs through February 1992. We withhold recommendation on the amounts requested in local assistance for the Medi-Cal Program, pending review of the May estimates.

Proposed Changes for 1992-93

Table 12 displays the changes proposed for the Medi-Cal Program in 1992-93.

Table 12

Department of Health Services Medi-Cal Local Assistance Proposed Budget Changes 1991-92 and 1992-93

(dollars in millions)

	General Fund	All Funds
1991-92		
Funds available, 1991 Budget Act and other legislation		
Health benefits item	$5,381.0	$11,232.0
Eligibility item	189.8	426.1
Fiscal intermediary item	19.6	68.8
Cigarette and Tobacco Products Surtax Fund	—	8.0
Disproportionate-Share and Emergency Services Fund	—	72.0
State Legalization Impact Assistance Grant (SLIAG) funds	—	153.4
Reimbursements and other legislation	20.2	29.8
Subtotals, 1991-92 funds available	($5,610.7)	($11,990.1)
Projected 1991-92 deficiency	36.6	2,156.3
1991-92 *accrual* expenditures (revised)	**$5,647.3**	**$14,146.4**
Accrual accounting	-992.4	-2,206.1
1991-92 *cash* expenditures (revised)	**$4,654.9**	**$11,940.3**
1992-93		
Caseload and cost adjustments		
Increase in eligibles	$286.9	$573.9
Decrease in percent using services	-144.4	-288.7
Increases in cost per service unit and units per user	263.6	520.5
Caseload and cost changes in capitated programs	28.3	69.8
Subtotals, caseload and cost adjustments	($434.4)	($875.5)
Full-year costs of 1991-92 COLAs		
Statutory COLAS for providers	$18.6	$38.4
Long-term care COLAs	6.9	13.8
Subtotals, 1991-92 COLAs and rate adjustments	($25.5)	($52.2)

Continued

	General Fund	All Funds
Proposed program changes		
Savings proposals:		
Elimination of optional services	-$93.3	-$188.8
Sixty-day inpatient limit	-60.8	-121.5
Medicare crossover payments	-30.7	-61.4
Nursing facility reimbursement revision	-27.9	-55.7
Reduced rates for medical supplies and certain drugs	-6.2	-12.3
Elimination of 1991-92 county administration COLA	-4.1	-8.2
Rate increases:		
Statutory COLAs for providers	35.5	72.7
Dental access — *Clark v. Kizer*	5.5	11.0
New or recent program expansions:		
Check-Up	20.0	20.0
Children aged one to five, up to 133 percent of poverty	7.1	14.1
New therapeutic drug categories	6.4	12.9
Continuing eligibility for pregnant women	6.2	12.3
Funding changes:		
Disproportionate-Share and Emergency Services Fund	—	-238.9
DDS home- and community-based waiver services	27.2	27.2
Other changes:		
Eliminate one-time costs	-26.9	-28.6
All other changes	13.1	85.2
Subtotals, proposed program changes	(-$128.9)	(-$460.0)
Eliminate one-time costs of accrual accounting	-992.4	-2,206.1
1992-93 Expenditures (proposed)	$4,985.9	$12,408.0
Change from 1991-92 *accrual* expenditures		
Amount	-$661.4	-$1,738.4
Percent	-11.7%	-12.3%
Change from 1991-92 *cash* expenditures		
Amount	$331.0	$467.7
Percent	7.1%	3.9%

The budget projects that Medi-Cal local assistance expenditures will decrease by $1.7 billion ($661.4 million General Fund) below 1991-92 *accrual* expenditures. This represents a General Fund decrease of 12 percent below estimated current-year expenditures. However, this change is misleading because the 1991-92 budget includes $2.2 billion ($992.4 million General Fund) in one-time funds to change Medi-Cal accounting from a cash to an accrual basis. When we adjust for this distortion — by comparing 1991-92 *cash* expenditures to 1992-93 proposed expenditures — the budget projects that Medi-Cal expenditures will *increase* by $467.7 million ($331 million General Fund). This represents a General Fund increase of 7.1 percent over estimated current-year *cash* expenditures and more accurately reflects budget activity on a programmatic basis. We discussed the interaction between cash and accrual accounting systems in greater detail last year in the *Analysis of the 1991-92 Budget Bill* (please see page 611).

Table 12 groups the change between current-year and budget-year expenditures into four categories: (1) caseload and cost increases ($434.4 million General Fund), (2) full-year costs of 1990-91 cost-of-living adjustments (COLAs) and other rate increases ($25.5 million General Fund), (3) proposed program changes (savings of $128.9 million General Fund), and (4) elimination of 1991-92 costs of accrual accounting (savings of $992.4 million General Fund).

The proposed program changes consist of the following items:

- ***Elimination of Optional Services (Savings of $93.3 Million General Fund).*** The budget proposal assumes that the Legislature will enact legislation to eliminate eight optional services — occupational therapy, independent rehabilitation centers, blood banks, adult dental, psychology, chiropractic, podiatry, and acupuncture services — as well as certain medical supplies. We discuss this proposal in more detail below.
- ***Sixty-Day Annual Limit on Inpatient Services (Savings of $60.8 Million General Fund).*** The budget proposal assumes that the Legislature will enact legislation to limit coverage of inpatient services to 60 days per year per beneficiary. We discuss this proposal in more detail below.
- ***Medicare Crossover Claims (Savings of $30.7 Million General Fund).*** Medi-Cal pays Medicare copayments and deductibles for crossover beneficiaries — those individuals who are eligible for both Medicare and Medi-Cal. Medi-Cal limits its payments for most medical procedures so that the combined Medicare and Medi-Cal reimbursement does not exceed the Medi-Cal rate for the same procedure. The department proposes to extend the payment limitations to inpatient services. We discuss this proposal in more detail below.
- ***Rate Reduction for Some Nursing Facilities (Savings of $27.9 Million General Fund).*** The budget proposes to reduce reimbursement rates for certain nursing facilities. We discuss this proposal in more detail below.
- ***Rate Reduction for Medical Supplies and Certain Drugs (Savings of $6.2 Million General Fund).*** The budget proposes to (1) reduce the mark-up Medi-Cal pays for medical supplies from 50 percent to 25 percent of the cost of the supplies (savings of $3.2 million General Fund) and (2) contract with drug manufacturers for high-volume multiple-source drugs (savings of $3 million General Fund).

- ***1991-92 County Administration Salary Increases (Savings of $4.1 Million General Fund).*** The budget proposes not to fund a 4.3 percent salary increase provided by county welfare departments to their employees in the current year. In most recent years, the Legislature has provided funding for salary increases the year *after* the counties have provided them.

- ***Statutory COLAs for Providers ($35.5 Million General Fund).*** The budget contains $48.4 million ($24 million General Fund) for a 9.8 percent increase on drug ingredients and $24.4 million ($11.5 million General Fund) for an 8.4 percent increase for noncontract hospital inpatient services.

- ***Rate Increases for Dental Services — Clark v. Kizer ($5.5 Million General Fund).*** The budget reflects rate increases the department offered in its proposed settlement of *Clark v. Kizer,* a lawsuit dealing with access to dental services. We discuss this issue in more detail below.

- ***Check-Up ($20 Million General Fund).*** The budget assumes enactment of legislation appropriating $20 million for a new insurance program for preschool children. We discuss this proposal in more detail below.

- ***Full-Year Costs of Expanded Coverage of Children ($7.1 Million General Fund).*** The federal Omnibus Budget Reconciliation Act (OBRA) of 1989 requires the department to expand Medi-Cal coverage to children ages one to five in families with incomes up to 133 percent of the federal poverty level. The department implemented this requirement effective April 1990.

- ***Addition of Three Therapeutic Categories to List of Contract Drugs ($6.4 Million General Fund).*** Chapter 456, Statutes of 1990 (AB 3573, Baker), required the department to ensure, by January 1992, that all therapeutic categories of drugs were represented on the list of contract drugs. The department proposes to add to the contract list laxatives, muscle relaxants, and anti-anxiety drugs.

- ***Continuing Eligibility for Pregnant Women ($6.2 Million General Fund).*** The federal OBRA of 1990 and Ch 1062/91 (SB 856, Bergeson) require the department to provide continuing Medi-Cal eligibility for pregnant women and their infants. Under continuing eligibility, once a pregnant woman becomes eligible for Medi-Cal, she can continue to receive Medi-Cal services until her delivery, regardless of income changes that would otherwise make her ineligible. Infants born to Medi-Cal-eligible women are automatically eligible for Medi-Cal for one year. The department implemented this requirement in September 1991.

- ***Elimination of Donated Funds Program (Reductions of $119.5 Million Disproportionate Share and Emergency Services Fund and***

$119.4 Million Federal Funds). The budget proposes to eliminate the use of donated funds to match federal funds for Medi-Cal services. We discuss this issue in our discussion of intergovernmental transfers below.

- ***Department of Developmental Services (DDS) Home- and Community-Based Services ($27.2 Million General Fund).*** The budget shifts the General Fund monies for DDS home- and community-based services from the DDS budget to the Medi-Cal budget.
- ***Accrual Accounting (Savings of $992.4 Million General Fund).*** The budget eliminates one-time costs of $2.2 billion ($992.4 million General Fund) in the current year to change Medi-Cal accounting from a cash to an accrual basis.

In addition, the budget reflects continuation in 1992-93 of two significant current-year changes:

- ***Shift Funding for Pregnancy Program to Proposition 99 Funds (Savings of $63.2 Million General Fund).*** Chapter 980, Statutes of 1988 (SB 2579, Bergeson), and the federal OBRA of 1989 require the department to provide Medi-Cal coverage for pregnancy services for women in families with incomes up to 185 percent of the federal poverty level. To date, these services have been funded with 50 percent General Fund and 50 percent federal funds. The budget assumes enactment of legislation to use Cigarette and Tobacco Products Surtax Fund monies to pay a portion of the General Fund costs of the program. We discuss this proposal in more detail below.
- ***Intergovernmental Transfers (Savings of $75 Million General Fund; Costs of $1.6 Billion Total Funds).*** Chapter 279, Statutes of 1991 (SB 855, Robbins), requires counties to provide intergovernmental transfers to the state to fund supplemental Medi-Cal payments to disproportionate-share hospitals. We discuss this program in more detail below.

CASELOAD ANALYSIS

New Federal Mandates Have Increased Medi-Cal Caseloads and Costs

Put in its simplest form, the cost of the Medi-Cal Program relates to two primary factors: the number of eligibles and the cost per eligible. Recent years have seen large increases in the caseload of persons who have traditionally been eligible for Medi-Cal. Moreover, recent federal mandates have created new categories of people who are eligible for Medi-Cal. Use of medical services by people in these new categories is responsible for a significant portion of the growth in the caseload and costs of the Medi-Cal Program.

In the following pages, we discuss (1) who is eligible for Medi-Cal and recent caseload trends, (2) the varying costs associated with different groups of eligibles, and (3) the options available to the Legislature for reducing Medi-Cal caseloads and the implications of doing so. Our general conclusion is that the creation of new, federally mandated eligibility categories has caused Medi-Cal caseloads and costs to grow at a faster rate than they would have otherwise.

For the purposes of this discussion, we have divided the Medi-Cal caseload into two categories: "traditional" eligibles — those whom Medi-Cal has served since at least 1971 — and "nontraditional" eligibles — people who would not have been eligible for Medi-Cal before 1988-89.

Who is Eligible for Medi-Cal?

Federal mandates have required expansion of Medi-Cal to four new categories of people.

Traditional eligibles fall into three major categories:

- *Categorically Needy.* The categorically needy (cash grant recipients) consist of families or individuals who receive cash assistance under two programs — Aid to Families with Dependent Children (AFDC) and Supplemental Security Income/State Supplementary Program (SSI/SSP). They automatically receive Medi-Cal cards and pay no part of their medical expenses.

- *Medically Needy.* The medically needy include (1) families with dependent children and (2) aged, blind, or disabled persons who are ineligible for cash assistance through AFDC or SSI/SSP because their income exceeds cash grant standards. Individuals in these categories whose income is at or below 133 1/3 percent of the AFDC payment level specified for their household size pay no part of their medical expenses. Individuals with higher incomes can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133 1/3 percent of the AFDC payment level. The difference between their incomes and 133 1/3 percent of the AFDC payment level is their "share of cost." (Chapter 26, Statutes of 1991 (SB 724, Maddy), requires the Medi-Cal Program to base Medi-Cal eligibility on the AFDC payment levels that were in effect in June 1991 rather than using current levels. All mention in this discussion of AFDC payment levels refers to the June 1991 levels. The June 1991 AFDC maximum payment level for a family of three was $732 per month.) Medically needy beneficiaries who reside in long-term care facilities are required to pay all but $35 of their monthly income toward the costs of their care.

- *Medically Indigent.* The medically indigent are individuals who (1) do not belong to families with dependent children and are not aged, blind, or disabled but (2) meet income and share-of-cost criteria that apply to the medically needy category. Coverage under the medically indigent program is limited to (1) persons who are under the age of 21, (2) pregnant women, and (3) persons residing in long-term care facilities.

Recent federal and state law changes have created four new categories of people who can receive Medi-Cal services. These new, nontraditional categories are:

- *Newly Legalized Persons.* The federal Immigration Reform and Control Act (IRCA) and Ch 1441/88 (SB 175, Maddy) provide that persons receiving legal status under the IRCA are entitled to Medi-Cal coverage if they are otherwise eligible for Medi-Cal. Newly legalized persons who are children (under age 19), aged, blind, or disabled are entitled to full benefits; others are entitled only to emergency services, including labor and delivery, plus prenatal and postnatal care.
- *Undocumented Persons.* The federal Omnibus Budget Reconciliation Act (OBRA) of 1986 and Chapter 1441 extend Medi-Cal coverage to undocumented persons if they are otherwise eligible for Medi-Cal. These people are eligible for emergency services, including labor and delivery, plus prenatal and postnatal care.
- *Pregnant Women.* Federal law requires the state to cover pregnant women and their infants in families with incomes up to 185 percent of the federal poverty level. (The federal poverty level is $11,140 for a family of three.) State law increases this income limit to 200 percent of the federal poverty level.
- *Qualified Medicare Beneficiaries.* The federal Medicare Catastrophic Coverage Act requires Medi-Cal to pay Medicare premiums, coinsurance, and deductibles for people with incomes below the poverty level whose assets are less than 200 percent of the SSI/SSP limit. These people are not eligible for other Medi-Cal services.

Caseload Has Grown Dramatically in Recent Years

Caseload growth in both traditional and nontraditional eligibility categories has been significant. Traditional categories account for most of the increase in the number of eligibles, but the rate of growth has been higher for nontraditional categories.

Table 13 shows the average number of persons per month who were eligible for Medi-Cal in each eligibility category in 1990-91 and the number that the budget estimates will be eligible in 1991-92 and 1992-93. The table shows that an average of 4.9 million persons will be eligible for Medi-Cal benefits each month during 1992-93. This is 302,200 individuals, or 6.6 percent, more than the average number of beneficiaries eligible in the current year. Of this increase, 219,200, or 73 percent, is in traditional categories, and 83,000, or 27 percent, is in nontraditional categories.

Table 13

Department of Health Services
Average Monthly Medi-Cal Program Eligible Recipients
By Eligibility Category
1990-91 through 1992-93

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Traditional eligibility categories				
Categorically needy				
AFDC	2,329,300	2,588,600	2,725,000	5.3%
SSI/SSP	898,500	949,800	997,000	5.0
Medically needy				
Families	264,200	315,900	337,600	6.9
Aged, blind, or disabled	55,300	56,300	57,000	1.2
Long-term care	65,200	66,800	67,600	1.2
Medically indigent				
Children	160,200	182,700	195,900	7.2
Adults	7,900	8,700	8,600	-1.1
Refugees	10,500	10,700	10,000	-6.5
Subtotals, traditional eligibility categories	(3,791,100)	(4,179,500)	(4,398,700)	(5.2%)
Nontraditional eligibility categories				
Newly legalized persons	39,400	57,900	71,100	22.8%
Undocumented persons	173,000	252,400	315,300	24.9
Pregnant women				
185 percent of poverty	47,500	54,600	61,300	12.3
200 percent of poverty	2,900	3,200	3,400	6.3
Qualified Medicare beneficiaries	1,800	2,000	2,000	—
Subtotals, nontraditional eligibility categories	(264,600)	(370,100)	(453,100)	(22.4%)
Totals	**4,055,700**	**4,549,600**	**4,851,800**	**6.6%**

While the increase in the *number* of people is higher for traditional than nontraditional categories, as Table 13 shows, the *rate* of growth in the nontraditional eligibility categories is much higher than in the traditional categories — 22 percent versus 5 percent. The difference in growth rates over the past

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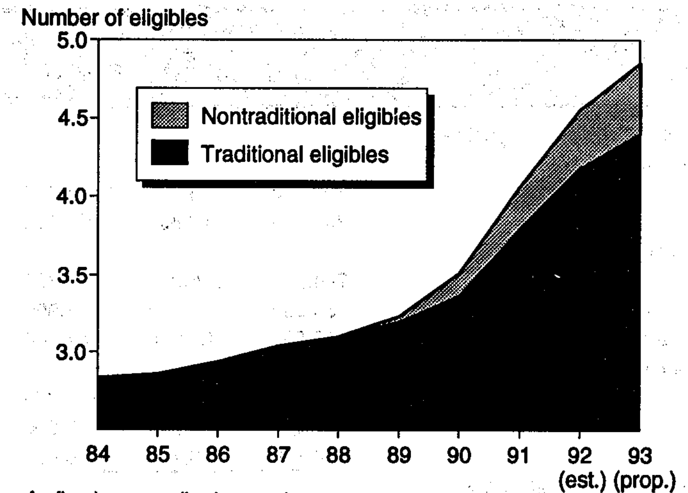
several years is illustrated in Chart 1. This chart displays the number of traditional and nontraditional Medi-Cal eligibles since 1983-84.

Chart 1

Total Medi-Cal Eligibles 1983-84 through 1992-93[a]

(In millions)



[a] Data are for fiscal years ending in year shown.

Chart 1 illustrates three important characteristics of Medi-Cal caseloads:

- Most of the growth in Medi-Cal is in traditional categories.
- Caseload in traditional eligibility categories has increased at a much faster rate since 1989-90 than in prior years.
- Growth in the nontraditional eligibility categories has occurred at a faster rate than growth in the traditional categories in every year since 1987-88.

Traditional Caseload. The primary reason that caseload in the traditional categories has increased more rapidly since 1989-90 than in prior years is due to the growth in the AFDC Program during the last few years. There are a number of possible reasons for this caseload growth, and we discussed this issue in detail in our "California's AFDC Program," published in *The 1991-92 Budget: Perspectives and Issues.* As we will discuss later, however, part of the reason for the growth in the traditional caseload is due to the creation of the nontraditional eligibility categories within Medi-Cal.

Nontraditional Caseload. Rapid growth in the nontraditional categories can be explained by two major factors. First, rapid growth for a few years is not surprising as people learn that they are eligible under a newly established eligibility category. The phase-in of caseloads of undocumented and newly legalized persons is somewhat slower because these persons are (or were) in the country illegally, making them fearful of interactions with governmental agencies. Typically, after an eligibility category has been established for a few years, caseload growth would be expected to stabilize at a slower rate. The caseloads of newly legalized persons, undocumented persons, and pregnant women, however, have not yet exhibited a slower, more stable growth rate.

Second, our field visits indicate that because pregnancy-related care is included in the services available to undocumented persons, this may create an incentive for more pregnant women to enter the country and give birth here. This would cause a faster increase in caseload than could be explained by phase-in alone.

Total Caseload. While we have discussed the traditional and nontraditional eligibility categories separately from one another, there is an interaction between the two. Specifically, establishing Medi-Cal eligibility for newly legalized persons and undocumented persons has also increased the caseload in some traditional categories. This is because many newly legalized or undocumented persons have children who were born in the U.S. and are, therefore, U.S. citizens. These citizen children are eligible for Medi-Cal, but may not have received services previously because their newly legalized or undocumented parents were reluctant to interact with governmental agencies. Once their parents apply for Medi-Cal, these children also begin to receive services. However, they are not counted as part of the caseload of newly legalized or undocumented persons, but are counted in one of three traditional eligibility categories: categorically needy AFDC recipients, medically needy families, or medically indigent children. Consequently, caseload increases in nontraditional eligibility categories also cause increases in the caseloads of traditional categories.

Chart 2 shows that caseloads in two of these three traditional categories — medically needy families and medically indigent children — began growing more rapidly in 1987-88, the year that newly legalized and undocumented persons became eligible for services. The rate of growth for categorically needy AFDC recipients has also increased since 1987-88 (not shown in chart).

Data are not available to identify what portion of the increase in these three traditional categories is attributable to newly legalized or undocumented persons. However, it is clear that some of the increase has resulted from the expansion of Medi-Cal eligibility.

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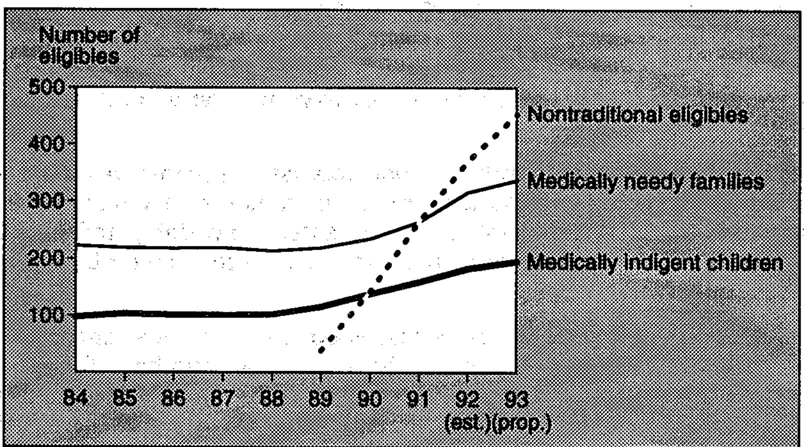
Chart 2

Medi-Cal Eligibles in Selected Categories 1983-84 through 1992-93[a]

(in millions)



[a] Data are for fiscal years ending in years shown.

Growth in Nontraditional Eligibles Explains Significant Portion of Growth in Costs of Medi-Cal Program

Federal mandates requiring expansion of Medi-Cal eligibility to new categories account for over one-third of the increase in Medi-Cal costs since 1988-89. The average cost per eligible for nontraditional eligibles is more than 25 percent higher than the average cost across all eligibility categories.

As we noted above, the number of eligibles is only one of the two major factors affecting the cost of the Medi-Cal Program. The second factor is the cost per eligible.

Table 14 shows the percentages of eligibles and expenditures that each eligible group is anticipated to account for in the current year. It also shows average cost per eligible. As the table shows, families receiving AFDC grants constitute 57 percent of Medi-Cal eligibles but only 24 percent of expenditures. The SSI/SSP recipients, on the other hand, make up 21 percent of the caseload and account for 35 percent of the expenditures. Long-term care residents account for only 1.5 percent of the caseload, yet they account for 17 percent of expenditures.

Table 14

Department of Health Services
Medi-Cal Expenditure Patterns by Eligibility Category
1991-92

	Percent of Eligibles	Percent of Expenditures	Cost Per Eligible
Traditional eligibility categories			
Categorically needy			
AFDC	56.9%	24.4%	$898
SSI/SSP	20.9	34.5	3,464
Medically needy			
Families	6.9	5.5	1,666
Aged, blind, or disabled	1.2	4.1	6,876
Long-term care	1.5	17.3	24,705
Medically indigent			
Children	4.0	2.6	1,355
Adults	0.2	0.6	7,098
Refugees	0.2	0.2	1,621
Nontraditional eligibility categories			
Newly legalized persons	1.3	1.6	2,607
Undocumented persons	5.5	7.2	2,722
Pregnant women			
185 percent of poverty	1.2	2.0	3,412
200 percent of poverty	0.1	0.1	3,972
Qualified Medicare beneficiaries	—[a]	—[a]	281
Totals[b]	**100.0%**	**100.0%**	**$2,097**

[a] Less than 0.1 percent.
[b] Details may not add to totals due to rounding.

The growth in the number of nontraditional eligibles would not be particularly noteworthy if the cost of serving those populations was the same as or lower than the cost of serving traditional eligibles. One might expect that the average cost of serving these groups would be lower than the cost of serving comparable traditional categories. This is because, with few exceptions, Medi-Cal does not cover the full range of Medi-Cal services for people in any of the nontraditional eligibility categories. (As we noted above, the exception is newly legalized persons who are under age 19 or are aged, blind, or disabled.) However, Chart 3 illustrates that the average cost per eligible in each of the nontraditional categories is more than 25 percent

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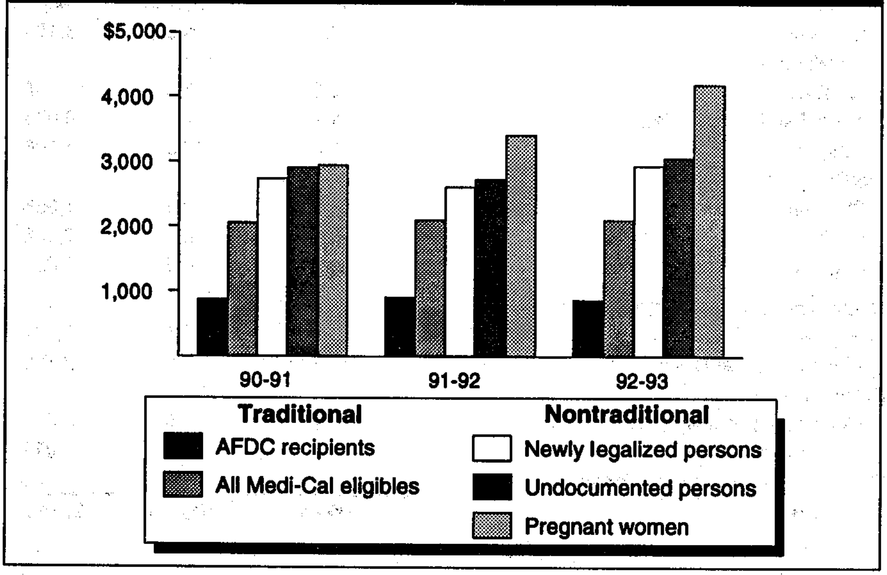
higher than the average cost across all categories. The difference between the average costs for nontraditional categories and the average cost for AFDC recipients — the largest single eligibility category — is even more dramatic. The average costs are higher for nontraditional eligibles because the services they primarily receive, emergency and perinatal care, are more expensive than many other services.

Chart 3

Medi-Cal Average Cost per Eligible 1990-91 through 1992-93



Given the high average cost per eligible, combined with the rapid growth in the number of eligibles, the fiscal effect of the federal requirements to expand eligibility to the nontraditional categories is significant. The DHS estimates that total Medi-Cal costs for services will increase by $4.2 billion, or 71 percent, between 1988-89 and 1992-93. Of that increase, $1.4 billion, or 34 percent, is directly attributable to the creation of the new eligibility categories. If data were available to identify what portion of the growth in the traditional caseload consists of citizen children of newly legalized or undocumented persons, they would increase the portion of the $4.2 billion that is attributable to the expanded eligibility categories.

Legislature Has Limited Ability to Reduce Costs by Reducing Eligibility

Federal restrictions limit the Legislature's ability to control Medi-Cal costs by reducing Medi-Cal eligibility. Even within these limits, reducing Medi-Cal eligibility would increase the uncompensated care burden on counties and hospitals.

Federal law requires California to provide services to people in certain Medi-Cal eligibility categories and permits, but does not require, the state to provide services to people in other categories. Therefore, if the Legislature wishes to restrict Medi-Cal eligibility, its options under federal law are limited. Below we discuss the options the Legislature has for reducing Medi-Cal caseloads and some of the implications of doing so.

Mandatory Eligibility Categories. Federal law requires California to provide Medi-Cal coverage to (1) categorically needy eligibles, (2) pregnant women in families with incomes up to 185 percent of the poverty level, (3) newly legalized and undocumented persons who would be categorically needy if they were citizens, (4) children age one to six in families with incomes up to 133 percent of the federal poverty level, and (5) children age seven to eight in families with incomes up to 100 percent of the federal poverty level. As Table 14 shows, the first two categories alone comprise 79 percent of all Medi-Cal eligibles and 61 percent of all expenditures. Given that the majority of Medi-Cal caseload and costs is driven by federal requirements, the Legislature's options for reducing eligibility are significantly constrained. There are two basic options available: (1) eliminate optional eligibility categories or (2) reduce the income level for determining eligibility for certain categories.

Optional Eligibility Categories. The Legislature could eliminate coverage of medically needy or medically indigent persons. If either of these categories were eliminated, coverage of newly legalized and undocumented persons who meet the income requirements for the medically needy or medically indigent categories would also be eliminated. This is because federal law only requires coverage of newly legalized and undocumented persons if they are otherwise eligible for Medi-Cal. Table 15 shows these optional eligibility categories and the costs projected for each category in 1992-93.

Income Level for Determining Eligibility. As we noted earlier, eligibility for the medically needy and medically indigent categories is linked to 133 1/3 percent of the AFDC payment level. That is, people with incomes below this level receive Medi-Cal services at no cost, and people with incomes above this level must pay a share of cost. Rather than eliminating eligibility categories, the Legislature could reduce the income level used for determining eligibility. Federal law permits California to link eligibility for medically needy and medically indigent persons to any percentage between 100 and 133 1/3 percent of the AFDC payment level. Reducing the income

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standard for Medi-Cal eligibility below 133 1/3 percent of the AFDC payment level would increase the share of cost that people would pay before they would be eligible for Medi-Cal services, thereby reducing Medi-Cal costs.

Table 15

Department of Health Services
Medi-Cal Program
Proposed Expenditures for Optional Eligibility Categories
1992-93

(in millions)

Category	Expenditures
Medically needy[a]	
Aged	$8.8
Blind	1.2
Disabled	29.2
Families with dependent children	127.7
Long-term care	841.1
Medically indigent children	41.2
Medically indigent adults	12.8
Newly legalized and undocumented persons[b]	184.6
Total	**$1,246.6**

[a] The table does not show Medi-Cal expenditures for those who qualify for AFDC and SSI/SSP grants but have refused these grants. If the medically needy category is eliminated, these "refused grant" participants would most likely take the AFDC and SSI/SSP grants in order to qualify for Medi-Cal as mandatory eligibles.

[b] The table shows only those costs for newly legalized and undocumented persons who meet criteria for the optional medically needy or medically indigent categories.

Implications of Eliminating Eligibility for Medically Needy or Medically Indigent Persons. Eliminating the medically needy categories would leave persons who are aged, blind, disabled, or in families with dependent children without medical coverage. Similarly, eliminating the medically indigent categories would leave children, pregnant women, and people in long-term care facilities without coverage. Many of these individuals would probably seek services at county health programs. Some of these individuals might wait until medical conditions become an emergency before seeking care, resulting in a need for emergency room and inpatient hospital costs that are more expensive than physician and other outpatient services. This would increase the uncompensated care burden on hospitals, including county hospitals.

Implications of Eliminating Eligibility for Long-Term Care Residents. While federal law would permit Medi-Cal to eliminate coverage for people in long-term care facilities who do not receive cash grants, this would have serious effects for the 67,600 average monthly eligibles in this eligibility category. It is not clear how these people would receive or pay for long-term care services.

Any coverage available through Medicare or other third-party payors is exhausted before Medi-Cal coverage begins. Most counties do not provide long-term care coverage, but any that do most likely would be unable to absorb the additional caseload into their county health programs. To the extent that people who need skilled nursing care are released into the community without the care, it is likely that their medical needs would increase to the acute level, resulting in more expensive acute hospital treatment. This would, in turn, increase the uncompensated care burden on counties or hospitals.

Summary

Federal mandates requiring expansion of Medi-Cal eligibility to new categories of eligibles account for over one-third of the increase in Medi-Cal costs since 1988-89. Federal restrictions limit the Legislature's ability to control Medi-Cal costs by reducing Medi-Cal eligibility. Even within these limits, reducing Medi-Cal eligibility would increase the uncompensated care burden on counties and hospitals.

SAVINGS PROPOSALS

Elimination of Optional Services

The department's estimate of savings from reducing optional services is incomplete. We recommend that the department provide, prior to budget hearings, a revised savings estimate that reflects both the effect of federal restrictions and optional services provided by clinics and hospitals and information about (1) what emergency dental services will be provided, (2) how savings will be achieved by eliminating services provided at blood banks and independent rehabilitation centers, and (3) what is included in the "other providers" category.

The budget assumes that the Legislature will enact legislation that will result in savings of $15.7 million ($7.6 million General Fund) in the current year and $204.5 million ($100.9 million General Fund) in the budget year by eliminating the following optional service categories from coverage through Medi-Cal:

- Adult dental services.
- Outpatient psychology services.

- Chiropractic services.
- Acupuncture services.
- Podiatry services.
- Occupational therapy.
- Services provided at independent rehabilitation centers. These services include audiology, speech, and occupational and physical therapy.
- Services provided at blood banks. These services include drawing blood and performing blood transfusions.
- Other providers. This category includes various medical supplies. At the time this analysis was prepared, the department could not provide a comprehensive list of what is included in this category.

The department indicates that it is proposing elimination of these services solely to reduce Medi-Cal costs, not because it believes they are unnecessary. Table 16 lists the department's estimate of the Medi-Cal savings from eliminating each of these services and the average number of Medi-Cal beneficiaries who use these services each month.

Legislature Needs Additional Information. The Legislature needs clarification of several issues in order to evaluate this proposal. First, the department's estimate of savings is incomplete because it does not consider two factors, the first of which would reduce the savings estimate and the second which would increase the savings:

- Various federal restrictions would reduce the savings associated with this proposal.
- Accounting for the costs of optional services that are provided in clinics and hospitals would increase the savings.

It is possible that the net effect of these factors would be a reduction in the savings that could result from this proposal.

Second, it is not clear whether federal law permits the Legislature to eliminate certain emergency dental services. Finally, this proposal could shift some costs to other service categories and to counties. In general, the extent to which cost shifts would occur is unknown. However, the department should be able to reasonably estimate the effect of cost shifts from independent rehabilitation centers and blood banks to other providers. We discuss each of these issues below.

Table 16

Department of Health Services
Medi-Cal Health Care Services
Estimate of 1992-93 Savings From
Proposed Elimination of Optional Services

(dollars in millions)[a]

	Annual Savings		Average Monthly Users
	General Fund	All Funds	
Services			
Adult dental	$77.9	$156.8	47,315
Psychology	9.9	20.4	15,696
Acupuncture	3.4	6.9	12,409
Podiatry	2.4	5.0	15,134
Blood banks	0.6	1.3	267
Chiropractic	0.3	0.6	3,360
Occupational therapy	0.1	0.3	297
Independent rehabilitation centers	0.1	0.3	156
Other providers	6.2	13.0	NA[b]
Totals	**$100.9**	**$204.5**	—[c]

[a] Detail may not add to totals due to rounding.
[b] Not available.
[c] Not a meaningful figure.

Federal Restrictions. The department's estimate assumes that it will eliminate optional services for *all* Medi-Cal beneficiaries. However, federal law prohibits the state from eliminating optional services for some nursing facility residents and children.

As regards nursing facility residents, the OBRA 87 requires states to provide any services necessary to ensure that these residents can achieve the "highest practicable level" of physical and mental functioning. To the extent any of the optional services would increase a nursing facility resident's level of functioning, Medi-Cal must provide those services, even if they are not available to other Medi-Cal beneficiaries.

As regards children, the OBRA 89 requires Medi-Cal to provide children with any services necessary to treat medical conditions that are identified in a diagnostic screen, even if the services are not available to other Medi-Cal beneficiaries. Consequently, the department would need to continue to provide optional services for children whose screens identified a need for the services.

Services Provided in Clinics or Hospitals. Due to a technical oversight, the department's estimate is incomplete because it does not reflect the savings from eliminating these optional services when they are provided in clinics or hospitals.

Emergency Dental Services. Federal law requires Medi-Cal to provide emergency services, including services to alleviate severe pain. It is not clear (1) to what extent certain adult dental services would be considered emergency services or (2) whether Medi-Cal would pay dentists to provide emergency dental care if coverage of adult dental services is eliminated. Thus, to the extent that certain adult dental services are considered emergencies and are covered by Medi-Cal, the department's estimate of savings is overstated.

Costs May Shift to Other Services. Actual savings from this proposal would depend on behavioral changes on the part of Medi-Cal beneficiaries. In some cases, elimination of optional services may result in savings. In other cases, the savings may be offset because beneficiaries may (1) substitute other Medi-Cal services for the service being eliminated or (2) delay receiving treatment and ultimately require more acute care. In still other cases, the beneficiary may be unable to substitute services, but may become more dependent on other state-funded programs. The extent to which cost shifts would occur for each category of service is unknown.

- *Substitution of Services.* Examples of where substitution of services could occur include psychology, podiatry, acupuncture, and chiropractic services. Beneficiaries who currently receive these services might instead (1) seek physician services or increase the use of prescription drugs, thereby resulting in the substitution of one service for another, or (2) go without services altogether.
- *Increased Use of Acute Care.* Beneficiaries who cannot afford to pay for dental services themselves could develop more acute problems and require physician or emergency room care. Ironically, because rates for physician and hospital services are higher than those for many adult dental services, substitution of services or increased use of hospital care could actually *increase* Medi-Cal costs. In addition, counties (which are the provider of last resort for health services) may experience increased demand for services they provide.
- *Dependence on Other Programs.* In other cases, there may not be another Medi-Cal service that beneficiaries could substitute. For example, beneficiaries who receive occupational therapy would not be able to substitute other Medi-Cal services. However, it is possible that losing this benefit could make some beneficiaries more dependent on other state programs, including special education or In-Home Supportive Services.

Costs May Shift to Counties. To the extent that services are eliminated by the Medi-Cal Program, counties may experience increased demand for services they provide.

Blood Banks and Independent Rehabilitation Centers. The proposal to eliminate blood banks and independent rehabilitation centers differs from the proposal relating to other services because the budget proposes to eliminate services provided at these particular *locations,* rather than eliminating the services themselves. Consequently, beneficiaries can seek the same services at other locations. It seems extremely unlikely that beneficiaries who currently receive services such as blood transfusions at blood banks would choose to go without those services rather than simply seeking the services at a clinic or hospital. Similarly, people currently receiving speech or physical therapy at independent rehabilitation centers could receive the same services at other locations.

"Other Provider" Category. As we mentioned earlier, a list of what is included in this category was not available at the time this analysis was prepared.

Recommendation. Because the Legislature needs additional information in order to evaluate this proposal, we recommend that the department provide, prior to budget hearings, a revised savings estimate that reflects the effect of federal restrictions and optional services provided by clinics and hospitals and information about (1) what emergency dental services will be provided, (2) how it will achieve savings by eliminating services provided at blood banks and independent rehabilitation centers, and (3) what is included in the "other providers" category.

Limitation on Hospital Inpatient Days

The administration's proposal to limit hospital days will shift costs to hospitals, including county hospitals.

The budget assumes that the Legislature will enact legislation that will result in savings of $121.5 million ($60.8 million General Fund) by limiting coverage of acute inpatient hospital days to 60 days per year per beneficiary. The limit would apply whether the 60 days occur consecutively or over several hospital stays. The proposal exempts from this limit children under age six.

Currently, Medi-Cal has no limit on the number of hospital days that it will cover. Medi-Cal controls utilization of hospital days by requiring field office staff to review and approve all inpatient days as medically necessary. In 1990-91, 4,333 Medi-Cal beneficiaries spent more than 60 days in an acute hospital, resulting in over 162,000 days of medically necessary hospital care. Medi-Cal would not pay for these inpatient days under this proposal. At the time this analysis was prepared, the department was unable to provide details about what types of hospital days would be most affected.

This proposal would increase the uncompensated care burden on hospitals, including county hospitals. Hospitals cannot discharge patients that need acute care just because Medi-Cal will not pay for the days. Hospitals would not be able to shift these patients to any other kind of facility, such as a nursing facility, because licensing requirements for nursing facilities prohibit them from accepting patients who need an acute level of care. It is unlikely that Medi-Cal beneficiaries could pay for any significant part of the cost. This leaves hospitals with no option except to provide uncompensated care for the patients or transfer them to another hospital, thereby increasing another hospital's uncompensated care burden.

Hospital Day Limit May Thwart Attempt to Expand Use of In-Home Medical Care

The department's proposal to limit hospital days may reduce the department's ability to expand the use of in-home medical care services. We recommend that the department report during budget hearings on how it plans to achieve both the savings assumed in its proposal to limit hospital days and those projected from expanding the use of in-home medical care services.

The budget proposal includes $1.4 million ($447,000 General Fund) and 25.5 positions to expand the use of in-home medical care services and assumes that use of these services will result in savings of $6.6 million ($3.3 million General Fund). The savings estimate reflects an increase of $2.8 million, or 553 percent, above the General Fund savings anticipated in the current year.

Background. Through the in-home medical care waiver program, Medi-Cal beneficiaries can receive a broader range of services than Medi-Cal normally covers, as long as (1) the waiver services keep a person from being placed in a hospital and (2) the total cost does not exceed the cost of being in a hospital. (That is, the in-home services must be cost-effective.) In the past, the department has played a reactive role in placing people in the waiver program by simply reviewing and approving requests from beneficiaries to participate in the waiver program. As part of the administration's managed care initiative, the department is now establishing a proactive system where it will use field office staff to identify people who could receive more appropriate, and less expensive, care in waiver programs.

Providing care at home for a person who needs an acute level of service requires coordination of a number of different kinds of services including, but not limited to, home health agency care, physician services, and use of respirators or other equipment. Consequently, waiver services are usually provided for people who are expected to require an acute level of care for more than 90 days.

Sixty-Day Limit Affects Cost-Effectiveness. The department's proposal to limit payment for inpatient hospital days has serious implications for its ability to expand the use of the in-home medical care waiver. This is because, by reducing the number of hospital days that Medi-Cal pays for, the proposed 60-day limit would substantially reduce the costs that Medi-Cal would have paid had a person remained in a hospital. This, therefore, substantially reduces the amount of in-home services Medi-Cal could provide under the federal constraint of demonstrated cost-effectiveness and could make it impossible for Medi-Cal to provide the services necessary to keep a person at home.

Because it appears that the 60-day limit would reduce the department's ability to expand the use of waiver services, we recommend that the department report during budget hearings on how it plans to achieve both the savings assumed in its proposal to limit hospital days and those projected from expanding the use of in-home medical care services.

Savings from Medicare Crossover Proposal Overstated

We recommend that the department provide, prior to budget hearings, a revised estimate of savings from its Medicare crossover claims proposal.

"Crossover" beneficiaries are beneficiaries who are eligible for both Medicare and Medi-Cal. Medi-Cal pays Medicare copayments and deductibles for crossover beneficiaries. State law requires Medi-Cal to limit its payments for medical procedures so that the combined Medicare and Medi-Cal reimbursement does not exceed the Medi-Cal rate for the same procedure. The department has previously implemented this policy for most procedures, but has not done so for inpatient hospital stays. The department estimates that it will save $61.4 million ($30.7 million General Fund) in the budget year and $82 million ($41 million General Fund) annually by extending this policy to inpatient hospital payments. This policy will reduce the amount that hospitals will receive for serving crossover beneficiaries, but does not affect the beneficiaries' entitlement to receive the services.

The department currently pays $82 million ($41 million General Fund) annually for copayments and deductibles for inpatient services for crossover beneficiaries. The department estimates that it will eliminate *100 percent* of these payments. The department's own description of technical difficulties involved in this process, however, makes it clear that it will not be able to achieve this level of savings.

The department indicates that it has not applied this policy to inpatient days before now because differences between the rate methodologies used by Medicare and Medi-Cal make comparisons of rates technically very difficult. While the department now believes that it can resolve most of the technical difficulties, it (1) plans to implement this policy only for contract hospitals (those which negotiate contracts with the California Medical

Assistance Commission) and (2) indicates that it is probable that there will be some procedures for which a comparison between Medicare and Medi-Cal rates will not be possible.

At the time this analysis was prepared, the department could not determine the effect of these limitations on its savings estimate. Because the savings estimate is clearly overstated, we recommend that the department provide a revised estimate prior to budget hearings.

New Rate Reimbursement Methodology Proposed for Nursing Facilities

We recommend that the department report prior to hearings on its final rate methodology for freestanding nursing home facilities (NFs).

The budget proposes saving $55.7 million ($27.9 million General Fund) by changing the rate methodology it uses to reimburse freestanding NFs, not including state developmental centers.

The department classifies NFs into peer groups based on their size and geographic location and sets a reimbursement rate for each peer group based on a projection of the median cost of the group, regardless of the projected costs of any particular NF. The budget proposes to change this methodology for NFs whose costs are projected to fall below the median of the peer group. These NFs would be paid a rate that falls somewhere between their projected costs and the median rate, instead of the median rate. The department reports that about 55 percent of all NFs provide services at costs that are below the median rate and would be affected by the change in rate methodology.

We believe that the proposed methodology is consistent with the federal government's intent under the Boren amendment to reimburse NFs on a "reasonable cost basis." Although NFs with projected costs below the median would receive reduced reimbursement, these facilities would still receive a payment larger than their projected costs.

We cannot determine whether this proposal would achieve the savings estimated in the budget, because the department has not yet determined the actual methodology it will use. Specifically, the department has not determined how much it will reduce each facility's rate below the median. It appears, however, that the department will pay facilities above the midpoint between their projected costs and the median. This is because, if the department set the rate at the midpoint, the estimated savings would be $111.5 million ($55.7 million General Fund), or twice the projected savings that the department proposes.

Once the department determines what methodology it will use, actual savings will be difficult to predict because they will depend, in part, on how NF providers respond to the change. If providers accept the change in the rate methodology without making major changes in their spending behavior, then the proposal would result in savings. However, if providers choose to increase costs, the median rate will increase in the long-term, increasing Medi-Cal costs.

Similarly, if some providers view the rate reductions as too extreme, they may choose to close their facilities or not accept Medi-Cal patients. This would result in fewer available NF beds. Any significant reduction in NF beds would likely increase the number of patients placed in distinct-part NFs or in hospitals, both of which have much higher reimbursement rates. Such a shift would increase Medi-Cal costs.

We recommend that the department provide information, prior to hearings, on the final rate methodology it will use to reimburse NFs and information on the NFs that would be affected by the proposed methodology.

Proposition 99 Does Not Permit Proposed Use of Funds

A budget proposal to use Proposition 99 funds for Medi-Cal pregnancy-related services could not be implemented by the Legislature but would require voter approval. Absent such a vote, the proposal would increase General Fund costs by $60 million in 1991-92 and $62.8 million in 1992-93.

Chapter 980, Statutes of 1988 (SB 2579, Bergeson), requires the department to expand Medi-Cal coverage for (1) pregnancy services to include women in families with incomes up to 185 percent of the federal poverty level and (2) medical services for their infants up to age one. The department implemented this requirement in 1989-90 and has used 50 percent General Fund and 50 percent federal fund dollars for the cost of the program. The budget assumes the enactment of legislation that will result in savings of $60 million in the current year and $62.8 million in the budget year by shifting funding of these pregnancy-related services from the General Fund to the Cigarette and Tobacco Products Surtax (C&T) Fund.

In the current year, the budget proposes to fund some of these pregnancy-related services with C&T Fund monies as follows:

- $30.6 million from the Health Education Account.
- $29.4 million from the Unallocated Account.

In the budget year, the budget proposes to fund the pregnancy-related services with:

- $38.6 million from the Health Education Account.
- $11.9 million from the Research Account.

- $12.3 million from the Unallocated Account.

The Legislative Counsel indicates that this proposed use of the funds is not permitted by Proposition 99 for the following reasons:

Use of Health Education and Research Account Funds. Proposition 99 specifies that (1) Health Education Account funds shall only be available for programs for the prevention and reduction of tobacco use and (2) Research Account funds shall only be available for tobacco-related disease research. The proposal to use these funds for pregnancy-related services extends beyond the purposes specified in Proposition 99 for the Health Education and Research Accounts.

Use of Unallocated Account Funds to Match Federal Funds. Proposition 99 prohibits matching expenditures for hospital and physician services, including pregnancy-related services, with federal funds. Thus, Unallocated Account expenditures for pregnancy-related services cannot be matched with federal funds.

For these reasons, the Legislative Counsel indicates that this proposal could not be implemented by a vote of the Legislature, but would require voter approval. [We discuss other issues related to the use of Health Education Account funds in our analyses of Preventive Medical Services and the State Department of Education (Item 6110)].

Federal Funds Uncertain for Services for Newly Legalized Persons

The budget proposes to use $191.2 million in State Legalization Impact Assistance Grant (SLIAG) funds in 1992-93 (and $153.8 million in 1991-92) for services to newly legalized persons. It is not clear, however, whether the federal government will provide California with sufficient SLIAG funds to cover these costs. The President's budget proposal does not contain sufficient funds to do so. Absent sufficient SLIAG funds, these costs would have to be funded with General Fund dollars. We discuss this issue in more detail in our analysis of Control Section 23.50 at the back of this document.

NEW PROGRAMS

Intergovernmental Transfers Increase Funding for Disproportionate-Share Hospitals by Over $700 Million

The SB 855 program provides $1.6 billion in supplemental payments to disproportionate-share hospitals. Almost one-half of these funds constitute new money for hospitals and therefore provide a substantial contribution toward reducing the uncompensated care burden they face.

The budget proposes expenditures of $1.7 billion ($870.3 million Medi-Cal Inpatient Payment Adjustment Fund (IPAF) and $870.3 million federal funds) to fund (1) supplemental payments to disproportionate-share hospitals, those hospitals which serve a disproportionate share of low-income persons, ($1.6 billion) and (2) general Medi-Cal expenses ($150 million).

The SB 855 Program. Chapter 279, Statutes of 1991 (SB 855, Robbins), requires counties and other public entities that operate disproportionate-share hospitals to transfer funds to the state which, when combined with federal funds, are used to provide supplemental Medi-Cal payments for inpatient hospital services provided by *all* disproportionate-share hospitals, including those which are not owned by public entities. Both the amount of the transfers and the amount of the supplemental payments that hospitals receive are based on the number of acute inpatient hospital days provided to Medi-Cal recipients or other low-income persons. Under SB 855, the amount of the transfers and the supplemental payments would increase annually.

Implementation of the SB 855 program is expected to begin during the current year, but is contingent upon the federal government's agreement to provide matching federal funds. At the time this analysis was prepared, federal approval appeared likely, but had not been received.

New Federal Cap. A recent federal law (PL 102-234) limits expenditures for supplemental payments to disproportionate-share hospitals to 12 percent of each state's total Medicaid expenditures. The payments proposed for 1992-93, which comprise 13 percent of the 1992-93 Medi-Cal budget, would not be affected because the new federal law grandfathers in existing state programs. Given the recent growth in the Medi-Cal Program, our review indicates that the actual effect of the federal cap on the SB 855 program is likely to be relatively minimal in the future as well.

Program Provides Substantial New Funding for Disproportionate-Share Hospitals. Not all of the $1.6 billion in supplemental payments constitutes new money to disproportionate-share hospitals. Most, if not all, of the funds counties are using to provide the transfers required by SB 855 are funds that they would have used to provide support for their own disproportionate-share hospitals. However, most of the federal funds clearly are new funds for hospitals. Consequently, the SB 855 program provides a substantial contribution to reducing the uncompensated care burden these hospitals face.

Budget Unnecessarily Eliminates Donated Funds Program

We recommend that the department report during budget hearings on its decision to eliminate its donated funds program.

The budget proposes a reduction of $409 million ($204.5 million Disproportionate-Share and Emergency Services Fund and $204.5 million federal funds) for the donated funds program created by Ch 996/89 (SB 1255, Robbins). Under the donated funds program, Medi-Cal matches donations from counties or other entities with federal funds and uses them to provide payments to selected disproportionate-share hospitals. Donated funds are used for specific projects that would enhance inpatient services.

The budget proposes to eliminate this program because a recent federal law (PL 102-234) prohibits states from using donations from health-care providers to match federal funds. However, PL 102-234 expressly allows states to use intergovernmental transfers to match federal funds and does not make a distinction between mandatory or voluntary transfers. Because a significant portion of the SB 1255 program was funded using intergovernmental donations, it is not clear why the department is proposing to completely eliminate the program. We therefore recommend that the department report during budget hearings on its decision to eliminate the donated funds program given its ability to continue that portion of the program that uses intergovernmental transfers as donations.

Check-Up: Outpatient Services for Uninsured Children

The administration is proposing to allocate $20 million to implement a program to provide outpatient services to all uninsured children up to age five. (These funds are not contained in the Budget Bill, but are shown in the Governor's Budget as reserved for pending legislation.) We discuss this issue in our earlier section on family health.

UNFUNDED 1992-93 COSTS

1992-93 Long-Term Care Cost-of-Living Adjustment (COLA) Costs Unfunded

We recommend that in its May revision of expenditures, the department incorporate estimates of costs resulting from long-term care COLAs.

The budget does not contain funds for statutorily required COLAs for nursing homes, state hospitals, and other long-term care facilities. Although the administration proposes waiving statutory COLAs in many other programs, it is likely that the long-term care statutory COLA will be funded due to requirements in federal law. Long-term care COLAs are established based on audit data, which are not yet available. The budget estimates costs of $165.1 million ($82.7 million General Fund) for the 1991-92 COLAs. It is too early to determine if 1992-93 long-term care COLA expenditures will be in the same cost range.

Budget Does Not Reflect Proposal to Reduce Maximum AFDC Payments

The administration's proposal to reduce the maximum AFDC payments could increase Medi-Cal costs by up to $17 million from the General Fund. If the Legislature reduces maximum AFDC payments, we recommend that it enact technical cleanup legislation regarding Medi-Cal eligibility.

The AFDC budget assumes that the Legislature will enact legislation to reduce the maximum aid payment (MAP) for AFDC recipients. (Please see Item 5180 for our discussion of the AFDC proposal.) Depending on federal action, reducing the MAP could either (1) have no fiscal effect on the Medi-Cal Program or (2) result in General Fund costs of up to $17 million in 1992-93. This is because the AFDC MAP is used to determine Medi-Cal eligibility for medically needy beneficiaries.

Federal law requires Medi-Cal to tie Medi-Cal eligibility to the current AFDC MAP. However, Ch 97/91 (SB 724, Maddy), which reduced the AFDC MAP, requires Medi-Cal to base eligibility on the June 1991, rather than the current, AFDC MAP. It also requires the department to seek a federal waiver approving this policy. The administration proposes to continue this policy rather than linking Medi-Cal eligibility to the proposed lower MAP. If the Legislature adopts the AFDC proposal, we recommend that it also enact technical cleanup legislation specifying that Medi-Cal continue to use the June 1991 MAP for determining eligibility.

If the federal government approves the department's waiver request, the AFDC proposal will have no fiscal effect on the Medi-Cal Program. However, if the federal government denies the waiver request, Chapter 97 requires Medi-Cal to use General Fund dollars to fund the additional costs of basing Medi-Cal eligibility on the June 1991 MAP. The department estimates that these costs would be up to $17 million from the General Fund in 1992-93. At the time this analysis was prepared, the federal government had not taken action on the department's waiver request.

Costs Likely From Dental Access Lawsuit

The budget does not reflect 1992-93 costs of $89.8 million ($44.9 million General Fund) from a recent dental access lawsuit. If the Legislature does not eliminate adult dental services, the costs of the lawsuit will increase by an additional $162.4 million ($84.2 million General Fund).

The budget includes $37.9 million ($18.9 million General Fund) to fund rate increases intended to improve access to dental care for children. These costs were based on a settlement offer the department made in *Clark v. Kizer*, a lawsuit regarding Medi-Cal beneficiary access to dental services. These costs reflect the department's assumption that the Legislature will enact legislation to eliminate adult dental services as a Medi-Cal benefit. If the Legislature does not eliminate adult dental services, *Clark v. Kizer* would also require rate increases for these services. (We discussed this proposal earlier in this section.)

After the budget was prepared, however, the court rejected the department's settlement offer and ordered it to increase rates above the level anticipated in the budget. The department estimates that the additional Medi-Cal costs to comply with the court order in the budget year will be \$89.8 million (\$44.9 million General Fund), assuming that the Legislature eliminates adult dental services. The department plans to include these costs in the May revision of expenditure estimates.

If the Legislature rejects the proposal to eliminate adult dental services, the department estimates that the costs associated with this lawsuit will increase by an additional \$162.4 million (\$81.2 million General Fund).

Budget Proposes to Limit Expansion of Capital Debt Financing Program

The budget's proposal regarding the Medi-Cal capital debt financing program would either (1) eliminate expansion of the program during the budget year or (2) force local governments to finance new projects with revenue bonds.

Chapter 1635, Statutes of 1988 (SB 1732, Presley), and Ch 1310/90 (SB 2665, Presley) require Medi-Cal to provide supplemental payments for a portion of the debt service costs of certain construction projects at disproportionate-share hospitals. The budget proposes expenditures of \$3 million (\$1.5 million General Fund) for supplemental payments for debt service costs of hospital construction projects. The budget proposal, however, limits expansion of the program during 1992-93. It is not clear whether the administration's proposal regarding the limitation of the program is consistent with the Legislature's intent.

Background. Projects that are eligible for funding under the capital debt financing program must be financed with either general obligation or revenue bonds. Once a project is completed and occupied by patients, the department begins to provide supplemental Medi-Cal payments for debt service costs. The department forecasts that seven projects will receive funding through this program beginning in 1991-92 or 1992-93. The actual costs of the program during the budget year will depend on how many projects are actually completed and occupied. Supplemental payments for these projects will continue until debt service payments are completed, as long as the hospital continues to meet certain requirements, including participation in the Medi-Cal Program.

Limited Expansion. Chapter 1310 permits the administration to propose annual limits on the amount of general obligation debt that can be obligated under this program. Specifically, Chapter 1310 permits annual limits on the amount of general obligation bonds that local governments can issue in any fiscal year for which Medi-Cal reimbursement will be available. Chapter 1310 does not permit limits on revenue bond debt.

The 1991 Budget Act limits the principal amount of additional general obligation debt that Medi-Cal will fund to $50 million. The proposed Budget Bill includes language limiting the additional amount of general obligation debt during 1992-93 to *zero.* As a result, local governments could not issue general obligation bonds during the budget year for hospital construction projects if they want to receive Medi-Cal supplemental payments. If local governments wish to participate in the Medi-Cal capital debt financing program, they would have to either delay projects or use revenue bonds, which are generally more expensive. The administration indicates that it is making this proposal due to the fiscal constraints facing the state.

Because Chapter 1310 permits an annual limit, it is clear that the Legislature wishes to control the debt obligation incurred under this program. However, it is not clear that the Legislature intended for the administration to use the limit either to (1) effectively eliminate expansion of the program or (2) force local governments to use revenue bonds. If the Legislature wishes to permit expansion of this program during 1992-93, it needs to amend the proposed Budget Bill language to reflect a higher limit.

Technical Error. The department estimates that it will incur debt service costs of $6 million ($3 million General Fund) for construction projects that are likely to be eligible for funding during 1992-93. Due to a technical error, however, the budget includes only half this amount, or $3 million ($1.5 million General Fund). The department indicates that it will correct this error in the May revision.

Budget Bill Language Limits Legislative Oversight

We recommend that the Legislature create a new item and adopt Budget Bill language that would maintain legislative oversight and give the Department of Finance (DOF) necessary flexibility to account for Medi-Cal expenditures on an accrual basis.

The Budget Bill includes proposed new language that would permit the DOF to use funds that are appropriated for Medi-Cal local assistance during 1992-93 for the liquidation of excess Medi-Cal local assistance costs from prior years. Consequently, if the 1991-92 appropriation for Medi-Cal is insufficient to cover the costs of services provided during, or prior to, 1991-92, this language would permit the DOF to pay those costs using the 1992-93 appropriation.

We agree that the change to accrual accounting for Medi-Cal creates a need for additional flexibility in reconciling expenditures with appropriations for prior years. The change to accrual accounting also makes such flexibility necessary for the budget year. However, we are concerned about the proposed language because it (1) permits the department to charge expenditures to a year other than the year when services are actually provided, (2) permits the DOF to transfer funds that may be needed for 1992-93 costs in order to pay for prior-year costs, (3) does not require the DOF to notify the Legislature prior to transferring the funds, and (4) does not address the need for flexibility within the 1992-93 budget.

1991-92 and Prior Years. The intent of accrual accounting is to charge expenditures to the year in which services are provided, regardless of when the department actually pays for them. Creating a new item in the budget that, after legislative notification, automatically appropriates funds necessary to pay for any prior-year expenditures in excess of prior-year appropriations would (1) provide the flexibility that the DOF needs, (2) provide the oversight capability that the Legislature needs, and (3) be consistent with the intent of accrual accounting. Accordingly, we recommend that the Legislature create a new item for prior-year funds that includes Budget Bill language appropriating funds that are necessary to pay prior-year expenditures that exceed the appropriations in those prior years. The following language is consistent with our recommendation:

> In the event that Medi-Cal expenses exceed the amount appropriated in this item, there is hereby appropriated any amounts necessary to pay the expenses. Moneys appropriated herein shall not be expended prior to 30 days after the Department of Finance notifies the Joint Legislative Budget Committee of the amount(s) necessary or not sooner than such lesser time as the Chair of the Joint Legislative Budget Committee may determine.

1992-93 Costs. A similar provision within the Medi-Cal budget item would provide flexibility and oversight during the budget year if budget-year expenditures exceed the Budget Act appropriation. We therefore recommend that the Legislature delete Provision #14 from Item 4260-101-001, and replace it with language similar to the language above.

County Administration Caseload

The current estimates of county administrative costs for 1992-93 are incomplete because the department has not yet attempted to estimate workload changes in the base budget. This will be done in the May revision when more data are available to estimate county welfare department workload.

Capital Outlay

The Governor's Budget proposes an appropriation of $2,795,000 in Item 4260 for capital outlay expenditure in the Department of Health Services.

Please see our analysis of that item in the capital outlay section of this *Analysis,* which is in the back portion of this document.

California Medical Assistance Commission
Item 4270

Expenditures

Requested 1992-93	$2,070,000
Estimated 1991-92	2,020,000
Actual 1990-91	1,727,000
Requested increase $50,000 (+2.5 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Medical Assistance Commission (CMAC) (1) negotiates contracts with hospitals, county health systems, and health care plans for the delivery of health care services to Medi-Cal recipients and (2) reports on the cost-effectiveness of selective provider contracts.

Overview of the Budget Request

The CMAC budget is essentially a workload budget.

The budget proposes $2.1 million (50 percent General Fund and 50 percent federal funds) for the commission's support in 1992-93. This is an increase of $50,000, or 2.5 percent, above estimated current-year expenditures. This increase is due to the net effect of:

- A $300,000 increase ($150,000 General Fund) for workload associated with the expansion of managed care in Medi-Cal, pursuant to Ch 95/91 (AB 336, Hunter). (The budget anticipates that these costs will be offset by Medi-Cal savings.)
- A decrease of $250,000 to eliminate one-time workload funding.

This commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 11 percent from the General Fund in 1991-92. (Because a General Fund reduction in the commission's budget also results in a reduction in federal funds, the unallocated reduction also results in a reduction of 11 percent of the commission's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Major Risk Medical Insurance Board

Item 4280

Expenditures

Requested 1992-93	$86,566,000
Estimated 1991-92	75,006,000
Actual 1990-91	10,398,000
Requested increase $11,560,000 (+15.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Major Risk Medical Insurance Board administers (1) the Major Risk Medial Insurance Program (MRMIP), which provides health insurance to California residents who are unable to obtain it for themselves or their families because of pre-existing medical conditions, and (2) the Access for Infants and Mothers (AIM) Program, which provides coverage for women seeking pregnancy-related and neonatal medical care.

Overview of the Budget Request

The budget for the Major Risk Medical Insurance Board is a workload budget.

The budget proposes total expenditures of $86.6 million from the Cigarette and Tobacco Products Surtax (C&T) Fund in 1992-93. Of this amount, $30.2 million is to fund the MRMIP and $56.3 million is to fund the AIM Program. This proposed level of expenditures is an increase of $11.6 million, or 15.4 percent, above estimated current-year expenditures. This increase primarily reflects the full phase-in of the AIM Program, which was established in 1991-92.

Department of Developmental Services
Item 4300

Expenditures

Requested 1992-93	$1,349,169,000
Estimated 1991-92	1,261,023,000
Actual 1990-91	1,208,923,000
Requested increase $88,146,000 (+7 percent)	

Fiscal Recommendations

Total recommended reduction	$3,800,000

Findings and Recommendations

Analysis Page

1. **Reduce Caseload Estimate to Eliminate Double-Budgeting. Reduce Item 4300-101-001 by $3.8 million.** Recommend General Fund reduction of $3.8 million to avoid double-budgeting for a transfer of clients from the department's Day Training Activity Center Program to programs operated by the Department of Rehabilitation. 122

General Program Statement

The Department of Developmental Services (DDS) administers services in the community and in developmental centers for persons with developmental disabilities. A developmental disability is defined as a disability originating before a person's 18th birthday that is expected to continue indefinitely and that constitutes a substantial handicap. The department carries out its function through two main programs: (1) the *Community Services Program,* under which the DDS develops, maintains, and coordinates services for developmentally disabled persons through contracts with 21 private nonprofit regional centers throughout the state; and (2) the *Developmental Center Program,* which provides services in 7 of the state's 11 developmental centers and hospitals.

Overview of the Budget Request

The proposed DDS budget is essentially a workload budget, including increases to reflect caseload growth.

As Table 1 shows, the budget proposes expenditures from all funding sources of $1.3 billion for support of the DDS in the budget year. This is an

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

increase of $88 million, or 7 percent, over estimated current-year expenditures. The budget proposes appropriations of $733 million from the General Fund in 1992-93. This is an increase $54 million, or 8 percent, over estimated current-year expenditures.

Table 1

Department of Developmental Services Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Department support	$33,508	$31,862	$32,101	0.8%
Regional centers and community development programs	607,676	648,951	719,759	10.9
Developmental centers	567,739	580,210	597,309	2.9
Totals	**$1,208,923**	**$1,261,023**	**$1,349,169**	**7.0%**
General Fund	*$633,794*	*$678,803*	*$732,688*	*7.9%*
Special Account for Capital Outlay	—	—	*630*	—[a]
Lottery Education Fund	*797*	*472*	*472*	—
Developmental Disabilities Program Development Fund	*3,255*	*3,036*	*2,368*	*-22.0*
Developmental Disabilities Services Account	*60*	*60*	*60*	—
Federal funds	*11,027*	*11,671*	*11,420*	*-2.2*
Reimbursements	559,990	566,981	601,531	6.1
Personnel-Years	**10,796.7**	**11,155**	**11,317.7**	**1.5%**

[a] Not a meaningful figure.

The change in expenditures from all funds is due primarily to the net effect of proposals for (1) an increase of $66 million to reflect caseload growth (6,545 clients) and service utilization changes at the regional centers, (2) an increase of $3.8 million to cover an increase in workers' compensation costs, (3) a $4.1 million increase in day program costs, and (4) an increase of $3.6 million to begin a phase-in of Qualified Mental Retardation Professionals (QMRPs) at the developmental centers.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 4.8 percent from the General Fund in 1991-92. (This reduction is 2.5 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Table 1 displays program expenditures and funding sources for the department in the prior, current, and budget years.

Analysis and Recommendations

Department Support

The budget proposes a General Fund appropriation of $20 million for support of the department's state operations in 1992-93. This is an increase of $379,000, or 1.9 percent, above estimated current-year expenditures.

Total expenditures, including those funded by the Program Development Fund, reimbursements, and federal funds, are proposed at $32 million, which is $239,000, or 1 percent, above estimated current-year expenditures.

Table 2 shows the major changes in the department's support budget proposed for 1992-93. It indicates that the proposed changes are due to baseline adjustments.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 2

Department of Developmental Services
Department Support
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	All Funds
1991-92 Expenditures (revised)	$19,877	$31,862
Baseline adjustments		
Adjustments to fund existing positions	—	-$62
Unallocated reduction shift to the Developmental Center Program	$360	360
Department of Mental Health position adjustment	—	-19
Foster grandparent transfer to the Development Center Division	-13	-125
Rent increase	—	53
Targeted case management administration	31	31
Board of Control claim adjustment	1	1
Subtotals	($379)	($239)
1992-93 Expenditures (proposed)	**$20,256**	**$32,101**
Change from 1991-92		
Amount	$379	$239
Percent	1.9%	0.8%

Regional Centers and Community Program Development

Table 3 displays the components of the regional centers and community program development expenditures for the prior, current, and budget years.

Table 3

Department of Developmental Services Regional Centers and Community Program Development Expenditures and Funding Sources 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Regional centers				
Operations	$154,647	$149,586	$157,652	5.4%
Purchase of service	450,800	496,900	560,188	12.7
Subtotals, regional centers	($605,447)	($646,486)	($717,840)	(11.0%)
Community program development				
Community placement[a]	($6,179)	($6,281)	($6,084)	(-3.1%)
Program development	2,083	2,319	1,773	-23.5
Cultural center	146	146	146	—
Subtotals, community program development	($2,229)	($2,465)	($1,919)	(-22.2%)
Subtotals	($607,676)	($648,951)	($719,759)	(10.9%)
Supplemental Security Income/ State Supplementary Program (SSI/SSP) reimbursements	$137,613	$144,383	$151,935	5.2%
Totals	**$745,289**	**$793,334**	**$871,694**	**9.9%**
General Fund				
Regional centers	*$571,277*	*$613,557*	*$656,999*	*7.1%*
SSP[b]	*75,687*	*75,079*	*72,929*	*-2.9*
Program Development Fund				
Parental fees	*2,665*	*2,665*	*2,141*	*-19.7*
Federal reimbursements	*2,083*	*2,319*	*1,773*	*-23.5*
Federal funds (SSI)[b]	*61,926*	*69,304*	*79,006*	*-14.0*
Reimbursements	*31,651*	*30,410*	*58,846*	*93.5*

[a] These amounts are incorporated in the regional center purchase-of-service budget.

[b] Assumes funding split of 55 percent General Fund/45 percent federal funds in 1990-91, 52 percent to 48 percent in 1991-92, and 48 percent to 52 percent in 1992-93.

The budget proposes expenditures of $720 million (all funds) for regional centers and community development programs in 1992-93. This is an increase of $71 million, or 11 percent, above estimated current-year expenditures.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Expenditures from the General Fund are proposed at $657 million, an increase of $43 million, or 7.1 percent, over estimated expenditures in the current year. This increase is primarily due to the net effect of (1) an increase of $66 million based on the regional centers caseload, utilization, and cost trends; (2) a funding shift of $27 million from the General Fund to reimbursements from the Department of Health Services for the Medicaid Waiver Program; (3) $4.1 million to fund day program cost increases; and (4) an unallocated reduction of $2.7 million being carried over from the current year.

Total expenditures, including the expenditures of Supplemental Security Income/State Supplementary Program payments to residential care providers, are proposed at $872 million, which is an increase of $78 million, or 9.9 percent, above estimated current-year expenditures. Expenditures from the Program Development Fund are proposed at $6.1 million, which is $1.3 million, or 27 percent, above estimated current-year expenditures.

Table 4 shows the changes to the budget for the regional centers and community program development proposed in 1992-93.

Table 4

Department of Developmental Services
Regional Centers and Community Development Programs
Proposed 1992-93 Budget Changes

(dollars in thousands)

	Program Development Fund				
	General Fund	Parental Fees	Federal Funds	Medi-Cal and Other Reimbursements	All Funds
1991-92 Expenditures (rev.)	$613,557	$2,798	$3,124	$29,472	$648,951
Baseline adjustments					
Community supported living increase	—	—	$1,250	—	$1,250
Compensatory education	—	—	—	-$7	-7
Reversal of program development increase in 1991-92	—	—	-169	—	-169
Funding change for waiver program	-$27,193	—	—	27,193	—
Day program rates	4,161	—	—	—	4,161

Continued

	Program Development Fund				
	General Fund	Parental Fees	Federal Funds	Medi-Cal and Other Reimbursements	All Funds
Caseload, utilization, and cost changes					
Purchase of service	8,075	—	—	—	8,075
Operations	58,399	—	—	—	58,399
Decrease in allocation from state council	—	—	-244	—	-244
Decrease in parental fees	—	-$657	—	—	-657
Subtotals	($43,442)	(-$657)	($837)	($27,186)	($70,808)
1992-93 Expenditures (prop.)	$656,999	$2,141	$3,961	$56,658	$719,759
Change from 1991-92					
Amount	$43,442	-$657	$837	$27,186	$70,808
Percent	7.1%	-23.5%	26.8%	92.2%	10.9%

Regional Center Caseload

The department estimates that the mid-year regional center caseload in 1992-93 will be 116,970 clients, an increase of 6,545 clients, or 5.9 percent, over the estimated current-year level. As Table 5 displays, the department estimates that the residential care caseload will increase by 490 clients, or 2.5 percent, above the estimated current-year level.

Table 5

Department of Developmental Services Regional Centers' Mid-Year Caseload 1984-85 through 1992-93

	Total Clients	Percent Change	Residential Care Clients	Percent Change
1984-85	74,184	—	16,409	—
1985-86	77,975	5.1%	16,760	2.1%
1986-87	83,135	6.6	17,293	3.2
1987-88	88,547	6.5	17,828	3.1
1988-89	92,316	4.3	18,085	1.4
1989-90	97,505	5.6	18,534	2.5
1990-91[a]	103,722	6.4	18,798	1.4
1991-92 (est.)[a]	110,425	6.5	19,395	3.2
1992-93 (prop.)[a]	116,970	5.9	19,885	2.5

[a] Based on November 1991 estimates.

Double-Budgeting of DDS Cases Transferred to Another Department

We recommend a reduction of $3.8 million from the General Fund to eliminate double-budgeting of the costs to provide services for 813 Day Training Activity Center (DTAC) clients who will be transferred to programs operated by the Department of Rehabilitation (DOR). (Reduce Item 4300-101-001 by $3.8 million.)

The budget proposes $4.8 million ($1.2 million General Fund) for the DOR (Item 5160) to provide services for clients transferred from DDS's DTAC programs. The budget proposal for the DDS, however, also includes funding for these clients, in the amount of $3.8 million from the General Fund. In order to correct this double-budgeting error, we recommend deletion of the $3.8 million from the DDS's budget.

State Developmental Centers

The budget proposes expenditures of $597 million (all funds) for programs to serve state developmental center (SDC) clients in 1992-93. This is an increase of $17 million, or 2.9 percent, above estimated current-year expenditures. The increase consists primarily of (1) $5 million due to a change in salary savings requirements, (2) $3.6 million to support an increase of 225 positions (106.9 personnel-years) for QMRPs, and (3) an increase of $3.9 million for workers' compensation costs. The increase for QMRPs is required to meet accreditation and federal regulations.

The proposed General Fund appropriation for the SDCs is $55 million, which is $10 million, or 22 percent, above estimated current-year expenditures. This increase is due largely to (1) a shift in the distribution of clients towards more severely disabled persons and (2) the full-year effect of a reduction in Medi-Cal reimbursement rates.

The budget reflects an average population of 6,655 developmentally disabled clients in 1992-93 for the SDCs. This projection reflects no change over the average population estimated for the current year. The average cost per client in 1992-93 is $82,219, an increase of 3.1 percent above the estimated cost per client in the current year.

Table 6 displays expenditures, funding sources, population, personnel-years, and the cost per client for developmental services programs at the SDCs. Table 7 shows the budget changes proposed for 1992-93.

Table 6

Department of Developmental Services
Developmental Centers Budget Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Developmental services programs	$519,060	$530,943	$547,169	3.1%
Mental health programs	48,679	49,267	50,140	1.8
Totals	**$567,739**	**$580,210**	**$597,309**	**2.9%**
General Fund	*$30,746*	*$45,369*	*$55,433*	*22.2%*
Special Account for Capital Outlay	*3,988*	—	*630*	—[a]
Federal funds	*979*	*1,109*	*970*	*-12.5*
Lottery Education Fund	*390*	*472*	*472*	—
Mental health reimbursements	*48,679*	*49,267*	*50,140*	*1.8*
Medi-Cal reimbursements	*465,688*	*478,635*	*484,305*	*1.2*
Other reimbursements	*4,269*	*5,358*	*5,359*	—
Developmental services programs:				
Average developmentally disabled population	6,710	6,655	6,655	—
Personnel-years	10,390.6	10,807.0	10,967.7	1.5%
Cost per client (actual dollars)	$77,356	$79,781	$82,219	3.1

[a] Not a meaningful figure.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 7

Department of Developmental Services Programs for the Developmentally Disabled Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	Medi-Cal Reimbursements	Other	All Funds
1991-92 Expenditures (revised)	$45,369	$478,635	$56,206	$580,210
Baseline adjustments				
Board of Control claims	$25	—	—	$25
Salary reduction for managers/ supervisors	-210	—	-$43	-253
Price increase for operating expenses and equipment	1,671	—	143	1,814
Unallocated reduction shift from department support	-360	—	—	-360
Foster Grandparent Program transfer	13	—	114	127
Research grant completion	—	—	-253	-253
Salary savings/workers' compensation	633	$7,473	772	8,879
Medi-Cal physicians rates	2,400	-2,400	—	—
Caseload and cost adjustments				
Full-year effect of Medi-Cal rate reduction	1,619	-3,344	—	-1,725
Change in client distribution	3,940	—	—	3,940
Program change proposals				
Special repairs	—	—	630	630
Qualified Mental Retardation Professionals/Individual Program Coordinators	279	3,301	—	3,580
Sherry S. court case	54	640	—	694
Subtotals	($10,064)	($5,670)	($1,364)	($17,099)
1992-93 Expenditures (proposed)	**$55,433**	**$484,305**	**$57,570**	**$597,309**
Change from 1991-92				
Amount	$10,064	$5,670	$1,364	$17,099
Percent	22.2%	1.2%	2.4%	2.9%

Department of Mental Health

Item 4440

Expenditures

Requested 1992-93	$720,810,000
Estimated 1991-92	818,926,000
Actual 1990-91	1,196,133,000
Requested decrease $98,116,000 (-12 percent)	

Fiscal Recommendations

Total recommended reduction	$724,000
Recommendation pending	7,028,000

MAJOR ISSUES

- **Realignment.** The 1991 realignment legislation significantly altered the structure of mental health programs in California, including the nature of the state/county partnership. We discuss these issues in our companion publication, *The 1992-93 Budget: Perspectives and Issues.*

- **Proposition 99 Funding.** Although the Legislature expressed intent that the administration identify strategies for replacing $40 million in Proposition 99 funding for local mental health programs in 1992-93, the budget does not do so. The elimination of these funds primarily will affect "under-equity" counties—those whose share of total mental health resources is less than their relative need.

- **Children's Mental Health Services.** The administration's proposed expansion of children's mental health services gives priority to one relatively new program while proposing only a small expansion for a second, which has shown significant results in reducing both state and county long-term expenditures.

Continued

DEPARTMENT OF MENTAL HEALTH—Continued

▶ **State Hospitals Quality of Care.** Under-delivery of planned scheduled treatment continues in the state hospitals. In addition, substantial variation across hospitals in the amount of treatment provided to patients has significant implications for counties who are required to purchase state hospital services.

Findings and Recommendations

Analysis Page

1. **Department's Responsibilities Under Realignment Have Changed.** The 1991 realignment legislation made several significant changes in the department's responsibilities. (A more detailed discussion of this issue appears in our companion document, *The 1992-93 Budget: Perspectives and Issues.*) 131
2. **Conditional Release Program Caseload Likely to Change.** Withhold recommendation on the proposed $2.6 million increase for caseload changes in the Conditional Release Program pending the May revision. 131
3. **Staff Benefits and Workers' Compensation Increase Needs Further Review.** Withhold recommendation on a proposed $3.8 million increase for staff benefit and workers' compensation costs, pending a review of additional information. 134
4. **Quality of Care in the State Hospitals: CRIPA Consent Decree.** The department has made reasonable progress in implementing the CRIPA consent decree. 135
5. **Quality of Care in the State Hospitals: Accreditation and Treatment.** Quality-of-care problems continue in the state hospitals, with significant implications for patient services. We recommend that the department report at budget hearings on two quality-of-care issues: accreditation status and treatment levels. 136
6. **Operating Expenses and Equipment Request Too High. Reduce Item 4440-011-001 by $402,000 and various reimbursements by $322,000.** Recommend a reduction of $724,000 for operating expenses and equipment because certain purposed expenses are not consistent with the goal of funding only increases to meet licensing standards and provide direct services to patients. 139

7. **Patient Population Estimates to Change with County Requests for Beds.** Withhold recommendation on the proposed $615,000 increase for state hospital patient population changes pending the May revision. 141

8. **Proposition 99 Funding Elimination Hits Under-Equity Counties Hardest.** The proposed elimination of Proposition 99 funding will have a significant impact on those counties whose share of state funding is furthest below their relative need. Consistent with statute, we recommend the department report at budget hearings on alternative funding strategies. 143

9. **Expansion of Children's Mental Health Services.** The Legislature has several options for using $18 million in one-time and ongoing funds that are proposed for children's mental health services. 145

General Program Statement

The Department of Mental Health (DMH) directs and coordinates statewide efforts for the treatment of mental disabilities. The department's primary responsibilities are to (1) administer the Bronzan-McCorquodale and Lanterman-Petris-Short Acts, which provide for delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled; (2) operate five state hospitals and the acute psychiatric units at the California Medical Facility at Vacaville; and (3) administer six programs directed at specific populations.

Overview of the Budget Request

The General Fund portion of the DMH budget is proposed to increase significantly in 1992-93, reflecting several program changes. The department's total budget, however, will decrease significantly in the budget year, due to the continued implementation of program realignment.

The budget proposes expenditures of $720.8 million (all funds) for support of DMH activities in 1992-93. This is a decrease of $98.1 million, or 12 percent, from estimated current-year expenditures from all sources. Most of this decrease, however, reflects the transfer of funding from the state to the counties for the Institutions for Mental Diseases (IMDs) pursuant to the 1991 realignment legislation. Thus, excluding IMD expenditures in the current year, which are fully reimbursed by counties, the budget proposes a net increase of $2.3 million, or 0.3 percent, over 1991-92 expenditures. Proposed General Fund expenditures are $265.5 million, which is $38.9 million, or 17 percent, above estimated General Fund expenditures in the current year.

The major components of the proposed increase are funding for state hospital and Conditional Release Program caseload increases and to expand two children's mental health programs.

DEPARTMENT OF MENTAL HEALTH—Continued

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 7.6 percent from the General Fund in 1991-92. (This reduction is 6.5 percent of the department's total budget from all funds.) The reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Table 1 provides a summary of the department's budget for the past, current, and budget years.

Table 1

Department of Mental Health Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Department support[a]	$49,871	$48,371	$51,076	5.6%
State hospitals	413,301	441,340	453,735	2.8
Local programs	732,961	329,215	215,999	-34.4
Totals	**$1,196,133**	**$818,926**	**$720,810**	**-12.0%**
General Fund	*$955,204*	*$226,605*	*$265,486*	*17.2%*
Federal funds (includes SLIAG)	*34,069*	*24,904*	*24,152*	*-3.0*
Local Revenue Fund reimbursements[b]	—	*329,930*	*248,688*	*-24.6*
Cigarette and Tobacco Products Surtax Fund	*30,000*	*39,477*	—	*-100.0*
Other state special funds	*2,319*	*4,886*	*2,590*	*-47.0*
Other reimbursements	*174,541*	*193,124*	*179,894*	*-6.9*
Personnel-Years				
Department support	405.1	411.0	373.5	-9.1%
State hospitals	6,676.6	7,090.8	7,259.8	2.4
Totals	**7,081.7**	**7,501.8**	**7,633.3**	**1.8%**

[a] Includes Conditional Release Program.

[b] Local Revenue Fund reimbursements for 1991-92 reflect payments by counties for state hospital and IMD services, and in 1992-93 for state hospital services only.

Analysis and Recommendations

Support

The budget proposes expenditures of $51.1 million for support of the DMH in 1992-93. This amount consists of $34.9 million for department administration and $16.2 million for the Conditional Release Program. Overall, this is an increase of $2.6 million, or 5.6 percent, over estimated current-year expenditures. Table 2 shows the department's support expenditures and funding sources for the past, current, and budget years.

Table 2

Department of Mental Health Support Expenditures and Funding Sources 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Department administration	($36,464)	($39,786)	($34,881)	(0.3%)
State hospitals	11,130	6,744	7,030	4.2
Short-Doyle/Medi-Cal	3,238	6,257	6,263	0.1
Institutions for Mental Diseases	799	824	100	-87.9
Preadmission screening and annual resident review	3,980	3,843	3,848	0.1
Integrated service delivery pilot projects:				
Children	78	80	79	-1.3
Adults	1,324	1,242	1,255	1.0
Special education pupils	65	67	66	-1.5
Primary intervention projects	122	536	1,228	129.1
General administration	15,728	15,193	15,012	-1.2
Conditional Release Program	13,407	13,585	16,195	19.2
Totals	**$49,871**	**$48,371**	**$51,076**	**5.6%**
General Funds	*$41,803*	*$37,833*	*$40,896*	*8.1%*
Federal funds	*2,125*	*2,383*	*2,225*	*-6.6*
Primary Prevention Fund	*122*	*213*	*213*	—
Mental Health Subaccount, Sales Tax Account	—	*150*	—	*-100.0*
Reimbursements	*5,821*	*7,792*	*7,742*	*-0.6*

DEPARTMENT OF MENTAL HEALTH—Continued

Budget Changes. Table 3 shows the changes in the department's budget proposed for 1992-93. The major changes in support are a net increase of (1) $2.6 million from the General Fund for caseload increases in the Conditional Release Program and (2) $1 million for administration of school-based early mental health services (also called Primary Intervention Projects), pursuant to Ch 757/91 (AB 1650, Hansen).

Table 3

Department of Mental Health
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	All Funds
1991-92 Expenditures (revised)	$226,605	$818,926
Baseline adjustments, 1992-93		
Full-year cost of patient care staffing	3,481	5,966
Transfer of IMD Program to counties	—	-100,430
Carry-over funding for school-based early mental health services, Ch 757/91 (AB 1650, Hansen)	7,677	7,677
Elimination of Proposition 99 funds per Ch 278/91 (AB 99, Isenberg)	—	-39,477
Miscellaneous adjustments	-2,132	-3,086
Program, caseload, and cost adjustments		
Support:		
Fund Conditional Release Program caseload growth	2,610	2,610
Administration of school-based early mental health services (Ch 751/91 (AB 1650, Hansen)	1,015	1,015
State hospitals:		
Increase beds for corrections and judicially committed patients	615	615
Terminate contract with La Casa	—	-407
Workers' compensation and staff benefits	1,415	3,803
Operating expenses and equipment	1,319	2,373
Additional patient care staff to complete implementation of CRIPA consent decree at Napa	109	749
Install pollution control equipment at Patton	—	139
Increase reimbursement to Department of Developmental Services	772	772
Eliminate SAFCO funding to reroof Atascadero	—	-2,435

Continued

	General Fund	All Funds
Local assistance:		
Continue and expand school-based early mental health services	20,000	20,000
Expand integrated children's mental health services pilot projects	2,000	2,000
1992-93 Expenditures (proposed)	**$265,486**	**$720,810**
Change from 1991-92 (revised)		
Amount	$38,881	-$98,116
Percent	17.2%	-12.0%

Department's Responsibilities Under Realignment

The 1991 realignment legislation made several changes in the department's responsibilities. In our companion document, The 1992-93 Budget: Perspectives and Issues, we discuss a number of these changes from a legislative oversight perspective.

One of the changes made by the realignment legislation was the transfer of responsibility for administering the IMD Program from the department to the counties. The budget reflects this transfer by proposing the elimination of 29 positions formerly associated with administering the IMD Program.

The realignment legislation also required the department to report on the effect the legislation has had on the department's responsibilities and its workload. At the time that we prepared this analysis (January 1992), a draft of this report was provided to us. We intend to review the department's final report and comment further on the department's responsibilities and workload as appropriate this spring.

Conditional Release Program: Caseload Projection Likely to Change

We withhold recommendation on $2.6 million (General Fund) for caseload increases in the Conditional Release Program pending the May revision of the Governor's Budget (Item 4440-016-001).

The budget proposes $2.6 million for caseload increases in the Conditional Release Program, which provides community outpatient treatment and supervision to judicially committed persons and mentally disordered offenders following their stays in the state hospital system. In recent years, the projected caseload estimates for this program have been revised significantly in the spring. Accordingly, we withhold recommendation on the budget for this program pending the May revision of the Governor's Budget.

State Hospitals

The budget proposes expenditures of $453.7 million from all funds in 1992-93 for clients in state hospitals for the mentally disabled. This is an increase of $12.4 million, or 2.8 percent, above estimated current-year expenditures. The budget proposes an appropriation of $158.8 million from the General Fund for these programs, which is an increase of $8 million, or 5.3 percent, above estimated current-year expenditures. The remainder of proposed state hospital expenditures are supported through reimbursements from counties and the Departments of Corrections and the Youth Authority. Table 4 shows the components of the state hospital budget in the past, current, and budget years.

Table 4

Department of Mental Health
State Hospitals
Budget Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
County clients	$219,456	$242,053	$248,688	2.7%
Judicially committed clients	147,761	153,142	158,895	3.8
Other clients[a]	46,084	46,145	46,152	—[b]
Totals	**$413,301**	**$441,340**	**$453,735**	**2.8%**
General Fund[c]	*$368,932*	*$150,707*	*$158,756*	*5.3%*
Reimbursements from counties	—	*242,053*	*248,688*	*2.7*
Other reimbursements	*44,369*	*46,145*	*46,152*	—
Special Account for Capital Outlay	—	*2,435*	*139*	*-94.3*
Average population				
County clients	2,453	2,495	2,557	2.5%
Judicially committed clients	1,617	1,660	1,738	4.7
Other clients[a]	449	488	528	8.2
Totals	**4,519**	**4,643**	**4,823**	**3.9%**

Continued

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Authorized positions				
Department of Mental Health	6,677	7,461	7,753	3.9%
Department of Developmental Services	667	793	793	—
Totals	**7,344**	**8,254**	**8,546**	**3.5%**
Cost per client (actual dollars)				
County clients	$89,464	$97,015	$97,258	0.3%
Judicially committed clients	91,380	92,254	91,424	-0.9
Other clients[a]	102,637	94,559	87,409	-7.6
Totals	**$91,459**	**$95,055**	**$94,077**	**-1.0%**

[a] Includes clients from the Departments of Corrections and the Youth Authority.

[b] Less than 0.1 percent.

[c] Reflects the implementation of realignment, which transferred funding for state hospital services from the department to counties. Thus, 1991-92 and 1992-93 expenditures that previously were supported from the General Fund are now reflected as reimbursements.

Client Characteristics

State hospitals serve four categories of clients: county clients, judicially committed clients, mentally disordered offenders, and clients of other institutions.

County clients may voluntarily consent to treatment, though the majority are 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.

Mentally disordered offenders include prison parolees who have been committed to the department for treatment and supervision.

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.

Proposed Budget Changes

The major changes proposed for 1992-93 include increases of:

- $6 million ($3.5 million General Fund) for full-year funding of 1991-92 increases in direct patient care staffing.

DEPARTMENT OF MENTAL HEALTH—Continued

- $3.8 million ($1.4 million General Fund) for staff benefits and workers' compensation costs.
- $2.4 million ($1.3 million General Fund) for additional operating expenses and equipment.
- $749,000 ($109,000 General Fund) for additional patient care staff to implement a consent decree entered into with the U.S. Department of Justice.
- $615,000 (General Fund) for additional staff associated with projected increases in correctional and judicially committed clients.

The budget also reflects a decrease of $2.4 million (Special Account for Capital Outlay) to delay the completion of reroofing Atascadero State Hospital.

Staff Benefits and Workers' Compensation Increase Needs Further Review

We withhold recommendation on a proposed $3.8 million increase (all funds) for staff benefit and workers' compensation costs, pending a review of the department's plans to control workers' compensation costs and other information.

The budget proposes an increase of $3.8 million ($1.4 million General Fund, $2.2 million county reimbursements, and $153,000 in reimbursements from other departments) to fund staff benefits and workers' compensation cost increases.

According to the department, the primary components of the request are workers' compensation costs and required social security contributions that the department estimates are substantially in excess of the funding levels provided for such costs in its "base" budget. The department indicates that if this proposal is rejected and these costs are underfunded in 1992-93, such action could result in the need to hold direct patient-care staff positions vacant in order to meet these expenses.

The department's proposal would fund staff benefits at nearly 36 percent of base salaries and wages. We have two concerns with this proposal. First, it is not clear why the department's base level of funding would be insufficient to cover social security costs, which are a typical expense within all departments. Second, the department's workers' compensation costs have risen by 27 percent since 1989-90, and we believe that the Legislature needs to ensure that the department's procedures for controlling these costs are adequate before providing additional funding.

Accordingly, we withhold recommendation on this proposal in order to more completely assess the extent of underfunding for staff benefits, and to review the department's procedures for controlling workers' compensation costs.

Legislative Oversight — Quality of Care In the State Hospitals

In recent years, concerns have been raised by various reviewing organizations regarding the quality of care provided to patients in the state hospital system. We believe these issues are important because of their effect on state hospital patients, and because the Legislature has approved several major requests for additional funding specifically to improve quality of care in the state hospital system. In the discussion that follows, we review three issues related to quality of care: (1) the implementation of the CRIPA consent decree at Napa, (2) the status of certification and accreditation at the five hospitals, and (3) the level of planned scheduled treatment being provided to patients.

CRIPA Consent Decree

We find that the department has made reasonable progress in implementing the CRIPA consent decree at Napa State Hospital. We recommend approval of $858,000 (all funds) for additional positions to complete implementation of the decree's staffing requirements. We note, however, that decisions by counties to purchase significantly fewer beds at Napa would mean that some or all of these positions would not be required.

Budget Proposal. The budget proposes a total of $4.1 million ($507,000 General Fund, $3.6 million in reimbursements from counties) in additional expenditures to continue implementation of a consent decree the DMH entered into in federal court in September 1990. Of this amount, $3.3 million reflects full-year funding for positions approved for the current year and $858,000 is to fund 58 additional positions for the budget year. These positions bring to 181 the total number of positions added in response to the decree, and will complete the department's implementation of the decree's staffing requirements.

Background. The consent decree stems from an investigation into conditions at Napa State Hospital initiated by the United States Attorney General's Office (USAG) under the federal Civil Rights of Institutionalized Persons Act (CRIPA). The USAG found that patients at Napa were being subjected to conditions of confinement that were in violation of their constitutional rights. Specifically, the USAG stated that staffing and treatment levels, medication practices, and patient record-keeping procedures violated the rights of Napa residents to be free from undue bodily restraint and unreasonable risks to their personal safety, and to receive medical care that is consistent with accepted medical judgment.

The consent decree entered into by the DMH commits the state to achieve specified staff-to-patient ratios. Under the terms of the decree, the DMH may implement this provision either by (1) hiring specified numbers of psychiatrists, physicians, registered nurses, and other direct patient-care staff according to a timetable spelled out in the decree or (2) reducing the number of patients residing at the facility.

The DMH must file quarterly compliance reports over the three-year period covered under the decree (September 1990 through September 1993), which also are subject to approval by the USAG.

Status. We have reviewed the department's quarterly compliance reports for 1991. Our review indicates that the department has made reasonable progress in complying with the decree's staffing requirements. In most staffing categories, the department is at, or significantly above, the levels specified in the decree. In a few categories (psychiatrists and ward clerks), the staffing levels are slightly below those required by the decree and appear to reflect normal fluctuation in staffing levels over time.

With regard to the proposed 58 positions requested to complete compliance with the decree's staffing requirements, we recommend approval. However, we note that, if counties request significantly fewer beds at Napa for 1992-93, some or all of these positions may not be required. We will provide an update, as appropriate, at the May revision of the Governor's Budget.

Planned Scheduled Treatment Shows Little Improvement; Napa Still Unaccredited

We find that the level of planned scheduled treatment at three state hospitals continues to lag below standards adopted by the Legislature. In addition, Napa State Hospital continues to be unaccredited by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO). We recommend that the department report on its efforts in these areas at budget hearings.

As part of our review of the budget, we evaluated the (1) current status of treatment levels, (2) accreditation by the JCAHO, and (3) Health Care Financing Administration (HCFA) certification to receive federal Medicare and Medicaid funds at the state hospitals. We report our findings here.

Background. Beginning in 1984-85, the Legislature approved a series of departmental proposals to augment staff in the state hospitals serving mentally ill persons by 682 positions over a three-year period. The staffing augmentation was associated with proposed improvements in treatment programs, revisions in hospital license categories, and implementation of major capital outlay proposals. These changes allowed all five of the department's hospitals to obtain accreditation by the JCAHO. In addition, the changes enabled the three hospitals that serve the majority of county-admitted clients (Camarillo, Napa, and Metropolitan State Hospitals) to be certified by the HCFA and in turn receive Medi-Cal and Medicare payments.

Certification and Accreditation. HCFA certification and JCAHO accreditation are both indications of an independent "stamp of approval" regarding the quality of care provided in the state hospitals.

Certification is the process through which the federal government acknowledges that a health facility is in substantial compliance with federal conditions in order to receive Medicaid and Medicare payments. Until October 1990, the Department of Health Services (DHS) conducted annual certification surveys of the state hospitals and determined their certification status. Since 1990, however, the authority for granting certification has rested with the federal government. All three hospitals serving county clients are presently certified, including Napa, which lost its certification during 1990-91.

Accreditation is a formal and voluntary process of independent review that a hospital may choose to undergo in order to obtain an assessment of the quality of services it provides. Accreditation is essentially a matter of professional prestige since the federal government uses similar standards in its certification process, as does the JCAHO. While both organizations generally measure compliance through periodic tours of facilities, a facility that is accredited is exempted from annual HCFA surveys.

Four of the five state hospitals are accredited. Napa State Hospital's accreditation was revoked in 1990, and the hospital continues to be unaccredited. The department indicates it will attempt to regain accreditation in the spring.

Treatment Program Improvements. The treatment program improvements that were initiated beginning in 1984-85 included a proposal to increase staff in order to allow more scheduled treatment activities for patients.

At the time it made its proposal, the department estimated that patients needing a subacute level of care received an average of approximately 1.5 hours of "planned scheduled treatment" (PST) per day. Scheduled treatment activities include group therapy, individual therapy, rehabilitation activities, recreation, and patient government. The proposed staffing increase, together with improvements in the use of existing staff, was intended to increase average scheduled treatment from approximately 1.5 hours to approximately 4.4 hours per patient per day.

The Legislature approved the proposed staffing increases. However, it also directed the department to distribute additional staff in each of the three years on a competitive basis, according to proposals for "model treatment programs" submitted by the individual hospital programs.

In conjunction with the PST program, the Legislature required the department to (1) track the amount of treatment being delivered to patients, (2) assess the quality of the treatment services, and (3) submit a series of reports on treatment levels.

Treatment Levels Still Below Standard. We compared treatment levels delivered in 1988-89, 1989-90, 1990-91, and for the first quarter of the current year with the amount the department committed to achieve in 1984-85, when it requested the staffing augmentations. (Because the data for the first quarter of 1991-92 indicated only minor changes from the 12-month average for 1990-91, the discussion below focuses on the experience from 1988-89 through 1990-91.)

Chart 1 shows treatment hours data by hospital for 1988-89 through 1990-91.

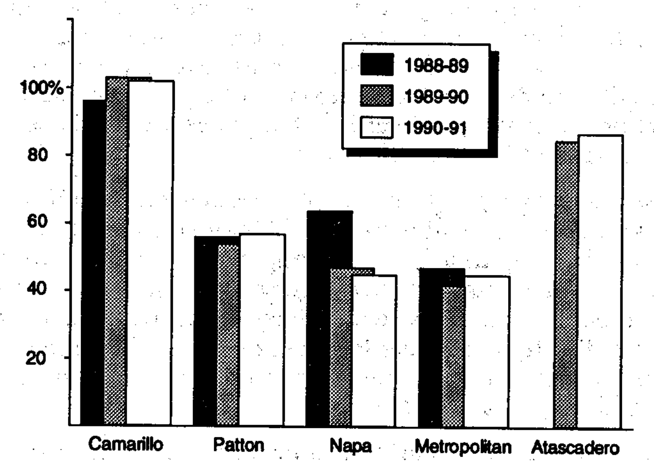
The delivery of PST for the entire system stood at 64 percent of the standard in 1990-91. While this represents a modest increase over 1989-90 (62 percent of the standard), it indicates that treatment levels have changed relatively little over the last three years.

In addition, there is substantial variation in hospital performance relative to the department's treatment standards. We believe this primarily reflects the greater priority some of the hospitals place on scheduling and providing treatment activities. The PST delivery in 1990-91 ranged from a low of 45 percent at Metropolitan to a high of 102 percent at Camarillo. This means that patients placed at Camarillo State Hospital could expect in 1990-91 to receive nearly *two and one-half times* the amount of treatment as those patients placed at Metropolitan and Napa. All three hospitals serve primarily county clients.

Accordingly, counties purchasing state hospital services at one hospital can expect their patients to receive significantly greater amounts of treatment activities than counties who purchase services at another hospital. Under realignment, counties may reduce state hospital use by up to 10 percent in 1992-93 and must pay a rate determined by the state. The rates set by the department for 1992-93 are *not* based on the number of treatment hours provided at the various hospitals. Accordingly, many counties will be forced to dedicate a significant share of their realignment revenues for state hospital use, but will receive varying levels of treatment services for these expenditures.

Chart 1

Department of Mental Health
Planned Scheduled Treatment
Hours Delivered as Percent of Department Standard
1988-89 through 1990-91



We believe the department needs to take action to ensure that counties and their patients are provided a more consistent quality of service for the share of realignment revenues that counties must use for state hospital services. The department indicates that it has taken steps to remedy the disparity in treatment delivery among the individual hospitals and to improve the delivery of PST in the system as a whole.

Accordingly, we recommend that the department present at hearings a report on its recent PST efforts and an improvement plan, including both specific proposals and PST targets, to remedy the serious under-delivery of treatment at Patton, Metropolitan, and Napa State Hospitals.

Department's Operating Expenses And Equipment Request Too High

We recommend a reduction of $724,000 in operating expenses and equipment (OE&E) because this amount is not consistent with the budget's stated purpose of increasing funds for OE&E to meet "licensing standards and to avoid adversely affecting patient services." (Reduce Item 4440-011-001 by $402,000 General Fund, $265,000 county reimbursements, and $57,000 in reimbursements from other departments.)

DEPARTMENT OF MENTAL HEALTH—Continued

The budget proposes an increase of $2.4 million for the department's OE&E costs. This amount is in addition to the proposed 2 percent increase in some OE&E categories for all departments, and consists of $1.3 million from the General Fund, $900,000 in county reimbursements, and $200,000 in reimbursements from other state departments.

The administration proposes this increase to meet "licensing standards and to avoid adversely affecting patient services" that would otherwise result due to the absence of "baseline" increases in recent years. Specifically, the department reports that the absence of these baseline increases has forced the state hospitals to defer needed purchases of equipment and to hold open vacant positions to ensure that sufficient supplies are available to meet the needs of patients and hospital employees.

The department's proposal includes increases in certain OE&E categories and decreases in others, relative to 1991-92 budget levels. It determined the amount of funds to request by comparing 1990-91 actual expenditures to 1991-92 budgeted amounts for each category, and requested funding for one-half the difference in all areas, without regard to whether the individual expense items directly contribute to patient services. The remainder of the need calculated by the department presumably will be met by cost efficiencies and deferrals in 1992-93.

We have reviewed the department's proposal and find that some of the proposed increases (such as for contracted medical services, drugs, food, and clothing) are consistent with the rationale outlined by the administration and appear justified. Because the department's proposal generally reflects an across-the-board increase in OE&E expenditures, however, other proposed increases do not relate directly to patient care or licensing standards. These include potentially deferrable costs, such as general expenses, printing, travel, and consultant expenditures. In addition, the department proposes increases for nonmedical consultant services and "other" OE&E items, which do not appear to relate directly to patient care or licensing standards.

Consistent with the administration's stated purpose to fund those items necessary to provide patient services and maintain licensure, we believe the department's OE&E budget should be augmented only for those expenditures which are directly related to the needs of patients or licensing standards, and those items which the department cannot defer. Accordingly, we recommend that, in general, the department *fully* fund patient-related OE&E costs (rather than fund only 50 percent of these costs); maintain non-patient-related OE&E expenditures at 1991-92 levels as adjusted for the 2 percent price increase granted to all departments; and eliminate OE&E expenditures for "other" items and nonmedical consultants, which do not appear to relate directly to patient care or licensing standards.

Using this approach, we recommend a reduction of $724,000 in the amount proposed for OE&E expenditures ($402,000 General Fund, $265,000 in county reimbursements, and $57,000 in reimbursements from other state departments).

Adjustment for Patient Population Likely to be Significantly Revised

We withhold recommendation on $615,000 from the General Fund for projected increases in the patient population, because the proposal is likely to be significantly revised in the May revision of the Governor's Budget.

The department proposes a net increase of $615,000 from the General Fund for 168 additional positions associated with various changes in the projected number of state hospital patients for 1992-93. Under the 1991 realignment legislation, counties have the authority to determine the number of state hospital beds they wish to use for their patients during 1992-93. The county's requests will not be final until March and are likely to result in significant changes in the department's staffing needs for 1992-93. Accordingly, we withhold recommendation on the proposed increase until the May revision of the Governor's Budget.

Local Programs

The budget proposes $65.8 million from the General Fund for local mental health programs in 1992-93. This is an increase of 73 percent over estimated current-year expenditures. The budget also reflects the elimination of $40 million in Proposition 99 funding (Cigarette and Tobacco Products Surtax Fund) for county mental health programs. Table 5 shows expenditures and funding sources for local mental health programs, including revenues made available to counties for local mental health programs under the 1991 realignment legislation.

Proposed Changes

The major changes proposed for 1992-93 are (1) an increase of $25.7 million (General Fund) to continue and expand school-based early mental health services (also referred to as the Primary Intervention Program) pursuant to Ch 751/91 (AB 1650, Hansen) and (2) an increase of $2 million for an expansion in the number of integrated children's mental health services pilot projects authorized by Ch 1361/87 (AB 377, Wright).

DEPARTMENT OF MENTAL HEALTH—Continued

Table 5

Department of Mental Health Local Mental Health Programs Expenditures and Funding Sources 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Short-Doyle allocations	$111,025	$126,000	$126,000	—
Institutions for Mental Diseases (IMDs)	84,149	100,430	—	-100.0%
Special education pupils	15,116	14,511	14,511	—
Primary intervention projects[a]	1,727	3,738	29,415	686.9
Integrated service delivery pilots:				
Children	4,589	5,297	7,297	37.8
Adults	7,600	7,680	7,772	1.2
Federal block grant	18,280	18,242	18,242	—
Federal homeless program	3,090	3,685	3,685	—
AIDS	1,500	1,500	1,500	—
Other federal grants	1,841	594	—	-100.0
Other local assistance	484,044	47,538	7,577	-84.1
Unallocated reduction	—	(-4,890)	—	—[b]
Subtotals	($732,961)	($329,215)	($215,999)	(-34.4%)
Realignment revenues available for local mental health programs[c]	—	$371,005	$543,127	46.4%
Statutory county match expenditures	$39,795	39,795	39,795	—
Totals	**$772,756**	**$740,015**	**$798,921**	**8.0%**
General Fund	*$544,469*	*$38,065*	*$65,834*	*73.0%*
Local Revenue Fund	—	*458,732*	*543,127*	*18.4*
Federal funds (includes SLIAG)	*31,944*	*22,521*	*21,927*	*-2.6*
Cigarette and Tobacco Products Surtax Fund	*30,000*	*39,477*	—	*-100.0*
Other state special funds	*2,197*	*2,238*	*2,238*	—
Reimbursements	*124,351*	*139,187*	*126,000*	*-9.5*
County funds	*39,775*	*39,779*	*39,775*	—

[a] The proposed 1992-93 amount includes $7.7 million in one-time carry-over funds from 1991-92.
[b] Not a meaningful figure.
[c] Increase in revenues for county programs reflects ability to redirect IMD expenditures in 1992-93.

Proposition 99 Funding Elimination Hits Under-Equity Counties Hardest

We find that many of the counties most significantly affected by the elimination of Proposition 99 funds are those whose share of state resources for mental health programs is furthest below their relative funding need. Consistent with legislative intent expressed in Ch 278/91 (AB 99, Isenberg), we recommend that the department report at budget hearings on alternatives for addressing the impact of the Proposition 99 funding loss on counties.

Chapter 278 reauthorized the expenditure of cigarette and tobacco tax revenues collected under Proposition 99, and allocated these revenues for various health activities. This legislation also ended the use of Proposition 99 funds for local mental health programs. The budget reflects the elimination of Proposition 99 funds for county mental health programs pursuant to Chapter 278.

Background. In the current and prior years, roughly $35 million in Proposition 99 funds was allocated to counties for their mental health programs. The funds were distributed to counties primarily on the basis of an "equity" formula that calculated each county's relative "need" for mental health programs according to its share of the state's population and the number of persons living in poverty. A larger share of Proposition 99 funds was allocated to counties with relatively greater need, while proportionately lower shares were allocated to the remaining counties.

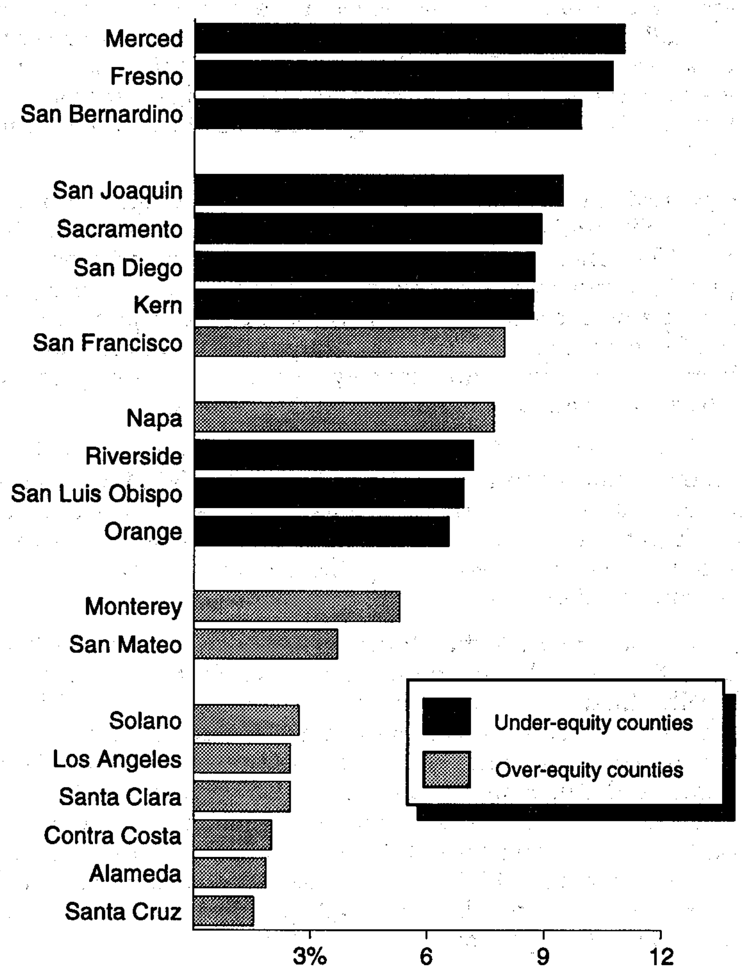
In addition, for 1990-91 an additional $5 million appropriation from Proposition 99 funds was allocated by Ch 1323/90 (SB 1409, Presley) to five counties that faced the largest reductions in local assistance as a result of a Governor's veto of certain mental health funds in 1990-91. This additional appropriation was allocated among the counties without regard to the "equity" formula described above.

Impact of Funding Reduction Varies Widely Across Counties. The budget proposal reflects the elimination of Proposition 99 funds, which will have dramatically different impacts across counties, as shown in Chart 2 for a cross-section of 20 counties. The chart shows, for example, that the effect on large urban counties varies significantly. Specifically, San Bernardino, Sacramento, and San Francisco Counties will experience a loss of 8 to 10 percent of total state-allocated funding for mental health programs. In contrast, Los Angeles and several Bay Area counties will experience significantly lower reductions of 2.5 percent or less. (Note, however, that for large urban counties in particular, a small percentage reduction equals a significant dollar loss, generally in the millions of dollars.)

DEPARTMENT OF MENTAL HEALTH—Continued

Chart 2

Impact of Eliminating Proposition 99 Funds
Percent of Total State-Allocated Funds Lost
For Selected Counties



Under-Equity Counties Generally Hardest Hit. As Chart 2 shows, counties that will experience the biggest reductions in percentage terms generally are "under-equity" counties — that is, counties whose share of total resources is less than their relative need. The under-equity counties include many Central Valley counties, as well as most southern urban counties such as San Bernardino, Orange, Riverside, and San Diego.

The elimination of Proposition 99 funding also will significantly affect five over-equity counties that were allocated a portion of the $5 million appropriated in Chapter 1323 to partially restore the 1990-91 veto. These counties are Marin (not shown on the chart), Napa, San Francisco, San Mateo, and Solano.

Administration Should Identify Alternatives. Given the expression of legislative intent in Chapter 278, we recommend that the department report at budget hearings on potential funding strategies for the replacement of Proposition 99 revenues.

Legislature Should Set Different Priorities For Children's Mental Health Services

We find that the proposed $12 million to fund two programs ("AB 1650 programs" and "AB 377 projects") that provide mental health services to children are consistent with legislative intent, and we recommend approval. However, we believe that the Legislature should review several options for allocating up to $17.7 million of the remaining funds.

The budget proposes to expand two mental health programs targeted towards children. Specifically, the budget provides:

- $20 million in funds for school-based early mental health services programs (also called the Primary Intervention Projects or AB 1650 programs). This funding consists of (1) $10 million to continue first year funding provided in Ch 757/91 (AB 1650, Hansen) and (2) $10 million to expand the program to additional schools. The funds are proposed to count towards Proposition 98 minimum funding requirements.
- $7.7 million in one-time carry-over funds for the AB 1650 programs. These funds also are counted towards Proposition 98 minimum funding requirements.
- $2 million in funds to expand integrated service delivery pilot projects for seriously emotionally disturbed children, more commonly known as AB 377 projects. These projects would be expanded from the current four participating counties to an additional seven to nine counties. These funds are not proposed to count towards meeting Proposition 98 minimum funding requirements.

DEPARTMENT OF MENTAL HEALTH—Continued

Analyst's Comments. In general, we believe that both the AB 1650 and AB 377 projects have merit. Specifically, we have previously reported that the AB 377 pilot projects have been particularly successful in reducing expenditures for AFDC-foster care group homes and in reducing juvenile rearrest rates and state hospital commitments. The AB 1650 programs (Primary Intervention Projects) probably also have merit; however, because they are relatively new, there are little data with which to evaluate their potential cost-effectiveness. However, we are concerned that the proposed funding increase for the AB 1650 programs ($10 million in expansion funds and $7.7 million in one-time carry-over funds) may be more than the department can prudently spend. For example, the department indicates that it has been able to spend only about $2 million of the $10 million current-year allocation for local assistance. In view of this, we recommend that the Legislature consider reallocating up to $17.7 million of the proposed expansion funds. If the full amount were reallocated, this would leave approximately $10 million in expansion funds for the program.

The Legislature has limited flexibility in reallocating funds for AB 1650 programs because they count towards the Proposition 98 minimum funding guarantee. Essentially, any funds reduced from these programs must be allocated to schools in order to comply with Proposition 98.

In the event that the Proposition 98 situation changes — as a result of changes in the guarantee amount due to revenue changes, suspension, or other legislative actions — it is possible that funds for AB 1650 programs could be reallocated to non-Proposition 98 purposes. If this occurs, we believe the Legislature should consider allocating some of the additional funding for a further expansion of the AB 377 projects, either on a permanent or one-time basis. This approach would direct additional funding toward a program that (1) appears to have reduced state and county expenditure needs in other programs and (2) is consistent with the county performance contract approach reflected in the realignment legislation. Finally, a redirection of funds to the AB 377 program would partially offset the proposed elimination of Proposition 99 funds discussed earlier.

Employment Development Department

Item 5100

Expenditures

Requested 1992-93	$6,615,677,000
Estimated 1991-92	7,875,980,000
Actual 1990-91	6,051,244,000

Requested decrease $1,260,303,000 (-16 percent)

Fiscal Recommendations

Total recommended reduction	None
Recommendation pending	$2,000,000

Findings and Recommendations

	Analysis Page
1. **Employment Training Panel Budget.** Withhold recommendation on $2 million from the Employment Training Fund (and $2 million federal funds in a separate item) pending receipt of a detailed expenditure plan.	155

General Program Statement

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

In addition, the department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their UI contributions, (2) the Employment Training Tax (ETT), and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

Overview of the Budget Request

The proposed budget for the EDD is essentially a workload budget, except for two pilot programs proposed from the Employment Training Fund (ETF).

Table 1 provides a summary of the department's budget for the past, current, and budget years.

The budget proposes expenditures totaling $6.6 billion from various funds for support of the EDD in 1992-93. This is a decrease of $1.3 billion, or 16 percent, from estimated current-year expenditures. Of the total amount proposed, $5.6 billion is for the payment of UI and DI benefits and $1 billion is for various other programs and administration.

The $1 billion proposed for other programs and administration is $271 million, or 21 percent, below estimated current-year expenditures. This reduction is due primarily to three factors. First, the budget shows a $149 million reduction in funds available for the Job Training Partnership Act (JTPA) Program because the current-year budget includes $93 million in local assistance funds reappropriated from the previous year and $56 million in funds carried over from previous years for use in other JTPA programs. Although not shown in the budget document, a comparable level of JTPA funds will likely be carried over into the budget year, thus offsetting this reduction. Second, the budget shows a $50 million reduction in funds available for administration of the UI Program because staffing during the current year increased in order to provide UI benefits to increased numbers of unemployed workers caused by the economic downturn. At the time EDD submitted its budget request for administration of the UI Program, both the unemployment rate and the number of unemployed were expected to decline during the budget year, thus reducing the need for staff to provide UI benefits. Third, the budget shows a $71 million decrease in funds available for the Employment Training Panel (ETP) because the current-year budget includes $73 million in funds carried over from the prior year. It is unlikely that a comparable level of ETP funds will be carried forward into the budget year.

Table 1

Employment Development Department Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change from 1991-92
Expenditures				
Employment programs				
Employment service	$127,912	$148,956	$138,987	-6.7%
GAIN reimbursable	7,806	15,608	12,765	-18.2
Service center	7,719	8,046	8,399	4.4
Job agent	3,051	3,414	3,430	0.5
Job service reimbursable	1,378	3,646	3,657	0.3
Health Career Program	—	—	2,000	100.0
Employment services for AFDC recipients	—	—	2,000	100.0
Subtotals	($147,866)	($179,670)	($171,238)	(-4.7%)
Employment Training Panel	$75,307	$130,077	$58,967	-54.7%
Job Training Partnership Act	294,170	430,831	281,761	-34.6
UI administration	297,975	388,542	339,007	-12.7
UI benefits	3,025,233	4,217,139	3,081,789	-26.9
Subtotals, UI	($3,323,208)	($4,605,681)	($3,420,796)	(-25.7%)
DI administration	$99,826	$109,968	$115,506	5.0%
DI benefits	2,078,912	2,385,690	2,531,790	6.1
Subtotals, DI	($2,178,738)	($2,495,658)	($2,647,296)	(6.1%)
Income tax collections	$26,391	$27,043	$28,386	5.0%
Employment training tax	2,928	3,057	3,269	6.9
Administration (undistributed)	2,636	3,963	3,964	—
Totals, Budget	**$6,051,244**	**$7,875,980**	**$6,615,677**	**-16.0%**
General Fund	*$22,716*	*$22,964*	*$23,211*	*1.1%*
Benefit Audit Fund	*7,768*	*7,917*	*8,011*	*1.2*
Contingent Fund	*18,453*	*21,729*	*19,969*	*-8.1*
Employment Training Fund	*103,954*	*162,271*	*95,726*	*-41.0*
Disability Fund	*2,177,883*	*2,494,629*	*2,646,262*	*6.1*
Consolidated Work Program Fund	*294,170*	*430,831*	*281,761*	*-34.6*
Unemployment Administration Fund	*391,774*	*496,750*	*438,014*	*-11.8*
Unemployment Fund — Federal	*3,002,827*	*4,183,986*	*3,056,036*	*-27.0*
State Legalization Impact Assistance Grant	*540*	—	—	—
School Employees Fund	*20,817*	*31,571*	*26,356*	*-16.5*
Reimbursements	*10,342*	*23,332*	*20,331*	*-12.9*
Personnel-Years	**10,225.8**	**12,531.5**	**11,388.4**	-9.1%

Analysis and Recommendations

General Fund and Contingent Fund Requests

The budget proposes a total appropriation of $43 million ($23 million from the General Fund and $20 million from the EDD Contingent Fund) to support the EDD in 1992-93. This represents a net decrease of $1.5 million, or 3.4 percent, from these funds as compared with estimated current-year expenditures. The EDD Contingent Fund is composed of revenues from penalties and interest charges levied against employers who pay their taxes late. Of these funds, penalty revenues from late payment of personal income tax withholdings are transferred quarterly from the EDD Contingent Fund to the General Fund. At the end of each fiscal year, the balance over $1 million is also transferred to the General Fund. Table 2 shows the factors resulting in the net decrease of $1.5 million. The decrease is due primarily to baseline adjustments.

We recommend approval of the following changes that are not discussed elsewhere in this analysis:

- A $2.5 million reduction due to completion of the Job Services Automation System.
- A $182,000 increase to implement an Electronic Funds Transfer (EFT) Program that would allow large employers to remit tax withholdings electronically. The EFT Program should "speed up" tax collections and result in additional interest revenue.
- A $989,000 increase, and an additional 16.6 personnel-years, to expand EDD's employer tax auditing and collection activities for Personal Income Tax and (ETT) programs.
- A $250,000 increase to pay for higher rental costs for EDD's offices.

Table 2

Employment Development Department Proposed General Fund and Contingent Fund Budget Changes 1992-93

(dollars in thousands)

	General Fund	Contingent Fund	Total
Funds available, 1991 Budget Act	$23,754	$21,348	$45,102
Baseline adjustments			
Salary and price reduction	-$608	-$23	-$631
Retirement rate reduction	-249	-116	-365
Allocation for financial legislation	67	—	67
Revision per Budget Act language	—	120	120
Subtotals, baseline adjustments	(-$790)	(-$19)	(-$809)
Interest on refunds and judgments	—	$400	$400
1991-92 Expenditures (revised)	**$22,964**	**$21,729**	**$44,693**
Baseline adjustments			
Eliminate one-time job services automation costs	—	-$2,549	-$2,549
Adjustments for one-time expenditures	—	-318	-318
Subtotals, baseline adjustments	(—)	(-$2,867)	(-$2,867)
Program changes			
Implementation of Electronic Fund Transfer Program	$115	—	$115
Expansion of personal income tax collection activities	—	$989	989
Increased rent costs	132	118	250
Subtotals, baseline adjustments	($247)	($1,107)	($1,354)
1992-93 Expenditures (prop.)	**$23,211**	**$19,969**	**$43,180**
Change from 1991-92			
Amount	$247	-$1,760	-$1,513
Percent	1.1%	-8.1%	-3.4%

Departmental Programs and Support

Proposed Staffing Changes Reflect a Variety of Factors

The budget proposes a net decrease of 297.9 personnel-years in 1992-93. Table 3 shows the proposed personnel-year changes, categorized according to the reason for the change and the distribution among EDD's programs. As the table shows, workload changes account for most of the net change. The department proposes to eliminate 300.4 net personnel-years because of workload decreases. The largest workload-driven decreases are in the UI and Employment Services programs.

Table 3

Employment Development Department Proposed Personnel-Year Changes by Program 1992-93

Reason for Change	UI	DI	Employ. Service	Tax Collections	Other Programs	Total
Program changes and legislative mandates	—	3.5	-1.0	—	—	2.5
Workload changes	-330.0	77.2	-82.7	16.6	18.5	-300.4
Totals	**-330.0**	**80.7**	**-83.7**	**16.6**	**18.5**	**-297.9**

Unallocated Reductions in the 1991 Budget Act

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these are unallocated reductions of 2.6 percent in state operations from the General Fund ($608,000) in 1991-92. (This reduction is less than 0.1 percent of the agency's total budget from all funds in those items affected.) These reductions are proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

The EDD was exempt from the unallocated reductions that would have been applied to its Personal Income Tax Collections Program.

EMPLOYMENT TRAINING PANEL PROGRAM

The Employment Training Panel (ETP) Program was established in 1982 to provide employment training to workers covered under the UI Program. Specifically, the ETP provides training to individuals who are:

- Unemployed and receiving UI benefits.
- Unemployed, but have exhausted UI benefits within the past two years.
- Employed, but likely to be displaced and become UI recipients.

- Employed, but eligible for training in skills for which there exists a demonstrable shortage.

The purpose of the ETP Program is to (1) encourage job creation in California, (2) reduce employers' UI costs, and (3) meet employers' needs for skilled workers by providing training to individuals covered by the UI system. The program is supported by the ETT, which is a one-tenth of 1 percent payroll tax paid by employers who maintain a positive balance in the UI Fund. Employers maintain a positive balance in the UI Fund by paying more into the fund over time than their laid-off employees collect in unemployment benefits.

Under current law, the panel can spend ETF resources (1) to pay contractors for training costs and reasonable administrative expenses, (2) to cover the administrative costs of the ETP Program (which are restricted by state law to no more than 15 percent of ETT collections), and (3) for services provided by Small Business Centers pursuant to an agreement with the Department of Commerce. The panel allocates its training funds through contracts with employers and training agencies. Under these contracts, the panel reimburses training providers at a fixed amount per trainee, provided the trainee remains employed with a single employer, in a job for which he or she was trained, for 90 consecutive days after training.

Table 4 shows ETP revenues and expenditures for 1990-91 through 1992-93. The table shows the following:

- The ETP now pays the cost for several programs *outside* the ETP. In the current year, ETP monies totaling $30 million were used for the Job Services (JS) Program, the Service Center (SC) Program, the state/local cooperative Labor Market Information (LMI) Program, and the Division of Apprenticeship Standards within the Department of Industrial Relations. The budget proposes to continue funding the JS, SC, and LMI programs from the ETF, for a total of $29 million.
- The EDD proposes $4 million for two new programs that would use ETF monies for programs *outside* the ETP. Specifically, these programs are (1) $2 million for a Health Career Opportunities Program and (2) $2 million for employment services for Aid to Families with Dependent Children (AFDC) recipients.
- The ETP had available for new training grants about $56 million in 1990-91 and about $143 million in 1991-92. The increase is due to the carry over of unexpended balances from the prior year. The budget proposes $50 million for new grants in 1992-93. Since the amount shown in Table 4 as available for new grants in 1992-93 is based on a preliminary estimate, it is likely that more than $50 million could be available (due to funds carried over from the current year).

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 4

Employment Development Department Employment Training Panel Revenues and Expenditures 1990-91 through 1992-93

(in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93
Revenues			
ETT collections	$75,725	$78,711	$82,044
Interest on ETF	15,047	13,493	13,644
Rollover disencumbrances[a]	11,400	—	—
Carry over available for new projects:			
Reflected in Governor's Budget	97,497	93,253	—
Not reflected in Governor's Budget[b]	—	21,621	—
Other	38	38	38
Totals available for expenditure	**$199,707**	**$207,166[c]**	**$95,726**
Expenditures			
Non-ETP programs			
Job services	$18,000	$18,002	$18,000
Service centers	7,719	8,046	8,399
State and local LMI	—	3,089	3,089
Department of Industrial Relations	2,500	1,300	—
Health Career Opportunities Program	—	—	2,000
Employment services for AFDC recipients	—	—	2,000
ETP costs			
ETT collection	2,928	3,057	3,269
Administration and marketing	7,652	8,454	8,687
Training grants rolled over to original contractors	11,400	—	—
New training grants	56,255	143,244	50,282
Total expenditures	**$106,454**	**$185,192**	**$95,726**
Transfer to General Fund	—	$21,924	—
Reserve for Economic Uncertainties	$93,253	—	—

[a] "Rollover disencumbrances" are disencumbrances in which the funds are reencumbered to the same contractor. The ETP advises that some amount of rollover disencumbrances will occur in 1991-92 and 1992-93, but could not provide an estimate of these amounts.

[b] LAO estimates based on data provided by the ETP.

[c] Includes amount to be transferred to the General Fund.

Budget Proposes to Continue Support for Non-ETP Programs

As Table 4 shows, the budget proposes to use $29 million from the ETF to pay for the state's share of the JS, SC, and LMI Programs. The JS Program refers qualified job applicants to potential employers and offers a variety of employment services to job seekers. The SC Program provides employability development and placement services to individuals in nine economically disadvantaged areas throughout the state. Finally, the LMI Program provides local labor market information to a variety of community-based employment-training entities such as Private Industry Councils, community colleges, and county Greater Avenues for Independence (GAIN) programs. Chapter 1667, Statutes of 1990 (SB 1033, Bill Greene), authorized the use of ETP monies to fund up to one-half of the costs of the LMI Program.

The 1991 Budget Act appropriated $18 million from the ETF for the JS "90-Percent" Program, $8 million for service centers, and $3 million for the LMI Program. For 1992-93, the budget proposes $18 million for JS, $8.4 million for service centers, and $3 million for the LMI Program. Since funding these programs from the ETF is consistent with the Legislature's actions in the current year, we recommend approval.

Budget Proposes New Programs Using ETP Funds

We withhold recommendation on $4 million ($2 million from the Employment Training Fund and $2 million in federal funds in a separate item) pending review of a more detailed expenditure plan for a proposed new employment program to assist welfare recipients.

The budget contains two separate employment and training programs *outside* the ETP for AFDC recipients and other low-income persons. These two-year pilot programs would be established through Budget Bill language (Item 5100-001-514).

Health Career Opportunities Program. The budget proposes $2 million from the ETF in 1992-93 to establish a pilot program in two counties to recruit and train individuals for entry-level jobs in occupations related to health care. The projects would target low-income minority and refugee persons. This pilot would be administered by the EDD with technical assistance provided by the Office of Statewide Health Planning and Development (OSHPD). The OSHPD would receive about $200,000 for their services; and the pilot would make use of the existing JTPA service delivery systems. The department estimates that it would train between 100 and 300 persons in each year of the pilot. Our review indicates that this proposal is reasonable.

Employment Opportunities Program. The budget proposes $4 million ($2 million from the Employment Training Fund and $2 million in federal funds budgeted in a separate item) for a new employment program for AFDC recipients. Based on information provided by the Department of Social Services (DSS), the ETF funds would be transferred to the DSS and matched with federal funds. These funds would become part of a new job search program for AFDC recipients. Two key components of the pilot would be (1) performance-based incentives for counties that develop employment opportunities for AFDC recipients and (2) access by county welfare offices to EDD's employment opportunity information. While this proposal appears to have merit, it currently lacks the detail needed in order to evaluate it. It is also unclear whether it is appropriate to establish this new program in the Budget Bill rather than separate legislation. The EDD and the DSS, however, are continuing to develop an expenditure plan for the use of these funds. The EDD indicates that a more detailed proposal should be available by the time of the May revision. Consequently, we withhold recommendation pending our review of this information.

Funds Appropriated for Demonstration Projects Remain Uncommitted

The 1991 Budget Act earmarked $2.7 million from the ETF to augment existing demonstration project funds. These additional funds were intended as a pilot to determine whether the ETP could provide training to participants in the GAIN Program and individuals eligible for the former "state-only" AFDC-Unemployed Parent Program. At the time of this analysis, the ETP had not signed any training contracts using these funds. To date, only one proposal has advanced to the point that it might result in a training contract by the end of the current year. In order to attract more proposals to use these funds, the ETP has entered into an interagency agreement with the DSS to market this program to GAIN training providers. The ETP indicates that the effects of this marketing program probably won't be felt until the end of the fiscal year.

The *Supplemental Report of the 1991 Budget Act* requires both the ETP and the DSS to report, by April 1, 1992, on the steps taken to ensure maximum use of these funds. Therefore, pending the conclusions in this report, the Legislature may wish to consider extending this pilot for a second year (within budgeted ETF funds) in order to better determine whether the ETP and the DSS can identify training proposals that meet the intent of the Budget Act appropriation.

UNEMPLOYMENT INSURANCE PROGRAM

The purpose of the Unemployment Insurance (UI) Program is to reduce economic hardship by providing benefit payments to eligible workers who are temporarily unemployed. The UI benefits are financed through employer payroll taxes that vary according to (1) the actual experience of individual employers with respect to the benefits paid to their employees and former employees and (2) the amount 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, the U.S. Department of Labor has traditionally provided additional funds to handle the increased number of UI claims.

The budget proposes $339 million for UI administration and $3.1 billion for benefit payments in 1992-93. The level of administrative expenditures proposed is $50 million, or 13 percent, below the estimated current-year levels. The $3.1 billion proposed for UI benefits in 1992-93 is $1.1 billion, or 27 percent, below the estimated current-year expenditure levels. These decreases are primarily due to anticipated improvements in the economy. The reductions attributable to an improved economy are partially offset by higher benefit payments mandated by Ch 1166/89 (SB 600, Roberti). This legislation increased the minimum and maximum weekly benefit amounts for unemployment insurance claimants.

Estimates Will Be Updated in May

The department's estimates of UI expenditures are based on actual program costs through March 1991 and on a forecast of employment trends. This forecast is based on projections of future employment rates that were made in June 1991. At that time, the EDD was predicting an unemployment rate of 7.1 percent for 1992. A more recent forecast by the EDD reflects the continued downturn in the state's economy and anticipates an unemployment rate of 7.7 percent in 1992.

Although the UI estimates used in the budget are not based on this most recent projection of unemployment, the department will revise its estimates in May. The May revision will be based on data through March 1992 and a revised economic forecast that will reflect the most recent trends in the economy. Because these revised estimates will be based on more recent experience, they will provide the Legislature with a more reliable basis for budgeting 1992-93 expenditures.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 5100-301-185 for capital outlay expenditures in the Employment Development Department. Please see our analysis of the proposed EDD Capital Outlay Program in the capital outlay section of this *Analysis*, which is in the back of this document.

Department of Rehabilitation

Item 5160

Expenditures

Requested 1992-93	$295,547,000
Estimated 1991-92	269,526,000
Actual 1990-91	257,046,000
Requested increase $26,021,000 (+9.7 percent)	

Fiscal Recommendations

Total recommended reduction	None

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.

Overview of the Budget Request

The proposed budget for the DOR is essentially a workload budget.

The budget proposes expenditures of $296 million for the department in 1992-93. This includes $112 million from the General Fund, $174 million in federal funds, $3.4 million from the Vending Stand Account, and $6.3 million in reimbursements.

Proposed General Fund expenditures are $5.2 million, or 4.9 percent, more than estimated current-year expenditures. This is due primarily to an anticipated caseload increase and rate increases for service providers in the Work Activity Program and the Supported Employment Program.

Table 1 displays program expenditures, funding sources, and personnel-years for the department in the prior, current, and budget years.

Table 1

Department of Rehabilitation Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Vocational rehabilitation	$175,998	$188,157	$211,389	12.3%
Habilitation services	73,459	73,815	76,596	3.8
Community facilities	7,589	7,554	7,562	0.1
Administration (distributed)	(15,390)	(17,045)	(17,619)	(3.4)
Totals	$257,046	$269,526	$295,547	9.7%
General Fund	*$106,055*	*$106,707*	*$111,943*	*4.9%*
Federal funds	*145,409*	*155,304*	*173,922*	*12.0*
Vending Stand Account	*2,326*	*3,290*	*3,360*	*2.1*
Reimbursements	*3,256*	*4,225*	*6,322*	*49.6*
Personnel-Years	1,858.8	1,874.4	1,993.8	6.4%

Current-Year Unallocated Reductions

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these are unallocated reductions of 2.1 percent in state operations and 4 percent in local assistance from the General Fund in 1991-92. (These reductions are 0.3 percent and 4 percent, respectively, of the agency's total budget from all funds, noting that all federal funds are budgeted in the state operations item.) Only the state operations reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Business Enterprise Program — Required Reports Not Submitted

The Business Enterprise Program (BEP) provides training and employment for legally blind persons in the management of food service and vending facilities. Vendors retain the profits from the facilities they manage, except for a specified percentage deposited into the Vending Standing Account of the Special Deposit Fund. These funds, in conjunction with federal matching funds, are continuously appropriated for the establishment of new facilities and the maintenance of existing facilities.

The budget proposes an expenditure of $10.5 million for the BEP in 1992-93, consisting of $588,000 from the General Fund, $6.5 million in federal funds, and $3.4 million from the Vending Stand Account. Proposed funding represents an increase of 1.6 percent over estimated current-year expenditures. Expenditures in the current year, however, are estimated to increase significantly — 24 percent — over the prior year.

In last year's *Analysis of the 1991-92 Budget Bill,* we recommended elimination of General Fund support for the BEP, primarily because there were excessive balances in the Vending Stand Account that could be used to fund the administrative activities supported by the General Fund. The Legislature did not adopt this recommendation, and instead adopted supplemental report language directing the department to submit, by August 1, 1991, a revised expenditure plan for the BEP to the Joint Legislative Budget Committee and the fiscal committees of the Legislature, followed by quarterly reports on the plan's implementation. The supplemental report language also directed the Legislative Analyst to review these documents and report, by April 1, 1992, on the implementation and effectiveness of the expenditure plan and the feasibility of transferring the BEP to another agency.

At the time this analysis was prepared, we had not received from the department the revised expenditure plan for the BEP or any quarterly reports. The department indicated, however, that it was in the process of reviewing the plan and the first quarterly report and intended to submit them by February. If we receive these documents in time to review them prior to the budget hearings, we will comment on them during the hearings.

Department of Social Services

Summary

The Department of Social Services (DSS) is the single state agency responsible for supervising the delivery of cash grants and social services to needy persons in California. Monthly grant payments are made to eligible recipients through two programs — Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Program (SSI/SSP). In addition, low-income persons may receive a number of social services such as information and referral, domestic and personal care assistance, and child and adult protective services.

The budget proposes total expenditures of $12.1 billion for programs administered by the department in 1992-93. This is a decrease of $72 million, or 0.6 percent, from estimated current-year expenditures. The budget proposes $6.2 billion from the General Fund in 1992-93, a decrease of $46 million, or 0.7 percent, from estimated current-year expenditures. Table 1 shows estimated and proposed expenditures from all funds and the General Fund for programs administered by the DSS in the current and budget years.

Table 1

Department of Social Services Budget Summary 1991-92 and 1992-93

(dollars in millions)

	1991-92 Estimated		1992-93 Proposed		Percent Change	
	All Funds	General Fund	All Funds	General Fund	All Funds	General Fund
Expenditures						
Departmental support	$296.7	$112.3	$316.5	$119.0	6.7%	5.9%
AFDC[a]	6,311.6	2,908.0	5,751.3	2,626.0	-8.9	-9.7
SSI/SSP[b]	2,400.0	2,369.3	2,535.6	2,516.2	5.7	6.2
Special adults	3.0	3.0	3.0	3.0	—	—
Refugees	34.0	—	37.2	—	9.4	—
County administration[a]	1,452.8	358.8	1,732.8	432.2	19.3	20.5
Social services[a]	1,706.1	532.6	1,756.5	541.9	3.0	1.7
Community care licensing	10.8	8.1	10.6	7.5	-1.8	-7.1
Totals	**$12,215.0**	**$6,292.2**	**$12,143.5**	**$6,245.9**	**-0.6%**	**-0.7%**

[a] Includes county funds.
[b] Excludes SSI federal grant funds.

Departmental Support

Item 5180

Expenditures

Requested 1992-93	$316,462,000
Estimated 1991-92	296,720,000
Actual 1990-91	268,703,000

Requested increase $19,742,000 (+6.7 percent)

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **State Administrative Costs Underbudgeted.** State operations costs to administer the Governor's proposed welfare reforms are underbudgeted. 165

General Program Statement

The Department of Social Services (DSS) administers income maintenance, food stamps, and social services programs. It is also responsible for (1) licensing and evaluating nonmedical community care facilities and (2) determining the medical/vocational eligibility of persons applying for benefits under the Disability Insurance Program, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Medi-Cal/Medically Needy Program.

Overview of the Budget Request

The budget proposes expenditures of $316 million from all funds, including reimbursements, for support of the department in 1992-93. This is $20 million, or 6.7 percent, over the estimated current-year expenditures. Of the amount requested, $119 million is from the General Fund and $185 million is from federal funds. Table 1 identifies the department's expenditures by program and funding source for the past, current, and budget years.

Table 1

Department of Social Services
Departmental Support
Budget Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
AFDC-family group and unemployed parent	$18,000	$17,925	$19,692	9.9%
AFDC-foster care	4,407	4,074	3,947	-3.1
Child support enforcement	12,358	18,575	27,535	48.2
Transitional child care	398	257	249	-3.1
SSI/SSP	442	536	610	13.8
Special adult	424	324	358	10.5
Food stamps	19,301	19,906	20,082	0.9
Refugee programs	5,272	4,578	4,907	7.2
Child welfare services	8,143	9,388	19,238	104.9
County services block grant	1,036	1,007	1,069	6.2
In-home supportive services	1,735	2,624	2,596	-1.1
Specialized adult services	751	279	247	-11.5
Employment programs	7,427	5,798	5,715	-1.4
Adoptions	9,700	9,223	10,586	14.8
Child abuse prevention	1,421	1,361	1,266	-7.0
Community care licensing	49,432	55,621	57,950	4.2
Disability evaluation	116,672	128,988	132,695	2.9
Administration	7,072	8,022	7,430	-7.4
Disaster relief	4,712	7,944	—	-100.0
Child care	—	290	290	—
Totals	**$268,703**	**$296,720**	**$316,462**	**6.7%**
General Fund	$103,819	$112,310	$118,986	5.9%
Federal funds	152,426	172,532	185,016	7.2
Reimbursements	11,412	11,021	11,895	7.9
State Legalization Impact Assistance Grant	648	621	—	-100.0
Other funds	398	236	565	139.4

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these are unallocated reductions of 13 percent in state operations and 0.8 percent in local assistance from the General Fund in 1991-92. (These reductions are 5

DEPARTMENTAL SUPPORT—Continued

percent and 0.8 percent, respectively, of the department's total budget from all funds in those items affected.) These reductions are proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Table 2 shows the changes in the department's support expenditures that are proposed for 1992-93. As the table indicates, the proposed increase is due primarily to baseline adjustments.

Table 2

Department of Social Services Departmental Support Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	Other Funds	Total Funds
1991-92 Expenditures (revised)	$112,310	$184,410	$296,720
Baseline adjustments — position changes			
Workload-related budget change proposals	$16,189	$4,400	$20,589
Full-year funding of positions	715	287	1,002
Expiration of limited-term positions	-3,645	-3,533	-7,178
Reductions to fund price increase	-465	-47	-512
SLIAG program close-out activities	111	-242	-131
Salary savings adjustment	—	1,776	1,776
Early intervention program	—	-60	-60
Subtotals, position changes	($12,905)	($2,581)	($15,486)
Other baseline adjustments			
Statewide automated child support system	$819	$7,373	$8,192
GAIN basic education study	—	51	51
Reduce one-time MAP fair hearings	-164	—	-164
Reduce one-time disaster relief	-7,944	—	-7,944
Price increase	465	1,013	1,478
Eliminate one-time cost for disability evaluation program	—	-1,168	-1,168
Secured perimeters (Ch 1372/89 — (SB 481, Mello))	-32	—	-32
SWCAP reduction	—	129	129
Elimination of one-time reductions for Sections 1.2 and 3.9	—	2,087	2,087

Continued

	General Fund	Other Funds	Total Funds
Elimination of Board of Control reduction	2	—	2
Elimination of reappropriation:			
In-home supportive services court-ordered judgments	-265	—	-265
Child welfare services study	-110	—	-110
Subtotals, other adjustments	(-$7,229)	($9,485)	($2,256)
Policy proposals			
Welfare initiative	$1,000	$1,000	$2,000
1992-93 Expenditures (proposed)	**$118,986**	**$197,476**	**$316,462**
Change from 1991-92			
Amount	$6,676	$13,066	$19,742
Percent	5.9%	7.1%	6.7%

Proposed Position Changes

The budget requests a total of 4,180 positions in 1992-93. This is a decrease of 19 positions, or 0.4 percent, from the current year. The net decrease consists of a reduction of 410 positions offset by an increase of 392 positions. The reductions are primarily due to the unallocated General Fund reductions taken in the current year and being carried over into the budget year. Table 3 (please see page 166) shows the changes in the department's proposed positions for 1992-93.

Analysis and Recommendations

State Administrative Costs Underbudgeted

The department should report during budget hearings how it intends to deal with the underbudgeted administrative costs related to the Governor's proposed welfare changes.

As discussed in our analysis of the Aid to Families with Dependent Children (AFDC) Program, the budget proposes a package of significant welfare reforms, to take effect (pending enactment of legislation and receipt of waivers of federal statutes) on March 1, 1992. The budget includes $2 million ($1 million General Fund) in the current year and $4 million ($2 million General Fund) in the budget year for departmental administrative costs related to these proposed reforms. These costs would be incurred to obtain federal waivers, develop regulations, make computer system changes, negotiate and fund contracts for the waiver evaluations, and process appeals by AFDC recipients.

We estimate that state administration associated with the proposed reforms would result in higher costs than estimated in the budget. We

DEPARTMENTAL SUPPORT—Continued

estimate total one-time costs of about $25 million ($12.5 million General Fund) and ongoing costs of about $10 million ($5 million General Fund) annually until the evaluation and appeals process are completed. The department should be prepared to explain, during the budget hearings, whether it intends to absorb these costs within its baseline resources, and if so, how it intends to accomplish this.

Table 3

Department of Social Services Proposed Position Changes 1992-93

	Existing Positions	Reductions	Additions	Total Proposed Positions	Percent Change from Existing Positions
AFDC-family group and unemployed parent	333.7	-42.8	2.2	293.1	-12.2%
AFDC-foster care	54.8	-7.9	15.2	62.1	13.3
Child support	138.6	-11.7	0.2	127.1	-8.3
SSI/SSP	6.3	0.2	—	6.5	3.2
Special adult	6.6	—	—	6.6	—
Food stamps	269.3	-37.6	1.2	232.9	-13.5
Refugee cash assistance	15.3	-1.7	2.0	15.6	2.0
Immigration Reform and Control Act	6.2	-6.2	—	—	-100.0
Child welfare services	74.6	-27.0	38.6	86.2	15.5
County services block grant	16.4	-3.9	—	12.5	-23.8
In-home supportive services	33.7	-3.3	2.7	33.1	-1.8
Specialized adult services	8.1	-2.3	—	5.8	-28.4
Employment programs	79.5	-23.4	3.2	59.3	-25.4
Adoptions	163.8	-13.4	17.3	167.7	2.4
Refugee assistance services	54.4	-0.7	—	53.7	-1.3
Child abuse prevention	28.0	-9.4	—	18.6	-33.6
Community care licensing	1,130.0	-182.0	89.5	1,037.5	-8.2
Disability evaluation	1,699.2	-32.8	218.2	1,884.6	10.9
Administration	80.7	-4.5	1.3	77.5	-4.0
Totals	**4,199.2**	**-410.4**	**391.6**	**4,180.4**	**-0.4%**

Aid to Families with Dependent Children Item 5180

Expenditures

Requested 1992-93	$5,268,578,000
Estimated 1991-92	5,860,717,000
Actual 1990-91	5,806,947,000
Requested decrease $592,139,000 (-10.1 percent)	

Fiscal Recommendations

Total recommended increase	$687,000
Recommendation pending	5,268,578,000

MAJOR ISSUES

- **Governor's Welfare Proposals.** The budget proposes enactment of legislation to implement numerous changes to the Aid to Families with Dependent Children Program, for a net General Fund savings (all Budget Bill items) of $71 million in the current year and $638 million in the budget year. We present some alternative approaches that would result in a lower level of savings in the short run, but which better reflect the job readiness of Aid to Families with Dependent Children Program parents while still offering the prospect of significant savings.

Findings and Recommendations

Analysis Page

AFDC (Family Group and Unemployed Parent)

1. **Aid to Families with Dependent Children (AFDC) Caseload Estimates Are Expected to Change in May.** Withhold recommendation on $5.3 billion ($2.6 billion General Fund) pending review of revised estimates. 176

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

2. **Proposal to Reduce Maximum Aid Payment (MAP) by 10 Percent.** The budget proposes legislation to reduce the MAP to all AFDC recipients by 10 percent. This reduction would be partially offset by an increase in food stamps, thereby resulting in a reduction of about 5 percent in the total income available to AFDC recipients. 182
3. **Proposal to Reduce MAP an Additional 15 Percent After Six Months.** The budget proposes legislation to reduce the MAP by an additional 15 percent for AFDC recipients (with some exceptions) after they have been on aid for six months. This reduction would be partially offset by an increase in food stamps, thereby resulting in an additional reduction of about 8 percent in total income available to AFDC recipients. 184
4. **Proposal to Exclude From the MAP Any Children Conceived While on Aid.** The budget proposes legislation to exclude, for purposes of determining a family's MAP, any children who are conceived while the family is on AFDC. Estimated savings are $34 million ($16 million General Fund) in 1992-93 but would increase significantly in subsequent years, reaching several hundred million dollars in 10 years. 185
5. **Proposal For a Residency Requirement.** The budget proposes legislation to provide that AFDC grants for persons who have been in California for less than 12 months be limited to the MAP in their former state of residence. While this proposal may result in some individuals deciding not to move to California, it is uncertain that it will reduce migration significantly. 186
6. **Proposal to Eliminate Pregnancy-Related Benefits.** The budget proposes legislation to eliminate all pregnancy-related AFDC benefits. We find that this proposal could result in a transfer of responsibility to the counties for many of those recipients who would lose these benefits. 187
7. **Budget Imposes Requirements on Teen Parents.** The budget proposes legislation to establish the Cal Learn Program, an incentive program for AFDC parents under age 19 to remain in school. To the extent this proposal increases school attendance, it would result in increased job readiness as well as additional school apportionment costs, potentially in the tens of millions of dollars. 187
8. **Budget Includes Savings Anticipated From "Reduced Dependency."** The budget includes grant savings of $146 million ($70 million General Fund) in 1992-93 from lower 188

caseloads because of the financial incentives to work due to the reduced grant levels contained in the proposed changes. While the Governor's proposals are likely to result in some reduction in caseloads, the budget estimate of savings must be viewed with caution.

9. **Delayed Implementation of Welfare Proposals Could Reduce Savings Substantially.** The budget assumes that the Governor's welfare proposals will be implemented on March 1, 1992. If full implementation is delayed until July 1, the estimated General Fund savings would be reduced by $71 million in the current year and from $120 million to $160 million in the budget year. 189
10. **Alternatives to the Proposed Welfare Reforms.** We present several alternatives to the Governor's proposals which better reflect the job readiness of AFDC parents while still offering the prospect of significant savings. 194

Foster Care

11. **Budget Proposes to Suspend Cost-of-Living Adjustment for Foster Care Group Homes.** The budget proposes legislation to suspend statutory rate increases for group homes for a savings of $12.4 million ($4 million General Fund). 197
12. **Budget Proposes to Increase Federal Funds for Wards of the Court in Foster Care.** Recommend that the Department of Social Services (DSS) reassess the budget estimate for incorporation in its May revision estimate. Budgeted savings appear to be overstated. 198
13. **Delayed Level-of-Care Assessment (LCA) Instrument.** Recommend legislation to extend provisions of current law to continue mental health certifications. Further recommend that the department report during budget hearings on progress achieved towards development of the LCA instrument. 199

Child Support

14. **California Parent Locator Service (CPLS) Merits Augmentation. Increase Item 5180-001-001 by $102,000 and increase Item 5180-001-890 by $585,000.** Recommend augmentation of $300,000 ($102,000 General Fund) to fund the statutory requirement that CPLS obtain information from the public utilities' data base. Further recommend Budget Bill language providing that the DSS restore in 1992-93 the CPLS's current-year budget reduction ($199,000 General Fund). 205

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

15. **Local Expertise Could Enhance State-Level Assistance.** Recommend that the department report on the feasibility of developing a team of experts from the counties in order to assist the department in conducting county program reviews. 207

Adoption Assistance

16. **Adoption Assistance Program (AAP) Report Has Not Been Submitted.** The *Supplemental Report of the 1990 Budget Act* requires the DSS to report to the Legislature on options for establishing standards for setting grant levels and the feasibility of placing time limits on state-only AAP benefits. This report was due March 1991 but has not been submitted. 207

General Program Statement

The Aid to Families with Dependent Children (AFDC) Program provides cash grants to certain families and children whose incomes are not adequate to provide for their basic needs. Specifically, the program provides grants to needy families and children who meet the following criteria.

AFDC-Family Group (AFDC-FG). Families are eligible for grants under the AFDC-FG Program if they have a child who is financially needy due to the *death, incapacity, or continued absence* of one or both parents. In the current year, an average of 684,000 families will receive grants each month through this program.

AFDC-Unemployed Parent (AFDC-U). Families are eligible for grants under the AFDC-U Program if they have a child who is financially needy due to the *unemployment* of one or both parents. In the current year, an average of 113,200 families will receive grants each month through this program.

AFDC-Foster Care (AFDC-FC). Children are eligible for grants under the AFDC-FC Program if they are living with a licensed or certified foster care provider under a court order or a voluntary agreement between the child's parent(s) and a county welfare or probation department. In the current year, an average of 63,200 children will receive grants each month through this program.

In addition:

- The Adoption Assistance Program provides cash grants to parents who adopt children who have special needs. In the current year, an average of 13,400 children will receive assistance each month through this program.
- The Transitional Child Care Program provides cash payments to certain individuals who lose AFDC eligibility due to employment. In

the current year, an average of 1,420 families will receive assistance each month through this program.

Overview of the Budget Request

The proposed AFDC budget includes several major policy changes that result in significant net savings.

The budget anticipates expenditures of $5.8 billion ($2.6 billion General Fund, $2.7 billion federal funds, and $483 million county funds) for AFDC cash grants in 1992-93, including $919,000 in Control Section 23.5 for assistance to newly legalized persons under the federal Immigration Reform and Control Act (IRCA). Table 1 shows expenditures for AFDC grants by category of recipient for 1990-91 through 1992-93. The AFDC-FG Program accounts for $4.2 billion (all funds), or 70 percent, of total estimated grant costs of the three major AFDC programs (excluding child support collections). The Foster Care Program accounts for 16 percent and the Unemployed Parent Program accounts for 14 percent of the total.

Budget Proposes a Net Reduction in AFDC Expenditures in Current Year

The department estimates that AFDC expenditures in the current year will be *below* the amount appropriated in the 1991 Budget Act by $49 million ($14 million General Fund). This net expenditure decrease represents both expenditure increases due to baseline adjustments and offsetting expenditure reductions proposed in the Governor's Budget through major changes in existing law governing the program.

Baseline Adjustments. The baseline adjustments to *current-year* spending represent an increase of $134 million ($75 million General Fund), or 2.1 percent, over the amount appropriated in the 1991 Budget Act. Table 2 shows that the factors resulting in this increase include:

- A $198 million ($97 million General Fund) increase due to higher-than-anticipated AFDC-FG and U caseloads.
- An $8.2 million ($3.9 million General Fund) increase due to lower-than-anticipated savings from the 4.4 percent maximum aid payment (MAP) reduction.
- A $7.7 million ($3.7 million General Fund) decrease due to lower-than-anticipated costs to provide housing assistance to homeless AFDC families.
- A $4.3 million ($2.1 million General Fund) increase due to settlement of the *Sallis v. McMahon* lawsuit, which makes recipients receiving state disability insurance eligible for earned income disregards.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 1

Department of Social Services Expenditures for AFDC Grants by Category of Recipient 1990-91 through 1992-93

(In millions)

	Actual 1990-91		Estimated 1991-92		Proposed 1992-93	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
Recipient category						
Family group	$2,047.0	$4,542.7	$2,249.7	$4,693.6	$2,015.3	$4,214.0
Unemployed parent	406.9	894.9	468.3	976.9	394.2	824.0
Foster care	576.3	793.2	262.1	863.2	293.4	952.4
Child support collections	-102.8	-241.1	-139.5	-297.6	-155.9	-333.1
Child support incentive payments to counties	23.9	-1.4	27.1	—	28.5	—
Adoption Assistance Program	40.3	54.8	38.8	72.1	49.0	90.8
Transitional child care	2.1	4.1	3.3	6.7	3.3	6.7
Unallocated reduction	—	—	-1.8	-3.4	-1.8	-3.4
Subtotals	($2,993.7)	($6,047.2)[a]	($2,908.0)	($6,311.6)[a]	($2,626.0)	($5,751.3)[a]
AFDC cash grants to refugees						
Time-expired	($261.2)	($585.7)	($278.8)	($581.3)	($240.0)	($494.3)
Time-eligible	(3.7)	(4.2)	(—)	(9.1)	(—)	(8.8)
Totals	**$2,993.7**	**$6,047.2**	**$2,908.0**	**$6,311.6**	**$2,626.0**	**$5,751.3**

[a] Includes State Legalization Impact Assistance Grant.

- A $4.4 million ($2 million General Fund) increase due to lower-than-expected savings from existing fraud detection programs.
- A $53 million ($16 million General Fund) decrease due to lower-than-anticipated AFDC-FC caseload.
- A $26 million ($11 million General Fund) decrease due to higher-than-anticipated savings from child support collections. These collections offset AFDC grant expenditures.
- A $346,000 ($167,000 General Fund) increase due to an increase in aided persons resulting from phase-out of the IRCA exclusion period.

Under IRCA, undocumented persons seeking permanent resident status were excluded from public assistance programs for five years.

Proposed Policy Changes More Than Offset Baseline Increases. As noted above, the estimated reductions associated with the policy changes proposed in the budget for the current year would more than offset the baseline adjustments. The budget proposes policy changes that would result in reductions totaling $184 million ($89 million General Fund). As a result, the total funding proposed for the AFDC Program in 1991-92 represents a reduction of $49 million ($14 million General Fund), or 0.8 percent, below the amount appropriated in the 1991 Budget Act. The proposed policy changes are summarized in Table 2 and are discussed in detail below.

Budget Proposes Major Reductions in AFDC Expenditures in 1992-93

The budget proposes expenditures for AFDC grants in 1992-93 of $5.8 billion. This is $560 million, or 8.9 percent, below the total of $6.3 billion estimated for the current year. The total General Fund request of $2.6 billion is $282 million, or 9.7 percent, below the estimated $2.9 billion for the current year. These net expenditure decreases represent both expenditure increases due to baseline adjustments and offsetting expenditure decreases proposed in the Governor's Budget for major changes in existing law for the AFDC Program.

Baseline Adjustments. The baseline adjustments proposed for 1992-93 represent an increase of $654 million ($304 million General Fund), or 10.4 percent, over the department's revised estimate of expenditures in the current year.

Table 2 shows the factors resulting in the baseline expenditure increases for the AFDC Program in 1992-93. The major baseline changes not discussed elsewhere in this analysis are as follows:

- A $589 million ($284 million General Fund) increase due to increases in AFDC-FG and U caseloads.
- A $79 million ($38 million General Fund) increase due to an increase in aided persons caused by the phase-out of the IRCA exclusion period.
- A $13 million ($6.2 million General Fund) increase due to the statutory COLA for the AFDC need standard.
- A $61 million ($29 million General Fund) decrease due to the full-year effect of the 4.4 percent MAP reduction required by Ch 97/91 (SB 724, Maddy).
- A $23 million ($11 million General Fund) decrease due to expansion of existing fraud detection programs to additional counties.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 2

Department of Social Services Proposed AFDC Budget Changes 1991-92 and 1992-93

(dollars in thousands)

	General Fund	All Funds
1991 Budget Act (Item 5180-101 and Control Section 23.5)	$2,921,984	$6,360,992
Adjustments to appropriations		
AFDC-Family Group (AFDC-FG) and AFDC-Unemployed Parent (AFDC-U)		
Baseline adjustments		
Increase in caseload	$96,512	$198,160
Reestimate of 4.4 percent maximum aid payment (MAP) reduction	3,900	8,174
Reestimate of AFDC homeless assistance costs	-3,731	-7,655
Court cases	2,076	4,311
Reestimate of fraud detection program savings	2,032	4,352
Public assistance for aliens legalized under the Immigration Reform and Control Act (IRCA)	167	346
Other	1,548	3,796
Policy changes		
10 percent MAP reduction	-81,195	-168,918
Elimination of AFDC pregnancy benefits	-5,959	-10,544
Residency requirement	-2,112	-4,383
Subtotals, AFDC-FG and U	($13,238)	($27,639)
AFDC-Foster Care (AFDC-FC)		
Decrease in caseload	-$16,371	-$53,232
Other changes	270	5,217
Subtotals, AFDC-FC	(-$16,101)	(-$48,015)
Child support enforcement		
Increase in collections	-$12,905	-$25,701
Increase in incentive payments	2,378	—
Subtotals, child support enforcement	(-$10,527)	(-$25,701)
Adoption Assistance Program (AAP) reestimate	$1,920	$1,884
Transitional Child Care reestimate	-2,486	-5,205
Total changes	**-$13,956**	**-$49,398**
1991-92 Expenditures (revised)	**$2,908,028**	**$6,311,594**

Continued

	General Fund	All Funds
1992-93 adjustments		
AFDC-FG and U		
Baseline adjustments		
Caseload increase	$283,744	$589,120
Public assistance for aliens legalized under IRCA	37,930	78,746
1992-93 COLA for the need standard	6,190	12,857
Full-year savings due to 4.4 percent MAP reduction	-29,217	-60,829
Savings due to expansion of existing fraud detection programs	-10,885	-22,649
Court cases	-4,040	-6,546
Other	-2,694	-6,152
Policy changes		
Reduction in MAPs (10 percent)	-205,906	-428,430
Reduction in MAPs (additional 15 percent)	-252,431	-525,038
Exclusion from grants of children conceived while on aid	-16,220	-33,715
Residency requirement	-12,880	-26,738
Elimination of pregnancy benefits	-32,099	-56,554
Reduction in welfare dependency	-70,000	-146,000
Subtotals, AFDC-FG and U	(-$308,508)	(-$631,928)
AFDC-FC		
Baseline adjustments		
Caseload and average grant increases	$15,366	$46,031
Foster care rate reform	20,977	56,558
Changes in federal eligibility requirements	4,809	—
Effect of past federal disallowances	-8,427	-8,870
Increased federal funds support for wards in foster care	-371	—
Other	-1,082	-5,253
Subtotals, AFDC-FC	($31,272)	($88,466)
Child support enforcement		
Baseline adjustments		
Increase in collections	-$16,399	-$35,544
Increase in incentives	1,445	—
Subtotals, child support enforcement	(-$14,954)	(-$35,544)
AAP, caseload and grant increases	$10,153	$18,705
Total adjustments	**-$282,037**	**-$560,301**
1992-93 Expenditures (proposed)	**$2,625,991**	**$5,751,293**
Change from 1991-92		
Amount	-$282,037	-$560,301
Percent	-9.7%	-8.9%

- A $6.5 million ($4 million General Fund) decrease due to the settlement of three court cases in prior years (*WRL v. Woods, Sallis v. McMahon,* and *Grimsey v. McMahon*).
- A $46 million ($15 million General Fund) increase in the AFDC-FC Program due to caseload growth and rate increases.
- A $57 million ($21 million General Fund) increase in the AFDC-FC Program primarily due to revising foster care group home rates pursuant to Ch 1294/89 (SB 370, Presley).
- A $4.8 million General Fund increase due to an audit by the federal Department of Health and Human Services (DHHS) regarding the eligibility requirements for the federal AFDC-FC Program.
- An $8.9 million ($8.4 million General Fund) decrease due to payment by the state in 1991-92 of a disallowed claim for federal payments in the AFDC-FC Program.
- A net $36 million ($15 million General Fund) savings from the Child Support Enforcement Program due primarily to a projected increase in collections for AFDC families.
- A $19 million ($10 million General Fund) increase in the Adoption Assistance Program due to caseload and grant increases.

Analysis and Recommendations

AFDC Estimates Are Expected to Change in May

We withhold recommendation on $5.3 billion ($2.6 billion General Fund and $2.7 billion federal funds) requested for AFDC grant payments, pending receipt of revised estimates of costs to be submitted in May.

The proposed expenditures for AFDC grants in 1992-93 are based on actual caseloads and costs through June 1991, updated to reflect the department's caseload and cost projections through 1992-93. In May, the department will present revised estimates of AFDC costs based on actual caseload and grant costs through December 1991. Because the revised estimate of AFDC costs will be based on more recent and accurate information, we believe it will provide the Legislature with a more reliable basis for budgeting 1992-93 expenditures. Therefore, we withhold recommendation on the amount requested for AFDC grant costs pending review of the May estimate.

Aid to Families with Dependent Children — Family Group and Unemployed Parent

AFDC-FG and U Caseloads Continue Rapid Growth

As shown in Table 2, the budget includes $668 million ($322 million General Fund) for projected increases in AFDC-FG and U basic and IRCA-related caseloads. The department estimates that the current-year AFDC-FG caseload will be 11.6 percent higher than in the prior year and anticipates an additional 10.8 percent increase in 1992-93. The department also estimates that the AFDC-U caseload will increase by 21.3 percent between the prior and current years and that it will grow an additional 9.6 percent in 1992-93.

Caseload Estimates Hide Effects of End of IRCA Exclusion Period. Included in these caseload data are estimates for the number of people that will be added to the AFDC Program because of IRCA. Under this act, undocumented persons who filed for amnesty were excluded from public assistance for five years. Individuals needing this assistance will become eligible for AFDC during 1992-93, resulting in a one-time increase in the number of persons aided. The department estimates that most of the newly eligible persons who are likely to become AFDC recipients already have one or more of their citizen children (children born in the U.S.) on AFDC. Thus, these newly eligible families will not significantly affect the *caseload* growth but will significantly affect the growth in the number of *persons* aided and therefore the program costs. Specifically, the department anticipates that this category will comprise about 12 percent of the increase in AFDC-FG persons aided and about 44 percent of the increase in the AFDC-U persons for 1992-93.

Recent Increase in "Children-Only" Cases. Recent caseload trends indicate a significant increase in children-only cases in both the FG and U programs. For example, the department estimates that children-only AFDC-FG cases will increase by about 24 percent in 1992-93 (about 199,000 average monthly cases in 1992-93) while AFDC-FG cases that include adults will increase by about 7 percent. The department identified two major components to the AFDC-FG child-only caseload: (1) citizen children — children born in the U.S. to undocumented or newly legalized persons — and (2) children in cases where the adult parents are excluded from AFDC for other reasons (such as SSI/SSP recipients and nonneedy relatives). Most of the child-only caseload growth is attributed to the citizen children cases.

Departments Differ in Caseload Estimates. The Department of Social Services (DSS) estimate for the combined increase in AFDC-FG and U recipients is 10.6 percent in 1992-93. In developing its Medi-Cal budget, however, the Department of Health Services (DHS) projects that the number of AFDC eligible persons will increase by only 5.3 percent in 1992-93. The primary reason for this discrepancy is that the departments differed in their assumption about whether recent rapid caseload growth in the AFDC Program would continue throughout the remainder of 1991-92 and 1992-93. In May, the departments will have revised estimates based on more recent caseload and recipient data. Based on our discussions with the two departments, we expect to see less of a discrepancy between the two estimates in the May revision.

Projecting Caseloads Presents Challenges. There are several factors that affect one's ability to accurately forecast AFDC caseloads:

- ***The Economy.*** Performance of the economy affects caseload growth. This is a particularly important factor affecting changes in the AFDC-U caseload. Generally, increases in unemployment affect the AFDC-U caseload. There are differences of opinion, however, about the extent to which economic cycles affect the AFDC-FG caseload. To the extent recent caseload growth is caused by the current downturn, we can expect this growth to moderate as the economy improves.

  Structural changes in the labor market also may affect AFDC caseloads. For example, recent trends in the labor market include a relative increase in part-time jobs and a reduction in the percentage of small employers that provide health insurance and other benefits. To the extent these changes are permanent and affect AFDC caseloads, they could cause caseloads to be higher than expected after the economy recovers.

- ***Undocumented Persons.*** The federal Omnibus Budget Reconciliation Act of 1986 and Ch 1441/88 (SB 175, Maddy) extended emergency medical care and pre- and post-natal care to undocumented persons. As we discuss in our review of the Medi-Cal budget, this nontraditional portion of the caseload has been increasing at a very rapid rate as a result of these changes. Part of the children-only caseload growth may be attributed to these persons. It is not clear the extent to which this trend will continue.

- ***Effect of Supplemental Security Income/State Supplementary Program (SSI/SSP) Disabled Caseload Growth.*** At least one other factor may affect the future growth of the child-only caseload. Specifically, SSI/SSP disability cases are growing at about 7 percent annually. Many of these adults have children who are child-only AFDC cases.

Current-Year Statutory Changes in AFDC Grant Policy

Chapter 97 enacted several significant changes in AFDC grant determination policy.

Suspends AFDC MAP Cost-of-Living Adjustments (COLAs). Under Chapter 97, the statutory COLA provided to the AFDC MAP was suspended through 1995-96. The act also modified the COLA provided to the need standard, which is the basis for determining actual grants (up to the MAP). Prior to Chapter 97, both the need standard and the MAP received a COLA equal to the change in the California Necessities Index (CNI) for the prior calendar year (unless the COLA was reduced or suspended by the Legislature). Under current law, the need standard will receive a COLA equal to 70 percent of the CNI through 1995-96. Beginning in 1996-97, both the MAP and the need standard will receive full CNI COLAs. In summary, current law provides that from 1992-93 through 1995-96, the need standard will increase at 70 percent of the inflation rate while the maximum grants (received by recipients without income) will remain unchanged. The budget includes funding for the authorized need standard COLA in 1992-93.

Reduces MAPs by 4.4 Percent. Chapter 97 reduced the MAPs by 4.4 percent in 1991-92 while leaving the need standard at its 1990-91 level. Thus, a family of three with no income experienced an AFDC grant reduction of $31 per month. This family was eligible for an additional food stamps allotment of $9. Therefore, the net reduction in monthly benefits, including food stamps, was about $22.

Creates a "Fill-the-Gap" Budgeting System. Chapter 97 also changed the way AFDC grants are determined. In addition to lowering the MAP below the level of the need standard, Chapter 97 established the need standard rather than the MAP as the basis for determining AFDC grants when recipients have income. The effect of these changes was to create a "fill-the-gap" budgeting system, which allows AFDC recipients who have income (including employment earnings) to keep a portion of their income before their grants are reduced, thereby increasing the recipient's financial incentive to work.

We discussed this concept in the *Analysis of the 1991-92 Budget Bill* (please see page 765) and *The 1991-92 Budget: Perspectives and Issues* (page 189). Since the Governor relies on this financial incentive as part of the rationale for his welfare reform proposals, it is useful to briefly review how a fill-the-gap system operates.

- *Background.* The MAP is the largest grant a family can receive. It varies according to the number of family members in the AFDC household. The current MAP for a family of three, for example, is $663 per month. The need standard, which also varies by family size, is intended to be an estimate of the cost of basic necessities, such as housing, transportation, and food. The current-year need standard for a family of three is $694 per month.

  A family's grant is determined by deducting "countable income" from the need standard. All *unearned* income (income from sources other than employment), except for the first $50 per month of child support,

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

is considered countable income. Some of a recipient's *earned* income (income from employment), however, is disregarded. The disregards include child care expenses, a work expense allowance, and a specified "work incentive."

- ***Fill-the-Gap Budgeting.*** Under a fill-the-gap budgeting system, the AFDC grant is determined by subtracting countable income from the need standard rather than the MAP. The effect of this is to allow the family to keep any income up to the difference between the need standard and the MAP. We discuss the use of this system in our analysis of the welfare reform proposals (later in this write-up).

Table 3 illustrates the impact of fill-the-gap budgeting in the current year for AFDC grants. It shows that a family of three with $31 of countable income — for example, work earnings after deducting the allowable disregards — can, in effect, keep this $31 of income (the gap between the need standard and the MAP); whereas additional countable income (an increase in earnings from $31 to $200 in this case) is completely offset by grant reductions.

Table 3

Department of Social Services
Impact of "Fill-the-Gap" Budgeting for AFDC Grants
Family of Three
1991-92

	No Outside Income	Outside Income	Higher Outside Income
Need standard	$694	$694	$694
MAP	663	663	663
Gap	$31	$31	$31
Countable income[a]	—	$31	$200
AFDC grant[b]	$663	663	494
Total income available	**$663**	**$694**	**$694**

[a] Earned income less allowable work-related "disregards" and unearned income less the child support disregard.

[b] Need standard less countable income; limited to the MAP.

Other Work Incentives. Chapter 97 also requires the department to seek federal approval for two proposals that could provide AFDC recipients with additional financial incentives to work.

- ***100-Hour Rule.*** The department is required to seek a federal waiver in order to operate a statewide demonstration program to determine whether elimination of the 100-hour rule would induce more AFDC-U recipients to work. Federal law provides that if the principal wage earner in an AFDC-U household is employed more than 100 hours the family is ineligible for aid. The demonstration program is designed to determine whether this rule discourages work.

- *Earned Income Disregard.* Under current law, a recipient who receives income from employment receives a "work incentive" during the first 12 months of employment. During the first 4 months, the recipient can exclude the first $30 and an additional one-third of all earned income (after deducting a standard work expense allowance). During the next 8 months, the work incentive is only $30. The department, under Chapter 97, is required to seek federal approval to allow the $30 and one-third "earned income disregard" indefinitely in order to determine whether this would provide an additional incentive for AFDC recipients to work.

Governor's Welfare Reform Proposals

The major provisions of the Governor's proposed welfare reforms would significantly change the AFDC-FG and U programs. The General Fund fiscal impact of these changes is summarized in Table 4. It shows that the proposed changes would result in grant savings of $89 million in 1991-92 and $679 million in 1992-93. These savings would be partially offset by General Fund administrative and support services costs of $18 million in 1991-92 and $41 million in 1992-93. (The county administrative and support services costs are discussed in the county administration and social services items in this analysis.) These provisions would require legislation and, in most cases, a waiver of federal regulations.

Budget Proposes Four Changes That Would Reduce AFDC Grants

The budget contains four separate proposals that would have the effect of reducing AFDC grants below the levels specified in current law. These are (1) a 10 percent reduction in the MAP for all AFDC recipients, (2) an additional 15 percent MAP reduction for AFDC recipients (with some exceptions) who have been on aid for more than six months, (3) a prohibition on MAP increases for family size when additional children are conceived while the parent is on aid, and (4) a 12-month residency requirement, which limits grants for recipients who previously resided in another state.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 4

Department of Social Services
General Fund Budget Summary
Governor's Welfare Reform Proposals
1991-92 and 1992-93

(In thousands)

	1991-92		1992-93	
	Grants	Administration/ Services	Grants	Administration/ Services
Proposals				
10 percent MAP reduction	-$81,195	$9,722	-$287,101	$5,210
15 percent additional MAP reduction	—	—	-252,431	7,312
Exclusion from MAP of children conceived while on aid	—	—	-16,220	33
Residency requirement	-2,112	622	-14,992	1,868
Elimination of pregnancy-related benefits	-5,959	-246	-38,058	-2,107
Savings due to reduced dependency	—	—	-70,000	-5,000
Minors required to live with adult relatives	—	7	—	22
AFDC Job Club	—	—	—	15,000
Cal Learn	—	596	—	1,900
Cal Learn child care	—	6,132	—	14,673
State administration	—	1,000	—	2,000
Totals	**-$89,266**	**$17,833**	**-$678,782**	**$40,911**

Proposal to Reduce MAP by 10 Percent

The budget proposes legislation to reduce the MAP to all AFDC recipients by 10 percent for a savings of $597 million ($287 million General Fund) in grants in 1992-93 and $169 million ($81 million General Fund) in the current year. The grant reduction would be offset partially by an increase in food stamps, thereby resulting in a reduction of about 5 percent in the total income available to AFDC recipients.

The budget proposes legislation to reduce the MAPs by 10 percent for all AFDC-FG and U recipients. Currently, the MAP ranges from $326 for a 1-person family to $1,403 for a family of 10 or more persons. Table 5 displays the effect of the proposed MAP reduction for family sizes between 1 and 5. It shows that the MAP for a family of 3, for example, would be reduced from $663 to $597.

Table 5

Department of Social Services
AFDC MAP and Need Standard
Budget Proposal Compared to Current Law
1992-93

		Maximum Aid Payment		
			Budget Proposal	
Family Size	Need Standard[a]	Current Law	First Six Months	After Six Months
1	$346	$326	$293	$249
2	568	535	482	410
3	704	663	597	507
4	836	788	709	603
5	953	899	809	688

[a] Assumes a CNI for 1991 of 1.94 percent, resulting in a COLA of 1.4 percent in 1992-93.

The Budget Proposal Would Reduce the Total Income Available to Families With No Outside Income by About 5 Percent. Table 6 illustrates this point. It shows that a family of three with no outside income would experience a grant reduction of $66 per month under the budget proposal (reduction from $663 to $597). Based on the most recent survey of AFDC recipients, about 678,000, or 85 percent, of AFDC families have no outside income and would therefore experience a reduction of 10 percent in their AFDC grants under the Governor's proposal. It is important to note, however, that these families could compensate for the decrease in their grants to the extent that they become employed and earn at least enough to offset the grant reduction. This can be accomplished because of the "fill-the-gap" budgeting system for AFDC grants, as discussed above.

Table 6

Department of Social Services
Reduced AFDC MAPs
Family of Three (Grants and Food Stamps)
With No Outside Income
1992-93

	Current Law	10 Percent MAP Reduction	15 Percent Additional MAP Reduction
MAP	$663	$597	$507
Need standard	704	704	704
AFDC grant	663	597	507
Food stamps	187	207	234
Total income available to family	**$850**	**$804**	**$741**

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Those families whose AFDC grants are reduced would be eligible for additional food stamps. This is because the amount of the food stamps allotment is determined, in part, by the families' income, which includes AFDC grants. For example, Table 6 shows that a family of three would have its grant reduced by $66 but would be eligible for $20 in additional food stamps, for a net reduction in total income of $46, or 5.4 percent.

Proposal to Reduce MAP an Additional 15 Percent After Six Months

The budget proposes legislation to reduce the MAP by an additional 15 percent for AFDC recipients (with some exceptions) after they have been on aid for six months, for a savings of $525 million ($252 million General Fund) in grants in 1992-93. The grant reduction would be offset partially by an increase in food stamps, thereby resulting in a further reduction of about 8 percent in total income available to AFDC recipients.

The budget proposes legislation to reduce AFDC MAPs by an *additional* 15 percent after a family (1) has been on assistance for more than 6 months or (2) went off aid after 6 months and returned to the program within 24 months. This reduction would not occur if all parents or caretaker relatives in the home are age 60 or over, disabled (receiving SSI/SSP or In-Home Supportive Services), the caretaker is a nonneedy relative, or all parents in the family (assistance unit) are under age 19 and attending high school or other equivalent schooling.

The Budget Proposal Would Further Reduce the Total Income Available to Families With No Outside Income by About 8 Percent. Table 6 shows the fiscal impact of this proposal on a family of three with no outside income. This family would experience an *additional* grant reduction of $90 under the budget proposal. The family, however, would be eligible for an additional food stamps allotment of $27. Thus, the net reduction in total income would be $63, or 7.8 percent. Based on the DSS's estimate, about 595,000, or 68 percent, of AFDC families per month would be subject to the additional 15 percent grant reduction, beginning in September 1992. As in the case of the 10 percent reduction in the MAP, these families could compensate for the decrease in their grants to the extent they become employed and earn at least enough to offset the grant reduction.

The Budget Estimate of Savings is Overstated. The budget assumes that the 15 percent additional grant reduction would result in savings of $525 million ($252 million General Fund) in lower grants. This estimate, however, is somewhat high because it fails to exclude teen parents under age 19, who are exempt from this reduction. There are an average of about 20,300 teen parents on AFDC each month, many of whom are in high school or could qualify for an exemption if they attend school. We anticipate that the department will adjust its estimate to reflect teen parents at the time of the May revision.

Proposal to Exclude From the MAP Any Children Conceived While on Aid

The budget proposes legislation to exclude, for purposes of determining a family's MAP, any children who are conceived while the family is on AFDC, for a savings of $34 million ($16 million General Fund) in 1992-93. Savings would increase significantly annually thereafter, amounting to several hundred million dollars in 10 years.

The budget proposes legislation that would exclude any children conceived when a family is receiving AFDC for purposes of determining the family's MAP (but not the need standard). Such children would continue to be excluded if the family leaves and returns to the program, unless the absence was for at least 24 consecutive months. Children excluded for purposes of determining the MAP would be eligible for both Medi-Cal benefits and food stamps.

Table 7 illustrates the impact of this proposal on grants and food stamps for a family that increases in size from two to three. Such a family (after birth of the additional child) with no outside income would experience a $253, or 38 percent, reduction in AFDC grants relative to current law ($663 to $410), but would be eligible for $76 in additional food stamps ($187 to $263). Thus, the family would incur a net reduction in total income of $177, or 21 percent.

We also note that this proposal would increase the work incentive substantially. As Table 7 shows, for example, under the budget proposal the gap between the need standard and the MAP increases from $158 ($568 less $410) to $294 ($704 less $410) for an additional child. As we explained previously, this permits an employed recipient to keep more earnings.

What Will Be the Fiscal Impact of This Proposal? Clearly, it will result in significant savings, particularly in the long term. The budget assumes that about 7 percent of all AFDC cases would have excluded children. The DSS estimates that this number could reach 22 percent of all cases in 10 years, assuming no change in behavior regarding decisions to have additional children. Irrespective of these behavioral decisions, the savings would increase significantly in comparison to current law, amounting to several hundred million dollars in 10 years.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 7

Department of Social Services
Budget Proposal for "Maximum Family Grant" (Family Size Limit)
Family With No Outside Income
1992-93

	Current Law		Budget Proposal	
	Family of Two	Family of Three	Family of Two (MAP Family of Two)	Family of Three (MAP Family of Two)
MAP	$535	$663	$410	$410
Need standard	568	704	568	704
AFDC grant	535	663	410	410
Food stamps	137	187	263	263
Total income available to family	**$672**	**$850**	**$673**	**$673**

Proposal For a Residency Requirement

The budget proposes legislation to provide that AFDC grants for persons who have been in California for less than 12 months be limited to the MAP in their former state of residence, for a savings of $31 million ($15 million General Fund) in grants in 1992-93 and $4.4 million ($2.1 million General Fund) in the current year. While this proposal may result in some individuals deciding not to move to California, it is uncertain that it will reduce migration significantly.

The budget proposes legislation providing that AFDC recipients from another state, during their first 12 months of residence in California, receive a grant based on the lesser of the grant they would receive using California's eligibility requirements or the MAP in their former state. The estimate of savings is based on a departmental survey indicating that 7 percent of AFDC recipients lived in another state within the preceding 12 months.

Will This Proposal Reduce California's Attractiveness as a "Welfare Magnet"? The proposal appears to be based, in part, on the belief that families come to California because of its high AFDC grant levels. Some studies have identified a relatively small amount of movement among states by low-income families in order to take advantage of higher public assistance benefits. The findings, however, have been subject to criticism based on the statistical methods and data used. In addition, surveys conducted by states suggest that low-income families move for many of the same reasons that higher-income families do. Even if low-income families move to California for the relatively higher AFDC benefits, it is unclear whether a temporary grant reduction (12 months) such as that proposed in the budget would reduce migration significantly.

Proposal to Eliminate Pregnancy-Related Benefits

The budget proposes legislation to eliminate all pregnancy-related AFDC benefits, for a grant savings of $67 million ($38 million General Fund) in 1992-93 and $10 million ($6 million General Fund) in the current year. We find that this proposal could result in a transfer of responsibility to the counties for many of those recipients who would lose these benefits.

The budget proposes legislation to eliminate *all* AFDC pregnancy-related benefits. Under the State-Only AFDC-FG Program, grants are provided to pregnant women without other children during the first six months of pregnancy. The state also participates in the federally assisted AFDC Program for pregnant women without other children who are in their last three months of pregnancy (and for the month that their baby is born). In addition, current law provides for a $70 monthly special need payment to *all* pregnant women who are on AFDC under the state-only or federally assisted programs or the regular AFDC Program.

Under the budget proposal, these women would remain eligible for Medi-Cal benefits. If the pregnancy benefits are eliminated, however, a substantial number of the women who lose all of their AFDC benefits (those who have no other children) could apply for general assistance in the counties where they reside. Thus, the elimination of these programs would, in effect, transfer responsibility for many pregnant women to the counties.

Budget Imposes Requirements on Teen Parents

The budget proposes legislation to (1) require parents under age 18 to reside in the home of their parent or certain other adults in order to receive AFDC and (2) establish the Cal Learn Program, an incentive program for AFDC parents under age 19 to remain in school. To the extent this proposal increases school attendance, it would result in increased job readiness as well as additional school apportionment costs, potentially in the tens of millions of dollars.

Teen Parent's Residence. Under this proposal, parents under age 18 who receive AFDC would be required to remain in the home of their parent, legal guardian, adult relative, or in certain other living arrangements in order to receive aid. The proposal includes exceptions under which the teen could maintain a separate residence. This program requirement is optional under the federal Family Support Act of 1988 and would not require any federal approval other than acceptance of an amended state plan.

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The budget does not reflect any savings from this proposal; however, to the extent that the teen parents stay with certain adults, such as parents or stepparents, part of the adult's income could be used to offset the teen parent's AFDC grant. This would result in unknown savings, probably less than $1 million ($475,000 General Fund).

Cal Learn Program. The budget proposes to create the Cal Learn Program for parents under age 19 who receive AFDC and have not completed high school. If these parents have no more than four absences and two unexcused absences per month in school, they would have their AFDC grant *increased* by $50. If these parents have more than two unexcused absences per month they would have their AFDC grant *reduced* by $50. Otherwise their grant would remain unchanged. The proposal provides for child care needed to attend school. (Please also see our analysis of the county administration item and the DSS social services programs.)

The budget assumes that the number of bonuses would equal the number of sanctions, resulting in no net savings or costs. We note, however, that to the extent the program increases school attendance, it will result in additional state apportionment costs, potentially in the tens of millions of dollars.

Budget Includes Savings Anticipated From "Reduced Dependency"

The budget includes grant savings of $146 million ($70 million General Fund) in 1992-93 from reduced dependency (lower caseloads) because of the financial incentives to work due to the reduced grant levels contained in the proposed changes. While the Governor's proposals are likely to result in some reduction in dependency, the budget estimate of savings must be viewed with caution.

The budget anticipates grant savings of $146 million ($70 million General Fund) to the AFDC-FG and U programs resulting from the various welfare reform proposals. The budget assumes that, in combination, the welfare reform proposals would make AFDC a less attractive alternative to non-AFDC options. Specifically, the budget assumes that there will be 4 percent fewer cases added each month and that discontinuances — those leaving assistance — will increase by 4 percent. The budget also assumes that the proposals would result in an additional 3 percent of AFDC families reporting employment earnings and that these earnings will, on average, exceed the amount needed to fill the gap between the need standard and MAP, therefore resulting in grant reductions.

While it is true that MAP reductions, residency requirements, and excluding children from grants would make nonwelfare alternatives relatively more attractive, the DSS was unable to provide any studies that suggest behavioral responses of the kind assumed in the budget estimates. Our review of fill-the-gap budgeting in other states indicates that this work incentive may be associated with a small increase in the percentage of AFDC families that report employment income. Closer examination of the data, however, suggests that most, if not all, of the increases found are attributable to a fill-the-gap system different than that employed by California. We discuss this in greater detail below.

In summary, while the Governor's proposal is likely to result in some reduction in dependency, the department's estimate of savings must be viewed with caution.

Waiver of Federal Requirements

Most of the proposals in the budget's welfare reform package require federal approval in the form of waivers of existing federal statutes. This is not the case for the Governor's proposals to (1) eliminate all pregnancy-related AFDC benefits and (2) require that all AFDC teen parents under age 18 remain at home. At the time this analysis was prepared, the waiver package was under development and the administration had initiated discussions with the federal DHHS. The DSS should be prepared to discuss the progress of these discussions during budget hearings.

Delayed Implementation Could Reduce Savings Substantially

The budget assumes that the proposed welfare reforms will be implemented on March 1, 1992. We estimate that if all the proposals are implemented on July 1, General Fund savings will be less than the amount budgeted by $71 million in the current year and from $120 million to $160 million in 1992-93.

As noted above, implementation of the budget proposals will require legislation and, in most cases, federal approval. Given these requirements and the controversial nature of the proposals, the budget assumption of a March 1 implementation date appears to be unrealistic. Delayed implementation of even a few months would reduce the General Fund savings in 1992-93 by $120 million to $160 million.

Evaluating the Governor's Welfare Reform Proposals

In presenting his welfare reform proposals, the Governor offers several reasons why reform is needed, including (1) the need to promote personal responsibility, (2) the need to reinforce the premise that AFDC is a temporary program, and (3) the need to make work an attractive alternative to AFDC. These are reasonable premises; but in evaluating the proposals, the Legislature needs to weigh the identified budgetary savings against its policy objectives for the AFDC Program and the potential impact of the proposed changes on needy families.

Impact of the Welfare Reforms

Fiscal Impact on Government. The budget estimates that the proposed reforms will result in significant savings to the federal, state, and county levels of government. Net General Fund savings are estimated to be $71 million in 1991-92 and $638 million in 1992-93, including the effect on administration. These savings would increase in subsequent years, due primarily to the provision prohibiting increases in the MAP for children conceived while a family is on aid. The savings would be offset, by an unknown amount, to the extent that the reductions in the MAPs and elimination of pregnancy benefits leads to a reduction in family incomes which, in turn, leads to an increase in the use of other public services such as health and foster care.

Impact on Families. The grant reductions proposed by the Governor would reduce the resources available to many families. In our analysis of the specific elements of the Governor's proposals, we described the effect the grant reductions would have on families affected by them. Chart 1 shows how California's *combined* AFDC grants and food stamps allocations (for a family of three) compare to the Poverty Income Guideline published annually by the DHHS. Under current law, California's combined maximum grant and food stamps benefit ($850) is equal to about 88 percent of the poverty guideline. Those subject to *both* the 10 percent and additional 15 percent reductions would have their resources reduced to about 77 percent of the guideline ($741).

To place California's combined grant and food stamps benefit in perspective, we also include in Chart 1 the comparable benefit levels in the 10 largest states. This illustrates that even after the 10 percent and 15 percent reductions, California's benefit level would still be higher than all but one of the other large states (New York).

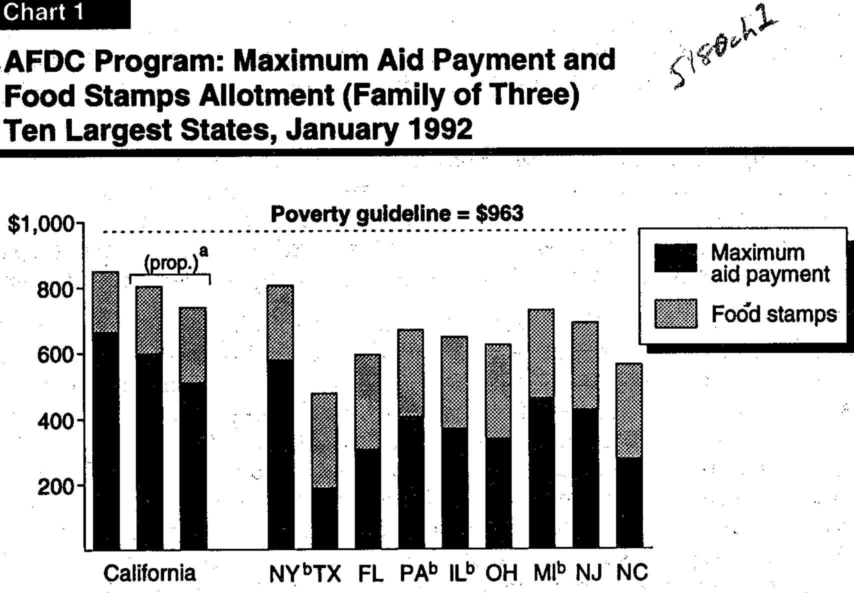
Increasing the Percentage of Recipients Who Work

The impact of the reform proposals will depend largely on the degree to which they result in an increase in the percentage of recipients who are employed, thereby avoiding the financial loss that would result from reductions in the MAPs.

Increasing the Work Incentive. In our 1991-92 *Perspectives and Issues* report on the AFDC Program, we concluded that the program, as currently structured, offers relatively little financial incentive to work. There are two main sources of the work disincentives: (1) the grant levels when combined with food stamps often are higher than what could be earned by recipients through employment and (2) current rules allow working recipients to retain, at best, only a small part of each increment of income. In addition, persons who work are likely to weigh the possible loss of Medi-Cal benefits (after a transition period) if they lose AFDC eligibility. The two main sources of the disincentives are discussed below.

Chart 1

AFDC Program: Maximum Aid Payment and Food Stamps Allotment (Family of Three) Ten Largest States, January 1992



[a] The left-hand bar is the proposed 10 percent MAP reduction and the right-hand bar is the proposed additional 15 percent reduction.

[b] These states have regional MAPs. The MAP for the region with the largest AFDC caseload is shown.

Income From Public Assistance Compared to Earnings From Employment. An example helps to illustrate how a MAP reduction affects the work incentive. As noted previously, when the MAP (family of three) is $663, the total AFDC grant and food stamps resources available to the family amount to $850. In order to obtain an equivalent amount through employment ("break even"), this family would need to earn a gross income of about $1,350 per month, or $7.80 per hour. (These calculations include estimated child care and transportation costs, state and federal taxes, the earned income tax credit, and the renters credit, and assumes that the employer provides medical insurance coverage. If the employer does not provide medical coverage, the break-even level of earnings could increase by more than $2 per hour to reflect the cost of private medical coverage.) If the MAP is reduced to $507 (15 percent additional reduction), the total AFDC grant and food stamps resources available to the family are $741, and the break-even level of earned income, using the same assumptions as above, is $1,178 per month, or $6.80 per hour. Thus, the proposed reductions in the MAP would have the effect of lowering the break-even level of earned income,

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making work a *relatively* more attractive alternative than it is now. For example, an AFDC recipient would more likely take a $7.25 per hour job under the proposed grant levels than under current law.

Some studies suggest that reducing MAPs would induce some increase in work by AFDC recipients. These studies, however, also show that changes in the MAP are unlikely to induce significant numbers of recipients to *leave* AFDC.

Effect of AFDC Rules on the Work Incentive. As discussed previously, a fill-the-gap system for determining grants can create additional work incentives for recipients because they can retain some of the income they earn. The Governor's proposals to reduce the MAPs would increase the gap, thereby increasing the amount of income a working recipient could keep.

In order to analyze the fill-the-gap budgeting method, we reviewed the grant determination procedures used in other states. We found that 14 states use a fill-the-gap approach. Of these, there were two different types of systems. Our review suggests that California's fill-the-gap budgeting method is likely to have only a small effect on the work incentive. We found that most of the employment effect identified was attributable to a fill-the-gap procedure different than that used in California. Several states (for example, North Carolina and Mississippi, where about 12 percent to 13 percent of AFDC cases report work earnings, compared to 9.5 percent in California) have a system — the "incremental" approach — that allows working recipients to retain a portion of each incremental dollar of earnings *beyond the amount of income needed to offset the gap*. The system used in California and most other fill-the-gap states does not provide the same incentive to earn income beyond the amount needed to offset the gap. There are many factors that could affect the percentage of recipients that report earned income, however, so these results must be interpreted with caution.

In summary, it is impossible to predict with accuracy the degree to which fill-the-gap budgeting will induce more AFDC recipients to work. Our review of other states, however, suggests that the impact may not be large but tends to be greater under the incremental approach. Those nonworking recipients who do not compensate for the MAP reductions through an increase in earnings will suffer a reduction in their standard of living, which will be significant recognizing that these families' incomes are currently below the federal poverty guidelines. It is therefore important, in assessing the budget proposal, to consider whether the reforms are based on reasonable *expectations* that AFDC recipients can obtain employment given their education levels and employment experience, combined with limited job opportunities.

Are AFDC Recipients Work-Ready?

In spite of the increased work incentives provided under the Governor's proposals, it may be difficult for AFDC recipients to obtain employment due to factors such as lack of training, low education levels and work experience, and the effect of the economy on job availability.

Lack of employment-related skills, including low educational attainment, is often cited as a major impediment to AFDC recipients returning to the labor force. Some studies show that low educational attainment is associated with a higher probability of staying longer on assistance.

Employment skills, job search training, and various kinds of "workfare" programs for AFDC recipients have been part of welfare reform efforts for many years. Recently, a number of experimental employment skills and job search programs have been evaluated. The findings show that, generally, those programs that included efforts to improve general education and develop usable job skills showed the largest net increase in average earnings for recipients who completed the program.

The Greater Avenues for Independence (GAIN) Program is California's primary employment training program for AFDC recipients and meets federal JOBS Program requirements. It is a more complex program and is more expensive per participant than most previous programs. The program, however, is not funded at a level sufficient to accommodate all "mandatory" and voluntary participants.

The GAIN Program is currently being evaluated by an independent consulting firm. A preliminary report is due this spring. (We discuss the Governor's job search training proposals and the GAIN Program later in this analysis.)

The downturn in the state's economy presents a significant challenge to existing and potential AFDC job seekers. The budget's projections of employment growth indicate that total nonagricultural employment will increase by only 73,000 jobs during 1992 and 342,000 jobs during 1993. These projections suggest that AFDC job seekers are likely to be faced with significant competition from currently unemployed people and other new job seekers, at least in the near term.

In summary, the relatively low level of education and employment experience of the typical AFDC parent, combined with limited job opportunities, suggests that it may not be possible for nonworking AFDC household heads to compensate for the proposed MAP reductions by obtaining a job. In this connection, we note that the Governor's proposal is inconsistent. While it exempts teen parents who are in school from grant reductions, it imposes them on those recipients who are making an effort to obtain the skills needed to secure employment by participating in the GAIN Program.

Alternatives to the Governor's Welfare Reform Package

We present several alternatives to the Governor's proposals which better reflect the job readiness of AFDC parents while still offering the prospect of significant savings.

Reforming AFDC is difficult because the families on assistance are there for different reasons and have different needs. Many of the families will leave the program within a relatively short period of time. On the other hand, many families have been on aid repeatedly or are long-term recipients. It is also important to note that only a small percentage of AFDC parents are working. The Governor's proposal attempts to address this problem by increasing the financial incentives for AFDC recipients — or potential recipients — to work.

Below we present several options to the Governor's proposal which, while resulting in a lower level of savings in the short run, reflect the likely employment prospects of AFDC recipients and could result in significant long-term savings.

1. Modify the Proposals to Reduce the MAP and Eliminate Pregnancy Benefits

Exempt Active GAIN Participants From the 15 Percent Additional MAP Reduction and Fully Fund GAIN. The Governor's proposal to reduce grants by an additional 15 percent after six months exempts disabled recipients and teen parents who are in school, but does not exempt GAIN participants. It seems reasonable, however, to exempt GAIN participants from this grant reduction, at least for a sufficient period of time to complete their training. Under this option, "active" GAIN participants (those participating in a program component, and not on deferral status) would be exempt from the proposed 15 percent grant reduction for a specified period of time — for example, an additional six months. This would also encourage participants to expedite their training. Under the proposed level of funding for GAIN, however, the program cannot accommodate all mandatory (essentially, those who have no children under age three) and voluntary participants. Therefore, full funding of GAIN is an integral component of this option.

We have asked the DSS to provide the Legislature with an estimate of (a) the reduction in savings from exempting GAIN participants from the 15 percent MAP reductions and (b) the costs of fully funding GAIN. We will review the estimate and comment on it during budget hearings.

Retain Pregnancy-Related Benefits for Women in Their Third Trimester. As discussed above, the Governor proposes to eliminate all pregnancy-related benefits under the AFDC Program. Research indicates that decisions to become pregnant are not likely to be driven directly by the availability of

AFDC benefits. Consequently, the budget proposal probably would have little impact in affecting such decisions and would therefore result in a reduction in benefits available to many low-income pregnant women unless they compensate by obtaining jobs. This alternative is likely to be infeasible for many of these women. Even for those who have jobs, continuation of employment during the latter months of pregnancy may be difficult.

We note that the federal government participates in the funding of AFDC pregnancy benefits during the third trimester. One option would be to limit pregnancy-related benefits to the third trimester of pregnancy unless a doctor certifies that the woman has health problems before that time. This option would reduce the budgeted savings by about $33 million ($22 million General Fund) in 1992-93 and $4.8 million ($2.7 million General Fund) in the current year.

2. Refine Work Incentives

We referred earlier in this analysis to recent legislative efforts to increase the work incentive in the AFDC Program. Specifically, Chapter 97 (a) created a fill-the-gap budgeting system for the program and (b) required the DSS to request a waiver to extend beyond the current four-month limit the "$30 and one-third" earned income "disregard" when calculating countable income. In this section, we present some additional ways to expand work incentives or make them more effective.

- *Change the Fill-the-Gap System to Increase the Work Incentive.* As discussed above, the fill-the-gap budgeting method chosen by California provides a work incentive only up to the amount of countable income needed to offset the gap; whereas other states (for example, North Carolina and Mississippi) use a procedure that allows a recipient to keep a portion of each increment of income. California could convert to such a procedure without a federal waiver.
- *Two-Tier Need Standard.* As explained above, the budget proposal would increase the gap between the MAP and the need standard (thereby increasing the work incentive) by *reducing* the MAP. The gap, of course, could also be increased by *raising* the need standard. This alternative, however, would increase the caseload because the need standard is the basis of the income eligibility threshold for the program. In order to avoid this problem, a federal waiver could be requested to adopt a two-tier need standard, under which the need standard for persons on aid for a specified period of time — six months, for example — would be higher than the currently authorized need standard. This is a way to increase the work incentive (the "gap") without increasing caseloads or reducing the MAP. This option, therefore, does not provide the immediate savings — or the potential adverse effects — associated with a MAP reduction.

3. Time-Limited AFDC Grants

While most families leave assistance in less than three years, there are a significant number who are on assistance for much longer spells. To address this problem, several members of the academic community have recently advocated limiting lifetime eligibility for AFDC recipients to some specified period (for example, four years). A family could use the benefits all at once or in increments; however, once the time limit was reached, the family would no longer be eligible for AFDC. One variation of the proposal would be to phase out the grant over a period of time so the recipient would not lose the grant all at once. In another variation, only the adult members of the family would be removed from the assistance unit once the time limit was reached — leaving the children on assistance.

We believe that any proposal to establish time-limited AFDC grants should consider programmatic efforts to increase access to employment training and other services needed by families to become self-sufficient when grant eligibility runs out. In addition, a time-limited grant proposal should consider provision for jobs in the public sector or with nonprofit organizations for those recipients who are unable to obtain private sector jobs but could instead "earn" their grant in this manner. This option could also include provision for emergency grant assistance for persons who are considered unemployable.

This proposal would result in additional "up front" costs in order to provide employment training and other services to recipients, but long-term savings would be substantial. Under a four-year limit, for example, General Fund savings in reduced grant expenditures could be over $1 billion annually, beginning four years from the date of implementation. This excludes the costs of any services that would be provided.

Aid to Families with Dependent Children-Foster Care

Background. The Aid to Families with Dependent Children-Foster Care (AFDC-FC) Program pays for the care provided to children by guardians, foster parents, and foster care group homes. Children are placed in foster care in one of four ways:

- ***Court Action.*** A juvenile court may place a child in foster care if the child has been abused, abandoned, or neglected and cannot be safely returned home. The court may also place a minor who has committed a criminal or status offense in foster care. In addition, a court may place a child in foster care if the child is beyond the control of his or her parent(s) or guardian(s). Finally, probate courts place children in guardianship arrangements for a variety of reasons.

- *Voluntary Agreement.* County welfare or probation departments may place a child in foster care pursuant to a voluntary agreement between the department and the child's parent(s) or guardian(s).
- *Relinquishment.* A child who has been relinquished for adoption may be placed in foster care by an adoption agency, prior to his or her adoption.
- *Individualized Education Program.* Since July 1986, an individualized education program team may place a child in foster care if it determines that the child (1) needs special education services, (2) is seriously emotionally disturbed (SED), and (3) needs 24-hour out-of-home care in order to meet his or her educational needs.

Children in the foster care system for any of these reasons can be placed in either a foster family home or a foster care group home. Both types of foster care facilities provide 24-hour residential care. Foster family homes must be located in the residence of the foster parent(s), provide service to no more than six children, and be either licensed by the DSS or certified by a Foster Family Agency. Foster care group homes are licensed by the DSS to provide services to seven or more children. In order to qualify for a license, a group home must offer planned activities for children in its care and employ staff at least part-time to deliver services.

Budget Proposal. The 1992-93 budget proposes total expenditures of $952 million ($293 million from the General Fund, $434 million in county funds, and $225 million in federal funds). The total General Fund request for AFDC-FC represents an increase of $31 million, or 12 percent, above estimated 1991-92 expenditures.

Budget Does Not Provide COLAs for Foster Care Group Homes

The budget proposes legislation to suspend the statutory rate increases for foster care group homes, for a savings of $12.4 million ($4 million General Fund).

Chapter 1294, Statutes of 1989 (SB 370, Presley) requires cost-of-living increases in statutory rates for group homes of 1.94 percent in 1992-93, which is the percentage change in the CNI during the 1991 calendar year. The budget proposes legislation to suspend this COLA in the budget year. The department estimates that this proposal will result in savings of $12 million ($4 million General Fund, $6.1 million county funds, and $2.2 million federal funds).

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Savings From Increased Federal Funds Appear Overstated

We find that budgeted state savings due to increased federal support for wards of the court appear to be overstated. We recommend that the DSS reassess the budget estimate by collecting additional data, and incorporate this in its May revision estimates.

Background. The DSS estimates that there are currently 5,700 wards of the court residing in foster family homes or foster care group homes in California. Under federal law, California is permitted to claim federal foster care funds for foster care grant costs. Specifically, the federal government will pay for 50 percent of the foster care grant costs of wards if (1) the ward's family was receiving, or was eligible to receive, an AFDC grant in the month in which the minor was placed in foster care and (2) the ward is placed in a foster family home or a *nonprofit* group home. The foster care costs for wards of the court who do not meet these eligibility criteria are supported by the state-only foster care program, for which the state pays 40 percent and the counties pay 60 percent of the costs.

Budget Proposal. The 1991-92 budget includes a $15.5 million increase in federal funds for foster care grants related to additional federally eligible wards, and corresponding reductions in General Fund ($6.2 million) and county ($9.3 million) support. The 1992-93 budget proposes to increase this amount of federal funds by $929,000 (total federal funds of $16.4 million) with corresponding reductions in General Fund ($371,000, or $6.6 million total) and county ($555,000, or $9.8 million total) support. This increase is based on an assumption that county probation departments can and will claim federal funding for additional wards, pursuant to administrative instructions from the DSS promulgated in March 1991.

Estimated Savings From Increased Federal Funds May Be Overstated. The budget estimate of savings from increased federal funds in the current year and the budget year appears to be overstated. It assumes that 50 percent of the wards are eligible for federal funding, as of July 1, 1991. According to information provided by the department, however, during the first three months of 1991-92 *only 34 percent* of the wards in foster care were federally eligible, which is about the same percentage eligible in 1990-91.

The department's assumption that the state will receive federal funding for 50 percent of the wards in foster care is based on a report prepared under contract with the DSS by a private consulting firm. Our review, however, indicates that the report simply assumed that a 50 percent rate could be achieved through better administrative procedures. The contractor did *not* review any individual cases to determine the potential for increased federal participation. To date, the department has not attempted to develop a more accurate estimate of the percentage of wards in foster care that could receive federal funding.

Our analysis indicates that the department's estimate of savings is likely to be overstated in the current year by as much as $15.5 million ($6.2 million General Fund and $9.3 million county funds) and may be overstated by a similar amount in the budget year if the percentage of federally eligible wards does not increase to 50 percent.

At the time this analysis was prepared, the DSS indicated that the Chief Probation Officers of California had convened a task force to develop additional administrative procedures intended to increase the percentage of foster care wards who are federally eligible. According to the DSS, these procedures are expected to be implemented in the current year. We expect that the department will have more detailed information over the next few months on the progress made towards the implementation of the proposal. In addition, we believe that it would be possible for the department to develop a more accurate estimate of the fiscal effect of the proposal by conducting a survey of the eligibility characteristics of wards in selected counties. This information would allow the department to more accurately estimate the extent to which the federal eligibility of wards in foster care could be increased. Our analysis indicates that this kind of fiscal and programmatic information will be necessary in order for the Legislature to fully evaluate the budget proposal. For this reason, we recommend that the DSS collect additional data and, if appropriate, revise the budget estimates at the time of the May revision.

Delay in Developing Level-of-Care Assessment Instrument Could Have Adverse Impacts

We find that the department's delay in developing a level-of-care assessment (LCA) instrument could reduce the level of services to foster children with special mental health treatment needs. We recommend the enactment of legislation extending the provisions of current law in order to authorize continuation of these services until the LCA instrument is implemented. We further recommend that the department report on its progress made towards the development of the LCA instrument.

Background. Chapter 1294, as amended by Ch 46/90 (SB 1176, Royce) and Ch 610/91 (AB 1727, Hunter), requires the DSS to develop an LCA instrument to match the assessed needs of children placed in foster care group homes with the services provided by group homes, as classified by 14 reimbursement rates known as rate classification levels (RCLs). To comply with the Legislature's intent to make necessary mental health services available to children in foster care, the LCA instrument would include (1) mental health needs assessment guidelines for assessing the specialized treatment needs of any foster children requiring RCL 13 or 14 (the highest levels) group home care and (2) specific criteria for determining when a mental health assessment should be conducted pursuant to the guidelines.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Chapter 46 provides that no group home facilities that would otherwise qualify for RCL 13 or 14 (and the corresponding reimbursement levels) can be classified at these RCLs *until* the LCA instrument is in place. The LCA instrument was initially required to be implemented by July 1, 1990. Because this requirement was not met, group homes were not authorized to receive reimbursements at RCL 13 or 14 in 1990-91 and there was no requirement that children receive mental health assessments in accordance with the mental health needs guidelines. Chapter 610 subsequently extended the deadline for the development of the LCA instrument until July, 1, 1992. However, the DSS indicates that it will not be able to complete the instrument until July 1, 1994. The budget proposes $293,000 and the continuation of 5.5 limited-term positions for the development and implementation of the LCA.

Department's Revisions to the LCA Instrument Have Resulted in Delays. Our review indicates that the delays in the development of the LCA instrument are attributable to the department's efforts to broaden the scope of the instrument. These changes include:

- Expanding the target population for the LCA instrument to include *all* foster children (family home and group home) rather than assessing only foster care children in group homes as required under current law.
- Replacing the currently authorized LCA instrument, which matches the assessed needs of foster children to RCLs, with a new mechanism that incorporates actual levels of service provided.
- Implementing a pilot test of the LCA instrument and phasing in the instrument once the pilot has been completed.

Delays in Implementation of the LCA Instrument May Inadvertently Reduce Services to Children with Specialized Treatment Needs. Chapter 610 established a temporary mechanism for the payment of RCL 13 and 14 rates, operative *only* in the current year, to allow additional time for the development of the LCA instrument. Specifically, the act authorizes a group home under certain circumstances to qualify for RCLs of 13 and 14 provided that county mental health departments certify that (1) each child (with specified exceptions) in the facility is classified as severely emotionally disturbed (SED) and (2) the facility includes a treatment program suited to the mental health needs of the children. These provisions reflect the Legislature's intent to make necessary mental health services available to foster children.

Our review indicates that because the LCA instrument will not be completed by July 1, 1992, the department's authority to reimburse RCLs of 13 and 14 will *terminate* as of this date. As a result, group homes classified at these levels would be reimbursed at a lower rate (RCL 12). This could result in a reduction in the level of mental health certification services provided to SED children in group homes. The DSS indicates that facilities classified at RCL 12 (or any lower level) are not required to meet the mental health certification requirements established under the temporary mechanism of Chapter 610.

In order to carry out the Legislature's intent to make mental health care services available to foster care children with special needs, we recommend the enactment of legislation extending the temporary mechanism established under Chapter 610 until the LCA instrument is developed. Because the funds for providing these certification services are already included within the proposed budget, no additional funding would be required. We further recommend that the DSS report to the Legislature at the time of budget hearings on (1) the increase in the level of mental health treatment services provided in the current year by group home facilities of RCL 13 and 14 pursuant to Chapter 610 and (2) the progress made towards developing the LCA instrument.

Child Support Enforcement

Background. The child support enforcement program is administered by district attorneys' offices throughout California. Its objective is to locate absent parents, establish paternity, obtain court-ordered child support awards, and collect payments pursuant to the awards. These services are available to both welfare and nonwelfare families. Child support payments that are collected on behalf of welfare recipients under the AFDC Program are used to offset the state, county, and federal costs of the program. Collections made on behalf of nonwelfare clients are distributed directly to the clients.

The child support enforcement program has three primary fiscal components: (1) administrative costs, (2) welfare recoupments, and (3) incentive payments. The *administrative costs* of the child support enforcement program are paid by the federal government (66 percent) and county governments (34 percent). *Welfare recoupments* are shared by the federal, state, and county governments, according to how the cost of AFDC grant payments are distributed among them (generally 50 percent federal, 47.5 percent state, and 2.5 percent county).

Counties receive *"incentive payments"* from the state and the federal government designed to encourage them to maximize collections. The incentive payments, essentially, are based on each county's child support collections.

The federal government allocates to the states an incentive payment based on a percentage (usually 6 percent to 6.5 percent for California) of AFDC and non-AFDC collections, with the percentage varying according to the state's ratio of collections to program costs. In California, the state supplements

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these funds and distributes the combined federal and state incentive payments to counties based on a specified percentage of total AFDC and non-AFDC collections.

Pursuant to Ch 1647/90 (AB 1033, Wright), the counties will receive up to 11 percent of total collections in 1992-93, increasing annually by 1 percent through 1995-96. The actual amount that counties receive will consist of a minimum "base" rate and an additional percentage depending on their performance with respect to (1) compliance with federal and state regulations and audit criteria and (2) two specific components of the administrative process: establishment of paternities and establishment of support orders. The minimum base rate in 1992-93 is established at 9 percent, decreasing by 1 percent annually through 1995-96. Counties can earn an additional 2 percent in 1992-93 for compliance with state and federal regulations, increasing annually by 1 percent through 1995-96. Finally, counties that qualify for the compliance incentive rates can earn an additional 1 percent in 1993-94 for their performance on the aforementioned two components of the administrative process, increasing by 1 percent annually through 1995-96.

Table 8 summarizes the new system for distributing incentive payments.

Table 8

**Department of Social Services
Child Support Incentive Payments to Counties
1992-93 through 1995-96**

	Base Rate[a]	Compliance Rate[a]	Performance Rate[a]	Total[a]
1992-93	9 %	2 %	—	11 %
1993-94	8	3	1 %	12
1994-95	7	4	2	13
1995-96	6	5	3	14

[a] Applied to total child support collections (AFDC and non-AFDC).

Fiscal Impact of Program. As Table 9 shows, the child support enforcement program will provide an estimated *net savings* of $119 million to the state's General Fund and $10 million to the counties in 1992-93. It is estimated that the federal government will spend $86 million more in 1992-93 than it will receive in the form of grant savings.

Table 9

Department of Social Services Child Support Enforcement Program 1992-93

(In thousands)

	General Fund	Federal Funds	County Funds	Total
Program costs				
County administration	$2,642	$175,955	$83,488	$262,085
State administration	5,391	22,144	—	27,535
Incentive payments	28,517	48,308	-76,825	—
Savings				
Welfare collections	-155,905	-160,551	-16,640	-333,096
Net fiscal impact	**-$119,355**	**$85,856**	**-$9,977**	**-$43,476**

Table 9 does *not* show one of the major fiscal effects of the child support enforcement program: its impact on AFDC caseloads. To the extent that child support collections on behalf of non-AFDC families keep these families from going on aid, they result in AFDC grant avoidance savings. While AFDC grant avoidance is one of the major goals of the child support enforcement program, it is not shown in the table because, unlike the other fiscal effects of the program, there is no way to directly measure the savings that result from grant avoidance.

Collections and Recoupments. The major objective of the child support enforcement program is to assure the collection of support obligations. Therefore, one measure of the performance of the program is its total collections. Table 10 shows the change in statewide collections of child support from 1982-83 through 1990-91. As the table shows, statewide collections increased at an average annual rate of 10.5 percent during this period.

Although total collections are an important indicator of program performance, collection data alone do not measure the extent to which the program reduces the amount of public funds spent on welfare. A commonly used measure of program success in this regard is the percentage of AFDC grant expenditures actually recouped through the child support enforcement program (the "recoupment rate"). Table 11 shows the recoupment rate from 1982-83 through 1990-91. During this period, the state recouped an average of 6.2 percent of state, federal, and county expenditures through the child support enforcement program.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 10

Department of Social Services
Statewide Child Support Collections[a]
1982-83 through 1990-91

(dollars in millions)

	AFDC	Non-AFDC	Total Collections	Annual Percent Increase
1982-83	$151.5	$112.5	$264.0	—
1983-84	158.2	125.8	284.0	7.6%
1984-85	174.8	142.9	317.7	11.9
1985-86	187.3	160.0	347.2	9.3
1986-87	198.1	189.3	387.4	11.6
1987-88	213.5	215.8	429.3	10.8
1988-89	235.1	241.5	476.6	11.8
1989-90	246.4	267.1	513.5	7.7
1990-91	287.8	300.6	588.4	14.6
Average annual increase				10.5%

[a] Data provided by Child Support Management Information System, Department of Social Services. Figures for 1990-91 do not tie to Governor's Budget because of differences in the accounting and reporting of the data.

Table 11

Department of Social Services
Child Support Enforcement "Recoupment Rates"[a]
All Counties
1982-83 through 1990-91

	Rate
1982-83	6.3%
1983-84	6.2
1984-85	5.8
1985-86	6.3
1986-87	6.1
1987-88	6.6
1988-89	6.6
1989-90	5.9
1990-91	6.3
Average rate	6.2%

[a] AFDC collections as percent of grant expenditures.

California Parent Locator Service

We recommend that the department's budget for contractual services provided by the California Parent Locator Service (CPLS) be augmented by $300,000 ($102,000 General Fund and $198,000 federal funds) in order to fund the statutory requirement that the CPLS obtain, for a fee, information from public utility companies regarding the location of absent parents who have child support obligations. (Increase Item 5180-001-001 by $102,000 and increase Item 5180-001-890 by $198,000.)

We further recommend that the Legislature adopt Budget Bill language providing that the DSS restore in 1992-93 the current-year budget reduction ($199,000 General Fund) reflected in the department's contract with the CPLS. We recommend deferring until the May revision the resolution of the question of accomplishing this through an augmentation or a redirection from within the DSS's budgeted resources. (Increase Item 5180-001-890 by $387,000.)

The CPLS, administered by the Department of Justice, is responsible for assisting county district attorneys in locating absent parents who have, or may have, child support obligations. The locator service is funded with state and federal matching funds through an interagency contract by the DSS. Total funding in the current year is $3.3 million ($1.1 million General Fund), which is 18 percent below the prior-year level of funding. This reduction was implemented by the DSS in order to help meet the department's budget reductions.

Information From Public Utilities. While the interagency contract to support the CPLS in the budget year has not been negotiated, the DSS's budget does not include additional funding — either in the current or budget years — for a new statutory requirement enacted by Ch 110/91 (SB 101, Hart). This act requires the public utility companies to provide to the CPLS, for a fee to cover the utilities' costs, information regarding the location of absent parents. The CPLS estimates that this will cost $100,000 in one-time expenditures and $200,000 in annual ongoing expenditures.

We believe that it is important that this new activity be funded, not only because it is required by statute but also because it will likely be cost-effective for the state. The location of absent parents is a key component of the child support enforcement process. As of June 30, 1991, the counties reported over 440,000 unlocated parents, of whom about 75 percent were from AFDC families. County child support program administrators whom we contacted indicated that information provided by the utilities is likely to be very helpful in locating absent parents.

As noted above, the state realizes substantial savings from the collection of child support. A 1 percent increase in AFDC collections, for example, would offset state expenditures for AFDC grants by about $1.5 million. While we cannot predict the impact of implementing the requirements of

Chapter 110, it is apparent that the potential savings are far in excess of the costs. Consequently, we recommend that the DSS's budget be augmented by $300,000 ($102,000 General Fund and $198,000 federal funds) in 1992-93.

This new activity could result in some increase in child support collections in the budget year, thereby resulting in AFDC savings to the state, federal, and county governments. We are uncertain, however, when an appreciable amount of savings will begin to be achieved. Consequently, we make no recommendation to increase the budgeted level of savings.

Restoration of Current-Year Reduction. We are also concerned about the 18 percent reduction in funding incurred by the CPLS in the current year. According to CPLS, the number of locate requests received by the office during the first six months of 1991-92 increased by 58 percent over the corresponding period in the prior year. This workload increase, in conjunction with the funding reduction, has significantly reduced the CPLS's response time, thereby decreasing the probability that local child support enforcement offices will locate the absent parents. In addition, the lack of adequate funding has prevented the CPLS from initiating new projects, such as developing automated access to data bases maintained by the Department of Health Services and the major credit bureaus in the state.

Given the substantial increase in workload and the potential savings associated with CPLS activities, we recommend that baseline funding for the service be restored to the 1990-91 level. This will require either an augmentation of $199,000 from the General Fund (and $387,000 in matching federal funds) or a redirection from within the department's budget. In order to better assess funding options, we recommend deferring until the May revision the resolution of the question of how this restoration of funding should be accomplished.

In order to implement both components of this recommendation, we suggest adoption of the following Budget Bill language:

> The department shall allocate $3,560,000 in its 1992-93 contract with the California Parent Locator Service.

Legislative Options to Increase Savings From Child Support Program

In January 1992, we published a report, *California's Child Support Enforcement Program.* This report is also included in our *1992-93 Budget: Perspectives and Issues.* To summarize briefly, we found that under the existing system of administering and funding the program, counties have a fiscal incentive to hold administrative spending down to relatively low levels, even though increased spending is likely to be cost-beneficial — potentially resulting in major savings from increased recoupments — from a statewide perspective.

In order to change the existing set of incentives that affect decision making on program funding, we presented two options for the Legislature. Under the first option, the responsibility for administration and funding of the program would be transferred from the counties to the state. In the second option, the state would provide a state-funded incentive payment to augment program funding, based on each county's efficiency as measured by the ratio of the marginal increase in child support collections to the marginal increase in administrative costs.

Local Expertise Could Enhance State-Level Assistance

We recommend that the department report, during the budget hearings, on the feasibility of developing and using a team of experts from the counties in order to assist the department in conducting reviews of county programs.

The DSS can play an important role in the child support enforcement program by reviewing county programs and providing technical assistance. The department, in fact, has organized a new division within its child support bureau specifically to conduct reviews in connection with provisions of Chapter 1647 and language in the *Supplemental Report of the 1990 Budget Act.* Staff in the division, however, are relatively new to this field. We suggest, therefore, that the department build staff expertise by conducting intensive field visits to those counties that have demonstrated relatively high levels of recoupment and, in particular, those counties that have managed to combine this with high levels of efficiency.

We also recommend that the department, with the assistance of the Family Support Council (consisting primarily of county program directors), develop a team of experts on program administration, selected from the county programs. To the extent possible, this team would assist the department in conducting reviews of low-performing counties. The department should be prepared to comment, during the budget hearings, on the feasibility of implementing this proposal in the budget year.

Adoption Assistance Program

Report on Program Grants Has Not Been Submitted

The Supplemental Report of the 1990 Budget Act requires the DSS to report to the Legislature on (1) options for establishing standards for adoption workers to follow in setting Adoption Assistance Program (AAP) grant levels and (2) the feasibility of placing time limits on state-only AAP benefits. The report was due on March 1, 1991 but has not been submitted.

In our *Analysis of the 1990-91 Budget Bill,* we examined the reasons for the rapid growth in AAP grant costs. We found that the primary reason for the rapid growth in the grant costs is the lack of state controls on the amount of grants adoptive parents are eligible to receive. Specifically, we found that the

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AAP is unique among the major grant programs operated by the DSS in that it allows individual county adoption workers broad discretion in determining both the amount and the beginning date of the grants. In addition, we found that the lack of statewide standards for adoption workers to use in setting the amount and the beginning date of the grants results in large variations in adoption assistance grants across counties. (Please see our *Analysis of the 1990-91 Budget Bill,* page 715 for further discussion of this issue.)

Department's Report to the Legislature Should Provide Options for Controlling Costs in the AAP. Recognizing that there was a need for better cost controls on the AAP, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* that required the department to report to the Legislature by March 1, 1991 on (1) options for establishing standards for adoption workers to follow in setting AAP grant levels and (2) the feasibility of placing time limits on "state-only" AAP benefits. We anticipate that this report will identify options for controlling cost increases in the AAP. At the time this analysis was prepared, the department had not submitted the required report. The department should be prepared to comment on the report during budget hearings.

We note that the budget proposes to continue the current-year trigger-related reduction of $3 million ($1.6 million from the General Fund) for the AAP. The department indicates, however, that the reduction will not be made in the current year because (1) the program is an entitlement, and therefore all eligible cases must be funded regardless of budgeted levels, (2) funding requirements are anticipated to *exceed* budgeted amounts by $2 million, and (3) cost control mechanisms are not currently in place. Accordingly, absent some change in the program, it is likely to incur a deficiency that will eliminate the savings expected from the reduction.

State Supplementary Program for the Aged, Blind, and Disabled

Item 5180

Expenditures

Requested 1992-93	$2,535,575,000
Estimated 1991-92	2,399,950,000
Actual 1990-91	2,303,725,000
Requested increase $135,625,000 (+5.7 percent)	

Fiscal Recommendations

Total recommended reduction	None
Recommendation pending	$2,535,575,000

MAJOR ISSUES

- **Food Stamps.** The budget proposes legislation to eliminate the food stamps "cash-out" program for SSI/SSP recipients, for a net savings of $73 million from the General Fund.

Findings and Recommendations

Analysis Page

1. **SSI/SSP Estimate.** Withhold recommendation on $2.5 billion from the General Fund pending review of revised estimates in May. 213

General Program Statement

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. Persons may be eligible for the SSI/SSP Program if:

- They are age 65 or older, blind, or too disabled to work.
- Their income is less than the SSI/SSP payment standards.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

- Their resources do not exceed $2,000 for individuals or $3,000 for couples (this cap does not apply to the value of such significant assets as a home or automobile).

The maximum grant received by an SSI/SSP recipient varies according to the recipient's eligibility category (aged, blind, or disabled), other income, and living situation.

In California, the federal government administers the SSI/SSP Program through local Social Security Administration (SSA) offices. The federal government pays the cost of the SSI grant and all costs of program administration. California has chosen to supplement the federal payment by providing an SSP grant. The SSP grant is funded entirely from the state's General Fund. The federal government, however, pays for the SSP grants for newly legalized persons through the State Legalization Impact Assistance Grant (SLIAG).

The federal government annually provides a cost-of-living adjustment (COLA) to SSI/SSP recipients, increasing the amount of the SSI payment by the percentage increase in the Consumer Price Index (CPI). Under Ch 97/91 (SB 724, Maddy), the statutory annual COLA provided by the state has been suspended through calendar year 1996. In addition, Ch 94/91 (AB 385, Epple) requires the "pass-through" of all federal COLAs through calendar year 1996. The effect of the federal COLA pass-through is to keep SSP grants at their current level while the SSI grant increases, thus allowing recipients to receive the benefit of the federal COLA.

Overview of the Budget Request

The proposed SSI/SSP budget is essentially a workload budget, except for the proposal to eliminate the food stamps cash-out program.

The budget proposes an appropriation of $2.5 billion from the General Fund for the state's share of the SSI/SSP Program in 1992-93. This is an increase of $147 million, or 6.2 percent, over estimated current-year expenditures. The budget also includes $19 million from federal SLIAG funds for grants to newly legalized persons under the federal Immigration Reform and Control Act (IRCA). When these funds are included, the total proposed appropriations are an increase of $136 million, or 5.7 percent, above estimated current-year expenditures.

The budget also assumes that federal expenditures for SSI grant costs will be $2.7 billion. This is an increase of approximately 15 percent over estimated federal expenditures in the current year. The combined state and federal expenditures anticipated by the budget for the SSI/SSP Program are $5.3 billion, an increase of $497 million, or 10 percent, above estimated current-year expenditures. Table 1 shows SSI/SSP expenditures by category of recipient and by funding source, for the years 1990-91 through 1992-93.

Table 1

Department of Social Services
SSI/SSP Expenditures
1990-91 through 1992-93

(dollars in thousands)

Category of Recipient	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Aged	$1,316,232	$1,410,402	$1,524,066	8.1%
Blind	126,957	129,763	134,459	3.6
Disabled	2,930,821	3,237,671	3,616,345	11.7
Totals	**$4,374,010**	**$4,777,836**	**$5,274,870**	**10.4%**
Included in Budget Bill:				
General Fund	*$2,282,545*	*$2,369,310*	*$2,516,245*	*6.2%*
Federal funds (reimbursements for refugees)	*414*	—	—	—
State Legalization Impact Assistance Grants	*20,960*	*30,640*	*19,330*	*-36.9*
Subtotals, Budget Bill	*($2,303,919)*	*($2,399,950)*	*($2,535,575)*	*(5.7%)*
Not included in Budget Bill:				
SSI grants	*$2,070,091*	*$2,377,886*	*$2,739,295*	*15.2%*

Table 2 shows the factors resulting in the 1992-93 net increase of $497 million in SSI/SSP expenditures. The changes and adjustments that are not discussed later in this analysis are:

- A $467 million ($216 million General Fund) increase to fund an anticipated 7.6 percent caseload growth.
- A $111 million ($340,000 General Fund) increase due to 1992 and 1993 federal COLAs.
- A $6 million increase in the General Fund due to payments pursuant to settlement of the *Zebley v. Sullivan* lawsuit, which increased eligibility for children with developmental disabilities.
- A $25 million ($13 million General Fund) increase in retroactive payments to disabled recipients due to a backlog of applications caused by a shortfall of federal funding for the Disability Evaluation Division.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

- A $24 million decrease in federal funds due to reductions in IRCA-eligible caseload (recipients who have ended their five-year exclusion from public assistance programs). These recipients continue to receive SSI/SSP benefits through the regular SSI/SSP Program.

Table 2

Department of Social Services SSI/SSP Budget Changes 1992-93

(dollars in thousands)

	General Fund	All Funds[a]
1991 Budget Act	$2,471,970	$4,987,044
1991-92 adjustments to appropriations		
Lower caseload growth	-$82,901	-$171,600
Lower retroactive payments to disabled	-12,363	-25,667
Other	-7,396	-11,941
Subtotals	(-$102,660)	(-$209,208)
1991-92 Expenditures (revised)	$2,369,310	$4,777,836
1992-93 baseline adjustments		
Caseload increase	$216,222	$466,793
1992 and 1993 federal COLAs	340	111,386
Court case	6,066	6,066
Retroactive payments to disabled	12,637	25,305
Decrease in IRCA and SLIAG costs	—	-24,186
Program change		
Elimination of food stamps "cash-out" program	-88,330	-88,330
Subtotals	($146,935)	($497,034)
1992-93 Expenditures (prop.)	**$2,516,245**	**$5,274,870**
Change from 1991-92		
Amount	$146,935	$497,034
Percent	6.2%	10.4%

[a] Includes federal SSI payments not appropriated in the state budget, Control Section 23.5 payments under SLIAG, and the General Fund amount.

Analysis and Recommendations

Budget Proposes to Eliminate Food Stamps Cash-Out for SSI/SSP Recipients

The budget proposes legislation to eliminate the food stamps cash-out program for SSI/SSP recipients for a net savings of $73 million from the General Fund.

Under current federal law, California is allowed to provide cash in lieu of food stamps to eligible SSI/SSP recipients (referred to as the food stamps "cash-out"). The cash is included as part of the state's share of the SSI/SSP grant. In lieu of providing cash, the budget proposes to reduce the SSP grant and permit SSI/SSP recipients to receive food stamps. This would result in savings to the state ($88 million in grant savings, offset by costs of $15 million for administration) and increased costs to the federal government because food stamps are federally funded. Currently, California is the only state that provides cash in lieu of food stamps.

Elimination of the food stamps cash-out would reduce the SSI/SSP grant by $10, and recipients would be eligible for $10 in food stamps. In order to obtain these food stamps, however, the recipient would have to apply at a county welfare office. (Our discussion of the administrative costs of this proposal is included in our analysis of the County Administration of Welfare Programs item.)

We note that this proposal could result in a net loss of household benefits for some SSI/SSP recipients — specifically, when an SSI/SSP recipient is part of an Aid to Families with Dependent Children (AFDC) family (for example, an SSI/SSP parent with an AFDC child). Under current law, the SSI/SSP recipient's grant is not counted as income when the AFDC recipients in the household apply for food stamps. If the cash-out is eliminated, the *combined* income (both SSI/SSP and AFDC grants) of the household would be considered when determining eligibility for food stamps. The increase in "countable" family income would result in a reduction in food stamps. At the time we prepared this analysis, the department was unable to provide information on the fiscal effect of this interaction; however, based on a recent department survey of AFDC records, as many as 50,000 families could be adversely affected in this manner. The department should be prepared to comment on this issue during budget hearings.

Estimates Will Be Updated in May

We withhold recommendation on $2.5 billion from the General Fund requested for SSI/SSP grant costs, pending review of revised SSI/SSP expenditure estimates to be submitted in May.

The proposed expenditures for SSI/SSP are based on actual caseload and cost data through July 1991. The department will present revised estimates

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

in May, which will be based on program costs through February 1992. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1992-93 expenditures.

Special Adult Programs

Item 5180

Expenditures

Requested 1992-93	$3,034,000
Estimated 1991-92	3,034,000
Actual 1990-91	3,135,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Special Adult programs consist of three distinct program elements designed to fund the emergency and special needs of Supplemental Security Income/State Supplementary Program (SSI/SSP) recipients. These elements are the (1) Special Circumstances Program, which provides financial assistance for emergency needs, (2) Special Benefits Program, which provides a monthly care and maintenance allowance for guide and assistance dogs to blind SSI/SSP recipients, and (3) Temporary Assistance for Repatriated Americans Program, which provides assistance to needy U.S. citizens returning from foreign countries.

Overview of the Budget Request

The budget proposes no workload or program changes for the Special Adult programs.

The budget proposes an appropriation of $3 million from the General Fund and $75,000 from the Federal Trust Fund for the Special Adult programs in 1992-93. This is unchanged from estimated current-year expenditures and the amount appropriated in the 1991 Budget Act.

Refugee Cash Assistance Programs
Item 5180

Expenditures

Requested 1992-93	$37,203,000
Estimated 1991-92	33,997,000
Actual 1990-91	36,902,000
Requested increase $3,206,000 (+9.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

This item appropriates federal funds for cash grants to needy refugees who (1) have been in this country for less than one year and (2) do *not* qualify for assistance under the Aid to Families with Dependent Children (AFDC) Program or the Supplemental Security Income/State Supplementary Program (SSI/SSP). The funds for assistance to refugees who receive AFDC or SSI/SSP grants are appropriated under Items 5180-101-890 and 5180-111-890, respectively.

Overview of the Budget Request

The proposed budget for the Refugee Cash Assistance (RCA) programs is essentially a workload budget.

The budget proposes expenditures of $37.2 million in federal funds in 1992-93 for cash assistance to time-eligible refugees through the RCA programs. This is an increase of $3.2 million, or 9.4 percent, above estimated current-year expenditures. The increase is primarily the result of anticipated caseload growth.

County Administration of Welfare Programs
Item 5180

Expenditures

Requested 1992-93	$1,436,342,000
Estimated 1991-92	1,212,121,000
Actual 1990-91	758,466,000
Requested increase $224,221,000 (+18.5 percent)	

Fiscal Recommendations

Total recommended reduction	160,000,000

Findings and Recommendations

Analysis Page

1. **Budget Overestimates Spending for County Administration. Reduce Item 5180-141-001 by $66 million and reduce Item 5180-141-890 by $94 million.** Recommend reducing the budget estimate of current-year spending for county administration by $171 million ($60 million General Fund) and the proposed budget-year spending by $189 million ($66 million General Fund), based on more recent data on actual current-year spending by the counties. 220

General Program Statement

This item contains funds to cover the state and federal share of the costs incurred by counties in administering (1) the Aid to Families with Dependent Children (AFDC) Program — including the Transitional Child Care Program, (2) the Food Stamp Program, (3) the Child Support Enforcement Program, (4) special benefits for aged, blind, and disabled adults, (5) the Refugee Cash Assistance Program, and (6) the Adoption Assistance Program. In addition, this item supports the cost of training county eligibility staff.

Overview of the Budget Request

The budget for the county administration of welfare programs includes several program changes resulting in significant cost increases.

The budget proposes appropriations of $432 million from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1992-93. This is an increase of $73 million, or 20 percent, over estimated current-year General Fund expenditures for this purpose. The $432 million does not include any funds for the state's share of the ongoing costs of the cost-of-living adjustment (COLA) granted by the counties to their employees during 1991-92. Thus, the counties will have to pay for the state share of the 1992-93 costs of the 1991-92 COLAs that were granted by the counties. Counties will pay for any COLAs granted to county employees in 1992-93 by using county and federal funds. Under existing procedures, the state will fund its share of the ongoing costs resulting from COLAs granted in 1992-93, starting in 1993-94.

Table 1

Department of Social Services
County Welfare Department Administration
1990-91 through 1992-93

(in thousands)

	Actual 1990-91		Estimated 1991-92		Proposed 1992-93	
	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds
AFDC administration	$141,650	$502,304	$266,925	$703,359	$305,000	$800,725
Nonassistance food stamps	40,247	240,416	94,232	410,049	112,131	480,851
San Diego food stamp cash out[a]	—	48,500	—	111,400	—	143,300
SSI/SSP food stamps	—	—	—	—	15,000	30,000
Child support enforcement	—	209,339	1,014	236,188	2,642	262,085
Special adult programs	2,268	2,268	2,473	2,544	2,473	2,548
Refugee cash assistance	—	10,220	—	6,658	—	7,149
Adoption assistance	295	590	621	1,282	773	1,580
Staff development	3,344	13,287	6,092	17,975	6,753	19,924
Transitional child care	772	1,544	870	1,739	870	1,739
Unallocated reduction	—	—	-13,401	-38,411	-13,401	-38,411
Totals	**$188,576**	**$1,028,468[b]**	**$358,826**	**$1,452,783[b]**	**$432,241**	**$1,711,490[b]**

[a] Amounts shown are to provide cash grants in lieu of food stamps coupons to eligible individuals, and thus are not "administrative" costs as typically defined.

[b] Includes State Legalization Impact Assistance Funds. These funds are budgeted under Control Section 23.50.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

The budget proposes total expenditures of $1.7 billion for county administration of welfare programs during 1992-93, as shown in Table 1. This is an increase of $259 million, or 18 percent, over current-year expenditures and includes funds appropriated in Control Section 23.5.

Baseline Adjustments. Table 2 shows the budget adjustments that account for the net $259 million (all funds) increase in county administration expenditures proposed for 1991-92. The baseline adjustments proposed in the budget are as follows:

- A $184 million ($55 million General Fund) increase due to (1) projected caseload growth in the various welfare programs administered by the counties and (2) increased costs per worker, resulting primarily from the COLAs that counties provided their employees in 1991-92.
- A $32 million increase in federal funds (no General Fund or county funds) due to an expansion of the San Diego Food Stamp Cash-Out Demonstration Project. Under this demonstration project, San Diego County provides cash rather than food stamps to eligible individuals. Thus, these costs are not "administrative" costs as typically defined.
- A $13 million ($4.5 million General Fund) increase in expenditures for the Statewide Automated Welfare System (SAWS). (We discuss this item further below.)
- A $6.8 million ($1.4 million General Fund) increase in expenditures for various administrative initiatives in the child support program, which are required by existing federal and/or state law. The largest single initiative is the continued funding of additional staff and automated systems in order to improve Los Angeles County's child support collections ($5.1 million federal and county funds).

Table 2

Department of Social Services
County Administration of Welfare Programs[a]
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	All Funds
1991-92 Expenditures (revised)	$358,826	$1,452,783
Baseline adjustments		
Increased basic program costs	$55,354	$183,607
San Diego County food stamp cash out	—	31,900
Statewide automated welfare system	4,547	13,413
Child support administrative initiatives	1,401	6,842
Other	-1,424	-3,108
Subtotals, baseline adjustments	($59,878)	($232,654)
Policy proposals		
Reduction in MAPs (10 percent)	-$4,512	-$12,827
Reduction in MAPs (additional 15 percent)	7,312	20,784
Exclusion from grants of children conceived while on aid	33	93
Residency requirement	1,246	3,542
Elimination of pregnancy benefits	-1,861	-5,290
Operation of the Cal Learn Program	1,304	3,709
Requirement that teen parents on aid live with parents	15	42
Savings from reduced dependency	-5,000	-14,000
Elimination of SSI/SSP food stamp cash out	15,000	30,000
Subtotals, policy proposals	($13,537)	($26,053)
1992-93 Expenditures (proposed)	$432,241	$1,711,490
Change from 1991-92		
Amount	$73,415	$258,707
Percent	20.5%	17.8%

[a] Item 5180-141 and Control Section 23.5.

Policy Changes. As discussed in our analysis of the AFDC Program, the budget proposes several significant changes, effective March 1, 1992. These proposals — which would require legislation and, in most cases, waivers of federal law — would result in the following changes in county administration costs in 1992-93:

- A $13 million ($4.5 million General Fund) reduction in costs due to the proposal to reduce AFDC maximum aid payments (MAPs) by 10 percent. This is the change in costs between 1991-92 ($28 million) and 1992-93 ($15 million).

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

- A $21 million ($7.3 million General Fund) expenditure to administer the proposal to reduce AFDC MAPs an additional 15 percent for certain recipients.
- A $93,000 ($33,000 General Fund) expenditure to administer the proposal to exclude, for purposes of determining AFDC grants, children who are conceived while their parents are receiving AFDC.
- A $3.5 million ($1.2 million General Fund) expenditure increase for the proposed 12-month residency requirement for AFDC grants. The budget includes costs of $1.8 million ($922,000 General Fund) for the program in 1991-92.
- A $5.3 million ($1.9 million General Fund) expenditure decrease for the proposed elimination of all AFDC-related pregnancy benefits. The budget includes $698,000 ($246,000 General Fund) of savings in the 1991-92 fiscal year because the programs would be eliminated during the current year.
- A $3.7 million ($1.3 million General Fund) increase for the proposed Cal Learn Program. The budget includes $1.7 million ($596,000 General Fund) in costs for the program in 1991-92.
- A $42,000 ($15,000 General Fund) increase for the proposal to require certain teen parents to live with their parents or an adult relative in order to receive AFDC. The budget includes costs of $20,000 ($7,000 General Fund) for this provision in 1991-92.
- A $14 million ($5 million General Fund) savings because of a reduction in the number of recipients due to increased incentives to leave AFDC as a result of the reduction in benefits.

In summary, the total costs of these proposals over two years is $56 million ($20.2 million General Fund). This consists of net costs of $26 million ($9.2 million General Fund) for county administration in 1992-93 and $30 million ($11 million General Fund) in 1991-92.

Finally, the budget includes a policy proposal for an increase of $30 million ($15 million General Fund) for administration of the Food Stamp Program for Supplemental Security Income/State Supplementary Program (SSI/SSP) recipients. We discuss this proposal below.

Analysis and Recommendations

Budget Overestimates Spending for County Administration

We recommend reducing the budget estimate of current-year spending for county administration by $171 million ($60 million General Fund) and the proposed budget-year spending by $189 million ($66 million General Fund),

based on more recent data on actual current-year spending by the counties. (Reduce Item 5180-141-001 by $66 million and reduce Item 5180-141-890 by $94 million.)

The proposed expenditures for county administration of welfare programs in 1992-93 are based on 1991-92 budgeted costs updated to reflect the department's caseload estimates for 1992-93. According to the department, recent county expenditure data indicate that estimated current-year spending will be $171 million ($60 million General Fund) *below* the amount estimated in the budget. Because the current-year estimate is the basis for the amount proposed in the budget year, we estimate that the budget proposal for 1992-93 is overbudgeted by $189 million ($66 million General Fund), after adjusting for projected caseload growth. Consequently, we recommend that the budget be reduced in the current and budget years to reflect the most recent data available.

In May, the department will present revised estimates of county costs based on revised caseload estimates and county costs in 1991-92. In addition, the May estimate will incorporate changes reflected in approved county cost control plans for 1992-93. We also note that the administrative costs of the proposed welfare reforms and the SSI/SSP changes are, as noted above, dependent on changes to existing law as well as receipt of the required waivers.

We will revise our recommendation for county administration, as appropriate, after reviewing the May revision and any adjustments needed to reflect the Legislature's actions on the Governor's welfare proposals.

Cost to Administer SSI/SSP Food Stamp Eligibility Is Uncertain

The budget proposes $30 million ($15 million General Fund and $15 million federal funds) to administer the Food Stamp Program for persons in the SSI/SSP Program. Currently, SSI/SSP recipients receive a $10 payment as part of the state-funded SSP portion of their grant in lieu of eligibility for food stamps. The budget proposes to end this "cash-out" program (for a General Fund savings of $88 million in SSP grants) and instead permit SSI/SSP recipients to apply for food stamps. The counties would experience increased costs due to the need to determine eligibility of SSI/SSP recipients who would apply for food stamps. These costs would be shared by the state and the federal government. The actual costs for determining eligibility would depend on the number of recipients who apply for food stamps and the manner in which their eligibility is determined. The department currently is negotiating with the federal Food and Nutrition Service regarding an acceptable eligibility determination process. Therefore, actual administrative costs could be higher or lower than the $30 million estimate ($15 million General Fund and $15 million federal funds) shown in the proposed budget.

We discuss this proposal in more detail in our analysis of the SSI/SSP Program.

SAWS Development Suspended Pending Review

The budget proposes $28 million ($11 million General Fund, $14 million federal funds, and $3 million county funds) for development of the SAWS in 1992-93. This is an increase of $13 million, or 8.9 percent, over the current year. Past SAWS development funding has resulted in pilot testing of two different county-based automated eligibility and benefit determination systems. These systems appear to perform well and have comparable capabilities. While each of these systems potentially could exchange information with a state-level automated system, they cannot exchange information directly with each other because they employ distinctly different designs.

In order to determine the best course of action to expand county automation, the department has imposed a six-month suspension on development of SAWS. This suspension, which ends in June 1992, was implemented in order to give the department an opportunity to identify a development strategy that includes several elements missing from past departmental plans. These include (1) determining which of the two systems to implement in order to ensure intercounty compatibility, (2) identifying resource needs in order to support statewide implementation, (3) identifying the most effective design of state-level data bases and communication links for the system, and (4) identifying how best to link SAWS with other major systems currently under development.

The outcome of this evaluation is important since it will define the development of SAWS for the next several years. Therefore, the department should be prepared to advise the Legislature during budget hearings on the SAWS review and planning process.

Cal Learn Costs Appear to Be Underbudgeted

The budget proposed legislation to create a Cal Learn Program for teen parents under age 19 who have not graduated from high school. As we discussed in our analysis of the AFDC Program, the Cal Learn Program would provide bonuses or impose sanctions on teen parents based on their school attendance. The budget includes funding for the administrative costs of this program of $5.4 million ($1.9 million General Fund) in 1992-93 and $1.7 million ($596,000 General Fund) in the current year. We are unable to determine whether this funding is adequate since the department has not developed implementation plans. Experience with similar programs in Wisconsin and Ohio, however, suggest that start-up costs could be more than anticipated in the budget.

The budget proposal also fails to include any provision for school district costs due to additional requirements to track and report attendance of teen parents who receive AFDC. These costs, which are unknown but potentially more than $1 million annually, would be state-reimbursable mandated costs unless the Cal Learn Program is approved by a vote of the electorate as part of the Governor's proposed initiative for the November 1992 ballot.

Social Services Programs

Item 5180

Expenditures

Requested 1992-93	$1,339,533,000
Estimated 1991-92	1,288,285,000
Actual 1990-91	1,408,183,000
Requested increase $51,248,000 (+4 percent)	

Fiscal Recommendations

Total recommended reduction	6,000,000
Recommendation pending	$34,000,000

MAJOR ISSUES

- **In-Home Supportive Services Program Underfunded.** The budget proposal is $82 million ($47 million General Fund) less than the amount required to fund the projected need for services in the In-Home Supportive Services Program.

Findings and Recommendations

Analysis Page

Child Welfare Services

1. **Los Angeles County Case-Count Study Will Affect Child Welfare Services Allocation.** Recommend that the Department of Social Services (DSS) report during budget hearings on the results of the county's October 1991 case-count study. 229
2. **Los Angeles County Fails Second Compliance Review.** Recommend that the DSS report during budget hearings on (a) the status of Los Angeles County's efforts to increase compliance with program requirements, (b) the county's plans to meet compliance standards, and (c) potential county sanctions. 231
3. **Emergency Response Screening Guidelines May Affect Program Funding Requirements.** Recommend that the DSS report during budget hearings on the impact of the department's new guidelines for screening reports of child abuse or neglect. 233
4. **Delays in Development of Case Management System (CMS). Reduce Item 5180-001-001 by $4.5 million and reduce Item 5180-001-890 by $1.5 million.** Recommend reduction due to overbudgeting caused by delays in the development of the child welfare services CMS. 234

In-Home Supportive Services

5. **Proposed Funding Level is Insufficient to Accommodate Projected Service Need.** The budget proposal is $82 million less than the amount projected to be needed. The impact would be a reduction in the level of services provided. We present some alternatives on how program costs could be controlled. 237
6. **Uniformity Assessment Tool is Inadequate.** The department's Uniformity Assessment Tool for the program does not result in the intended uniform level of services to recipients. We recommend that the department report, during budget hearings, on the feasibility of using standardized ranges for the authorized hours of service, based on county-reported data. 240
7. **Statutory Cost-of-Living Adjustment (COLA) Not Funded.** The budget proposes legislation to eliminate the COLA, for a savings of $1.9 million ($1.3 million General Fund) in 1992-93. 244

Employment Services

8. **Greater Avenues for Independence (GAIN) Program.** The proposed funding for the GAIN Program could be more than $200 million ($60 million General Fund) below the amount needed to fully fund the program. 247
9. **Aid to Families with Dependent Children Job Club Program.** Withhold recommendation on proposed new program ($15 million General Fund and $15 million federal funds) pending submission and review of a detailed plan for administering the program and coordinating it with the GAIN Program. 248
10. **Employment Opportunities Program.** Withhold recommendation on proposed new program ($2 million federal funds and $2 million reimbursements) pending submission and review of a detailed expenditure plan. 248
11. **Coordinate Proposed Cal Learn Program to Maximize Federal Funds.** Recommend the department report on the feasibility of coordinating the Cal Learn Program with the GAIN Program and the School-Age Parenting and Infant Development Program in order to maximize federal funds. 249

General Program Statement

The Department of Social Services (DSS) administers various programs that provide services, rather than cash, to eligible persons who need governmental assistance. The seven major programs providing these services are (1) Child Welfare Services, (2) County Services Block Grant, (3) In-Home Supportive Services (IHSS), (4) Greater Avenues for Independence (GAIN), (5) Adoptions, (6) Refugee programs, and (7) Child Abuse Prevention.

Federal funding for social services is provided pursuant to Titles IV-A, IV-B, IV-C, IV-E, IV-F, and XX of the Social Security Act and the Federal Refugee Act of 1980. In addition, 10 percent of the funds available under the federal Low-Income Home Energy Assistance block grant are transferred to Title XX services each year.

Overview of the Budget Request

The budget proposal for social services programs reflects baseline adjustments and policy proposals to (1) increase funding for employment services (Aid to Families with Dependent Children Job Club) and child care services (Cal Learn Program) and (2) decrease funding due to proposed service level reductions in the IHSS Program.

SOCIAL SERVICES PROGRAMS—Continued

The budget anticipates that spending for social services programs in 1992-93 will total $1.8 billion. The budget proposes expenditures of $544 million in state funds ($542 million General Fund and $2.1 million State Children's Trust Fund), $767 million in federal funds, and $28 million in reimbursements to support social services programs in 1992-93. In addition, the budget anticipates that counties will spend $411 million from county funds for these programs. Thus, Table 1 displays program expenditures and funding sources for these programs in the past, current, and budget years.

Table 1

Department of Social Services
Social Services Programs
Expenditures from All Funds
1990-91 through 1992-93[a]

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Child welfare services	$479,405	$529,962	$515,120	-2.8%
County services block grant	86,600	87,511	94,168	7.6
In-home supportive services	655,182	742,237	743,934	0.2
Maternity home care	1,661	2,510	2,510	—
Access assistance for deaf	3,442	3,304	3,304	—
Employment services[b]	217,861	211,462	245,462	16.1
Child care	—	48,711	65,793	35.1
Adoptions	31,774	29,385	30,793	4.8
Refugee assistance	28,480	38,206	37,406	-2.1
Child abuse prevention	12,088	12,822	12,282	-4.2
Totals	**$1,516,493**	**$1,706,110**	**$1,750,772**	**2.6%**
General Fund	*$744,285*	*$532,617*	*$541,919*	*1.7%*
Federal Trust Fund	*659,879*	*727,517*	*767,305*	*5.5*
County funds	*108,310*	*417,825*	*411,239*	*-1.6*
State Children's Trust Fund	*1,284*	*1,967*	*2,144*	*9.0*
Reimbursements	*2,735*	*26,184*	*28,165*	*7.6*

[a] Includes actual 1990-91 and anticipated 1991-92 and 1992-93 county expenditures.

[b] Excludes General Fund expenditures for GAIN that are appropriated in other Budget Bill items. Table 5 in our analysis of the GAIN Program in this item displays all the funds appropriated in the Budget Bill for the GAIN Program.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services programs in 1992-93 represents an increase of $45 million, or 2.6 percent, above estimated current-year expenditures. This proposed increase consists of (1) a General Fund increase of $9.3 million, or 1.7 percent, (2) a federal funds increase of $40 million, or 5.5 percent, (3) a decrease in county funds of $6.6 million, or 1.6 percent, and (4) a State Children's Trust Fund increase of $177,000, or 9 percent. Table 2 also shows the major changes proposed for social services programs. These major changes are addressed in the program-by-program analysis that follows.

Table 2

Department of Social Services
Proposed 1992-93 Budget Changes
Social Services Programs

(dollars in thousands)

	General Fund	All Funds
1991-92 Expenditures (revised)	$532,617	$1,706,110
1992-93 adjustments		
Child Welfare Services		
Baseline adjustments		
Net decline in caseload growth	-$8,034	-$1,750
Federal claiming change	-7,000	—
Independent Living Program increase	—	4,013
Caseload reductions for undocumented cases (Los Angeles County)	-1,335	-14,229
Child welfare services case management system pilot implementation	718	957
1991-92 one-time expenditure for Los Angeles County	-3,800	-3,800
Other	—	-33
Subtotals, child welfare services	(-$19,451)	(-$14,842)
County services block grant	$4,659	$6,657
In-Home Supportive Services (IHSS)		
Baseline adjustments		
Caseload and cost growth	$40,035	$71,928
Offset 1991-92 deficiency	-6,759	—
Payment of claims for court cases	13,179	13,243
Settlement of *Miller v. Deukmejian* court case	-1,129	-1,129
Termination of San Francisco County reimbursement project	19	—

Continued

SOCIAL SERVICES PROGRAMS—Continued

	General Fund	All Funds
Program changes		
Service level reductions:		
Authorized reductions (Ch 91/91 — AB 948, Bronzan)	-38,562	-69,725
Reduction to maximum grant allocation (Ch 96/91 — AB 515, Hannigan)	-8,203	-12,620
Subtotals, IHSS	(-$1,420)	($1,697)
Employment services[a]	$15,000	$34,000
Cal Learn child care	8,541	17,082
Adoptions		
Baseline adjustments		
Federal claiming change	$1,100	—
Other	873	$1,408
Subtotals, Adoptions	($1,973)	($1,408)
Refugee programs	—	-$800
Child abuse prevention	—	-540
1992-93 Expenditures (proposed)	$541,919	$1,750,772
Change from 1991-92		
Amount	$9,302	$44,662
Percent	1.7%	2.6%

[a] Excludes General Fund expenditures for GAIN made from other items of the Budget Bill.

Analysis and Recommendations

Child Welfare Services

The Child Welfare Services Program provides services to abused and neglected children and children in foster care and their families. The program has four separate elements:

- *The Emergency Response Program* requires counties to provide immediate social worker response to allegations of child abuse and neglect.
- *The Family Maintenance Program* requires counties to provide ongoing services to children (and their families) who have been identified through the Emergency Response Program as victims, or potential victims, of abuse or neglect.
- *The Family Reunification Program* requires counties to provide services to children in foster care who have been temporarily removed from their families because of abuse or neglect.

- ***The Permanent Placement Program*** requires counties to provide case management and placement services to children in foster care who cannot be safely returned to their families.

Proposed Expenditures

The budget proposes expenditures of $515 million ($214 million General Fund, $189 million federal funds, $108 million county funds, and $3 million in reimbursements) for the Child Welfare Services Program in 1992-93. The total General Fund request represents a decrease of $19 million, or 8.3 percent. As Table 2 shows, the significant changes that account for the net decrease are as follows:

- An $8 million General Fund decrease ($1.8 million total funds) due to a net reduction in caseload.
- A $7 million General Fund savings resulting from changes to Title IV-E claiming procedures.
- A $4 million increase ($2 million federal funds and $2 million county funds) due to an anticipated increase in the amount of federal Independent Living Program funds that will be available to California in 1992-93. The DSS advises that the increased federal funds require a match, which the budget anticipates will be provided by the counties participating in the Independent Living Program.
- A $1.3 million General Fund reduction ($14.2 million total funds) to eliminate funding for overreported cases in Los Angeles County.
- A $718,000 General Fund increase ($957,000 total funds) for pilot implementation of the child welfare services Case Management System (CMS).
- A $3.8 million General Fund reduction to eliminate a one-time 1991-92 statutory appropriation to Los Angeles County.

Los Angeles County Case-Count Study Will Affect Child Welfare Services Allocation

We recommend that the department report during budget hearings on the results of the October 1991 case-count study for Los Angeles County's Child Welfare Services Program.

Background. In October 1989, the DSS undertook a study to verify the child welfare services caseloads reported by Los Angeles County. The department undertook the study in response to (1) significant fluctuations in the Family Reunification and Permanent Placement programs caseloads that Los Angeles County reported and (2) discrepancies between the caseloads reported to the DSS and the caseloads the county maintained in its own automated information system.

The department reviewed a sample of cases that Los Angeles County had reported in June 1989 in order to determine the proportion of the cases that would be eligible under current law. The results revealed that the county overreported 17 percent of its child welfare services cases. The department determined that this was due to the following reasons:

- County staff could not locate the case file and therefore the case could not be verified.
- The case was a duplicate of another open case.
- The child was ineligible for services — for example, the child was over 18 years of age.
- The case had been closed but was reported as open.

In June 1991, Los Angeles County conducted its own case-count study of child welfare services caseloads, with the accuracy of the results verified by DSS staff. According to the DSS, the results of this study indicated that the county overreported approximately 8 percent of its child welfare services cases to the DSS for the same reasons described above, with the exception of overreported cases for files that could not be located. According to the DSS, some of the reduction in the percentage of overreported cases is the result of corrective actions taken by the county.

Budget Proposal. To eliminate overreported cases from Los Angeles County's funding allocation, the budget proposes to reduce the allocation by the costs for all overreported cases based on the June 1991 study. The proposed reduction totals $17.5 million ($9.2 million General Fund).

New Case-Count Study Will Affect Allocation to Los Angeles. The DSS indicates that a *third* case-count study is in progress. The purpose of the study is to (1) determine whether the recent implementation of corrective actions has decreased the number of overreported cases in the county and (2) provide additional data on the percentage of overreported cases. Los Angeles County is again conducting the study, with the DSS verifying the accuracy of the results. The study is based on cases that the county reported in October 1991. According to the DSS, any change in overreported cases will be reflected in the May revision.

The department indicates that the new study will be completed in February 1992. In order to ensure that the Legislature is kept up to date on (1) the progress of Los Angeles County's efforts to reduce the number of overreported cases and (2) the effect of the caseload study on Los Angeles County's allocation, we recommend that the department report during budget hearings (prior to the May revision) on the results of the October 1991 case-count report.

Legislative Oversight: Los Angeles County Fails Second Compliance Review

We recommend that the department report during budget hearings on (1) the status of Los Angeles County's efforts to increase compliance with statutory requirements governing the Child Welfare Services Program, (2) the county's plans to meet compliance standards, and (3) sanctions that will be taken if substantial progress is not made following the third compliance review.

Background. The 1990 Budget Act includes language designed to improve the performance of Los Angeles County's Child Welfare Services Program. The Legislature adopted this language as a result of concerns regarding the county's compliance with the provisions of law that govern the program. The language required that:

- The DSS determine by August 1, 1990 whether the county was substantially out of compliance with the provisions of law that govern the operation of the Child Welfare Services Program.
- The county submit a corrective action plan to the department no later than October 1, 1990 if the department determined that the county was not in compliance with the law.
- If the county had not submitted a plan by October 1, 1990 and/or if it had not made substantial progress in correcting the problems identified by the department, the department would begin proceedings to take the county's Child Welfare Services Program into temporary receivership until the county had improved its performance.

The Department Determined that the County Was Out of Compliance. Pursuant to the provisions of the Budget Act, the department notified the county on August 1, 1990 that it was substantially out of compliance with the laws and regulations governing the operation of the Child Welfare Services Program. Specifically, the department found that the county was out of compliance with 26 areas of state law. These areas of noncompliance fall into five general categories:

- Not responding to reports of child abuse and neglect within mandated time frames.
- Not informing parents of abused or neglected children of their legal rights.
- Not offering services to the child and the family.
- Not assessing the service needs of children and families in the program.
- Not maintaining up-to-date case records of program clients.

SOCIAL SERVICES PROGRAMS—Continued

County's Corrective Action Plan Failed to Meet Requirements. As required by the 1990 Budget Act, the county submitted a corrective action plan to the DSS on October 1, 1990. However, the DSS notified the county that the plan did not meet the requirements of the 1990 Budget Act because it did not identify what remedial actions the county would take to improve its performance. The DSS subsequently established a plan to bring the county into compliance. The provisions of the plan included (1) deadlines for receiving and reviewing information on each of the compliance issues, (2) periodic compliance reviews of the county between October 1990 and July 1991, and (3) a final determination of the county's performance by September 1, 1991, based on a review of the final corrective action plan and the findings from the periodic compliance reviews.

County Has Failed to Comply With the Requirements of the Supplemental Report of the 1991 Budget Act. The Legislature adopted language in the *Supplemental Report of the 1991 Budget Act* that required the county to develop and implement all corrective actions for each of the five general areas of noncompliance by July 1, 1991. The language also required the department to determine by September 1, 1991 whether the county had made substantial progress in correcting the areas of noncompliance and report its findings to the Legislature.

Our review of the department's compliance report indicates that the county remains out of compliance with state law and has failed to substantially improve program performance over the past year. Specifically, the county has failed to meet the minimum statutory compliance levels for *any* of the five general areas. For example, the county's performance was not only below the minimum passing compliance level of 90 percent but was below 66 percent, the level used by the department to indicate the most serious findings of noncompliance.

In order to determine whether the county's implementation of corrective actions has resulted in significant improvements, a third compliance review is tentatively planned to begin in February (with results expected in May).

Current law authorizes the Director of the DSS to invoke sanctions if the county fails to comply with the minimum compliance requirements. Specifically, the Director may invoke either of the following sanctions:

- Withhold all or part of state and federal funds from the county until the county demonstrates to the Director that it has complied.
- Assume, temporarily, direct responsibility for the administration of all or part of the program until the county provides reasonable assurances to the Director of its intention and ability to comply.

Moreover, if the Director invokes these sanctions, current law requires the county to provide any funds needed for the continued operation of all programs administered by the DSS. If a county fails or refuses to provide these funds, the State Controller may deduct necessary amounts for the continued operation of these programs by the DSS from any state or federal funds payable to the county for any purpose.

Budget Proposes Funding to Continue Monitoring Los Angeles County. The budget proposes $559,000 and 7.6 personnel-years for the Los Angeles County Monitoring Unit to continue the department's efforts to monitor the compliance efforts of the county. The DSS indicates that the necessary corrective actions will take longer than anticipated in the time frames set forth in the *Supplemental Report of the 1991 Budget Act.* Specifically, the DSS estimates that it will take until July 1, 1993 to evaluate the effectiveness of the corrective actions, modify corrective action plans to accommodate changes, implement and evaluate the modifications, and verify caseload.

Recommendation. At the time this analysis was prepared, the county had only recently begun efforts to resolve compliance problems that were required to be corrected over a year ago. In order to facilitate legislative oversight of this issue, we recommend that the department report during budget hearings on (1) the status of Los Angeles County's efforts to correct areas of noncompliance, (2) plans to meet compliance standards, and (3) sanctions that will be taken if substantial progress is not made following the third compliance review.

Emergency Response Screening Guidelines May Affect Program Funding Requirements

We recommend that the department report during budget hearings on the estimated budgetary and service impact of the new guidelines for emergency response screening.

Background. In March 1991, the DSS promulgated emergency regulations for the Child Welfare Services Program that require counties to screen (by use of telephone assessments) child abuse reports to determine whether an investigation is necessary. The practical effect of these regulations is to reduce the number of investigations of alleged abuse and neglect. These regulations were implemented in response to the Governor's veto of $55 million from the 1990 Budget Act, which included a $38 million reduction in funding of anticipated caseload growth.

Chapter 780, Statutes of 1991 (AB 60, Friedman), requires the DSS to contract with the University of California or the California State University system to develop a statewide protocol, or guideline, for telephone screening of emergency response reports of child abuse or neglect. The act requires the DSS to incorporate the guideline into the child welfare training program by February 15, 1992. The act also requires the DSS to inform the Legislature of the development of the emergency response guideline and report on additional steps necessary to improve telephone screening of emergency response referrals by January 15, 1992.

The DSS Anticipates a Delay in Developing the Statewide Guideline. At the time this analysis was prepared, the DSS had not yet adopted the guideline for telephone screening of emergency response reports or reported to the Legislature. In fact, the DSS indicated that a contract to develop the guideline was not executed until January 1992. Our review of the contract indicates that the guideline and its incorporation into the child welfare training program will not be completed until June 30, 1992.

The Guideline Will Have an Unknown Effect on Program Service Levels, Caseloads, and Required Funding Levels. The new guideline will standardize, on a statewide basis, the process for screening emergency response referrals and visitations with clients. As a result, it could either increase the number of screenings and thereby reduce the frequency of visits, or vice versa. Thus, the guideline will have an unknown effect upon service levels, caseloads, and funding levels necessary to meet the program's mandates.

Recommendation. Based on our review of the contractor's proposed time frame for completion of the guideline, we expect that the DSS will have preliminary information over the next few months to estimate its effect on service levels, caseloads, and funding levels necessary to meet the program's mandates. In order to facilitate legislative oversight of this issue, we recommend that the DSS report during budget hearings (prior to the May revision) on the estimated effect of the guideline on (1) the delivery of services, (2) the department's cases-per-worker budgeting standards and caseloads, and (3) funding levels necessary to meet the program's mandates.

Delays in Development of the Child Welfare Services Case Management System Will Affect Budgeted Costs

We find that the amount proposed for development of the child welfare services Case Management System appears to be overbudgeted by about $6 million ($4.5 million General Fund) in 1992-93 due to delays in the project. Accordingly, we recommend a reduction of $6 million to correct for overbudgeting. (Reduce Item 5180-001-001 by $4.5 million and Item 5180-001-890 by $1.5 million.)

Background. Chapter 1294, Statutes of 1989 (SB 370, Presley) requires the implementation of a single statewide child welfare services Case Management System (CMS) by July 1, 1993. This was in response to federal regulations that require the development of a system for the collection of data on a uniform basis nationwide.

The current-year budget includes $1.7 million from the General Fund for the CMS. The budget proposes an increase of $10.8 million ($8.1 million General Fund) in 1992-93 for the pilot development and implementation phase of the system.

The CMS Has Experienced Delays. A December 1989 feasibility study report included a timetable that anticipated implementation of the system by July 1, 1993, the deadline established in Chapter 1294. The project, however, has experienced significant delays due to (1) the time required to select a contractor and (2) settlement of two vendor protests with the Office of Administrative Law. The timetable was subsequently revised so that implementation was to be completed by July 1, 1994; however, it does not provide for the six-month delay resulting from the two vendor protests. The DSS anticipates that the system will be implemented in the fall of 1994-95, *over one year after the date mandated in Chapter 1294.*

CMS Costs May Be Overbudgeted in the Current and Budget Years. The DSS indicates that the CMS timetable will be revised again by the contractor by March 27. The revised timetable may include changes in the time frames for the individual activities of the project. Because of the delay in implementation, the cost of the system is likely to be lower than budgeted in the current and budget years. In fact, annual cost projections included in a June 1991 Special Project Report suggest that costs in 1992-93 are likely to be $6 million ($4.5 million General Fund) less than the amount budgeted. Consequently, we recommend deletion of $6 million from the budget proposal. We will revise our estimate, if necessary, when the revised timetables are completed.

In-Home Supportive Services

The In-Home Supportive Services (IHSS) Program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance. While this implies that the program prevents institutionalization, eligibility for the program is not based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he or she lives in his or her own home — or is capable of safely doing so if IHSS is provided — and meets specific criteria related to eligibility for the Supplemental Security Income/State Supplementary Program (SSI/SSP) for the aged, blind, and disabled.

An eligible individual will receive IHSS services if the county determines that (1) these services are not available through alternative resources and (2) the individual is unable to remain safely at home without the services.

The types of services available through the IHSS Program are domestic and related services, such as meal preparation and cleanup; nonmedical personal services, such as bathing and dressing; essential transportation; protective supervision, such as observing the recipient's behavior to safeguard against injury; and paramedical services, which are performed under the direction of a licensed health care professional and are necessary to maintain the recipient's health.

The IHSS Program is administered by county welfare departments under broad guidelines that are established by the state. Each county may choose to deliver services in one or a combination of ways: (1) by individual providers (IPs) hired by the recipients, (2) by private agencies under contract with the counties, or (3) by county welfare staff.

Budget Proposal

The budget proposes $744 million ($150 million General Fund, $338 million federal funds, and $256 million county funds) for the IHSS Program in 1992-93. This is an increase of $1.7 million, or 0.2 percent, above estimated current-year expenditures. The General Fund proposal represents a decrease of $1.4 million, or 0.1 percent, below current-year expenditures. The net change is the result of various baseline adjustments, including the following changes that are not discussed later in this analysis:

- A $7 million General Fund reduction to offset funding provided in 1991-92 for program deficiencies, as intended by Ch 91/91 (AB 948, Bronzan).
- A $13 million General Fund increase to make payments to claimants in court cases.

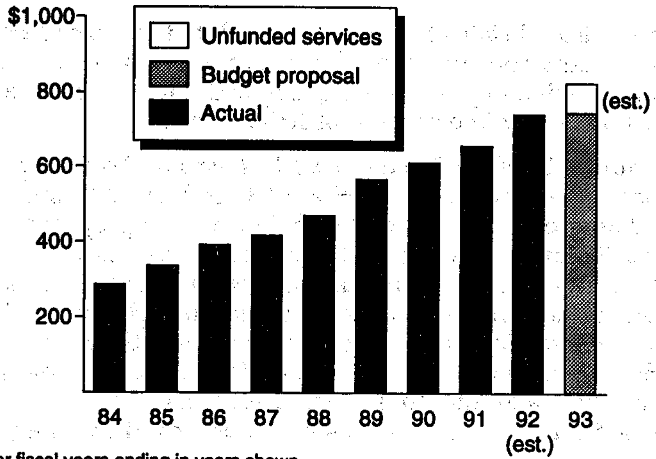
Long-Term Funding Trend

Chart 1 displays IHSS Program expenditures from all funding sources from 1983-84 through 1992-93. As the chart shows, expenditures grew rapidly until 1991-92, at an average annual increase of 13 percent. As noted above, expenditures would increase by only 0.2 percent in 1992-93, under the budget proposal. As we discuss below, the budget does not propose to fully fund projected service and caseload increases for the budget year. If the program were fully funded for caseload and services, expenditures would increase by 11 percent over the current year.

Chart 1

In-Home Supportive Services Expenditures
All Funds
1983-84 through 1992-93[a]

(In millions)



[a] Data are for fiscal years ending in years shown.

Proposed Funding is Insufficient to Accommodate Projected Service Levels

The budget proposal is $82 million ($47 million General Fund) less than the amount needed to fund projected increases in caseload and service levels. Because the budget assumes that caseload growth will be accommodated, the impact will be on the level of services provided. Current law authorizes service level reductions, according to specified priorities. We present some alternatives on how program costs could be controlled.

Background. Chapter 91 limits the state's share of IHSS costs to the annual Budget Act appropriations in 1992-93 and 1993-94. The measure also permits counties to reduce services (on the basis of an assessment of each recipient) to stay within their annual IHSS budget allocations in these years. The act further provides that any such reductions must be made according to the following priorities (known as the "A through E" reductions):

a. Reduce the frequency of nonessential (domestic and related) services.

b. Eliminate these services.

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c. Terminate or deny eligibility to individuals requiring only domestic services.

d. Terminate or deny eligibility to persons who would not require institutionalization in the absence of services.

e. Reduce, on a per capita basis, the cost of services authorized.

Chapter 91 also (1) states that counties shall, to the extent feasible, avoid implementing reductions that would result in out-of-home placements and (2) prohibits terminating or denying eligibility for persons who would become unemployed in the absence of IHSS services.

Budget Would Result in Service Level Reductions. According to the DSS, the proposed expenditures for IHSS are $82 million ($47 million General Fund) less than the amount needed to fully fund the projected increases in caseload and the average number of hours of service per case. The budget, however, indicates that the additional cases will be served, so the reduction will be taken in the level of services provided through a reduction in case-hours. Of the $82 million in reductions, $8 million is the result of Ch 96/91 (AB 515, Hannigan), which changes the basis of funding program services from an hourly maximum to a total dollar maximum. The remaining reductions ($74 million) would be taken as authorized by Chapter 91.

Table 3 displays the average monthly service-hours per case by service delivery mode, as proposed in the budget and as estimated to fully meet service needs in 1992-93. As shown in the table, under the budget proposal the average monthly service hours would be 7.8 hours, or 10 percent, less than the projected level of need.

Table 3

Department of Social Services
In-Home Supportive Services
Average Monthly Hours of Service Per Recipient by Provider Mode
1992-93

	Proposed	Full Funding	Unfunded Hours Amount	Unfunded Hours Percent
Service provider mode				
Individual providers	72.1	80.4	8.3	11.5%
Contract agencies	23.6	27.9	4.3	18.2
County welfare staff	10.4	11.0	0.6	5.6
Average hours of services	**67.7**	**75.5**	**7.8**	**10.2%**

Authorized Service Level Reductions Would Be Administratively Difficult to Accomplish. County officials who we contacted indicate that the targeted service level reductions authorized by Chapter 91 would be difficult to implement. Specifically, they believe that the required case-by-case reviews (designed to preserve services for recipients at imminent risk of out-of-home placement) would be administratively burdensome and costly. In addition, they indicate that the time required to make a case-by-case review would delay the implementation of service reductions, so that greater reductions would be required. Moreover, to the extent that recipients appeal service level reductions, the time required for state hearings could result in additional delays and the need for further service reductions.

Task Force Recommendations Could Result in Institutionalization. Chapter 91 also established a task force to recommend IHSS Program efficiencies and improvements. The task force explored alternatives to the "A through E" criteria for implementing service reductions. In a recently submitted report to the Legislature, the task force recommends replacing the "A through E" priorities with unallocated (across-the-board) reductions. We note that this strategy could increase the risk of making service reductions that would result in the placement of IHSS recipients in higher cost institutional settings.

Alternatives for Reducing Services. In order to assist the Legislature in considering the proposed service level reductions, we identify the following options to control costs in lieu of, or in addition to, the "A through E" reductions:

- Allow counties, on a pilot basis, to use IHSS funds for (1) one-time capital expenses (equipment, special modifications to the recipient's home, etc.) that would accomplish the goals of the program in a less costly manner than by relying only on personal services and (2) case management services (oversight of IHSS service providers) that would verify the continued need for authorized service hours. (This option could result in short-term costs.)

- Curtail the provision of services by contract and county welfare staff, which tends to be relatively expensive, and encourage the use of IPs hired directly by the recipient. Services provided by contract and county staff account for about 9 percent of total services provided. One way to facilitate this would be to establish IP registries consisting of a list of providers from which program staff and recipients could choose a service provider. Reducing the use of contracts and county staff would result in a General Fund savings of up to $25 million.

- Revise the Uniformity Assessment Tool to provide more uniformity in the hours of services provided by counties to persons with similar needs. We discuss this issue below. As noted in this analysis, one of the alternative strategies for implementing this option would result in a General Fund savings of about $50 million.

- Deny payment for services characterized as "verbal assistance" — such as reminding, guidance, or encouragement — that are provided in conjunction with other services to perform a function required for daily living. The costs associated with the time required to provide verbal assistance services should be absorbable. We estimate that this would result in General Fund savings of up to $700,000.
- Reduce or eliminate payment for domestic and related services if "able and available" relatives are living with IHSS recipients. Currently, able and available *spouses* are not paid for these services under the rationale that they normally provide most of the services and would continue to do so in the program's absence. (The determination of able and available relatives could be made during the annual reassessment of the recipient.) We estimate that this alternative would result in General Fund savings of up to $10 million.

IHSS Uniformity Assessment Tool is Inadequate

We find that the department's Uniformity Assessment Tool for the IHSS Program does not result in the intended uniform levels of service to recipients with similar needs. We recommend that the department report, during budget hearings, on the feasibility of modifying the assessment tool by establishing standardized ranges of service-hours for each program activity for persons with similar needs.

Background. Chapter 781, Statutes of 1987 (SB 461, Bill Greene) requires IHSS services to be delivered in all counties in a uniform manner according to a "uniform needs assessment tool." In response to this requirement, the DSS implemented the Uniformity Assessment Tool in 1988 to increase the consistency among counties in the number of hours of service awarded to recipients with similar needs. The assessment tool, used by social workers during their assessment of recipients, measures an individual's relative ability to care for him or herself, based on rankings 1 through 6 — rank 1 indicating the highest functional level and rank 6 the lowest. Thus, a higher rank generally indicates a need for more services.

In their assessment of recipients, the social workers determine rankings for 11 separate services. Table 4 displays these authorized services and the rankings that may be assigned to each service. (Ranks 1 and 6 are included in the Uniformity Assessment Tool but the assessment instrument is not used for determining the hours of service for persons placed in these categories.)

Table 4

Department of Social Services
In-Home Supportive Services
Authorized Services and Need Rankings

Authorized Services	Need Rankings	
Housework	1 =	No help needed
Laundry	2 =	Needs verbal assistance only (reminding, guidance)
Shopping and errands	3 =	Needs some direct physical assistance
Meal preparation and cleanup	4 =	Needs substantial physical assistance
Mobility inside	5 =	Cannot perform at all without human help
Bathing and grooming	6 =	Needs paramedical services
Dressing		
Bowel and bladder care		
Transfer (moving in and out of bed and chair)		
Eating		
Respiration		

There is a Large Variation Among the Counties In the Amount of Services Provided for Identical Types of Service and Need Rankings. To determine whether the Uniformity Assessment Tool provides uniform statewide levels of services to recipients with similar needs, we compared selected counties on the basis of the average number of service-hours (case-hours) by need ranking (2 through 5) for the most prevalent services — meal preparation and cleanup, and bathing and grooming. The counties with the highest amount of service-hours were chosen for this comparison (Fresno, Los Angeles, Riverside, Sacramento, San Diego, and San Francisco).

SOCIAL SERVICES PROGRAMS—Continued

Charts 2 and 3 show significant differences among the counties in the average number of service-hours authorized by social workers for the *same* need ranking. Chart 2, for example, shows that in Sacramento County IHSS recipients with a need ranking of 5 for meal preparation are authorized to receive 46 percent more hours of service (33.4 per week) than their counterparts who have the same need ranking in Riverside County (22.8). In Fresno County IHSS recipients with a need ranking of 2 for meal preparation and cleanup services are authorized to receive, on average, about 16 hours of services each week. Their counterparts in Riverside and San Diego Counties, however, are authorized to receive only about 4 hours of these services each week. In other words, the recipients in Fresno County are authorized to receive *four times* as much service, on average, then those in Riverside and San Diego Counties, even though they are assessed as having similar needs. Chart 3 shows that the counties also vary widely in average number of service-hours within ranks for bathing and grooming services. While we recognize that there will always be some variation within ranks, differences of the magnitude shown do not appear to be justified.

Chart 2

In-Home Supportive Services Meal Preparation and Cleanup

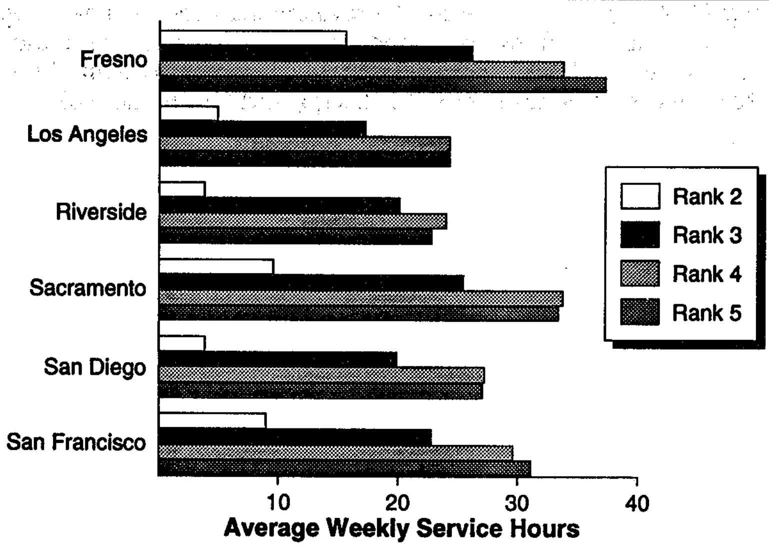
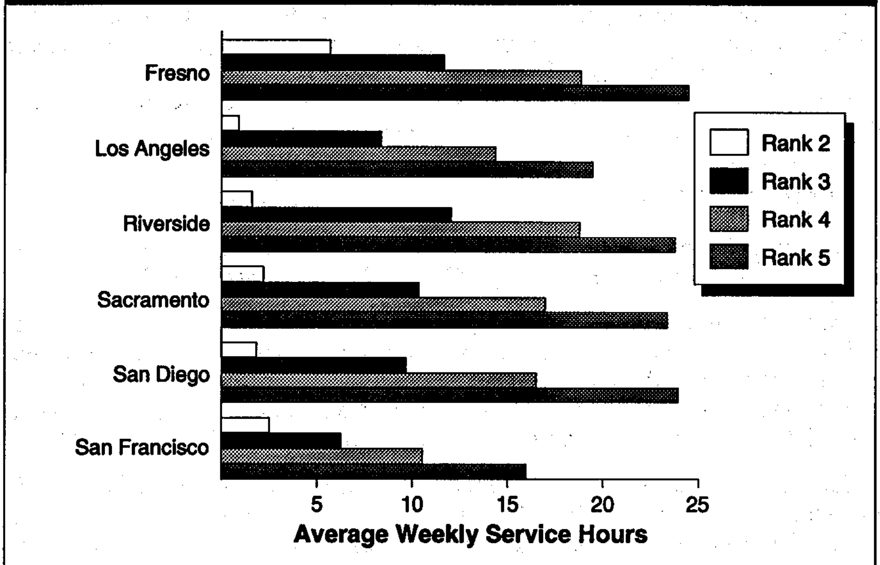


Chart 3

In-Home Supportive Services Bathing and Grooming



Uniformity Assessment Tool Needs Revisions. We conclude that the Uniformity Assessment Tool is inadequate. While it establishes criteria to rank clients by their service level needs, it does not ensure that service-hours are authorized in a uniform manner by the counties. To ensure that services are provided on a consistent basis according to individual needs, standardized ranges of service-hours could be established for each need ranking by type of service. The ranges could account for different service-hours required within a need ranking — for example, the time required to bathe a child as opposed to an adult.

The standardized ranges could be based on the statewide average number of service-hours so as to make the changes fiscally neutral. Alternatively, the ranges could be based on the low end of the existing variations reported by the counties, based on the assumption that client needs are being met in these counties. Significant savings could result by using this latter strategy. To get an idea of the savings that might be realized by applying the "low-cost" alternative, we estimate that if the statewide average number of hours of service were equal to that of Los Angeles County — which, in effect, is what the budget proposal would require — it would result in a savings of about $50 million from the General Fund and $30 million in county funds. We note, in this respect, that Los Angeles County has been able to achieve a reduction in its average hours of service in recent years. The department should review the efforts made by Los Angeles and disseminate to other counties any procedures that could achieve program efficiencies.

In view of the above, we recommend that the department report, during the budget hearings, on the feasibility of adopting such standardized ranges and basing them on these alternative strategies. Pending the department's response, the Legislature could adopt supplemental report language directing the department to develop the standardized ranges.

Statutory COLA Not Funded

The budget proposes legislation to eliminate the COLA in the IHSS Program, for a savings of $1.9 million ($1.3 million General Fund) in 1992-93.

Under current law, the monthly amount of IHSS services per recipient will be limited to $1,203 for severely impaired persons and $829 for others, adjusted for a specified COLA in 1992-93. The budget proposes legislation to eliminate the COLA. The department estimates that the amount needed to fund the COLA is $1.9 million ($1.3 million General Fund) in 1992-93.

Because the COLA affects the *maximum* grants, elimination of the COLA will affect those IHSS recipients whose allocations are currently at or near the maximum levels. Based on information provided by the department, we estimate that this would be less than 5 percent of the caseload.

Employment Services

Employment services programs provide education and training services to recipients of Aid to Families with Dependent Children (AFDC) in order to help them find jobs and become financially independent. The federal Family Support Act (FSA) of 1988 requires each state to operate a Job Opportunities and Basic Skills (JOBS) Training Program. Under current law, California meets this requirement through its Greater Avenues for Independence (GAIN) Program. The Governor proposes to create two new programs under the JOBS Program. These are (1) the AFDC Job Club Program and (2) the Employment Opportunity Program.

The budget proposes $241 million ($73 million General Fund, $143 million federal funds, and $25 million county funds) in this item for employment services programs in 1992-93. These amounts do not include funds proposed for support of the GAIN Program from funds appropriated to the State Department of Education (SDE) in Item 6110-156-001 (adult education) and Item 6110-166-001 (vocational education) of the 1992 Budget Bill or funds made available for GAIN participants in other programs.

GAIN Budget Unchanged From 1991-92

Table 5 displays expenditures from all funding sources proposed for GAIN in the current and budget years. The table also displays expenditures for each of the components of the GAIN Program. As the table shows, the budget proposes to fund the program from two major sources: (1) funds appropriated specifically for GAIN and (2) funds redirected from other programs.

Expenditures. The budget proposes $334 million in expenditures for the GAIN Program in 1992-93, which is the same as estimated current-year expenditures.

Funds Appropriated for GAIN. Table 5 shows that $231 million, or 69 percent, of the $334 million proposed for the GAIN Program represents funds that would be specifically appropriated for the GAIN Program. The proposed $77 million General Fund appropriation accounts for 23 percent of total funding. Under Chapter 91, Statutes of 1991 (AB 948, Bronzan), counties are required to provide 30 percent of the nonfederal share of the costs of the GAIN Program. Prior to this realignment legislation, counties did not have a share of program costs. The counties are expected to provide $25 million for the program in 1992-93. The proposed General Fund and county funds appropriations are unchanged from estimated current-year expenditures.

Redirected Funds. As shown in the table, we estimate that $103 million in funds proposed for various programs, most of which are outside the DSS, will be available to provide services to GAIN participants. The $103 million that is expected to be redirected for GAIN is unchanged from the amount the department estimated (in May 1991) will be spent from these sources in the current year.

SOCIAL SERVICES PROGRAMS—Continued

Table 5

Department of Social Services GAIN Program Expenditures 1991-92 and 1992-93

(In thousands)

	1991-92 Estimated	1992-93 Proposed
Expenditures by Component		
Registration, orientation, and appraisal	$32,225	$31,955
Basic education	134,234	133,859
Job search	35,439	35,195
Assessment	10,981	10,892
Training (including job development and placement)	60,071	59,893
Long-term PREP	788	781
Child care administration (including slot development)	15,213	15,077
Child care payments	25,602	25,372
Transportation	14,761	14,629
Ancillary costs	2,957	2,930
Other	1,691	3,379
Totals	**$333,962**	**$333,962**
Funds appropriated for GAIN		
General Fund		
Department of Social Services	*$57,869*	*$57,869*
State Department of Education	*10,000*	*10,000*
Community colleges	*9,100*	*9,100*
Subtotals, General Fund	*($76,969)*	*($76,969)*
Federal funds	*$126,065*	*$126,065*
County funds	*24,793*	*24,793*
Reimbursements	*2,735*	*2,735*
Totals, funds appropriated for GAIN	***$230,562***	***$230,562***
Funds redirected for GAIN[a]		
General Fund		
Average daily attendance-based funds	*$31,100*	*$31,100*
Adult education	*(13,900)*	*(13,900)*
Regional occupational centers and programs	*(1,000)*	*(1,000)*
Community colleges	*(16,200)*	*(16,200)*
Cooperative agencies resources for education	*500*	*500*
Job agent/service center	*400*	*400*
Subtotals, General Fund	*($32,000)*	*($32,000)*

Continued

	1991-92 Estimated	1992-93 Proposed
Employment Training Panel	*$600*	*$600*
Federal funds		
Job Training Partnership Act	*$41,800*	*$41,800*
Training	*(31,600)*	*(31,600)*
Education	*(10,200)*	*(10,200)*
Job services	*4,500*	*4,500*
Community services block grant	*1,600*	*1,600*
Vocational education block grant	*5,500*	*5,500*
Refugee social services	*16,400*	*16,400*
PELL grants	*1,000*	*1,000*
Subtotals, federal funds	*($70,800)*	*($70,800)*
Totals, funds redirected for GAIN	***$103,400***	***$103,400***
Grand totals, all expenditure sources	**$333,962**	**$333,962**

[a] Based on May 1991 estimate of funds expected to be used by GAIN recipients in 1991-92.

Proposed GAIN Funding Level is Below Full Funding

The budget proposal for the GAIN Program could be more than $200 million ($60 million General Fund) below the amount needed to fully fund the program.

The department has indicated that the $334 million proposed for the GAIN Program in 1992-93 is not sufficient to pay for services for the entire anticipated caseloads in all counties. The department estimates that at the proposed funding level for this program, about 139,000 AFDC recipients would participate in the program. Based on the department's estimate from January 1990, full funding of the GAIN Program would provide services to at least 276,000 participants in 1991-92. Thus, taking into account caseload growth, the GAIN Program is serving fewer than 50 percent of the recipients who are either required to register for GAIN or would be expected to volunteer for the program. At this time, the department does not have an estimate of the cost of providing full funding for the GAIN Program. We have, however, requested that the department provide such an estimate to the Legislature. As a rough guideline, we believe that full funding could require more than $200 million ($60 million General Fund) above the budgeted level.

State Implements Progress Standards

Under the FSA, states were required to implement a program to monitor student progress in JOBS education programs by October 1990. Progress standards and monitoring for training components will be required beginning in October 1992. The purpose of progress standards and monitoring of

SOCIAL SERVICES PROGRAMS—Continued

participant progress is to determine whether a participant is benefiting from the assigned activity and to evaluate whether another activity (such as vocational or on-the-job training) is more appropriate. If participants are not making satisfactory progress, they can be evaluated and moved to a different, more suitable component of the GAIN Program.

To the extent that progress standards and monitoring increase program flexibility and move participants through the program more rapidly, additional AFDC recipients should be able to receive training and obtain marketable employment skills. While there is some anecdotal information to verify this, there have been no formal evaluations that would provide information about the effectiveness of this new feature of the GAIN Program.

Budget Proposes Two New Employment Programs Under JOBS

The budget proposes legislation to establish two new employment training programs under JOBS: (1) the AFDC Job Club Program ($15 million General Fund and $15 million federal funds) and (2) the Employment Opportunities Program ($2 million federal funds and $2 million in reimbursements). We withhold recommendation on the proposed AFDC Job Club Program pending submission and review of a detailed plan to administer the program and coordinate it with the GAIN Program. Further, we withhold recommendation on the proposed Employment Opportunities Program pending submission and review of a detailed expenditure plan.

The Governor proposes legislation to establish two additional JOBS-related programs — the AFDC Job Club Program and the Employment Opportunities Program.

AFDC Job Club Program. The budget proposes legislation to implement an AFDC Job Club Program at a cost of $30 million ($15 million General Fund) in 1992-93. This program would provide three weeks of job-search training for up to 70,000 AFDC recipients who volunteer for this service. These funds include allocations for child care and transportation for AFDC recipients while participating in the program. The administration proposes to include this program as part of the state's JOBS Program, but it will not be part of the GAIN Program. The department has not determined (1) whether the program will be administered separately from the GAIN Program at the local level and (2) how the new program will interact with the existing Job Club component of the GAIN Program. Pending receipt of an implementation plan to clarify these issues, we withhold recommendation on this proposal.

Employment Opportunities Program. As we discussed in our analysis of the budget proposal for the Employment Development Department (EDD), the budget proposes $4 million ($2 million in reimbursements from the

EDD's Employment Training Fund and $2 million federal funds) for a new employment services program. Specifically, the department indicates that the program would have two major components: (1) performance incentives for counties to encourage them to develop jobs for AFDC recipients and (2) improved access to the EDD's statewide job match system for county GAIN and AFDC Job Club coordinators. While this proposal appears to have merit, it currently lacks the detail needed in order to evaluate it. The EDD and DSS indicate that a more developed expenditure proposal should be available by the time of the May revision.

Proposed Cal Learn Program Should Be Coordinated With Existing Programs

We recommend that the department report during budget hearings on the feasibility of coordinating the proposed Cal Learn Program with the GAIN Program and the School-Age Parenting and Infant Development (SAPID) Program in order to maximize federal funding.

The budget proposes to establish the Cal Learn Program, which would provide AFDC grant bonuses or sanctions to teen parents under age 19, based on their attendance in high school or equivalent vocational training. Cal Learn would also provide child care services. This program is discussed in our analysis of the AFDC Program and County Administration of Welfare Programs.

California currently has at least two programs — GAIN and SAPID — that target services to teen parents. AFDC teen parents must participate in GAIN unless they are attending school. Because of budget limitations, however, not all teen parents can be accommodated by the program. The SAPID Program, administered by the SDE, provides child care and parenting classes for teen parents attending high school. Funding for the SAPID Program (about $8 million General Fund) also is insufficient to provide services to all eligible teen parents.

The Cal Learn proposal fails to indicate how the department will coordinate this new program with the existing programs. This is significant because (1) it may be possible to obtain federal funding for those participants in SAPID who are AFDC recipients if they can be counted as part of JOBS and (2) if Cal Learn could be made part of the state's JOBS Program, it could help the state meet its JOBS participation requirements. The department should be prepared to discuss during budget hearings the feasibility of coordinating the Cal Learn Program with the GAIN and SAPID programs in order to maximize federal funding.

Community Care Licensing
Item 5180

Expenditures

Requested 1992-93	$10,645,000
Estimated 1991-92	10,841,000
Actual 1990-91	14,337,000
Requested decrease $196,000 (-1.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

This item contains the General Fund appropriations and federal funds for (1) the state's cost of contracting with the counties to license foster family homes and family day care homes and (2) foster family home recruiting activities by counties. Funds for direct state licensing activities are proposed in the Department of Social Services' support budget.

Overview of the Budget Request

The proposed Community Care Licensing local assistance budget is essentially a workload budget.

The budget proposes total expenditures of $10.6 million, a decrease of $196,000, or 1.8 percent, from estimated current-year expenditures. Proposed General Fund expenditures are $7.5 million, a reduction of $574,000, or 7.1 percent, from the current year. This decrease is due to a change in workload standards and a projected decrease in family day care licensing costs.