



2000-01 Analysis

MAJOR ISSUES

Health and Social Services



Recommend Changes to Aging with Dignity Initiative

- In his Aging with Dignity Initiative, the Governor proposes \$272 million (\$140 million General Fund) for various activities designed to improve nursing home care and develop community-based alternatives to nursing homes.
- Among other things, we recommend that the Legislature (1) consider alternatives to the proposed long-term care tax credit, such as further expansion of Medi-Cal coverage for seniors and the disabled, that would better target the funds; and (2) reject the proposed 5 percent pay increase for staff in “distinct part” nursing facilities because their rates currently are significantly higher than rates for other nursing homes. (see page C-17.)



CalWORKs County Performance Incentive System Should Be Changed

- Under current law, the counties receive state payments, or performance incentives, based on savings resulting primarily from recipients exiting the CalWORKs program due to employment and recipients with increased earnings. The Governor proposes to prohibit counties from earning any new performance incentives until the unmet obligation (about \$500 million) has been paid. The administration also indicates that it will propose legislation to eliminate or “sharply modify” the incentives.
- We find that so far, the performance incentive system has not been effective. Should the Legislature decide to retain such a system, we recommend that it (1) be funded with

General Fund monies that can be used by the counties for any purpose, rather than only within the CalWORKs program, and (2) tie the amount of incentive payments to *improvement* in CalWORKs program outcomes, rather than include savings that would have occurred even in the absence of the program. (see page C-148.)



Wisconsin Child Care System Should Be Tested

- California has a bifurcated system of subsidized child care. The state is fully funding the estimated need of CalWORKs recipients and former recipients; but is not fully funding the needs of the working poor due to fiscal constraints.
- We recommend legislation to establish a pilot project to evaluate the costs and programmatic impacts of implementing the Wisconsin child care system in California. By using standardized eligibility criteria for the working poor, irrespective of welfare status, this would result in covering more persons. The additional costs would be offset (possibly entirely) by a schedule of copayments which would be higher than the relatively low copayments charged currently in California. (see page C-32.)



Filling Vacancies Would Reduce Need for New Staff

- The budget requests a net increase of 557 positions for the Department of Health Services in 2000-01, raising the total number of authorized positions in the department to 6,198—an increase of almost 10 percent.
- The requests for new positions come despite the fact that, as of January 2000, the department had over 900 vacant positions— a vacancy rate of more than 16 percent.
- We recommend that the department evaluate its staffing vacancies in order to identify workload that can be met by filling existing positions instead of adding new positions and funding. (see page C-56.)

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OVERVIEW

Health and Social Services

General Fund expenditures for health and social services programs are proposed to increase by 6 percent in the budget year. This increase is due primarily to a variety of workload and cost increases, the Governor's initiative related to nursing homes and other adult care programs, and a technical change in the way child support collections are reflected in the budget. The budget also proposes to revise the formula for providing county fiscal incentives under the California Work Opportunity and Responsibility to Kids program, which would result in significant state savings.

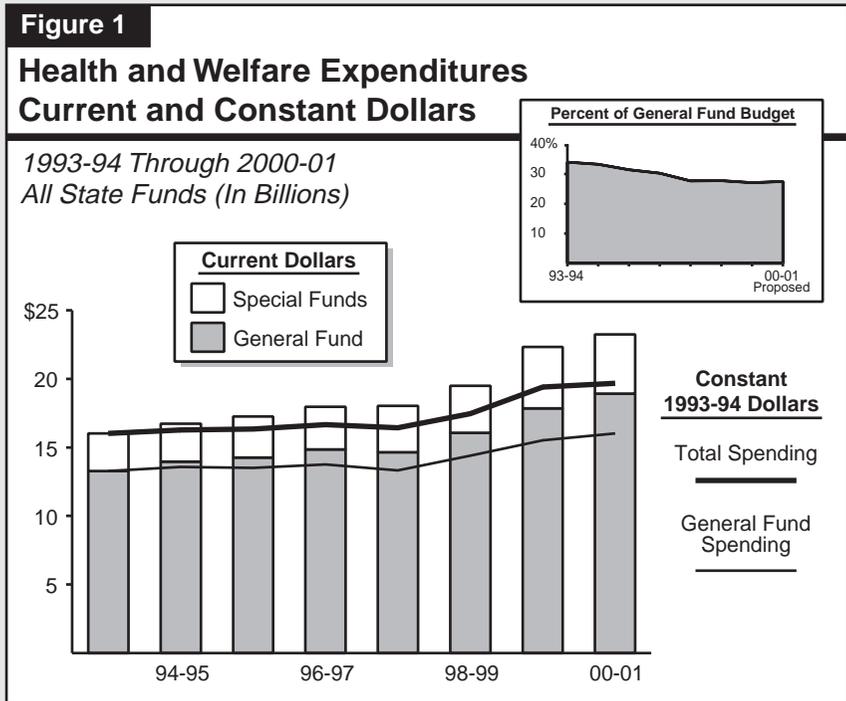
EXPENDITURE PROPOSAL AND TRENDS

The budget proposes General Fund expenditures of \$18.9 billion for health and social services programs in 2000-01, which is 27 percent of total proposed General Fund expenditures. The health and social services share of the budget generally has been declining since 1993-94. The budget proposal represents an increase of \$1.1 billion, or 6 percent, over estimated expenditures in the current year.

Figure 1 (see next page) shows that General Fund expenditures (current dollars) for health and social services programs are projected to increase by \$5.6 billion, or 42 percent, from 1993-94 through 2000-01. This represents an average annual increase of 5.2 percent.

Figure 1 shows that General Fund spending (in current dollars) has increased since 1993-94, except for a slight reduction in 1997-98 due primarily to a decline in California Work Opportunity and Responsibility to Kids (CalWORKs, formerly Aid to Families with Dependent Children [AFDC]) program caseloads. Spending is estimated to increase by 11 percent in 1999-00, primarily due to Medi-Cal eligibility expansion and cost

increases, and caseload and cost increases in various health and social services programs. As noted above, the budget proposes a 6.6 percent increase in 2000-01.



In 1991-92, realignment legislation shifted \$2 billion of health and social services program costs from the General Fund to the Local Revenue Fund, which is funded through state sales taxes and vehicle license fees. This shift in funding accounted for a significant increase in special funds starting in 1991-92. The budget estimates that realignment revenues will be \$2.9 billion in 2000-01.

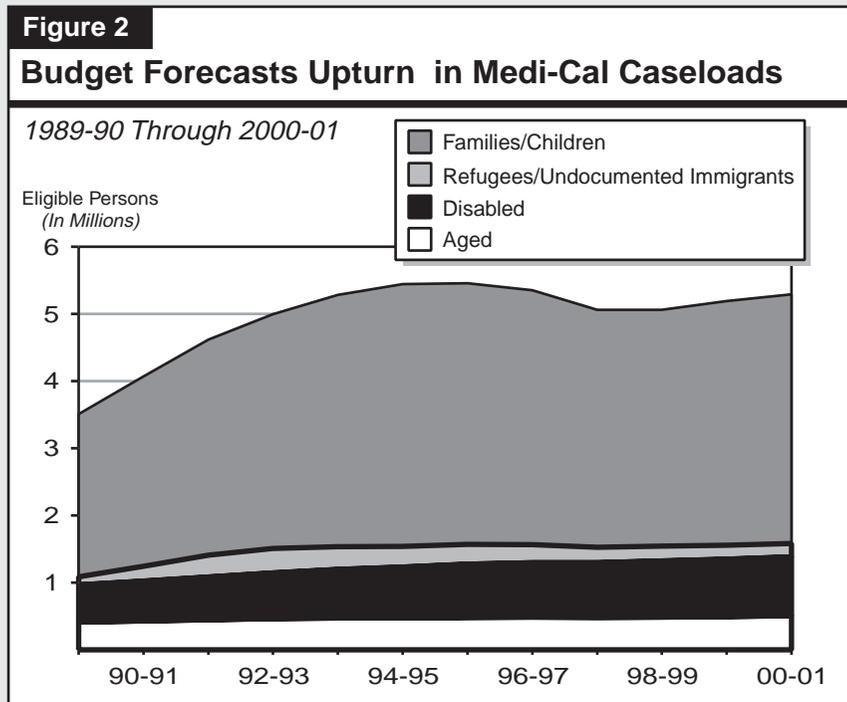
Special funds expenditures are estimated to increase significantly in the current year, primarily because of the effect of Proposition 10 of 1998, which imposes a tax increase on cigarettes and other tobacco products and requires that almost all of the revenues be spent by state and local commissions for early childhood development programs. The budget estimates that spending from the new California Children and Families Trust Fund will amount to \$1.1 billion in 1999-00 (which includes revenues carried over from 1998-99) and \$729 million in 2000-01. (For a discussion of Proposition 10, please see our report *Proposition 10: How Does it Work and What Role Should the Legislature Play in its Implementation?*, January 13, 1999.)

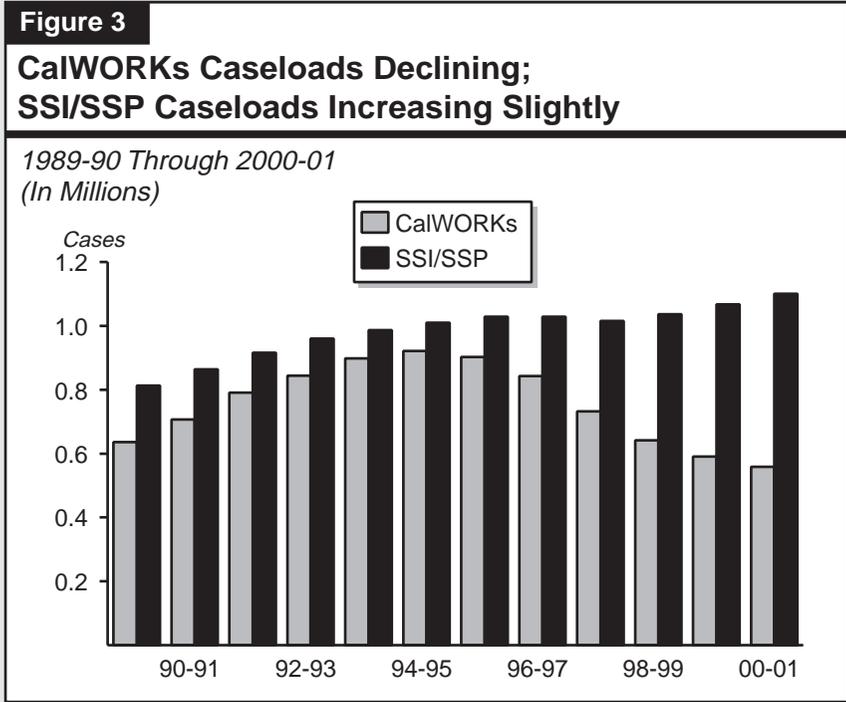
Combined General Fund and special funds spending is projected to increase by 52 percent from 1993-94 through 2000-01. This represents an average annual increase of 5.5 percent.

Figure 1 also displays the spending for these programs adjusted for inflation (constant dollars). On this basis, General Fund expenditures are estimated to increase by 21 percent from 1993-94 through 2000-01. Combined General Fund and special funds expenditures are estimated to increase by 23 percent during the same period. This is an average annual increase of 3 percent.

CASELOAD TRENDS

Figures 2 and 3 (see next page) illustrate the caseload trends for the largest health and welfare programs. Figure 2 shows Medi-Cal caseload trends over the last decade, divided into four groups: families and children (primarily recipients of CalWORKs—formerly AFDC), refugees and undocumented persons, and disabled and elderly persons (who are primarily recipients of Supplemental Security Income/State Supplementary Program—SSI/SSP).





Medi-Cal Caseloads. Medi-Cal caseloads increased by 51 percent over the 12 years shown in Figure 2. As the figure shows, the growth generally occurred during the period from 1989-90 through 1994-95. The growth in the number of families and children receiving Medi-Cal during this period reflects the rapid growth in AFDC caseloads as well as the expansion of Medi-Cal to cover additional women and children with incomes too high to qualify for cash aid in the welfare programs. Coverage of refugees and undocumented persons also increased caseloads significantly during this period. Since 1994-95, Medi-Cal caseloads have declined, due primarily to a decline in AFDC/CalWORKs caseloads. The figure also shows that the caseload leveled off in 1997-98 and 1998-99. While the budget states that the caseload is forecasted to decline by 1 percent in 2000-01, this excludes the effect of an expansion in eligibility enacted in the current year. With this adjustment, the Medi-Cal caseload is estimated to increase by 2.6 percent in the current year and 1.9 percent in the budget year.

We also note that while the number of CalWORKs families and children has been declining in recent years, the number of nonwelfare families (generally lower-income working families) has been increasing and now constitutes the majority of Medi-Cal families and children.

CalWORKs and SSI/SSP Caseloads. Figure 3 shows the caseload trend for the CalWORKs and SSI/SSP programs. While the number of cases in SSI/SSP is greater than in the CalWORKs program, there are more persons in the CalWORKs program—about 1.5 million compared to about 1 million for SSI/SSP. (The SSI/SSP cases are reported as individual persons, while CalWORKs cases are primarily families.)

To the extent that caseloads have been increasing in these two programs, it has been due, in part, to the growth of the eligible target populations. The increase in the rate of growth in the CalWORKs caseloads in 1990-91 and 1991-92 was also due to the effect of the recession. During the next two years, the caseload continued to increase, but at a slower rate of growth. This slowdown, according to the Department of Finance, was due partly to: (1) certain population changes, including lower migration from other states; and (2) a lower rate of increase in “child-only” cases (including citizen children of undocumented and newly legalized persons), which was the fastest growing segment of the caseload until 1993-94.

Figure 3 also shows that since 1994-95, CalWORKs caseloads have declined. As discussed in our annual *California's Fiscal Outlook* reports, this trend is due to various factors, including the improving economy, lower birth rates for young women, a decline in legal immigration to California, reductions in grant levels, behavioral changes in anticipation of federal and state welfare reform, and—for the current and budget years—the impact of the CalWORKs program interventions (including additional employment services). We have noted, however, that contrary to this overall downward trend, the number of child-only cases has been increasing slightly in recent years. This category of the caseload includes children whose parents are undocumented, children with nonneed-related caretakers, and children whose parents are removed from the assistance unit because of sanctions for nonparticipation in the CalWORKs employment services program.

The SSI/SSP caseload can be divided into two major components: the aged and the disabled. The aged caseload generally increases in proportion to increases in the eligible population—age 65 or older. This component accounts for about one-third of the total caseload. The larger component—the disabled caseload—grew significantly faster than the rate of increase in the eligible population group (primarily ages 18 to 64) in the early 1990s. This was due to several factors, including (1) the increasing incidence of AIDS-related disabilities, (2) changes in federal policy that liberalized the criteria for establishing a disability, (3) a decline in the rate at which recipients leave the program (perhaps due to increases in life

expectancy), and (4) expanded state and federal outreach efforts in the program. In recent years, however, the growth of the disabled caseload has slowed.

Total SSI/SSP caseload growth has also moderated in recent years. This is partly attributable to federal policy changes that (1) eliminated drug or alcohol addiction as a qualifying disability and (2) added restrictions on the eligibility of disabled children.

SPENDING BY MAJOR PROGRAM

Figure 4 shows expenditures for the major health and social services programs in 1998-99 and 1999-00, and as proposed for 2000-01. As shown in the figure, the three major benefit payment programs—Medi-Cal, CalWORKs, and SSI/SSP—account for a large share of total spending in the health and social services area.

MAJOR BUDGET CHANGES

Figures 5 and 6 (see pages 14 and 15) illustrate the major budget changes proposed for health and social services programs in 2000-01. (We include the federal funds for CalWORKs because, as a block grant, they are essentially interchangeable with state funds within the program.) Most of the major changes can be grouped into the following categories:

1. *The Budget Funds Caseload Growth in SSI/SSP, Medi-Cal, and the Healthy Families Program, Reflects Savings From Caseload Reductions in CalWORKs, and Funds Other Workload Cost Increases.* The budget includes a projected caseload reduction of 5.5 percent in the CalWORKs program and increases of 1.9 percent (as adjusted) in the Medi-Cal Program, 3.1 percent in SSI/SSP, and 32 percent in the Healthy Families Program.

2. *The Budget Proposes to Fund Statutory Cost-of-Living Adjustments (COLAs) for CalWORKs and SSI/SSP.* The budget includes a 3.6 percent COLA for CalWORKs and SSI/SSP in 2000-01. We also note that it proposes to fund the statutory COLA for foster family agencies (FFAs) but does *not* fund the COLA for non-FFA foster family homes or group homes. Current law provides for these COLAs, but makes them “subject to the availability of funds.”

Figure 4**Major Health and Welfare Programs Budget Summary^a**

1998-99 Through 2000-01
(Dollars in Millions)

	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Change From 1999-00	
				Amount	Percent
Medi-Cal					
General Fund	\$7,471.3	\$8,208.8	\$8,749.4	\$540.6	6.6%
All Funds	18,494.2	20,492.4	21,450.8	958.4	4.7
CalWORKs (Grants and Services)					
General Fund	\$2,022.4	\$1,994.1	\$2,071.7	\$77.6	3.9%
All Funds	5,347.3	5,380.7	5,567.6	186.9	3.5
AFDC-Foster Care					
General Fund	\$377.5	\$425.7	\$389.5	-\$36.2	-8.5%
All Funds	1,394.4	1,496.4	1,478.1	-18.3	-1.2
SSI/SSP					
General Fund	\$2,242.2	\$2,482.6	\$2,619.8	\$137.2	5.5%
All Funds	6,084.4	6,508.4	6,904.8	396.4	6.1
In-Home Supportive Services					
General Fund	\$370.4	\$527.4	\$538.8	\$11.4	2.2%
All Funds	1,397.8	1,628.3	1,784.5	156.2	9.6
Regional Centers/Community Services					
General Fund	\$647.5	\$809.4	\$896.3	\$86.9	10.7%
All Funds ^b	1,400.2	1,617.3	1,763.7	146.4	9.1
Developmental Centers					
General Fund	\$34.0	\$82.4	\$71.4	-\$11.0	-13.3%
All Funds ^b	482.7	561.1	612.7	51.6	9.2
Child Welfare Services					
General Fund	\$421.0	\$496.9	\$457.5	-\$39.4	-7.9%
All Funds	1,177.0	1,507.0	1,554.1	47.1	3.1
State Hospitals					
General Fund	\$311.6	\$362.9	\$424.4	\$61.5	16.9%
All Funds	490.2	526.8	573.9	47.1	8.9
Children and Families First Commissions^c					
General Fund	—	—	—	—	—
All Funds	\$5.5	\$1,062.7	\$728.9	-\$333.8	-31.4%
Child Support Services					
General Fund	— ^d	— ^d	\$332.3	\$332.3	—
All Funds	— ^d	— ^d	874.1	874.1	—

^a Excludes departmental support, except for state hospitals.

^b Includes General Fund share of Medicaid reimbursements (costs budgeted in Medi-Cal).

^c Includes state and county commissions.

^d Expenditures included in CalWORKs and other Department of Social Services programs. The CalWORKs grant savings from child support are shown as General Fund revenues in 2000-01.

Figure 5

Health Services Programs Proposed Major Changes for 2000-01 General Fund

Medi-Cal	Requested: \$8.7 million
	Increase: \$541 million (+6.6%)

- + \$183 million due to higher drug costs and new drugs
 - + \$82 million for full-year costs of expanding eligibility of families to 100 percent of poverty level
 - + \$52 million due to a reduction in the federal matching rate
 - + \$43 million for the state match for county mental health services under the Early and Periodic Screening, Diagnosis, and Treatment Program
 - + \$33 million for a 5 percent wage increase for nursing home staff (included in Aging with Dignity Initiative)
 - + \$30 million to reduce the state "takeout" from payments to disproportionate share hospitals and, potentially, to increase specified physician rates
-
- \$66 million for full-year savings from the waiver to provide federal funds for family planning

Healthy Families	Requested: \$142 million
	Increase: \$46 million (+48%)

- + \$46 million for caseload growth and cost increases

Public Health	Requested: \$349 million
	Decrease: \$27 million (-7.1%)

- \$20 million by eliminating General Fund support for the County Medical Services Program (which was suspended for one year in 1999-00)
- \$20 million by using federal rather than state funds to continue the Community Challenge Grants program

Figure 6

Social Services Programs Proposed Major Changes for 2000-01 General Fund

CalWORKs	Requested: \$2.1 billion
	Increase: \$78 million (+3.9%)

- + \$198 million due to a technical change related to the child support enforcement program
 - + \$112 million for a 3.6 percent cost-of-living adjustment (COLA)
-
- \$496 million by revising the formula for county fiscal incentive payments
 - \$258 million due to caseload reduction

SSI/SSP	Requested: \$2.6 billion
	Increase: \$137 million (+5.5%)

- + \$59 million due to a caseload increase
- + \$55 million for a 3.6 percent COLA

Regional Centers	Requested: \$896 million
	Increase: \$87 million (+11%)

- + \$129 million for caseload and cost increases

Department of Aging	Requested: \$53 million
	Increase: \$21 million (+64%)

- + \$20 million for a new grants program for adult care alternatives to nursing homes (included in Aging with Dignity Initiative)

Child Support Enforcement	Requested: \$332 million
	Increase: \$23 million (+7.4%)

- + \$23 million in local assistance to implement legislative reforms under the supervision of the new Department of Child Support Services

3. *The Budget Includes a General Fund Increase of \$198 Million for the CalWORKs Program Due to Proposed Technical Changes Related to the Child Support Enforcement Program.* The budget proposes two changes which have the net effect of increasing CalWORKs costs by \$198 million. Specifically, it proposes to (1) transfer the costs of child support incentive payments (including \$86 million related to CalWORKs cases) from CalWORKs to the new Department of Child Support Services and (2) treat the state savings from child support collections for welfare families (about \$284 million) as General Fund revenues rather than an offset to CalWORKs and foster care grants.

4. *The Budget Proposes to Keep General Fund Spending for CalWORKs at the Federally-Required Maintenance-of-Effort (MOE) Level.* The budget uses unexpended federal block grant funds carried over from the current year to help meet federal MOE requirements.

5. *The Budget Includes Various Policy Changes, Including the Following:*

- \$496 million in savings by revising the formula for determining CalWORKs fiscal incentive payments, which are allocated to the counties for performance related to recipients' earnings and program exits. The budget includes \$252 million toward the payment of prior-year obligations to the counties for fiscal incentives, but proposes no funding for the budget-year obligation.
- \$36 million in General Fund savings by eliminating the January 2001 sunset date for the state Medi-Cal drug rebate program. (In effect, this essentially continues the savings achieved in the current year.)
- \$20 million in savings by eliminating the General Fund appropriation for the County Medical Services Program, which under current law is suspended for 1999-00.
- \$140 million proposed from the General Fund for the Governor's Aging with Dignity Initiative, which has numerous program components. Our discussion of this proposal appears in the Cross-cutting Issues analysis, which immediately follows this overview.

CROSSCUTTING ISSUES

Health and Social Services

AGING WITH DIGNITY INITIATIVE

GOVERNOR'S INITIATIVE INCLUDES A WIDE RANGE OF PROPOSALS

In his Aging with Dignity Initiative, the Governor makes numerous proposals to improve nursing home care and develop community-based alternatives to nursing homes. In the following pages, we summarize the initiative and provide our assessment of it.

The Governor's Aging with Dignity Initiative consists of numerous components administered by several departments, at a General Fund cost of \$140.4 million (and 221.5 positions) in 2000-01. The purpose of the initiative is "to help elderly people remain at home, or with their families, rather than in nursing homes; dramatically increase the availability of innovative community-based alternatives to nursing home care; and enhance the quality of care in California's nursing homes." Figure 1 (see next page), and the discussion that follows, describe the proposed components of the initiative that have fiscal effects.

Community Programs

The budget includes the following proposals intended to help seniors remain in their homes or in the community in a noninstitutional setting.

Long-Term Care Tax Credit. The budget proposes a \$500 tax credit for persons (specifically taxpayers) who provide or pay for care at home for seniors or disabled individuals of any age. This credit would result in an

estimated General Fund revenue loss of \$47 million in 2000-01. In order for the taxpayer to qualify for the credit, the senior or disabled person would have to meet certain criteria for needing care.

Figure 1**Aging with Dignity Initiative**

2000-01
(In Millions)

	General Fund	Other Funds	Totals
Community Programs			
Caregiver tax credit	\$47.0	—	\$47.0
In-Home Supportive Services wage increases	20.0	\$35.7	55.7
Long-term care innovation grants	20.2	—	20.2
Expand no-cost Medi-Cal for aged, blind, and disabled	2.4	2.4	4.8
Senior housing information and support center	1.0	—	1.0
Senior wellness education campaign	1.0	—	1.0
Improving Quality of Care and Enforcement			
Caregiver recruitment and training	—	\$50.0	\$50.0
Five percent pay increase for nursing home workers	\$32.5	33.3	65.8
Nursing home quality awards	8.0	2.0	10.0
Increased nursing home inspections	3.0	4.5	7.5
Focused nursing home quality reviews	2.5	1.5	4.0
Rapid response to nursing home complaints	2.2	1.7	3.9
Nursing home fiscal review advisory board	0.5	—	0.5
Totals	\$140.3	\$131.1	\$271.4

In-Home Supportive Services (IHSS) Wage Increase. The IHSS program provides services to aged, blind, and disabled persons who are unable to remain safely in their homes without such assistance. Under the program, counties are authorized to establish Public Authorities to negotiate wages for the providers of services. The budget proposes that the state pay 65 percent of the nonfederal costs of wage increases negotiated by IHSS Public Authorities, up to 85 cents above the minimum wage. Under current law, the state pays for 80 percent of the nonfederal costs, up to 50 cents above the minimum wage, for 1999-00 only. The budget proposal would result in a General Fund cost of \$48.5 million compared to current law, or \$20 million above the cost of extending the 1999-00 provision into 2000-01. The budget assumes that the following counties will

have Public Authorities in 2000-01: Alameda, Contra Costa, Los Angeles, Monterey, Sacramento, San Francisco, San Mateo, and Santa Clara.

Long-Term Care Innovation Grants. The budget proposes a one-time General Fund expenditure of \$20.2 million (including three positions) in the Department of Aging to establish a “Golden Challenge” long-term care innovation grants program. The grants would be used to expand adult care alternatives to nursing homes by funding innovative community-based programs that could be replicated in other communities.

Expand Medi-Cal for the Aged, Blind, and Disabled. The budget proposes to provide (beginning January 2001) no-cost Medi-Cal coverage to aged, blind, and disabled persons up to 100 percent of the federal poverty level, at a General Fund cost of \$2.4 million in 2000-01 and \$6 million annually thereafter. Currently, persons in this category who have incomes above about 90 percent of the poverty level must pay a share of cost for Medi-Cal benefits.

Senior Housing Information and Support Center. The budget proposes \$1 million from the General Fund, including eight positions, to establish a Senior Housing Information and Support Center in the Department of Aging. The center would serve as a clearinghouse and educational resource for seniors and their families for information on housing and home modification. The center would also promote education and training for professionals, such as physical and occupational therapists, who can assist seniors in maintaining independence.

Senior Wellness Campaign. The budget proposes \$1 million from the General Fund, including two positions, in the Department of Aging to develop and administer a statewide media campaign on community-based and in-home care alternatives to institutional care.

Improving Quality of Care and Enforcement

The Aging with Dignity Initiative includes the following proposals that address issues of quality of care provided to seniors in their homes and in long-term care facilities and the enforcement of requirements for nursing homes.

Caregiver Training, Retention, and Recruitment. The budget includes \$50 million (\$35 million General Fund and \$15 million federal Workforce Investment Act funds) to train, recruit, or retain workers in the caregiver industries, including nursing homes and the IHSS program.

Pay Increase for Nursing Home Workers. The budget request for the Medi-Cal Program in the Department of Health Services (DHS) includes \$65.8 million (\$32.5 million General Fund) to increase rates paid to nurs-

ing homes and other long-term care facilities in order to fund a 5 percent increase in wages and benefits for direct-care staff, effective August 1, 2000. This increase would be in addition to a similar 5 percent increase funded in the current year. These increases are in addition to annual cost-based rate increases for nursing homes and other long-term care facilities. The budget also indicates that DHS will review staffing ratios in nursing facilities and make recommendations by December 31, 2000. The current-year budget included funds to increase the number of caregiver hours per resident from an average of 2.9 to 3.2. The budget also requests \$465,000 (\$232,000 General Fund) for 6 additional DHS auditor positions (limited to 2000-01) in order to ensure that nursing homes actually pass the increases through to their employees as higher wages and benefits.

Nursing Home Quality Awards. The DHS budget includes \$10 million (\$8 million General Fund) for a new program of awards to nursing homes that provide exceptional care. These funds potentially could be used for staff bonuses or to fund innovative programs at nursing homes. The awards would focus on facilities that have a high proportion of Medi-Cal residents and would range from \$20,000 to \$50,000 each, for a total of 200 to 500 awards (equivalent to 14 percent to 36 percent of the 1,400 nursing homes in California).

Increased Unannounced Inspections and Federal Workload. The budget requests a total of \$7.4 million (\$3 million General Fund) to increase DHS staffing by 70 positions and fund an additional 30 Los Angeles County contract positions for these workload components. A total of 57 positions (including 17 contract positions) would be used to increase the frequency and reduce the predictability of required nursing home inspections. The department indicates that the average inspection frequency has increased from the goal of 12 months to almost 14 months. In some cases, inspections have not met the federal minimum-frequency requirement of 15 months, and that this "pushing up" against the federal requirement makes it relatively easy for facilities that have not been inspected for more than a year to anticipate the timing of their next inspection. This request also includes 43 positions (including 13 contract positions) to meet new federal requirements for increased nursing home facility monitoring and enforcement in the Medicaid and Medicare programs.

Focused Nursing Home Quality Reviews. The budget requests a total of \$4.1 million (\$2.5 million General Fund) for 43 new DHS positions (plus an unidentified number of Los Angeles County contract positions) to (1) expand the number of nursing homes (from 34 to 100) that would be subject to focused enforcement reviews, (2) perform more in-depth reviews of license applications, and (3) monitor and improve the quality of nursing-home enforcement activities.

Ensure A Rapid Response to Complaints. The budget requests a total of \$3.9 million (\$2.2 million General Fund) for 33 additional DHS positions and 13.5 Los Angeles County contract positions in order to respond in a more timely manner to complaints about nursing home conditions and care. Existing law requires DHS to investigate complaints within ten days of their receipt; and, for complaints alleging immediate jeopardy to residents' health or safety, the department's policy is to investigate within two days of receiving a complaint. The department indicates that it was unable to meet these goals for a third of the complaints received in 1998-99.

Fiscal Advisory Board. The budget requests \$500,000 from the General Fund for one position and \$400,000 in consultant services to staff and provide expert assistance to a new Fiscal Solvency Review Advisory Board. The nursing home industry recently has experienced a number of bankruptcies. The department is responsible for ensuring continuity of care for nursing home residents in the event of an imminent closure—either by ensuring transfers to other appropriate facilities or by continuing operation through a receivership. The new advisory board would help DHS develop better fiscal solvency standards to protect nursing home residents.

LAO FINDINGS AND RECOMMENDATIONS

Long-Term Care Tax Credit Unlikely To Be An Efficient or Effective Incentive

We find that the proposed \$500 long-term care tax credit (1) is unlikely to be a means of effectively targeting a significant subsidy to many taxpayers who currently provide in-home long-term care or to provide a significant incentive for many families or individuals to provide this type of care; (2) has an inherent potential for higher-than-intended costs because its eligibility qualifications will be difficult to enforce; and (3) will have its impact diluted by increasing federal tax liabilities. We recommend that the Legislature consider alternative means of helping seniors and disabled persons to remain in their homes or the community, such as further expansion of Medi-Cal coverage for seniors and the disabled.

The Governor's proposal includes a personal income tax credit of \$500 for taxpayers providing or paying for the long-term care of elderly or disabled individuals in the taxpayer's home. The \$500 credit would typically be available to taxpayers for each individual residing with them who is certified by a physician as requiring long-term care—defined as a continuous period of at least 6 months. Individuals with long-term care needs must meet

the following criteria for a taxpayer to qualify for the credit: (1) those 6 years and older must be unable to perform without assistance at least three basic activities of daily living; (2) those between the ages of 2 and 6 years must be unable to independently perform two activities such as eating or bathing; and (3) those younger than 2 years must require specific medical equipment or the care of a skilled health-care practitioner.

The proposal is modeled after a similar proposal at the federal level for a \$3,000 credit. For calendar year 2000, the Franchise Tax Board assumes that approximately 120,000 taxpayers would take advantage of the new state credit. The estimated revenue reduction from the credit is \$47 million in 2000-01, reaching \$52 million by 2004-05.

Legislative Considerations. Whether tax credits are an effective and efficient means of accomplishing their objectives depends on their specific provisions and purpose. They can, for example, be a good method of providing tax *relief* to certain categories of taxpayers or outright *subsidies* to them, *if* they are well targeted. However, if their objective is to encourage certain types of *behavioral changes*, tax credits generally do *not* score particularly well as an effective and efficient tool. This is largely because it is hard to ensure that credits go only to those persons whose behavior changes; thus, many taxpayers receiving credits are simply rewarded for doing things they would have done anyway. Thus, in the case of the proposed credit, a key question is whether it is primarily intended to *subsidize* the care costs of taxpayers who already provide long-term care in their homes, or, alternatively, to provide an incentive for expansion of home-based long-term care. In either case, the proposal raises a number of concerns:

- **Distribution of Benefits.** First, the proposed credit is *nonrefundable*, which means that taxpayers can only receive it to the extent they have tax liabilities. Thus, certain taxpayers whom it may be most effective to target will only be able to benefit partially from it, or not at all. This is especially the case for lower-income taxpayers without large tax liabilities to offset. In addition, because there is no “means test” regarding who can receive the credit, much of it could go to those taxpayers who do not have the greatest financial need.
- **Effects on Behavior.** Second, at \$500, the credit may simply be too small to significantly increase the amount of home-based long-term care that taxpayers are willing and able to provide. Caring for an elderly or disabled person can be a large financial burden. Even with Medicare, out-of-pocket health care costs—particularly for medication—can be large, and other types of costs can be significant. For example, home modifications may be necessary, or

a family member may have to give up a job or limit his or her work hours to provide care. In addition to financial issues, providing in-home care may also involve major changes in living arrangements and habits. It would seem unlikely that the availability of the \$500 annual credit would be the determining factor in more than a small fraction of care decisions.

- **Potential for Abuse.** Third, the credit has an inherent potential for abuse that could require significant monitoring and enforcement efforts. While a doctor's certification will be required, assessing the physical or mental limitations of an individual involves a degree of judgment that is likely to get stretched over time by the natural desire of physicians to accommodate patients and their families. Moreover, taxpayers need not demonstrate that they have incurred any cost in order to claim the credit—the credit is simply extra money. This could make it attractive to “push the envelope” when claiming that an elderly person or child in the home meets the test for qualifying limitations.
- **Federal Interactions Diminish Impact.** Fourth, because California income taxes are an itemized deduction on federal income tax returns, as much as one-third of the state's credit paid to certain taxpayers will wind up “in the pockets” of the federal government.

Given these concerns, we do not believe that the proposed credit would be an effective or efficient means of providing either (1) significant assistance to those taxpayers who bear the greatest burden for the care of seniors or disabled persons or (2) an effective incentive for an expansion of home-based care for seniors and the disabled. Consequently, we recommend that the Legislature explore alternative approaches to accomplishing the objectives of the proposed tax credit that would provide both more financial relief to many families and individuals and would help more seniors and disabled persons avoid institutionalization. In the issue that follows, we discuss expanding Medi-Cal coverage for seniors and the disabled, which is one alternative approach that in our view, has a number of advantages over the proposed tax credit.

Expanding Medi-Cal Coverage for Seniors and the Disabled

We recommend that the Legislature consider expanding Medi-Cal coverage for seniors and the disabled as an alternative to the long-term care tax credit proposed in the budget, because expanding Medi-Cal coverage has the potential for more effectively targeting state assistance to those with the greatest needs and would enable the state to leverage federal funds.

As an alternative to the proposed long-term care tax credit, the Legislature may wish to consider expanding Medi-Cal coverage for seniors and the disabled beyond the modest expansion proposed in the budget (discussed above). Expanding Medi-Cal coverage has several advantages that can make this approach a more efficient and effective means of helping those who have the greatest needs:

- ***Focused on Lower-Income Persons.*** Medi-Cal is a means-tested program that benefits those with low incomes who most need assistance.
- ***Focused on Persons with the Greatest Health Needs and Expenses.*** High health care costs are one of the primary financial burdens on elderly or disabled persons and their families. Even seniors with Medicare coverage often face out-of-pocket drug costs that can be several hundred dollars per month—far more than the \$500 annual credit proposed in the budget. Medi-Cal coverage targets lower-income persons with high out-of-pocket health care costs.
- ***Medi-Cal Leverages Federal Funds.*** The federal government pays slightly more than half of Medi-Cal costs, effectively doubling state funds for expanded Medi-Cal coverage, compared with the shift of state funds to the federal government that would result from the tax credit approach.

Existing Medi-Cal Coverage for Seniors and the Disabled. Currently, there are two main avenues through which the low-income elderly or disabled may get Medi-Cal coverage:

- ***The Supplemental Security Income/State Supplementary Program (SSI/SSP).*** This is the cash grant program that assists low-income elderly, blind or disabled persons. All SSI/SSP recipients receive no-cost Medi-Cal coverage. In order to qualify for SSI/SSP, persons generally must have incomes under 104 percent of the federal poverty level (FPL) for singles or 136 percent of the FPL for couples. Somewhat lower income limits apply to recipients who live with their family or another household and receive free room and board. The savings or other assets (homes are exempt) of SSI/SSP recipients also must be less than \$2,000 (individuals) or \$3,000 (couples).
- ***The Medi-Cal Medically Needy (MN) Program.*** This program is available to elderly or disabled persons who do not meet the requirements for SSI/SSP (recent immigrants, for example) or do not wish to receive a grant. In order to receive no-cost Medi-Cal, individuals living in their own households must have incomes

under 90 percent of the FPL (individuals) or 104 percent of the FPL (couples). Asset limits similar to those in SSI/SSP also apply. The MN program allows participation on a “spend-down” basis for persons above these limits. This means that Medi-Cal will pay the portion of any qualifying medical expense that exceed the person’s “share of cost,” which is the amount by which that person’s income or assets exceeds the applicable Medi-Cal limits. Because of this spend-down provision, the MN program acts as a type of “major medical” coverage for persons with higher incomes or greater assets.

Benefits from the Budget’s Proposed Coverage Expansion Are Limited. In addition to the proposed long-term care tax credit, the Governor’s budget proposes to expand Medi-Cal coverage for the elderly or disabled in a manner that would eliminate a share-of-cost for individuals who have incomes above the MN income limit, but under the poverty level. The expansion would not affect couples initially because the MN limit for couples currently exceeds the FPL. The budget estimates that about 13,000 individuals initially would be affected by this expansion. All of these persons currently are enrolled in the Medi-Cal MN program with a share-of-cost of less than about \$100 per month.

The Governor’s proposal would assist some poor elderly or disabled persons at a very modest state cost. However, it would provide only limited benefits to a relatively small group of individuals. For example, the Governor’s proposal provides no benefit to couples or those individuals whose Medi-Cal share of cost exceeds about \$100. (About 47,000 aged or disabled Medi-Cal beneficiaries have a share of cost between \$100 and \$500, for example.)

Options for Expanding Coverage. The Legislature has a number of options for expanding Medi-Cal coverage for seniors and the disabled beyond the modest expansion proposed in the budget. These options include the following:

- ***Raise the Asset Limit.*** Federal law allows the state to increase the asset limit for Medi-Cal coverage for seniors and the disabled above the SSI/SSP limit. This would allow persons with low incomes to participate in Medi-Cal while being able to retain some modest savings.
- ***Increase the Income Limit.*** Federal law provides a number of mechanisms for the state to raise the Medi-Cal income limits for the elderly or disabled. One approach would be to adopt a “refused grant” program. This would allow persons who have incomes up to the SSI/SSP limits, but who do not receive a grant, to receive no-cost Medi-Cal coverage. This option would benefit

couples because the SSI/SSP income limit for couples is above both the MN limit and the poverty level, and couples with incomes above these levels otherwise would have to pay a share of cost under existing law (if above the MN level) or under the Governor's proposal (if above the poverty level). Another approach would be to adopt income "disregards" (or deductions) that would have the effect of increasing the income limits for eligibility in either the existing MN program or 100 percent of the FPL program proposed in the budget.

- ***Increase the Income Limit for Qualified Medicare Beneficiaries (QMBs).*** Medi-Cal currently covers Medicare premiums, deductibles, and cost-sharing for qualifying persons with incomes up to 100 percent of the FPL and assets up to twice the SSI/SSP limit. These recipients are known as QMBs. Persons who qualify as QMBs but do not meet regular Medi-Cal requirements are referred to as "QMB-onlys," which includes those individuals with incomes between the MN level and the FPL who would be covered by the Governor's proposed expansion of no-cost Medi-Cal to 100 percent of the FPL. The state could adopt income disregards that effectively raise this income level without raising income levels for regular Medi-Cal eligibility. This would provide a significant benefit to low-income Medicare beneficiaries, who must pay \$45.50 monthly for Medicare Part B coverage plus deductibles and cost sharing. Costs to Medi-Cal would be limited, however, because QMB-only coverage does not include benefits that are not covered by Medicare, such as outpatient drugs.
- ***Limited Benefits and Waiver Approaches.*** The state could also design more targeted approaches in order to address the most pressing needs of low-income seniors and disabled persons while limiting state costs. For example, the state might seek a waiver to expand Medi-Cal income ceilings for a limited set of benefits that would include drug coverage, preventive care, and outpatient management of chronic diseases. This approach would be similar in concept to the expansion of Medi-Cal coverage for family planning services, for which the state has received a federal waiver.

We recognize that health care costs for the elderly and disabled can be large and difficult to control. Accordingly, approaches would need to be carefully crafted to provide specific benefits while remaining within ongoing budget constraints. Nevertheless, the Legislature has a variety of options and considerable flexibility in structuring an expansion of coverage in order to remain within those constraints. Accordingly, we recommend that the Legislature consider expanding Medi-Cal coverage for the elderly and disabled as an alternative to the Governor's tax credit proposal because ex-

panding Medi-Cal would be a more effective use of state funds to benefit needy seniors and disabled persons and their families.

More Information Needed On Department of Aging Proposals

We withhold recommend on \$22 million proposed from the General Fund for the Innovation Grants, Senior Housing Support Center, and Senior Wellness Campaign programs, pending receipt of additional information from the Department of Aging.

With respect to the Innovations Grants proposal, the department indicates that program elements such as the size and number of grants, the criteria for awarding the grants, and how the grants will be evaluated, will be developed prior to the May revision of the budget, in conjunction with the state's Long Term Care Council. Without such information, the Legislature will be unable to evaluate the proposal to establish the grants program.

We have also asked the department to explore whether federal matching funds for the three proposed programs could be obtained by coordinating with other departments that administer related programs. For example, the Departments of Rehabilitation and Health Services administer programs related to housing or health promotion, which qualify for federal funding.

Accordingly, we withhold recommendation on these program components, pending receipt of this information.

More Information Needed on Caregiver Training, Retention, and Recruitment Proposal

We withhold recommendation on the proposal to establish a caregiver training, recruitment, and retention program, pending receipt of additional justification.

At the time this analysis was prepared, the Department of Social Services could not provide any details on the type of training, retention, or recruiting activities contemplated in the Governor's initiative; the number of individuals that would receive the training/recruitment services; or the cost of providing these services. Consequently, we withhold recommendation on the \$50 million proposed for these activities, pending receipt of additional information concerning program costs and the estimated caseload. We note that \$35 million of the proposed funding is part of the \$60 million state match for the federal Welfare-to-Work program (U.S. Department of Labor). These funds must be expended if the state is to receive the federal funds under this program.

Rate Increase for “Distinct Part” Nursing Facilities Not Justified

We recommend a General Fund reduction of \$2.6 million in the budget request for a 5 percent pay increase pass-through for nursing home staff in order to delete funding for “distinct part” nursing facilities, because these facilities currently receive much higher rates than other nursing homes for similar care. (Reduce Item 4260-101-0001 by \$2,558,000.)

The Medi-Cal Program, administered by DHS, pays for the care of roughly two-thirds of all nursing home residents in California. In addition to stand-alone nursing homes, facilities operated as a “distinct part” of a hospital also provide long-term care to Medi-Cal patients. These hospital-based distinct part nursing facilities (DP-NFs) receive daily Medi-Cal rates that generally are more than twice the rate paid to stand-alone facilities for similar levels of care. The basis of the higher rate for DP-NFs is the higher cost structure that they have (including labor costs) due to their association with a hospital. The higher DP-NF rates provide substantially more funding for staff pay and other costs than do the rates for most nursing homes, which are stand-alone facilities. Accordingly, we do not believe that a need for higher DP-NF rates to adjust staff pay has been justified, and we recommend deletion of \$2.6 million (General Fund) requested for wage pass-throughs for DP-NFs.

More Developed Proposal for Quality Awards Needed

We withhold recommendation on \$10 million (\$8 million General Fund) requested for nursing home quality awards, pending a specific proposal that describes the program in sufficient detail, including the criteria for (1) awarding grants and determining their amount, and (2) the use of the funds by awardees.

The budget proposal for quality awards currently is at a conceptual stage, and DHS anticipates that it will present a more specific and detailed proposal during the budget process. Accordingly, we withhold recommendation on the request pending receipt of a developed proposal.

Nursing Home Enforcement Staff Requests Overbudgeted

We recommend a General Fund reduction of \$584,000 (and \$584,000 in federal funds) and 16 positions because the proposal to increase unannounced inspections is overbudgeted. We withhold recommendation on a total of \$11.2 million (\$6 million General Fund) and 106 positions requested for improving nursing home regulation and enforcement pending receipt of specific workload information, including how much of that workload could be addressed by filling currently authorized, but vacant, positions. (Reduce Item 4260-001-0001 by \$584,000.)

The DHS licenses nursing homes and administers and enforces the state and federal requirements for these facilities through its Division of Licensing and Certification. As part of the Aging with Dignity Initiative, the budget requests \$16 million (\$8.2 million General Fund) and 147 new state positions for nursing home inspection and enforcement activities.

Unannounced Inspections. The DHS staffing request includes the equivalent of 57 additional positions to increase unannounced nursing home inspections, based on increasing the number of current annual inspections by 20 percent. However, only a 14 percent increase is needed in order to achieve the stated goal of a 12-month average inspection interval. Moreover, the current regular inspection workload should decrease due to the planned increase in the number of nursing homes placed on focused quality review status. Accordingly, to meet the administration's stated goal, we recommend a reduction of 16 positions for a General Fund savings of \$584,000 and an equal amount of matching federal funds.

Other Inspection and Enforcement Proposals. While additional staffing for nursing home inspections and enforcement activities may be needed, the budget proposals do not provide adequate information to justify the specific resources requested. In particular, the following information is necessary to evaluate these proposals:

- ***Specific Workload Justification Lacking.*** The request for additional staff to rapidly respond to complaints is based, in part, on the department's assertion that a larger amount of staff time is needed to handle the average complaint than was anticipated several years ago. However, the proposal does not identify the staffing currently available to address complaints. Moreover, the proposal indicates that DHS "believes that increased workload contributed" to the late initiation of complaint investigations, but does not identify the extent of that contribution or potential other factors that might delay investigations. The requests for staffing for new federal workload and for increased focused quality reviews do not provide any specific workload justification for the proposed staff increases.
- ***Identify Vacant Positions That Can Be Used Instead of New Positions.*** As we discuss in our analysis of the DHS state operations (support) budget request, the department currently has a very large percentage of unfilled positions, approximately 16 percent, versus a normal turnover vacancy rate of about 5 percent. Accordingly, a significant amount of additional workload potentially could be addressed by filling currently authorized, but vacant positions, rather than adding new positions. The department

should identify the extent to which filling vacant positions can address its identified needs.

Pending receipt of this information, we withhold recommendation on \$11.2 million (\$6 million General Fund) and 106 DHS positions requested for nursing home enforcement and regulation.

Increase In Bed Licensing Fee Would Reduce General Fund Costs

We recommend an increase in the per-bed nursing-home licensing fee for 2000-01 in order to adjust fee revenues to the amount needed to fully fund additional enforcement and regulatory staff and quality awards approved in the budget for a potential General Fund savings of up to \$10.5 million.

License fee revenues from health facilities are deposited in the General Fund and offset, in effect, the General Fund costs of inspecting and regulating these facilities (federal funds and penalties also finance the program). Proposed budget bill language (in Item 4260-001-0001) establishes the annual per-bed licensing fee for nursing homes at \$189.48 for 2000-01. Pursuant to current law, this rate was calculated by DHS based on the amount of license fee revenues needed to fund *current-year* spending for the regulatory and enforcement program. This one-year lag in the existing fee-setting mechanism facilitates the fee calculation because it does not require the department to estimate future costs or to adjust fees for budget actions. Since the size of the Licensing and Certification Program has tended to be relatively stable, fee revenues have approximately offset the total General Fund cost of the program, even with the one-year lag in the fee calculation.

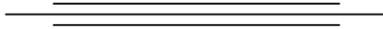
The budget, however, requests an increase in General Fund spending for this program of almost \$16 million, or 51 percent, in 2000-01, and DHS indicates that the license fee revenues proposed in the budget will not be sufficient to offset this increased General Fund cost. Almost all of the increased spending is a result of the Aging with Dignity proposals discussed above.

Increasing nursing home fees by an amount sufficient to fully offset the higher General Fund spending proposed for 2000-01 would eliminate the direct General Fund impact of the increased spending. However, some of these savings would be offset by costs to support an additional increase in Medi-Cal nursing home rates. This is because the licensing fees are an allowable cost that is included in the Medi-Cal nursing home rates. Since Medi-Cal pays for about 65 percent of nursing home residents, Medi-Cal payments would cover most of the nursing homes' costs for the increased license fees. Federal matching funds provide slightly more than

half of Medi-Cal funding, with the remainder paid by the General Fund. As a result, the net cost to the General Fund (via Medi-Cal nursing home rates) of increasing nursing home bed fees is about one-third of the increased fee revenue, and the net General Fund savings is about two-thirds of the additional revenue.

For example, raising nursing home licensing fees by \$16 million (which is the amount of the increase in General Fund spending requested in 2000-01, including the quality awards), would reduce General Fund costs by about \$10.5 million on a net basis after allowing for the cost of Medi-Cal nursing home rate increases. Similarly, the net cost to nursing homes for the \$16 million of additional fee revenue would be about \$5.3 million.

In order to minimize the net General Fund costs of increased regulatory and enforcement efforts for nursing homes, we recommend adjusting the fee established in the budget bill to the amount necessary to fully offset direct General Fund costs approved in the budget. This would be consistent with the underlying concept of using fee revenues to offset these costs, with the intent of making fees assessed in the budget year correspond to the program's costs in the budget year.



CHILD CARE

CHILD CARE FOR CALWORKS FAMILIES AND THE WORKING POOR

In 2000-01, the budget proposal for child care is \$2.6 billion and about half of this amount will be spent on child care for current or former California Work Opportunity and Responsibility to Kids (CalWORKs) recipients with the other half provided to non-CalWORKs working poor families. In contrast to the non-CalWORKs working poor (where waiting lists for child care are common), the budget fully funds the estimated need for child care for both former and current CalWORKs recipients.

Compared to California, the Wisconsin child care system (1) provides child care to more families, (2) treats welfare and nonwelfare families more equitably, and (3) requires higher copayments from the participating families. In order to determine the impacts of a Wisconsin-style subsidized child care system on families and on public costs, we recommend enactment of legislation to conduct a pilot test of the Wisconsin system in up to four California counties.

Background

The State Department of Education (SDE) and the Department of Social Services (DSS) provide state supervision over most of the state's child care programs. Figure 1 summarizes the various child care programs in California. As the figure shows, California provides full-time child care slots (on an average monthly basis) for approximately 383,000 children and part-time preschool or after school programs for an additional 198,000. Of the full-time slots, about 250,000 (65 percent) are for CalWORKs recipients. (For a description of the CalWORKs three-stage delivery system for child care, please see the inset box.)

CalWORKs Child Care Is Fully Funded. For 2000-01, the estimated need for child care for current and former recipients is proposed to be

fully funded. CalWORKs recipients on aid will receive necessary child care to meet their participation mandate (through a combination of work and/or training for 32 to 35 hours per week). If child care is not available, then the recipient does not have to participate in CalWORKs activities for the required hours, until child care becomes available.

After leaving aid, former CalWORKs recipients receive up to two years of Stage 2 child care. Although funding for this child care is capped by

Figure 1

California Child Care Programs

2000-01
(Dollars in Millions)

Program	State Control ^a	Estimated Enrollment	Governor's Budget
Full-Time Programs			
CalWORKs			
Stage 1	DSS	83,000	\$424.2
Stage 2	SDE	115,000	609.6
Community Colleges (Stage 2)	CCC	3,000	15.0
Reserve for Stage 1 and 2	DSS & SDE	28,000	150.4
Stage 3 set-aside	SDE	20,500	115.7
Subtotals		(249,500)	(\$1,314.9)
Non-CalWORKs			
General child care	SDE	70,000	\$463.5
Alternative payment programs	SDE	35,500	194.3
Stage 3 for working poor	SDE	10,000	56.9
Migrant and latch key programs	SDE	13,000	140.8
CalSAFE	SDE	5,000	37.2
Subtotals		(133,500)	(\$892.7)
Totals, Full-Time Programs		383,000	\$2,207.6
Part-Time Programs			
State pre-school ^b	SDE	100,500	\$253.7
After school programs	SDE	97,500	87.8
Totals, Part-Time Programs		198,000	\$341.5
Grand Totals—All Programs		581,000	\$2,549.1
^a Department of Social Services (DSS); State Department of Education (SDE); California Community Colleges (CCC). ^b Some of these programs are full-time.			

CalWORKs Child Care Is Delivered in Three Stages

Stage 1. Stage 1 begins when a participant enters the CalWORKs program. In Stage 1, county welfare departments (CWDs) refer families to resource and referral agencies to assist them with finding child care providers.

Stage 2. Families transfer to Stage 2 when the county determines that the families' situations become "stable"—that is, they develop a welfare-to-work plan and find a child care arrangement. Stage 2 is administered by the State Department of Education (SDE) through its voucher-based Alternative Payment (AP) programs. Participants can stay in Stage 2 while they are on CalWORKs and for up to two years after the family stops receiving a CalWORKs grant. Although Stage 1 and Stage 2 are administered by different agencies, families do not need to switch child care providers upon moving to Stage 2.

Stage 3. Stage 3 refers to the broader subsidized child care system administered by SDE that is open to both former CalWORKs recipients and the non-CalWORKs working poor. Once CalWORKs recipients leave aid, they have two years of eligibility in Stage 2. During this time, they are expected to apply for "regular" Stage 3 child care. We note, however, that typically there are waiting lists for such child care.

Stage 3 "Set-Aside." In order to provide continuing child care for former CalWORKs recipients who reach the end of their two-year time limit, the Legislature created the Stage 3 set-aside in 1997. Recipients timing out of Stage 2 are eligible for the Stage 3 set-aside if they have been unable to find "regular" Stage 3 child care. Assuming funding is available (and the practice has been to fully fund the estimated need), former CalWORKs recipients may receive Stage 3 set-aside child care as long as their income remains below 75 percent of the state median and their children are below age 14.

the budget appropriation, current practice suggests that it is highly unlikely that a former CalWORKs Stage 2 family would lose its child care. Specifically, these recipients in Stage 2 would have the highest priority for funds. Consequently, if there were not sufficient funds for the Stage 2 former CalWORKs recipients, the Alternative Payment programs (APs) that administer Stage 2 would either draw on the child care reserve and/or transfer *aided* Stage 2 recipients back to Stage 1, thus freeing-up funding for nonaided Stage 2 child care recipients.

Former CalWORKs families who have exceeded their two years of Stage 2 child care will move into either "regular" Stage 3 child care or Stage 3 "set-aside." Regular Stage 3 child care is the broader system of subsidized child care operated by SDE. The Stage 3 set-aside was specifically established for former recipients who have reached their two-year

time limit. Like Stage 2, funding for Stage 3 set-aside is capped by the appropriation. Nevertheless, the Legislature's and the administration's practice has been to fully fund this program on a year-by-year basis. In the current year, the administration has notified the Legislature that it will address a shortfall of about \$10 million mostly through a transfer of prior-year savings. For 2000-01, the budget proposes \$115 million for the Stage 3 set-aside, an increase of almost \$90 million compared to the current year.

Non-CalWORKs Child Care Has Waiting Lists. In contrast to the CalWORKs child care system, child care for the non-CalWORKs working poor is not fully funded. Typically, there are waiting lists for non-CalWORKs subsidized child care because there are significantly more eligible families than available slots. Families with incomes up to 75 percent of the state median are eligible for regular SDE child care, but priority is given to families with the lowest income. Most of the available slots go to families with incomes at or below 50 percent of the state median. Although a family may retain its subsidized child care slot as its income rises up to 75 percent of the state median, it is very unusual to initially obtain a subsidized slot with an income above 50 percent of state median.

As we mentioned in our *Analysis of the 1999-00 Budget Bill*, there are no reliable data to predict how many eligible families are not receiving child care. Since many families sign up on a waiting list with more than one child care agency, the waiting lists likely double-count some families. We note that the budget for SDE proposes \$1.5 million for a pilot project to analyze waiting lists and begin to collect data on the unmet demand for subsidized child care.

Current Law Treats Similar Families Differently

As described above, families on CalWORKs receive child care if they need it. Families that leave CalWORKs are eligible for two years of post-assistance child care, and on a year-by-year basis may continue to receive child care in the Stage 3 set-aside. Conversely, working poor families that have never been on CalWORKs receive subsidized child care *only if space is available*. The incomes of these families may be quite similar. During 1999-00, a family of three becomes ineligible for a CalWORKs grant when its income reaches \$1,477 per month (about 44 percent of state median income). A working poor (never-CalWORKs) family with an identical income would only receive child care if slots are available and preference goes to families with the lowest incomes. In all likelihood, such a family would end up on a waiting list, rather than receive a slot.

The current system ensures that CalWORKs recipients have uninterrupted child care. The policy rationale for this practice is that former CalWORKs recipients—having received aid in the past—may be more likely to go back on CalWORKs if they lose their child care than would a non-CalWORKs working poor family, even though the incomes of the two respective families may be very similar. We know that some persons who leave CalWORKs later go back on aid, but we are aware of no data to assess the validity of the rationale that former CalWORKs recipients are more likely to return to aid if their child care is terminated than are persons with similar incomes but who have never been on aid.

Options for Modifying the California Child Care System

The administration expects to complete a comprehensive review of child care policies for CalWORKs recipients and the working poor during the spring of 2000. The review will cover eligibility standards, family fees, state and federal subsidy levels, and how existing resources may be more efficiently focused to serve more equitably the state's low-income families. In addition, the SDE will hold hearings on revisions to the family fee schedule that are proposed by a legislative and staff working group.

To assist the administration and the Legislature in considering the future of California's subsidized child care system, we examine different policy options. Below we discuss (1) options for treating welfare/former welfare families and nonwelfare families more similarly, and (2) modifying eligibility and copayment amounts (sliding scale fees paid by the families) for both populations so as to treat CalWORKs and the non-CalWORKs working poor more equitably.

Increasing or Decreasing Child Care Funding. A decision on whether to increase or decrease spending on child care is a policy choice for the Legislature. If the Legislature elects to increase funding for the non-CalWORKs working poor, this would increase equity between the two populations. Due to data limitations, we cannot estimate the cost of fully funding the child care needs for non-CalWORKs working poor families. In addition, we note that expenditures for CalWORKs child care have been increasing more rapidly than for the working poor. In 2000-01, the budget for the Stage 3 set-aside (exclusively for former CalWORKs recipients) is \$116 million. Preliminary estimates from the DSS indicate the cost for the Stage 3 set-aside will increase to about \$200 million in 2001-02 and \$265 million in 2002-03 because more former CalWORKs recipients are expected to reach their two-year post-assistance time limit.

Another way to increase equity, of course, would be to reduce funding for child care for former CalWORKs recipients. This would achieve more equity but could lead to more former recipients returning to assistance.

Modifying the Copayment Structure. An alternative approach to providing child care for more families without increasing state expenditures is to increase copayments (the sliding scale fees paid by families that receive subsidized child care). Currently, families with incomes below 50 percent of state median income have no copayment obligation. Families at 50 percent of the state median (\$1,669 per month for a family of three) pay a monthly fee (\$44) which is 2.6 percent of their income. As family income rises, the copayment amounts increase. At 75 percent of the state median (the highest level of income at which a family is eligible for subsidized child care), the monthly copayment is \$200, which is about 8 percent of the family's income. The fees are the same regardless of the cost of child care or the number of children in the family receiving the child care. Because most families receiving subsidized child care have incomes below 50 percent of the state median, total copayments in California are relatively low. In 1998-99, total parent copayments were \$12.7 million, which was less than 1 percent of the state budget for subsidized child care.

Decisions on copayment amounts involve trade-offs between the conflicting goals of (1) cost-effectiveness to government and (2) not overburdening poor families. Higher copayments increase the amount of child care that can be purchased within existing resources (or reduce state costs if the amount of child care purchased statewide remains constant), but also increase the financial burden on low-income families. Varying copayment amounts by the type or cost of child care raises similar issues. Higher copayments for more costly child care arrangements will tend to lead to more cost-effective allocation of resources because parents will have a financial incentive to choose less costly child care options. On the other hand, this may lead parents to select lower quality child care arrangements.

Modifying Eligibility Rules. Another policy option is to change eligibility rules. Currently families with incomes up to 75 percent of the state median income are eligible for subsidized child care. Because there are no reliable data indicating the distribution of subsidized child care benefits by family income, it is difficult to predict the impact of changing financial eligibility rules. If the Legislature were to reduce the maximum income limit for program eligibility, it would result in savings that could be used to reduce the waiting lists for the families with lower incomes. As with copayments, changes in eligibility present difficult trade-offs between applying resources to the most needy families and serving more families.

In the above discussion, we have (1) explained how the existing child care system favors former CalWORKs recipients over the working poor and (2) examined the advantages and disadvantages of different policies with respect to resource allocation, modifying copayments, and chang-

ing financial eligibility rules. Below we describe how the State of Wisconsin has addressed these issues in its child care system.

The Wisconsin System. In Wisconsin, eligibility for child care is independent of welfare status. Since the program is fully funded, it serves all eligible families. Effective March 2000, a family's income must be below 185 percent of the federal poverty guideline (\$2,082 for a family of three) to enter the state's program for subsidized child care. Once enrolled, families remain eligible as long as their income remains at or below 200 percent of the federal poverty guideline.

All Wisconsin families make monthly copayments even if they are also receiving a welfare grant. The copayments vary depending on family income, the type of child care purchased, and the number of children receiving child care. For families on assistance and for families with earned incomes up to 70 percent of the federal poverty guideline, the copayment for one child in "licensed" care is \$17 per month (up to 2.7 percent for a family of three). For a family at 200 percent of the federal poverty level, the monthly copayment for one child in licensed care is \$216 per month (about 11.8 percent of the family's income).

Copayments are generally higher for more children and lower if the family elects lower-cost "certified" child care instead of the higher-cost "licensed" child care. Regardless of the number of children, the maximum copayment for a family is about 11.8 percent of income. As a point of reference, we note that 200 percent of the federal poverty level is about 70 percent of the California state median income for a family of three and 75 percent of state median income for a family of four. (Eligibility for subsidized child care in California, as noted above, is set at 75 percent of the median income for a family of three, although few families above 50 percent actually receive services because of funding limitations.)

In general, Wisconsin's copayments are higher than California's, ranging up to 12 percent of family income. Total annual copayments are estimated to be about \$20 million, which is about 10 percent of the state's total program budget. Figure 2 compares copayments in California and Wisconsin, at selected income levels.

Although there is significant uncertainty, we estimate that a Wisconsin-style program in California would cost roughly the same as California's existing subsidized child care program (\$2.6 billion). This is because the cost of providing child care to more persons generally would be offset by additional reimbursements from changes in the copayment structure.

Analyst's Recommendation. With respect to subsidized child care, the Legislature has many options. The current system treats families with similar incomes differently, depending on whether or not they have received public assistance in the CalWORKs program. Although the current system is

not completely equitable, it does tend to ensure that former CalWORKs recipients do not return to aid because of a lack of subsidized child care.

Figure 2

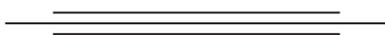
**Monthly Child Care Copayments
Comparison of Wisconsin and California
Family of Three—Licensed Child Care**

(Actual Dollars)

Selected Income Levels	Monthly Income	Wisconsin Copayment for		California Copayment for	
		1 Child	2 Children	1 Child	2 Children
Equivalent of CalWORKs grant	\$626	\$17	\$30	—	—
Working full-time at California minimum wage	998	39	56	—	—
Federal poverty guideline	1,157	61	91	—	—
50 percent of California median income	1,669	147	182	\$44	\$44
185 percent of poverty	2,140	199	251	128	128

Compared to California, the Wisconsin system provides proportionately more child care to more families and treats welfare and nonwelfare families more equitably. It achieves these objectives by collecting higher copayments from the participating families. We think this is a trade-off worth considering.

In deciding whether to adopt the changes contained in the Wisconsin program, the Legislature would want to have some knowledge of the system’s effects on families and on public costs. Accordingly, we recommend enactment of legislation to conduct a pilot test of the Wisconsin-style child care program in up to four counties in California. The pilot project would include an evaluation that would assess the impact on public costs and identify the effects on families. We estimate that the evaluation would cost about \$1.5 million over a three-year period. Although we anticipate that child care costs in the pilot counties would be similar to costs under current law, there should be some provision for funding potential additional costs. This could be accomplished by setting aside funds in a child care reserve that could be used to pay for any child care cost increases in the pilot counties, with authorization for a deficiency request if necessary.



DEPARTMENTAL ISSUES

Health and Social Services

EMERGENCY MEDICAL SERVICES AUTHORITY (4120)

The Emergency Medical Services Authority (EMSA) coordinates emergency medical services statewide. The agency's primary responsibilities are to (1) develop guidelines for local emergency medical services (EMS) systems, (2) review and approve local EMS plans, (3) coordinate medical and hospital disaster preparedness and response and assist the Office of Emergency Services in the preparation of the medical component of the State Emergency Plan, (4) establish standards for the education, training, and licensing of EMS personnel, (5) license EMS paramedics and conduct disciplinary investigations as necessary.

The budget proposes \$13.1 million from all funds for support of EMSA programs in 2000-01, which is a decrease of 2.7 percent from estimated current-year expenditures. The budget proposes \$9.1 million from the General Fund, which is a decrease of \$135,000, or 1.5 percent, from estimated current-year expenditures.

Fund Condition in Jeopardy

We recommend enactment of legislation to reduce the required reserve of the Emergency Medical Services Personnel Fund from 25 percent to 5 percent of the fund's expenditures. We further recommend that the Emergency Medical Services Authority provide the budget committees with (1) a 2001-02 fiscal projection of the Emergency Medical Services Personnel Fund condition, and (2) a fiscal plan to bring the fund's reserve into compliance with current law (25 percent of reserve) and our recommendation above (5 percent).

Background. Fee revenues in the EMS Personnel Fund are derived from paramedics' license fees. The revenues support EMSA's Paramedic Program, which includes a Licensure Unit and an Enforcement Unit. The Enforcement Unit investigates complaints made about paramedics' actions and administers disciplinary action. The costs of disciplinary action, including legal counsel and representation at hearings, are paid for by the EMS Personnel Fund.

Governor's Proposal. The budget proposes to convert the Enforcement Unit's limited-term Special Investigator into a permanent position to meet the growing number of paramedic complaints brought before EMSA. Funding for this position (\$78,000 annually) would continue to be provided by the EMS Personnel Fund.

Ease Statute's Reserve Requirement. The Health and Safety Code (Section 1797.112[c]) requires the EMSA to "maintain a reserve balance in the Emergency Medical Services Personnel Fund equal to at least three months of the annual authorized expenditures for the personnel licensure program . . ." In effect, this amounts to a 25 percent reserve requirement.

We believe that a 25 percent reserve is an unnecessary burden on the EMS Personnel Fund, given that its revenues and expenditures are relatively stable. A reserve of that magnitude would be appropriate only if the authority's expenditures and revenues were volatile. Accordingly, we recommend amending the statute to require a 5 percent reserve.

Fund's Condition At Risk. Based on proposed expenditures of \$798,000, a 25 percent reserve would amount to \$200,000, while 5 percent would be \$40,000. As Figure 1 shows, the budget projects *no reserve* in 2000-01.

Consequently, we recommend that EMSA provide the budget committees with (1) a forecast of the EMS Personnel Fund's fiscal condition through 2001-02, and (2) a fiscal plan for bringing the fund's reserve into compliance with both current law (25 percent) and our recommendation (5 percent reserve).

Figure 1**Emergency Medical Services Personnel Fund Condition**

1998-99 Through 2000-01
(In Thousands)

	1998-99	1999-00	2000-01
Beginning balance	\$34	\$35	\$25
Prior-year adjustments	6	—	—
Balance, adjusted	\$40	\$35	\$25
Revenues and transfers			
Revenues:			
Other regulatory fees	\$709	\$747	\$766
Fingerprint identification card fees	42	13	—
Miscellaneous service to the public	2	—	—
Income from surplus money investments	4	7	7
Totals, revenues and transfers	\$757	\$767	\$773
Totals, resources	\$797	\$802	\$798
Expenditures			
Disbursements:			
Emergency Medical Services Authority	\$762	\$777	\$798
Fund balance	\$35	\$25	—

DEPARTMENT OF AGING (4170)

The California Department of Aging (CDA) administers funds allocated to California under the federal Older Americans Act. These funds are used to provide services to seniors, including supportive services, nutrition programs, employment services, and preventive health services. In addition, CDA administers a range of programs, supported by state and federal funds, that provide noninstitutional services for older Californians and functionally impaired adults, including the Multipurpose Senior Services Program, Linkages, Adult Day Health Care, and the Alzheimer's Day Care Resource Centers. Finally, CDA administers the Foster Grandparent, Senior Companion, Respite Purchase of Services, Respite Registry, and Brown Bag programs.

The budget proposes expenditures of \$167 million (\$59 million General Fund) for CDA in 2000-01. This represents a 64 percent increase in General Fund expenditures over the current year, due primarily to a \$22 million proposed increase for the Department of Aging's portion of the Governor's Aging with Dignity Initiative.

Aging With Dignity Initiative

The Governor's Aging with Dignity Initiative includes \$20 million for the "Golden Challenge" Long Term Care Innovation grants program and \$1 million each for the Senior Housing Support Center and the Senior Wellness Campaign in the Department of Aging. Please see our analysis of the "Aging with Dignity Initiative" in the Crosscutting Issues section of this chapter.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS (4200)

The Department of Alcohol and Drug Programs (DADP) directs and coordinates the state's efforts to prevent or minimize the effects of alcohol-related problems, narcotic addiction, and drug abuse. Services include prevention, early intervention, detoxification, and recovery. The treatment system serves approximately 500,000 clients annually. The DADP allocates funds to local governments and contract providers and negotiates service contracts. The department also coordinates the California Mentor Initiative, a multidepartmental effort targeting youth at risk of substance abuse, teen pregnancy, educational failure, and criminal activity.

The budget proposes \$448 million from all funds for support of DADP programs in 2000-01, an increase of less than 1 percent above estimated current-year expenditures. The budget proposes \$99 million from the General Fund, which is a decrease of \$9 million, or 8 percent, from estimated current-year expenditures. The decrease is primarily due to a one-time carryover of \$12 million from the prior year to the current year for substance abuse programs. The budget proposes an increase of \$2.5 million in General Fund expenditures in 2000-01 to backfill for a reduction in federal funding for perinatal substance abuse programs.

Excess Special Fund Revenues Should Be Used to Reduce Fees

We recommend the adoption of budget bill language requiring the department to implement a fee reduction for the Driving-Under-the-Influence program provider licenses, because the program fund's year-end balance is sufficiently high to support reduced fees.

Under the Driving-Under-the-Influence program, individuals convicted of driving while under the influence of alcohol or other drugs are

required to successfully complete a state-licensed alcohol and drug education and counseling program. The department issues biennial licenses to approximately 265 providers of these services, serving roughly 135,000 participants. The costs of administering the program—which cover initial licensing and biennial licensing reviews, training, and developing regulations—are supported by the Driving-Under-the-Influence Licensing Trust Fund. The fund consists of program provider license fees. Initial licensing fees range from an average of \$445 for first-offender programs to \$1,219 for multiple-offender programs. In addition, each provider deposits fees of \$12 per enrolled participant on a quarterly basis.

The budget projects a year-end fund balance of \$2 million in 2000-01, as shown in Figure 1.

Figure 1

**Department of Alcohol and Drug Programs
Driving-Under-the-Influence Program
Licensing Trust Fund**

(In Thousands)

	1998-99	1999-00	2000-01
Beginning balance	\$1,991	\$1,963	\$1,929
Revenues	1,585	1,675	1,810
Expenditures	1,613	1,709	1,735
Year-end balance	\$1,963	\$1,929	\$2,004

Current law provides that the department shall set the licensing fees in an amount sufficient to cover projected expenditures, and that any excess fees shall be carried forward and taken into consideration in the establishment of fees for the next fiscal year. Based on revenue and expenditure trends, we believe that the reserve is sufficiently large to support a fee reduction. Our review indicates that a fee reduction of 15 percent could be sustained over the next five years, while maintaining a projected reserve of approximately \$670,000 at the end of this time period. Accordingly, we recommend adoption of budget bill language requiring the department to implement a fee reduction for program provider licenses.

Our recommendation could be implemented by adoption of the following language in budget bill Item 4200-001-0139:

The department shall implement a fee reduction based on the amount of the unencumbered balance, taking into account the need to maintain a prudent reserve.

**Excess Special Fund Revenues
Should Be Transferred to General Fund**

We recommend the adoption of budget bill language to transfer the amount of the year-end balance in excess of \$20,000 from the Audit Repayment Trust Fund to the General Fund, because a balance of \$20,000 would constitute a prudent reserve and it is appropriate to return these repayment revenues to their original source, the General Fund. (Increase General Fund revenues by \$206,000.)

The Audit Repayment Trust Fund consists of the recovery of state funds found not to have been spent in accordance with the requirements of state or federal regulations regarding substance abuse services. Revenues from the fund are used to support program audits.

As Figure 2 shows, the budget projects revenues of \$50,000 and expenditures of \$67,000 in 2000-01, and a year-end balance of \$226,000. However, based on past-year trends, we estimate that expenditures will be less than projected in the budget. Consequently, we believe the year-end balance will be higher. Our review of this fund indicates that a balance of \$20,000 in 2000-01 would be approximately one-third of projected expenditures, thereby constituting a prudent reserve against unanticipated costs. Accordingly, we recommend any balance in excess of \$20,000 be transferred to the General Fund. This would be appropriate because the activity supported by this fund consists of the recovery of state funds. We estimate this would result in increased General Fund revenues of \$206,000.

Figure 2

**Department of Alcohol and Drug Programs
Audit Repayment Trust Fund**

(In Thousands)

	1998-99	1999-00	2000-01
Beginning balance	\$222	\$260	\$243
Revenues	56	50	50
Expenditures	18	67	67
Year-end balance	\$260	\$243	\$226

Our recommendation could be implemented by adoption of the following language in budget bill Item 4200-001-0816:

For support of the Department of Alcohol and Drug Programs, the amount of the unencumbered balance exceeding \$20,000 in the Audit Repayment Trust Fund as of June 30, 2001, shall be transferred to the General Fund.

Department Should Report on Medicaid Rehabilitation Option

A statutorily required report on the programmatic and fiscal implications of adopting the Medicaid rehabilitation option under the Medi-Cal Drug Treatment Program is more than six months overdue. We recommend that the department advise the Legislature on the status of the report and its recommendations regarding adoption of the option.

The federal Health Care Financing Administration, which administers the Medicaid program, gives states the option of including drug and alcohol rehabilitative services as a Medicaid benefit. These services may be provided outside of the traditional clinic-based setting, and include preventive care, case management, day care habilitative, residential, and other services.

Pursuant to Chapter 389, Statutes of 1998 (SB 2015, Wright), the department is required to submit, by July 1, 1999, a report that identifies the key policy, program, and fiscal issues regarding the adoption of the Medicaid rehabilitation option. The department indicates it submitted the report to the Health and Human Services Agency (HHS) in October 1999. At the time this analysis was prepared, however, HHS had not released the report.

The department should be prepared at the time of budget hearings to advise the Legislature on the status of the report or, if the report has been submitted by that time, on its findings and recommendations.

Statewide Strategic Plan Needed to Address Gap in Substance Abuse Treatment

We recommend the adoption of budget bill language requiring the department to submit by December 1, 2000 a statewide strategic plan to address the need for substance abuse treatment.

Gap in Substance Abuse Treatment. In our July 1999 report, *Substance Abuse Treatment in California*, we indicated that research demonstrates that substance abuse treatment is cost-effective to society, primarily due to reduced criminal activity. We also identified a gap between the need for, and the availability of, substance abuse treatment in California. The department has estimated that an additional \$330 million would be needed annually to serve everyone who would access publicly funded treatment, if it were available.

We also reported a substantial gap in treatment specifically for adolescents. Compared to adults, a significantly lower percentage of adolescents who need publicly funded treatment receive such services. We identified several barriers to serving adolescents through California's treat-

ment system, including a limited number of residential facilities and service models that are not tailored to address the unique developmental stages of adolescence.

Our report recommended that the department develop short- and long-term statewide plans to address the need for more services in general, and to identify effective treatment models and strategies to more effectively serve adolescents in particular.

At the time this analysis was prepared, the department had not submitted such a plan.

Recent funding increases for substance abuse treatment targeted to specific populations, such as pregnant and postpartum women and their children, the prison population, parolees, and drug court participants, have not been part of an overall statewide strategy to reduce substance abuse. We believe that a statewide strategic plan would enable the state to prioritize funding needs for substance abuse treatment and may help maximize federal funding.

Accordingly, we recommend the adoption of budget bill language requiring the department to submit a statewide strategic substance abuse treatment and prevention plan. Specifically, we recommend that, at a minimum, the plan include:

- A specific component for adolescents identifying effective treatment models and strategies to remove barriers to treatment.
- A standardized assessment tool specific to adolescents, to be developed in conjunction with representatives from county alcohol and drug departments and service providers.
- With respect to adolescent treatment, consideration of the expansion of the substance abuse treatment benefit under the Healthy Families Program (HFP).
- Consideration of the expansion of the Medi-Cal Drug Treatment Program benefit.
- A fiscal estimate of the costs of implementing the plan's recommendations.

We discuss each of these components of a statewide plan below.

Moving Towards an Adolescent Treatment Program. Chapter 866, Statutes of 1998 (AB 1784, Baca), required the department to collaborate with counties and service providers to establish community-based non-residential and residential programs for adolescents who are involved in, or at risk of involvement in, the criminal justice system. In April 1999, the department allocated nearly \$5 million in Adolescent Treatment Program

(ATP) grants to 20 counties. The funding is ongoing and included in the budget for 2000-01. The department indicates that it intends to develop an adolescent treatment system based on the findings from the participating counties on the most appropriate and effective services.

We believe that the preliminary findings from the participating counties should be used, to the extent possible, to develop the strategic plan's adolescent component. It is important to note, however, that it is uncertain whether the department will be able to obtain adequate information on the full range and amount of services that are needed to treat adolescents. This is primarily for two reasons. First, only \$149,000 was allocated for a program-wide evaluation. Second, discussions with some of the participating counties' alcohol and drug program directors indicate that some of the grants, which average roughly \$250,000, may not be enough to develop a new adolescent treatment system that would include a full continuum of services. Lacking a full array of service options, participating counties may not be able to test the most appropriate treatment services.

Given the potential limitations of the ATP findings, the department could rely on best practices information from the American Society of Addiction Medicine and the Center for Substance Abuse Treatment in developing our recommended plan. This information, for example, indicates that successful adolescent treatment systems (1) include a full continuum of services, from outpatient to intensive day treatment to residential programs, (2) allow clients to remain in treatment over an extended period of time, and (3) address the cognitive and social-emotional development of youth.

Standardized Assessment Tool Necessary to Ensure Uniform Treatment Across Counties. California has no statewide adolescent-specific assessment instrument to determine need level and appropriate treatment. This limits the department's ability to ensure that adolescents receive comparable treatment across counties. The National Institute on Drug Abuse reports that patients who receive services specifically matched to assessed need show statistically significant improvement in all assessed problem areas, such as academic performance and violent and criminal activity. A standardized assessment tool would help ensure that clients receive the most appropriate and cost-effective treatment.

A statewide assessment tool would also help in estimating the statewide need for adolescent treatment. While the department gathers waiting list information from the counties, such information is an imprecise measure of need because the availability of different types of services affects waiting lists for those services. For example, because there are so few adolescent residential treatment programs, many counties would not keep waiting lists for this service. Assessment data generated by a stan-

standard assessment tool, by contrast, would enable the department to estimate the need for different types of adolescent treatment.

Expansion of the Healthy Families Substance Abuse Treatment Benefit. The HFP, administered by the Managed Risk Medical Insurance Board (MRMIB), implements the federal Children's Health Insurance Program enacted in 1997. Under HFP, substance abuse treatment includes medically necessary inpatient hospital detoxification and 20 outpatient visits per year.

In September 1999, MRMIB submitted a statutorily required report to the fiscal and policy committees on the adequacy of substance abuse benefits in HFP. The report indicated that only 53 enrolled adolescents received at least one outpatient visit in the past year. The report cited several reasons for this small number of clients, including inaccurate utilization data. The report concluded that there is still insufficient utilization data available to determine the adequacy of the HFP substance abuse benefits.

In our field visits, providers and county administrators indicated that the HFP benefit is inadequate for adolescents with serious substance abuse problems, who require intensive outpatient or residential treatment. County officials we spoke with also suggested that the inadequacy of benefits may have discouraged doctors from making referrals to the health plans' treatment providers. If this is so, utilization data may not be an accurate measure of the adequacy of the benefits of the program. Finally, we note that national best practices research suggests that a full continuum of services and the option to remain in treatment for longer periods are instrumental for successful treatment. For these reasons, we believe that the department's plan should include consideration of expanding benefits under HFP and cost estimates of different expansion scenarios. We note that funding for HFP is generally on a 2-to-1 federal/state matching basis.

Expansion of the Drug Medi-Cal Benefit. The Medi-Cal Drug Treatment Program, or Drug Medi-Cal (D/MC), targets pregnant and postpartum women and children under age 21. The state match is included in the department's budget. The program covers four principal benefits: individual and group counseling under the Narcotic Treatment Program; individual and group counseling under outpatient drug-free services; day care habilitative services; and perinatal services, which is the only program that covers residential services. In 1995-96, in an effort to contain costs, the D/MC "trigger" was adopted in the budget act and trailer bill (Chapter 305, Statutes of 1995 [AB 911, Vasconcellos]). The legislation enacted a provision stating that if General Fund expenditures exceed a specified amount, outpatient drug-free services would be eliminated as a

D/MC benefit. The trigger in the current year is \$45 million. In addition, in order to reduce costs, the scope and duration of D/MC benefits were restricted and the provider reimbursement rates were lowered.

In our field visits, state and county officials and treatment providers indicated that these cost containment strategies have resulted in inadequate benefits under D/MC. Consequently, many Medi-Cal-eligible clients are treated instead in programs funded entirely by state funds, or not treated at all. In order to maximize federal funds, we believe the department should include in its plan a review of the impact of the “trigger” and should consider strategies to expand D/MC benefits if cost-effective. The plan should also include fiscal estimates of such strategies.

As noted above, the department is required to submit a report on the programmatic and fiscal implications of adopting the Medicaid rehabilitation option under the Medi-Cal Drug Treatment Program, which would expand the range of services covered under D/MC. We recommended above that the department advise the Legislature on the status of the report.

We note that expansion of D/MC benefits may require loosening the trigger. Since D/MC is an entitlement, and benefits must be provided statewide, expansion raises concerns about uncontrollable costs. As part of the strategic plan, the department could consider a managed care model as a potential longer-term solution to cost containment.

Summary. We recommend the adoption of budget bill language requiring the department to submit, by December 1, 2000, a statewide strategic plan to address the need for substance abuse treatment. The plan should include a specific component for adolescent treatment, including a standardized assessment tool. In order to serve more persons and maximize federal funding, the plan should consider expansion of the HFP substance abuse treatment benefits and the D/MC benefits.



CALIFORNIA CHILDREN AND FAMILIES COMMISSION (4250)

Proposition 10 was enacted by the voters of California in the November 1998 election. It funds early childhood development programs from revenues generated by increases in the state excise tax on cigarettes and other tobacco products. These programs are provided either by the state California Children and Families Commission or the local county commissions.

The Governor's proposal estimates that Proposition 10 revenues will be \$733 million in 1999-00 and \$719 million in 2000-01, a decrease of 2 percent due to a projected decrease in tobacco consumption. According to statute, these funds are deposited into the California Children and Families Trust Fund, and a small amount is used to (1) offset reductions in certain Proposition 99 programs and Breast Cancer Fund programs due to decreased tobacco consumption and (2) reimburse the State Board of Equalization for its administrative costs. Of the remainder, 80 percent of the funds are allocated to Proposition 10 county commissions and the other 20 percent to the state commission.

The California Children and Families Commission must spend their funds on (1) a mass media campaign, (2) educational activities, (3) support for child care providers, (4) research, and (5) administration. In early 2000, the state commission intends to fund initiatives in children's health care, child care and development, and family literacy.

The budget estimates that spending will amount to \$1.1 billion in the current year and \$729 million in the budget year. Current-year expenditures exceed the annual revenues because of a large carry-over from 1998-99, due to the time required for program implementation.

We note that these funds are continuously appropriated, and not subject to appropriation by the Legislature. We also note that passage of Propo-

sition 28, included on the March 2000 ballot, would repeal the tax provisions of Proposition 10. This would eliminate new funds for programs administered by the state and local commissions.

Matching Grant Program Would Encourage Cost-Effective Use of Proposition 10 Funds

We recommend enactment of legislation to establish a state-funded voluntary matching grant program for the Proposition 10 county commissions, which would fund (1) early childhood programs that have been shown to be cost-effective and/or (2) demonstration programs that are potentially cost-effective, based on existing research.

Background. Proposition 10 results in a significant increase in funding for programs related to early childhood development. A key issue, therefore, is ensuring that these funds will be spent effectively. Most of the Proposition 10 revenues go to the county commissions. This local control is likely to facilitate responsiveness to local needs, but with up to 58 commissions and the broad discretion that they have in allocating their revenues, it will be a challenge to ensure that the funds will be spent effectively. County strategic plans must describe how program outcomes will be measured and must be consistent with guidelines adopted by the state commission, but specific spending plans do not have to be reviewed or approved at the state level.

The Legislature has no direct control over the expenditure of Proposition 10 funds, and as such its role is a limited one. Nevertheless, the Legislature does have an opportunity to influence decisions taken by the state and, more importantly, the county commissions.

Research on Early Childhood Programs. A variety of early childhood programs—typically small-scale demonstration programs—have been evaluated as being effective according to outcome measures such as school achievement and health status. In a few cases (a home-visiting program in Elmira, New York, for example), the cost-effectiveness of programs has been documented as well. (For further discussion of research on such cost-effective programs, please see our report, *Proposition 10: How Does it Work? What Role Should the Legislature Play in Its Implementation?*, January 1999.)

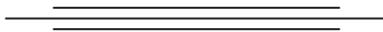
It also makes sense to evaluate the potential of other early childhood interventions. While relatively few programs have been analyzed on the narrowly defined basis of cost-effectiveness, a large number have been shown to result in positive outcomes. The Office of Juvenile Justice and Delinquency Prevention in the U.S. Department of Justice, for example, has published the results of a review of “family strengthening” programs,

which identified 34 noteworthy programs, including nine that focus on families with children under six years of age. Such programs could serve as the basis for initiating pilot projects in California.

Matching Grant Program. We recommend enactment of legislation to establish a state-funded voluntary matching grant program for the Proposition 10 county commissions, which would fund (1) early childhood programs that have been shown to be cost-effective and/or (2) demonstration programs that are potentially cost-effective, based on existing research. (As implied above, demonstration programs are small-scale projects designed to test the effectiveness or cost-effectiveness of the program or specific aspects of the program.)

The primary purpose of this matching grant program would be to create a fiscal incentive to encourage the county commissions to use their funds productively. We believe that a 1:3 state/local match would provide a sufficient incentive. Thus, a state appropriation of \$15 million, for example, would match up to \$45 million in local funds.

We also suggest that if such a program is adopted, it be administered either by the Department of Social Services (DSS) or by the California Children and Families Commission, with the assistance of an advisory group that includes representatives from other departments. We note that the DSS has some expertise in this area and currently oversees a home-visiting pilot project. This expertise is important because the administrative agency will have to make judgments on the potential effectiveness and cost-effectiveness of the local proposals. The Children and Families Commission on the other hand, also has acquired staffing expertise and has responsibility for state oversight of the program.



DEPARTMENT OF HEALTH SERVICES STATE OPERATIONS (4260)

The Department of Health Services (DHS) has four major responsibilities. First, it provides access to health care for low-income persons through the Medi-Cal Program. Second, it administers a broad range of public health programs in cooperation with local health agencies. Third, it licenses hospitals and certain other health facilities. Fourth, it functions as the state's central agency for vital statistics.

The budget proposes \$746 million from all funds (\$244 million from the General Fund) and 5,790 personnel-years of staff for DHS state operations in 2000-01. Proposed General Fund spending represents an increase of 13 percent compared with estimated General Fund spending in the current year. This is due primarily to proposed new positions, as discussed below.

Vacant Positions Should Be Filled Before Adding New Positions

In addition to specific recommendations regarding particular staffing requests, we withhold recommendation generally on all of the department's proposals to increase staffing (which result in a net increase of 557 positions in 2000-01) because the department's large number of unfilled existing positions calls into question the need for the requested staffing increases. We recommend that the department evaluate its staffing vacancies in order to identify workload that can be met by filling existing positions instead of adding new positions and funding, and report the results of this review to the budget committees.

Budget Request for New Positions. The budget requests a net increase of 557 authorized positions for DHS in 2000-01, raising the total number of authorized positions in the department to 6,198—an increase of almost

10 percent. The largest of these staffing requests is proposed for the Medical Fraud and Fiscal Integrity Initiative (255) and for additional staff to monitor the quality of care at nursing homes that are included in the Governor's Aging with Dignity Initiative (153).

Vacant Positions in Department. All departments have some vacant positions due to normal personnel turnover and hiring delays, but generally these unavoidable vacancies are only about 5 percent of total positions. This is normally reflected in the budgeted salary savings for the department.

The requests for the new positions, however, come despite the fact that, as of January 2000, the department had over 900 vacant positions. This represents a current vacancy rate of more than 16 percent. Thus, more than one in every six positions in the department is vacant, on average. The DHS notes that it has had difficulty filling positions for reasons such as tight labor markets, particularly for certain types of health professionals, and administrative backlogs in the department's hiring process.

Department staff indicate that the vacancy rate is somewhat overstated. This is because persons hired under its temporary help "blanket" authority offset some of these vacancies; however, the department currently is unable to quantify this offset. Nevertheless, the department agrees that its vacancy rate is excessive.

The department's high vacancy rate is likely to be causing some of the workload backlogs that the department cites as justification for new additional positions and funding. Accordingly, some of this workload problem could likely be resolved by filling existing positions rather than adding new ones.

Therefore, while we address the merits of some individual budget staffing requests later in this analysis and in our analysis of the Aging with Dignity Initiative, we withhold recommendation generally on all of the department's requests for additional staffing. We recommend that the department evaluate its staffing vacancies in order to identify workload that can be met by filling existing positions instead of adding new positions and funding, and report the results of this review to the budget committees.

Salary Savings Estimate Should Be Realistic

We recommend that the Department of Health Services prepare, for the budget committees, a realistic hiring plan for its revised staffing needs and a revised salary savings estimate for 2000-01 that is consistent with that plan, in order to avoid budgeting funds that are not likely to be spent.

In addition to requesting a net increase of 557 new positions, the budget assumes that DHS will fill most of its current vacant positions and reduce its overall vacancy rate in 2000-01 to 6.6 percent. In order to achieve this, the department would have to hire more than 1,000 people by early summer, in addition to replacing personnel who leave due to normal turnover. This appears unrealistic, and we believe that the department is likely to have a higher vacancy rate in 2000-01 than the budget assumes.

The amount of funding requested for staff wages and benefits is the full cost of wages and benefits for all authorized positions for the full year, less an allowance for salary savings that reflects the anticipated vacancy rate. For this reason, an unrealistically low estimate of the vacancy rate for DHS in 2000-01 would result in overbudgeting for staffing costs.

In addition to evaluating the potential workload that can be addressed by filling existing vacancies, as recommended above, we further recommend that DHS prepare, for the budget committees, a realistic hiring plan for its revised staffing needs and a revised salary savings estimate for 2000-01 that is consistent with that plan, in order to avoid budgeting funds that are not likely to be spent.

Employer Retirement Contribution Overbudgeted

We recommend reducing the amount budgeted for employer retirement contributions to the correct amounts for proposed new positions in 2000-01, for a total savings of \$1.1 million (\$442,000 General Fund, \$158,000 special funds, \$501,000 federal funds, and \$27,000 reimbursements), subject to adjustment for other budget actions affecting these proposals.

Employer Retirement Contribution Rates Reduced. Subsequent to the enactment of the 1999-00 Budget Act—which set employer retirement contribution rates to roughly 5 percent of salaries for most types of positions—Chapter 800, Statutes of 1999 (AB 232, Alquist) reduced these rates to approximately 1.5 percent. Budget Letter Number 99-31, issued in October 1999, provided departments with instructions for budgeting accordingly.

Old Rate Budgeted for New Positions. The department applied the 5 percent rate rather than the 1.5 percent rate to the retirement contribution costs in its proposals for additional staff in 2000-01. Consequently, the department's personal services costs are overbudgeted. Accordingly, we recommend reducing the employer retirement contributions budgeted in the proposals to reflect the correct rate. The department has identified the overbudgeted amounts as \$442,000 General Fund, \$501,000 federal funds, \$158,000 special funds, and \$27,000 reimbursements. Therefore,

we recommend reductions to the appropriate items, subject to adjustment for other budget actions affecting the department's proposed new positions.

Medi-Cal Fraud and Fiscal Integrity Initiative— More Information Needed

We withhold recommendation on \$26.2 million (\$10 million General Fund) and 255 positions requested for the Governor's Medi-Cal Fraud and Fiscal Integrity Initiative, pending further analysis of the proposal and receipt of additional information from the department regarding (1) the potential use of existing vacant positions to address identified workload, and (2) more specific workload justification that relates staffing requests to specific goals and outcomes and recognizes the interactive effects of the components of the Governor's initiative.

The budget requests a total of \$26.2 million (\$10 million from the General Fund) and 255 positions to expand antifraud activities and improve the fiscal integrity of the Medi-Cal Program. This request is in addition to an augmentation of 41 positions and \$3.3 million (\$1.6 million from the General Fund) that was provided in the current year by the 1999-00 Budget Act and trailer bill legislation. The requested new positions and funding for 2000-01 would be used for the following purposes:

- Double the staff of the Medi-Cal Fraud Prevention Bureau.
- Tighten the Medi-Cal provider enrollment process, expand measures to detect and withhold payments for claims that appear fraudulent, and take aggressive enforcement action against providers who commit fraud.
- Increase field audits of Medi-Cal providers.
- Expand antifraud activities to Medi-Cal managed care.
- Increase fraud detection efforts for dental providers.
- Add staff to investigate clinical laboratories that are suspected of fraudulent practices.
- Rationalize and update Medi-Cal billing codes for medical equipment and supplies and contract for some types of medical equipment and supplies and for generic drugs in order to reduce opportunities for fraud and abuse and obtain competitive prices for Medi-Cal purchases.

Vacancies Should Be Addressed. Earlier in this analysis, we discuss the large number of current DHS staff vacancies. Because of this large

number of vacancies, we are generally withholding recommendation on proposals for new positions, including the positions requested in the antifraud initiative, pending information from the department on the extent to which filling existing vacant positions can address the workload for which the new positions are being requested.

Specific Concerns With the Antifraud Initiative. In addition to the general issue of how the department's vacancies affect the need for new positions, the antifraud proposal raises a number of specific concerns, including the following:

- ***Ongoing Workload Versus Intensive Initial Efforts.*** As indicated above, 41 positions were added in the current year to augment the department's antifraud activities. This raises the question of how much antifraud staffing will be needed on an ongoing basis after current intensive efforts "weed out" a backlog of fraudulent providers that has built up over several years.
- ***Intensive Enforcement Versus Structural Change.*** In some cases, changing the way in which the Medi-Cal Program purchases goods and services may be a more effective strategy to minimize fraud and abuse than adding more staff for ongoing intensive auditing and enforcement efforts. In fact, the Governor's budget offers an example of such an approach. It requests 16.4 positions to develop a contracting program for some types of medical equipment and supplies, and nine positions to revise and update coding systems and utilization policies. Contracting will enable DHS to reduce the number of providers of these items, and the contracting process will limit participation to legitimate health care businesses and therefore exclude "shell" businesses that are set up only to commit fraud. Updating and rationalizing billing codes and utilization policies will reduce opportunities for fraud and abuse through manipulation of billing practices. The staffing requests in the auditing and enforcement components of the Governor's antifraud initiative, however, base their workload justification on the current number of providers (or even larger numbers that predate the recent provider reenrollment effort).
- ***Workload Justification Often Vague and Not Linked to Specific Outcomes.*** The department's budget documents provide extensive lists of general tasks and the time required to perform them for various types of requested positions. In many cases, however, these documents present little information to link these workloads with specific outcomes or goals. Consequently, the workload basis for the requested positions often is vague and unclear. For example, the initiative requests 29 positions to make drop-in vis-

its on providers who are not in the four categories already being visited as part of the intensive current-year antifraud effort. The new positions will be used to conduct drop-in visits over a five-year period for “up to” 7,500 providers in those other categories, including chain pharmacies and emergency ambulance services. No evidence is presented, however, that these other categories have significant numbers of fraudulent providers that would be appropriate targets for a drop-in program. Moreover, as mentioned above, this component of the request does not recognize any workload reductions that will result because of reductions in the number of providers due to the current reenrollment process and the proposed contracting program.

Pending receipt and analysis of additional information from DHS to address the issues raised above, we withhold recommendation on the proposal.

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

In California, the federal Medicaid Program is administered by the state as the California Medical Assistance (Medi-Cal) Program. This program provides health care services to welfare recipients and other qualified low-income persons (primarily families with children and the aged, blind, or disabled). Expenditures for medical benefits are shared about equally by the General Fund and by federal funds. The Medi-Cal budget also includes additional federal funding for (1) disproportionate share hospital (DSH) payments, which provide additional funds to hospitals that serve a disproportionate number of Medi-Cal or other low-income patients, and (2) matching funds for state and local funds in other related programs.

At the state level, the Department of Health Services (DHS) administers the Medi-Cal Program. Other state agencies, including the California Medical Assistance Commission (CMAC), the Department of Social Services (DSS), the Department of Mental Health (DMH), the Department of Developmental Services (DDS), the Department of Aging, and the Department of Alcohol and Drug Programs receive Medi-Cal funding from DHS for eligible services that they provide to Medi-Cal beneficiaries. At the local level, county welfare departments determine the eligibility of applicants for Medi-Cal and are reimbursed by DHS for the cost of those activities. The federal Health Care Financing Administration oversees the program to ensure compliance with federal law.

Proposed Spending. The budget for DHS proposes Medi-Cal expenditures totaling \$23.2 billion from all funds for state operations and local assistance in 2000-01. The General Fund portion of this spending (\$8.8 billion) increases by \$551 million, or 6.7 percent, compared with estimated General Fund spending in the current year. The remaining expenditures for the program are mostly federal funds (\$12.8 billion).

The spending total for the Medi-Cal budget includes an estimated \$3 billion (federal funds and local matching funds) for payments to DSH hospitals, and about \$1.8 billion of federal funds to match \$1.7 billion of state and local funds budgeted elsewhere for programs operated by other departments, counties, and the University of California. Including these other state and local funds, total proposed spending would be about \$24.4 billion in 2000-01.

MEDI-CAL BENEFITS AND ELIGIBILITY

What Benefits Does Medi-Cal Provide?

Federal law requires the Medi-Cal Program to provide a core of basic services, including hospital inpatient and outpatient care, skilled nursing care, doctor visits, laboratory tests and x-rays, family planning, and regular examinations for children under the age of 21. California also has chosen to offer 32 optional services, such as outpatient drugs and adult dental care, for which the federal government provides matching funds. Certain Medi-Cal services—such as hospitalization in many circumstances—require prior authorization from DHS as medically necessary in order to qualify for payment.

How Medi-Cal Works

Currently, more than half (57 percent) of the Medi-Cal caseload consists of participants in the state's two major welfare programs, which include Medi-Cal coverage in their package of benefits. These programs are (1) the California Work Opportunity and Responsibility to Kids (CalWORKs) program, which provides assistance to families with children and replaces the former Aid to Families with Dependent Children (AFDC) program, and (2) the Supplemental Security Income/State Supplementary Program (SSI/SSP), which assists elderly, blind, or disabled persons. Counties administer the CalWORKs program and county welfare offices determine eligibility for CalWORKs benefits and Medi-Cal coverage concurrently. Counties also determine Medi-Cal eligibility for persons who are not eligible for (or do not wish) welfare benefits. The federal Social Security Administration determines eligibility for SSI/SSP, and the state automatically adds SSI/SSP beneficiaries to the Medi-Cal rolls.

Generally, persons who have been determined eligible for Medi-Cal benefits (Medi-Cal "eligibles") receive a Medi-Cal card, which they use to obtain services from providers who agree to accept Medi-Cal patients. Medi-Cal uses two basic types of arrangements for health care—fee-for-service and managed care.

Fee-for-Service. This is the traditional arrangement for health care in which providers are paid for each examination, procedure, or other service that they furnish. Beneficiaries generally may obtain services from any provider who has agreed to accept Medi-Cal payments. The Medi-Cal Program employs a variety of "utilization control" techniques (such as requiring prior authorization for some services) designed to avoid costs for medically unnecessary or duplicative services.

Managed Care. Prepaid health plans generally provide managed care. The plans receive monthly "capitation" payments from the Medi-Cal Program for each enrollee in return for providing all of the covered care needed by those enrollees. These plans are similar to health plans offered by many public and private employers. Currently, slightly more than half (2.6 million of the total of 5 million Medi-Cal eligibles) are enrolled in managed care organizations. Beneficiaries in managed care choose a plan and then must use providers in that plan for most services. Since payments to the plan do not vary with the amount of service provided, there is much less need for utilization control by the state. Instead, plans must be monitored to ensure that they provide adequate care to enrollees.

Who Is Eligible for Medi-Cal?

Almost all Medi-Cal eligibles fall into two broad groups of people. They either are aged, blind, or disabled or they are in families with children. Somewhat more than half of Medi-Cal eligibles are welfare recipients. Figure 1 shows for each of the major Medi-Cal eligibility categories, the maximum income limit in order to be eligible for health benefits and the estimated caseload and total benefit costs for 1999-00. The figure also indicates for each category, whether an asset limit applies and whether eligible persons with incomes over the limit can participate on a "spend down" basis. If spend down is allowed, then Medi-Cal will pay the portion of any qualifying medical expenses that exceed the person's "share of cost," which is the amount by which that person's income exceeds the applicable Medi-Cal income limit.

Aged, Blind, or Disabled Persons. About 1.3 million low-income persons who are (1) at least 65 years old or (2) disabled or blind persons of any age receive Medi-Cal coverage. Overall, the disabled make up more than half (61 percent) of this portion of the Medi-Cal caseload. Most of the aged, blind, or disabled persons on Medi-Cal (86 percent) are recipients of SSI/SSP benefits and receive Medi-Cal coverage automatically. The other aged, blind, or disabled eligibles are in the "medically needy" category. They also have low incomes, but do not qualify for, or choose not to participate in the SSI/SSP program. For example, aged low-income *noncitizens* generally may not apply for SSI/SSP (although they

Figure 1**Who is Eligible for Medi-Cal?
Major Eligibility Categories**

1999-00					
	Maximum Monthly Income Or Grant ^a	Asset Limit Imposed?	Spend Down ^b Allowed?	Enrollees (Thousands)	Annual Benefit Costs (Millions) ^c
Aged, Blind, or Disabled Persons					
• Welfare (SSI/SSP)	\$1,249	✓	—	1,162	\$7,267
• Medically needy	954	✓	✓	111	742
• Medically needy—long term care	Special limits	✓	✓	70	2,430
Families, Children, and Pregnant Women					
Families					
• Welfare (CalWORKs)	\$1,032 ^d	✓	—	1,773	\$2,264
• Section 1931(b) family coverage	1,482 ^e	✓	—	1,209	1,635
• Medically needy	1,190	✓	✓	— ^f	— ^f
Children and Pregnant Women					
Children					
• 200 percent of poverty— infants	\$2,873	—	—	52	— ^g
• 133 percent of poverty— ages 1 through 5	1,941	—	—	127	\$86
• 100 percent poverty— ages 6 through 18	1,482	—	—	97	68
• Medically indigent— ages 0 through 21	1,190	✓	✓	254	432
Pregnant women					
• 200 percent of poverty— pregnancy services	\$2,873	—	—	115	\$445
• Medically indigent—all services	1,190	✓	✓	10	95
Emergency-Only					
Undocumented immigrants who qualify in any eligibility group are limited to emergency services (including labor and delivery and long-term care).				207 ^h	\$494
^a	Amounts are for aged or disabled couple (including the standard \$20 disregard) or for a four-person family with children (including a \$90 work expense disregard).				
^b	Indicates whether persons with higher incomes may receive benefits on a share-of-costs basis.				
^c	Combined state and federal costs.				
^d	Income limit to apply for CalWORKs (including a \$90 work expense disregard). After becoming eligible, the income limit increases to \$1,717 (family of four) with the maximum earned income disregard.				
^e	Applicant income limit of 100 percent of poverty, effective March 1, 2000. Increases to \$2,124 after enrollment.				
^f	Enrollment and costs included in amounts for Section 1931(b) family coverage.				
^g	Costs included in amount for 200 percent of poverty pregnant women group.				
^h	About 70,000 additional undocumented immigrants are included in other enrollment categories.				

may continue on SSI/SSP if they already were in the program as of August 22, 1996). As another example, about 17 percent of the medically needy persons in this category have incomes above the Medi-Cal limit and participate on a share-of-cost basis.

The number of Medi-Cal eligibles in long-term care is small—only 70,000 people, or 1.4 percent of the total caseload—but because long-term care is very expensive, benefit costs for this group total \$2.4 billion, or 15 percent of total Medi-Cal benefit costs.

Almost 60 percent of the aged or disabled Medi-Cal eligibles also have health coverage under the federal Medicare Program. Medi-Cal generally pays the Medicare premiums, deductibles, and any co-payments for these “dual beneficiaries,” and Medi-Cal pays for services not covered by Medicare, such as drugs and long-term care. Medi-Cal also provides some limited assistance to a small number of Medicare eligibles who have incomes somewhat higher than the medically needy standard.

Families with Children. About 35 percent of all Medi-Cal eligibles are CalWORKs welfare recipients, who receive Medi-Cal coverage under the state’s “Section 1931(b)” family coverage category. Section 1931(b) family coverage was created by the 1996 federal welfare reform legislation to replace the former AFDC-linked Medicaid eligibility category. Although CalWORKs recipients constitute the largest single group of Medi-Cal eligibles by far, they account for only 17 percent of total Medi-Cal benefit costs. This is because almost all CalWORKs recipients are children or able-bodied working-age adults, who generally are relatively healthy. Low-income families who are not in CalWORKs may enroll in Medi-Cal in the Section 1931(b) family coverage category or in the medically needy family category. Medi-Cal covers both the adults and the children in these families.

As in CalWORKs, applicants for Medi-Cal family coverage in either the Section 1931(b) or medically needy categories have been restricted to single-parent or unemployed families with very low incomes. Currently (until March 2000), the income limit for families applying for Medi-Cal is about 70 percent of the federal poverty level (FPL) for Section 1931(b) coverage and about 80 percent of the FPL for medically needy coverage. However, once enrolled in Section 1931(b) coverage, families may work and remain on Medi-Cal at higher income levels (up to about 155 percent of the FPL). Families whose incomes are above the Section 1931(b) or medically needy limits, but who meet all of the other medically needy qualifications, may receive Medi-Cal benefits on a share-of-cost basis.

Expansion of Section 1931(b) Family Coverage. Effective March 1, 2000, Chapter 146, Statutes of 1999 (AB 1170, Cedillo) expands Section 1931(b) eligibility to families with incomes up to 100 percent of the FPL, plus applicable income deductions. This expansion has the effect of broadening eligi-

bility for parents since children in families with incomes up to 250 percent of the FPL (plus income deductions) currently are eligible for either Medi-Cal child-only coverage or for coverage under the Healthy Families Program administered by the Managed Risk Medical Insurance Board.

The expansion also will make working parents in two-parent families eligible for Medi-Cal if they meet the income and asset limits. At present, only families with single parents or unemployed parents (defined as working less than 100 hours per month) qualify for Section 1931(b) or medically needy family coverage (these limitations also apply to CalWORKs applicants and will continue for them).

Women and Children. Medi-Cal includes a number of additional eligibility categories for pregnant women and for children. Medi-Cal covers all health care services for poor pregnant women in the medically indigent category, which has the same income and asset limits and spend-down provisions as apply to medically needy families. However, pregnancy-related care is covered with no share of cost and no limit on assets for women with family incomes up to 200 percent of the FPL (an annual income of \$34,480 for a family of four, including a \$90 monthly work expense disregard).

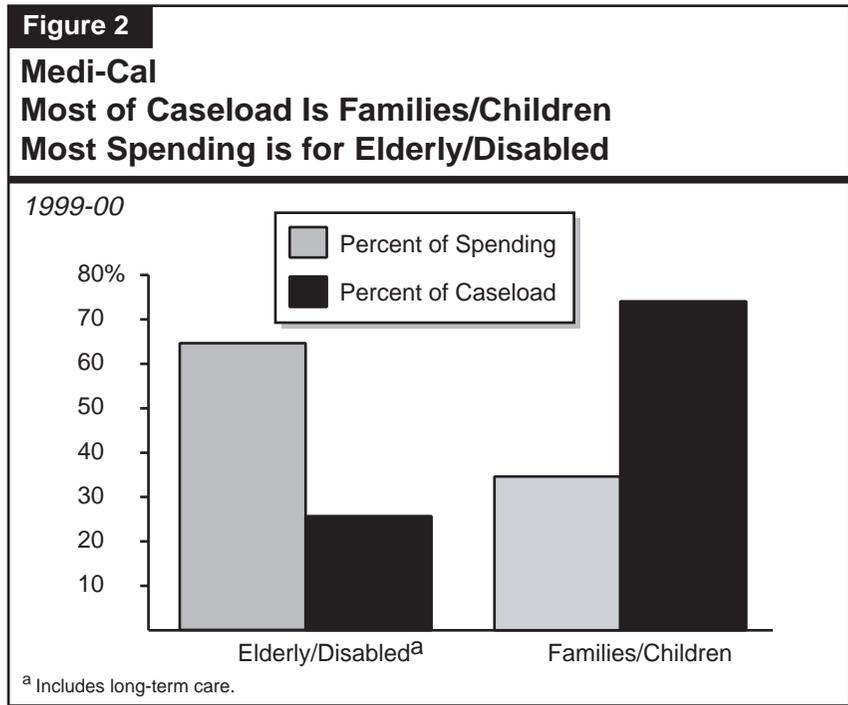
The medically indigent category also covers children and young adults through age 20. Several special categories provide coverage without a share of cost or an asset limit to children in families with higher incomes—200 percent of poverty for infants, 133 percent of poverty for children ages 1 through 5, and 100 percent of poverty for children ages 6 through 18. Pregnant women and poverty-group children also may use a simplified mail-in application to apply for Medi-Cal or Healthy Families Program coverage (for children above the Medi-Cal income limits).

Emergency-Only Medi-Cal. Noncitizens who are undocumented immigrants, or are otherwise not qualified immigrants under federal law, may apply for Medi-Cal coverage in any of the regular categories. However, benefits are restricted to emergency care (including labor and delivery). Medi-Cal also provides prenatal care and long-term care to undocumented immigrants. These services, as well as nonemergency services for recent *legal* immigrants, do not qualify for federal funds and are supported entirely by the General Fund.

Most Medi-Cal Spending Is For the Elderly or Disabled

The average cost per eligible for the aged and disabled Medi-Cal caseload (including long-term care) is much higher than the average cost per eligible for families and children on Medi-Cal. As a result, almost two-thirds of Medi-Cal spending is for the elderly and disabled, although

they account for only about one-fourth of the total Medi-Cal caseload, as shown in Figure 2.



MEDI-CAL EXPENDITURES

Rapid Spending Growth in the Current Year

Figure 3 presents a summary of Medi-Cal General Fund expenditures in the DHS budget for the past, current, and budget years.

The budget estimates that the General Fund share of Medi-Cal local assistance costs will increase by \$738 million (9.9 percent) in 1999-00, compared with 1998-99. The bulk of this increase is for benefit costs, which will total an estimated \$7.7 billion in 1999-00—an increase of \$662 million (9.4 percent). County administration costs increase by an estimated \$82.1 million (24 percent).

Our analysis of the Medi-Cal estimate indicates that increases in the cost and utilization of health care goods and services (including provider rate increases) account for the largest portion of the increase in benefit costs—about \$425 million. Caseload growth adds about \$180 million of

General Fund cost, and other factors account for the remainder of the cost increase (about \$57 million).

Figure 3

Medi-Cal General Fund Budget Summary^a Department of Health Services

1998-99 Through 2000-01
(Dollars in Millions)

	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Change From 1999-00	
				Amount	Percent
Support (state operations)	\$65.8	\$69.5	\$79.9	\$10.4	15.0%
Local Assistance					
Benefits	\$7,002.2	\$7,664.7	\$8,169.8	\$505.1	6.6%
County administration (eligibility)	339.7	421.7	451.0	29.2	6.9
Fiscal intermediaries (claims processing)	69.2	66.4	73.6	7.1	10.7
Hospital construction debt service	60.2	55.9	55.1	-0.9	-1.5
Subtotals, local assistance	<u>\$7,471.2</u>	<u>\$8,208.8</u>	<u>\$8,749.4</u>	<u>\$540.6</u>	<u>6.6%</u>
Totals	\$7,536.1	\$8,278.2	\$8,829.3	\$551.0	6.7%
Caseload (thousands of beneficiaries)	5,061	5,192	5,289	131	2.6%

^a Excludes General Fund Medi-Cal spending budgeted in other departments.

1999-00 Rate Increases. Roughly \$140 million of the General Fund spending increase in the current year is for provider rate increases. Rate increases for nursing homes and other long-term care facilities total \$49.3 million, most of which is to increase staffing ratios and raise pay levels for direct-care staff by 5 percent. Various rate increases for physicians, in-home nursing, optometrists, pharmacists, and emergency medical transportation total \$33 million. In addition, we estimate that rate increases approved by DHS or by CMAC for Medi-Cal managed care plans increase General Fund costs by roughly \$55 million.

Pharmacy and Certain Other Costs Growing Rapidly. The budget estimates that the General Fund cost of payments to pharmacy providers (for drugs and various types of medical supplies) will increase by \$205 million, or 26 percent, in the current year. In addition, General Fund costs for the "Other Services" category in the Medi-Cal estimate, which includes

durable medical equipment suppliers and adult day health services, will increase by an estimated \$46 million (22 percent), compared with 1998-99. Both of these categories include some groups of providers that DHS has targeted for fraud prevention efforts.

Caseload Increase Reflects Backlog of Eligibility Determinations. The budget estimates that caseload in the current year will increase by 132,000 eligibles, or 2.6 percent. (The *Governor's Budget Summary* states that caseload will grow by much less in the current year and then decline in 2000-01, but this reflects only the "base" caseload before adding the estimated caseload increase from recently-enacted and proposed eligibility expansions.)

The 2.6 percent caseload increase is primarily related to two factors. First, the caseload continues to be inflated by continued delays in determining the Medi-Cal eligibility of former CalWORKs welfare recipients. These are individuals who were automatically continued on Medi-Cal since 1998 pending the development of Section 1931(b) eligibility standards by DHS and the implementation of the resulting complex standards by county welfare departments. A backlog of more than 300,000 eligibility determinations built up, which the budget anticipates will not be eliminated until late 2000-01. By then, the budget estimates that half of the backlogged caseload will be dropped from the Medi-Cal rolls due to a lack of response by (or inability to locate) beneficiaries or due to a determination of ineligibility.

The second factor increasing the caseload is the expansion of Section 1931(b) eligibility enacted as part of the 1999-00 budget. This expansion will take effect in March 2000, increasing the average caseload for the current year by 83,000. Also, contributing to the growth in caseload costs is a moderate growth in the number of disabled SSI/SSP recipients. Although the size of this caseload increase is modest (about 19,000 eligibles or 2.6 percent), it results in a disproportionate cost increase due to the relatively greater health care needs of this group.

Reduction in State DSH Payment "Takeout." The 1999-00 budget reduced by \$30 million the portion of county matching funds for DSH hospital payments that the state diverts to offset General Fund Medi-Cal costs. This state "takeout" now has been gradually reduced from \$239.8 million in 1995-96 to a current level of \$84.8 million.

County Administration. The General Fund share of county administration costs for eligibility determinations, outreach, and related activities increases by \$82.1 million, or 24 percent. The large increase results from rapid growth in the nonwelfare caseload. The county administration costs budgeted in Medi-Cal exclude (with some minor exceptions) eligibility determination costs for welfare recipients because those costs

are budgeted elsewhere or not paid by the state. Eligibility determination costs for CalWORKs recipients are included in the DSS' budget for the CalWORKs program, and the federal government performs SSI/SSP eligibility determinations. The rapid increase in the nonwelfare caseload reflects both ongoing caseload growth and a shift of Medi-Cal eligibles to nonaided categories as the CalWORKs welfare population declines.

\$569 Million General Fund Deficiency in 1999-00

The 1999-00 *Budget Act* anticipated some of the ongoing Medi-Cal cost increase and provided funding for legislatively approved rate increases, the expansion of Section 1931(b) family eligibility, and the reduction in the DSH takeout. The Governor's budget caseload estimate, however, is substantially above the budget act estimate, and savings assumed from certain federal actions either did not occur or resulted in less than the budgeted amount of savings.

Budget Estimates Caseload Will Increase Rather Than Decline. The 1999-00 *Budget Act* anticipated that total Medi-Cal caseload would *decline* by 193,000 eligibles (3.8 percent) in the current year compared with 1998-99. The Governor's budget now estimates that caseload will *increase* by 132,000 (2.6 percent)—a difference of 325,000 eligibles from the budget act estimate. This additional caseload increases Medi-Cal General Fund costs by roughly \$250 million compared with the budget act estimate.

In addition to continued delays in eliminating the backlog of eligibility determinations for former CalWORKs recipients, two other factors also contribute to the additional caseload costs. First, the Governor's budget estimates that the number of pregnant women and children enrolled in the poverty-level eligibility groups will be 48,000 above the budget act forecast. Second, the number of aged, blind or disabled Medi-Cal eligibles (including those in long-term care) has increased by about 12,000, compared with the budget act estimate. Although this portion of the caseload increase is relatively small, it adds about \$55 million of General Fund cost due to the greater health care expenses of these groups.

Savings from Federal Assumptions Fall Short. The 1999-00 *Budget Act* assumed that the federal government would make an upward adjustment to the Federal Medical Assistance Percentage (FMAP) for California—the federal matching rate for Medi-Cal expenditures—in order to correct for an underestimate of the state's population in the formula used to calculate the FMAP. The budget assumed a General Fund savings of \$210 million in 1999-00 due to this adjustment. The federal government did not make the adjustment, however, so these savings will not occur.

The budget also assumed federal approval, effective July 1, 1999, of a Medicaid waiver to provide 90 percent federal funding for previously state-funded family planning services for low-income persons not otherwise eligible for Medi-Cal. The waiver was not approved until December 1, 1999, and was somewhat less comprehensive than anticipated. As a result, the budget estimates that General Fund spending will be \$93.5 million more than the amount provided in the *1999-00 Budget Act*.

Unbudgeted 1999-00 Managed Care Rate Increases. Most of the current-year deficiency results from unbudgeted caseload and unrealized federal assumptions, as noted above. However, rate increases granted by the department to Medi-Cal managed care plans in the 12 counties that operate under the “two-plan” model add an additional \$39.7 million of General Fund costs to the deficiency amount.

Budget Year

The Governor’s budget estimates that total General Fund spending for Medi-Cal local assistance (in the DHS budget) will be \$8.7 billion in 2000-01, an increase of \$541 million, or 6.6 percent, compared with estimated spending in the current year. The budget estimates that the Medi-Cal caseload will increase by 97,000 (1.9 percent) in the budget year to a total of almost 5.3 million average monthly eligibles—about 15 percent of the state’s population. Most of the added spending is for Medi-Cal benefit costs, which are projected to increase by \$505 million (6.6 percent) in 2000-01. Figure 4 shows the major components of the increase in benefit costs.

Increased Cost and Utilization of Services—\$264.2 Million. Based on the budget’s projections, General Fund costs for Medi-Cal benefits will increase by about 3.4 percent in 2000-01 due to provider rate increases, cost increases for goods and services, and increased use of services by beneficiaries. The department attributes about two-thirds of this increase to spending on drugs. This includes price and utilization increases for existing drugs and for new drugs added to the Medi-Cal formulary. Medi-Cal “buy-in” payments for Medicare premiums also are increasing. Medi-Cal pays Medicare premiums for Medi-Cal enrollees who also are eligible for Medicare (dual eligibles) in order to obtain 100 percent federal funding for those services covered by Medicare. The budget estimates that the General Fund cost of these buy-in payments will increase by \$36.2 million in 2000-01. The budget also projects a 30 percent increase (\$9.9 million General Fund) in the use of adult day health care services, which the budget attributes to the effect of state start-up grants and the entry of for-profit providers into this market.

Figure 4

Medi-Cal Benefits Major General Fund Spending Changes Governor's Budget

2000-01
(In Millions)

Increased Price and Utilization of Services	\$264.2
Increased pharmacy costs	180.0
Increased cost for Medicare premiums	36.2
Additional 5 percent long-term care wage pass-through	32.5
Full-year cost of 1999-00 increase in long-term care staffing ratio	17.1
Expanded use of adult day health care	9.9
Expanded family planning services authorized in 1999-00 budget	7.3
Increase in pharmacist dispensing fee (Chapter 190, Statutes of 1999 [SB 651, Burton])	3.3
Increased savings from antifraud activities	-9.9
Other	-12.2
Cost of Increased Caseload	\$137.7
Full-year impact of Section 1931(b) expansion	81.9
Increase in ongoing disabled caseload	68.6
Expanded eligibility for aged, blind, and disabled	4.7
Other	-17.3
Pass-Through Funding for Other Departments	\$95.6
Short-Doyle Mental Health Early and Periodic Screening, Diagnosis and Treatment services	\$43.1
State mental hospitals and developmental centers	\$24.8
Regional center and community-based developmental services	27.7
Changes in Financing, Payments, and Recoveries	\$7.6
One-time recoupment in 1999-00 of past hospital overpayments	54.2
Reduction in federal matching rate	51.6
Reduce state disproportionate share hospital takeout/ increase physician rates	30.0
Full-year federal funding in 2000-01 for family planning waiver	-66.3
One-time cost in 1999-00 for federal disallowance of past charges for institutions for mental diseases	-43.9
Other	-17.9
Total	\$505.1

The budget proposes to continue funding ancillary services to patients in institutions for mental diseases (IMDs) through 2000-01 at a General Fund cost of \$12.5 million. The 1999-00 budget continued funding for these services on a state-only basis for 1999-00 after the federal government determined that they did not qualify for Medicaid funding. Absent this state program, county indigent health care systems would become responsible for these services. Several new budget proposals also contribute to the projected General Fund spending changes:

- ***Additional 5 Percent Long-Term Care Employee Pass-Through (\$32.4 Million Cost).*** This proposal is part of the Governor's "Aging with Dignity Initiative." It provides an additional increase in Medi-Cal rates for long-term care facilities in order to provide a 5 percent pay and benefit increase for caregivers. (We discuss this proposal in our analysis of the Aging with Dignity Initiative earlier in this section.)
- ***Modest Savings from Staffing Increases for Fraud Prevention and Enforcement (\$9.9 Million Savings Increase).*** In the current year, DHS received 41 additional positions to enhance its Medi-Cal fraud detection, prevention, and enforcement activities. The Governor's Medi-Cal Fraud and Fiscal Integrity Initiative in the 2000-01 budget requests an additional 255 positions related to this effort, at a cost of \$26.2 million (\$10 million General Fund). (We discuss these staffing proposals in our analysis of the department's state operations budget request.) General Fund savings from reduced Medi-Cal fraud as a result of the 41 positions added in the current year will increase by \$3.9 million according to the budget estimate (from \$2.3 million in 1999-00 to \$6.2 million in 2000-01). The budget also estimates that General Fund savings from the 255 additional staff requested for 2000-01 will be \$6 million, which would grow in future years after the new staff is trained and becomes more experienced.
- ***Continuation of State Drug Contracting Program.*** The budget proposes legislation to make the existing state drug contracting program permanent. Under existing law, the program sunsets on January 1, 2001, which the budget estimates would result in a General Fund cost of \$36.3 million in 2000-01 (half the full-year amount) because of the loss of supplemental drug rebates that the state receives under the program. The budget also indicates that the state Secretary for Health and Human Services will convene a task force to develop options for better controlling Medi-Cal drug expenditures that may be presented in the May revision to the Governor's budget.

Caseload Increases—\$137.7 million. The largest caseload-related cost increase (\$81.9 million General Fund) is for the expansion of Section 1931(b) family coverage to applicants in working families with incomes up to the poverty level. The budget estimates that this eligibility expansion will add 247,000 average monthly eligibles to the Medi-Cal caseload in 2000-01. Because this expansion begins in March 2000, the cost in the current year is one-third of the full-year cost budgeted in 2000-01.

The budget also projects an increase of about 18,500 disabled Medi-Cal eligibles due to ongoing caseload trends. Although this caseload increase is modest, the relatively high healthcare costs of this group result in an added General Fund cost of about \$69 million. In addition, the budget includes the following two eligibility expansions for the aged, blind, or disabled (one of which was previously enacted by the Legislature):

- **Expansion of No-Cost Medi-Cal to 100 Percent of Poverty for Aged, Blind, or Disabled (\$2.4 Million Cost).** As part of the Governor's Aging with Dignity Initiative, this proposal would eliminate the share of cost for aged, blind, or disabled single persons with incomes between 90 percent and 100 percent of the FPL, effective January 2001. Currently, single persons must "spend down" their income to 90 percent of the FPL before Medi-Cal will begin to pay for their health care costs (couples currently have no share of cost with incomes up to 104 percent of the FPL). The budget estimates that this change will affect on average of 13,000 individuals, about half of whom currently are counted in the Medi-Cal caseload. (We discuss this proposal in our analysis of the Aging with Dignity Initiative earlier in this section.)
- **Medi-Cal Coverage for the Working Disabled (\$4.8 Million Cost).** Chapter 820, Statutes of 1999 (AB 155, Migden) allows disabled working persons with incomes up to 250 percent of the FPL to obtain Medi-Cal coverage. In order to participate, individuals are required to pay sliding-scale premiums ranging from \$20 to \$250 per month. The budget estimates that about 7,000 disabled persons will participate, including some current SSI/SSP recipients who will now be able to work without losing their health coverage. The budget estimates that the annual General Fund cost of this expansion will grow to about \$6.7 million after 2000-01 as participation phases in.

Pass-Through Funding Increases for Other Departments/Programs—\$95.6 Million. The DHS Medi-Cal budget includes increases in General Fund costs for some services provided to Medi-Cal beneficiaries in programs operated or supervised by DMH or DDS. These services include state hospitals and developmental centers operated by DMH and DDS,

respectively; and services to developmentally disabled Medi-Cal beneficiaries living in the community who are served by regional centers throughout the state. The budget also includes an increase of \$43.1 million (45 percent) for mental health Early and Periodic Screening, Diagnosis, and Treatment services to children provided through county mental health programs. (We discussed the rapid rate of spending increase for this program last year in our *Analysis of the 1999-00 Budget Bill* [please see page C-85 of that *Analysis*].)

Changes to Financing, Payments, and Recoveries—\$7.6 Million. The relatively small spending increase in this category results from a number of larger offsetting adjustments. Improving personal income in California results in a slight reduction in the FMAP pursuant to the formula for determining the federal matching rate. The FMAP reduction increases the General Fund share of Medi-Cal costs by \$51.6 million in 2000-01. In addition, budget-year adjustments delete a one-time gain in 1999-00 from recoveries of past Medi-Cal “crossover” overpayments to hospitals for services to dual (Medi-Cal/Medicare) beneficiaries and a one-time 1999-00 cost to repay the federal government for disallowed past IMD charges. Finally, the budget estimates increased General Fund savings of \$66.3 million in 2000-01 because the federal family planning waiver will provide enhanced federal funding for the full year.

In addition, the budget proposes a further reduction in the state’s DSH “takeout” of up to \$30 million, with the benefit to be shared among both public and private DSH hospitals. The budget also indicates that as an alternative to reducing the DSH takeout by the full \$30 million the takeout reduction could be a lesser amount, with the difference used to increase Medi-Cal rates paid to emergency physicians and on-call specialists.

MEDI-CAL COST AND CASELOAD TRENDS

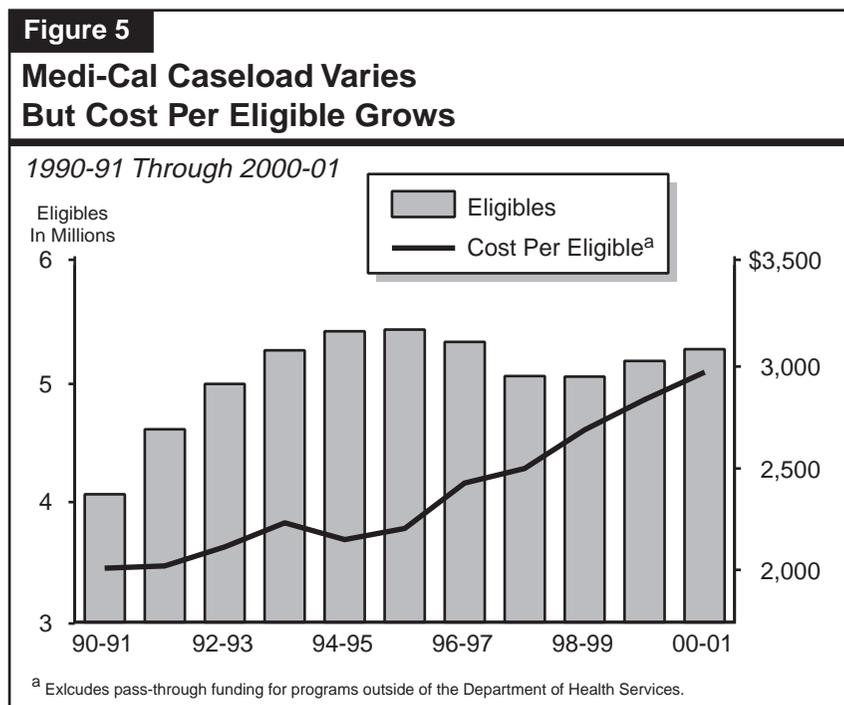
Figure 5 illustrates how Medi-Cal caseload and per-eligible costs have changed since 1990-91, along with projections of caseload and costs per eligible for 1999-00 and 2000-01 based on the budget estimates.

Budget Forecasts Return to Growing Caseloads and Costs

After earlier dips in the growth of costs and caseloads, the budget forecasts that both the cost of benefits per eligible and the number of eligibles will grow steadily through the current year and 2000-01.

Caseload. The number of persons enrolled in Medi-Cal grew rapidly in the early 1990’s—caseload growth in 1991-92 was almost 14 percent

over the prior year. Between 1990-91 and 1995-96, the Medi-Cal average monthly caseload grew from 4.1 million eligibles to 5.5 million. The rapid growth resulted from the ongoing effects of Medicaid eligibility expansions enacted in the late 1980s and from increased welfare caseloads associated with the severe recession that California experienced at that time.



In the mid-1990s, the Medi-Cal caseload leveled off, and then dropped by almost 300,000 eligibles (5.4 percent) in 1997-98. Again, the change in the Medi-Cal caseload roughly paralleled changes in the CalWORKs welfare caseload, which also began a sharp drop at that time in response to the turnaround in the state's economy and greater emphasis on moving families from welfare to work in the wake of enactment of state and federal welfare reform legislation. Another factor contributing to declining welfare and Medi-Cal caseloads probably was reluctance among immigrant Californians to make use of public benefits because of concerns about whether such use might adversely affect their ability to naturalize or to sponsor the immigration of family members in the future.

During 1997-98 and 1998-99, the Medi-Cal caseload has been relatively flat while the CalWORKs caseload has continued to decline. The Medi-Cal caseload has not declined primarily because of the backlog of

eligibility determinations for former CalWORKs recipients that resulted from the delay in implementation of Section 1931(b) Medi-Cal eligibility by DHS and the counties. In the current year and 2000-01, the budget estimates that the Medi-Cal caseload will grow once more, primarily because of the expansion of Section 1931(b) family eligibility enacted as part of the 1999-00 budget.

Cost Per Eligible. While the caseload has gone up and down, the cost trend has been almost steadily upward. The average annual growth rate of the estimated cost of benefits per eligible (excluding pass-through funding to other departments and local governments) is 4 percent, which is twice the rate of general inflation during this period, as measured by the Gross Domestic Product deflator.

The temporary dip in the cost-per-eligible that occurred in 1994-95 and 1995-96 was partly the result of a change in the caseload mix, rather than an underlying drop in health care costs. This is because the rapid increase in the number of families on welfare (whose health care costs are relatively low) temporarily reduced the *proportion* of aged and disabled persons (relatively high-cost groups) in the Medi-Cal caseload, and this change in the mix tended to reduce the average cost per eligible. As the CalWORKs welfare caseload subsequently fell, the elderly and disabled share of the Medi-Cal caseload returned to its earlier level of about 26 percent, and the cost per eligible resumed its growth.

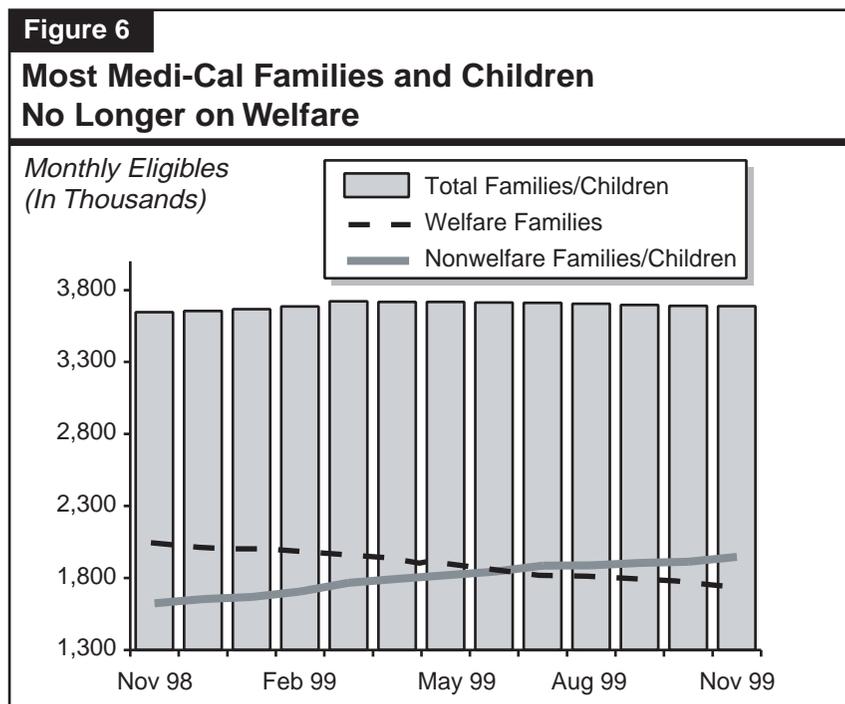
In 1998-99, the estimated cost per eligible for DHS Medi-Cal benefits increased by 7.6 percent. Based on the Governor's budget, these costs will increase by 5.5 percent in the current year and 4.7 percent in the budget year. The apparent slowing of the growth rate in 2000-01, however, results from the failure to include in the estimate funding for likely rate increases for nursing homes and managed care plans. Including an allowance for these would increase the 2000-01 growth rate to almost the current-year rate of 5.5 percent.

MEDI-CAL CASELOAD AND ELIGIBILITY

Majority of Medi-Cal Families and Children Are Not On Welfare

In July 1999, as shown in Figure 6, the Medi-Cal Program reached a milestone. For the first time in the program's history, welfare recipients accounted for less than half of the families (including pregnant women) and children enrolled in Medi-Cal. Medi-Cal began as a program to provide health care to welfare recipients. Most of the elderly and disabled persons in Medi-Cal continue to be welfare (SSI/SSP) recipients, but the combination of declining family welfare (CalWORKs) caseloads, ex-

panded eligibility for families and children who are not on welfare, and stronger outreach efforts has reduced the CalWORKs share of families and children in Medi-Cal to less than half.



Caseload Estimate Probably Too High But Clouded by Uncertainty

We find that the budget's estimate for the Medi-Cal caseload of families and children is likely to be too high, based on current trends. General Fund caseload savings could total as much as \$150 million through 2000-01. However, a number of factors currently add considerable uncertainty to Medi-Cal caseload projections. Accordingly, we will monitor caseload trends and recommend appropriate adjustments at the time of the May revision to the Governor's budget.

Figure 7 (see next page) illustrates the budget's forecast for the Medi-Cal caseload in the current year and 2000-01. Estimated caseload growth for the aged and disabled is 2.2 percent in the current year and 2.4 percent in 2000-01, with most of the growth in the disabled portion of the caseload. The budget forecast for the aged and disabled appears reasonable. It includes the effects of the eligibility expansions for this group (discussed earlier) and is in line with recent caseload trends.

Figure 7**Medi-Cal Caseload
Governor's Budget Estimate**1998-99 through 2000-01
(Eligibles in Thousands)

			Change from 1998-99		Change From 1999-00		
	1998-99	1999-00	Amount	Percent	2000-01	Amount	
Families/Children	3,741	3,844	103	2.8%	3,909	65	1.7%
CalWORKs ^a	2,025	1,773	-252	-12.4	1,686	-87	-4.9
Nonwelfare families ^b	1,127	1,419	292	25.9	1,546	127	8.9
Pregnant women	157	175	18	11.7	182	7	4.1
Children	433	478	45	10.3	495	17	3.6
Aged/Disabled	1,320	1,348	28	2.2%	1,380	32	2.4%
Aged	489	497	8	1.6	506	9	1.9
Disabled	831	851	21	2.5	874	22	2.6
Totals	5,061	5,192	132	2.6%	5,289	97	1.9%

^a California Work Opportunity and Responsibility to Kids program.^b Includes former CalWORKs recipients temporarily continued in the "Edwards" category.

As Figure 7 shows, the majority of the forecasted Medi-Cal caseload growth consists of families and children. The budget estimates that increasing caseloads of nonwelfare families and children will more than offset declining CalWORKs caseload. This will result in a net increase of 103,000 eligibles in the current year compared with 1998-99, and an additional increase of 65,000 in 2000-01. As noted earlier, the forecast includes the effect of the Section 1931(b) eligibility expansion to be implemented on March 1, 2000, which the budget estimates will add 246,000 persons to the Medi-Cal rolls. The estimated average monthly caseload for the full year in 1999-00 increases by only 82,000 because the expansion will be in place for only one-third of the current year.

The budget estimates an average monthly ongoing caseload of 3,758,000 family and child eligibles in the current year (excluding the 1931[b] eligibility expansion). Based on our review, we believe that this estimate is likely to be overstated for two reasons. First, the *actual* caseload for November 1999 was 3,688,000 (70,000 below the estimate for the year). Second, Los Angeles County indicates that it is rapidly clearing its large backlog of former CalWORKs recipients. Based on preliminary results of

this process, the ongoing caseload in Los Angeles County could decline by as much as 80,000 by March 2000.

Based on the declining statewide caseload trend for families and children and the potential additional reduction in Los Angeles County, the budget caseload estimate for the current year could be as much as 150,000 too high. If this caseload reduction carries through the budget year as well, then the combined two-year General Fund savings could be on the order of \$150 million.

While we believe that some caseload savings are likely, we do not recommend a specific adjustment at this time because a number of factors currently add an unusual degree of uncertainty to caseload projections. These factors include (1) the recent shift to a predominantly nonwelfare caseload of families and children, (2) continued delays and difficulties in the implementation of Section 1931(b) eligibility determination by the counties, (3) the actual magnitude and timing of the caseload reductions resulting from the backlog elimination in Los Angeles County and elsewhere, and (4) the actual caseload effect of the scheduled Section 1931(b) eligibility expansion. Accordingly, we will continue to monitor Medi-Cal caseload trends and recommend appropriate adjustments at the time of the May revision to the Governor's budget.

Medi-Cal Deficiency

Legislative Notification Not Provided for Medi-Cal Deficiency

We find that the Department of Finance (DOF) did not provide the Legislature with notification of the 1999-00 Medi-Cal deficiency as required by Section 27.00 of the 1999-00 Budget Act. In addition, the administration's proposed Medi-Cal deficiency includes some spending that does not appear to meet the requirements of Section 27.00. We recommend that the DOF report at budget hearings on how it intends to meet the requirements of Section 27.00 with respect to future deficiencies.

The Governor's budget indicates that DHS will incur a deficiency of \$562.5 million in the current year, essentially all for the Medi-Cal Program. In other words, DHS expects to spend \$562.5 million more in the current year than the Legislature has appropriated. This spring the DOF will ask the Legislature to provide the additional funding, presumably as part of the annual omnibus deficiency bill.

Section 27.00 Requirements. Section 27.00 of the 1999-00 Budget Act (as in each annual budget act) generally requires the Director of DOF to notify the chairperson of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees in the Assembly and Senate of any deficiency

spending request for more than \$500,000 within 15 days of receiving that request from a department or other entity. Section 27.00 also requires the Director to notify the chairpersons if he or she intends to approve the request, and provides a 30-day waiting period to allow for legislative consideration or comment prior to approval of the deficiency request. The DOF, however, did not notify the Legislature of either the DHS request for the Medi-Cal deficiency or the administration's approval of the deficiency.

Medi-Cal deficiency spending that results from *caseload* changes is exempt from the Section 27.00 notification requirement. As discussed earlier in this analysis, we estimate that the caseload-related portion of the deficiency is about \$250 million. The remainder of the deficiency, about \$313 million, is not covered by the caseload exemption.

The DOF contends that including the Medi-Cal deficiency in the current-year spending estimate in the Governor's budget meets the requirements of Section 27.00. We disagree. The notification requirements in Section 27.00 are intended to (1) highlight individual deficiencies for legislative review and (2) address how they meet the statutory requirements for deficiency spending—namely that the added spending must be both “unanticipated” and confined to “cases of actual necessity.” Simply including deficiencies in budget estimates accomplishes neither of these purposes.

Most of the proposed Medi-Cal deficiency would meet the tests of Section 27.00, according to our review, because it is needed to compensate for shortfalls in federal funds over which DHS had no control and which must be backfilled in order to maintain existing Medi-Cal services. Nevertheless, the administration's expectation that this spending would be consistent with Section 27.00 does not exempt it from the section's notification requirements.

Medi-Cal Deficiency Includes Some Discretionary Spending. However, the Medi-Cal deficiency also includes some spending that does not appear to meet the requirements of Section 27.00—specifically, the cost of managed care rate increases that were not funded in the budget, but were subsequently granted by DHS. These rate increases, which we discuss in more detail in the following issue, are discretionary. Since DHS reviews managed care rates on a regular schedule, these events are hardly unanticipated, and the department has not made a case that the specific rate increases granted this year were compelled by necessity. The department made policy choices in deciding on rate increases without legislative review. For example, DHS chose to freeze the rates of two plans that would otherwise have received rate reductions under the methodology employed by the department. The lack of timely notification, however, limits the Legislature's options because health plans have used the administration's approved rates in their budgeting for the current year and are now receiving these funds.

The authority to incur deficiencies represents a substantial legislative delegation of spending discretion to the executive branch. As such, the administration's use of this authority warrants careful monitoring and oversight by the Legislature. Consequently, we recommend that the DOF report at budget hearings on how it intends to comply with the requirements of Section 27.00 for future deficiencies. In the General Government section of this analysis, we also identify a number of broader, budget-wide issues concerning the application of Section 27.00, and we withhold recommendation on this provision for 2000-01, pending resolution of those issues.

Departments Should Identify Funding Needed for Potential Managed Care Rate Increases

We recommend that the Departments of Finance and Health Services report at budget hearings on (1) their plans for considering Medi-Cal managed care rate increases in 2000-01 and (2) the potential amount of additional funding needed in 2000-01 for managed care rate increases.

Managed Care Rate Increases in the Current Year. As discussed above, a portion of the 1999-00 Medi-Cal deficiency is for rate increases that DHS has granted to Medi-Cal managed care plans. In October 1999, DOF approved rate increases proposed by DHS for Medi-Cal managed care plans operating in the 12 counties under the "two-plan" model (primarily those counties with the largest Medi-Cal caseloads). These rate increases average 6.5 percent and were effective October 1, 1999. The General Fund cost for the 1999-00 rate increases in the two-plan counties is \$42.3 million. A small portion of this amount represents an allocation of funding appropriated in the 1999-00 Budget Act for specific provider rate increases (for surgeons, for example). However, most of the cost of the rate increase—about \$39.7 million—was not budgeted and contributes to the large Medi-Cal deficiency in the current year. In addition to the two-plan rate increases, other rate increases were granted to the five county-organized health systems and to health plans in the two counties operating under the geographic managed care model (Sacramento and San Diego). However, the amounts of these rate increases are negotiated by CMAC and therefore are confidential.

Potential Budget-Year Costs. The budget request for 2000-01 does not include any additional funding for Medi-Cal managed care rate increases, although increases typically have been granted every year. Excluding these costs results in an underbudgeting bias in the Medi-Cal Program. Furthermore, as discussed in the issue above, the deficiency process is not an appropriate funding mechanism for these rate increases. Thus, we recommend that DHS and DOF report at budget hearings on

(1) their plans for considering Medi-Cal managed care rate increases in the 2000-01 budget and (2) the potential amount needed to provide for these rate increases.

Other Issues

Antifraud Efforts Starting to Pay Off

We recommend General Fund reductions of \$6.8 million in 1999-00 and \$19.1 million in 2000-01 because recent payment data indicate that savings from the department's efforts to prevent Medi-Cal provider fraud are greater than the savings anticipated in the budget. (Reduce Item 4260-101-0001 by \$19,088,000.)

Background. The department's antifraud efforts initially have focused on the following four types of providers of outpatient medical equipment, supplies, or services:

- Suppliers of durable medical equipment (DME), such as walkers, wheelchairs, special beds, or breathing equipment.
- Providers of prosthetic and orthotic (P&O) services and items, such as artificial limbs or corrective braces.
- Independent (nonchain) pharmacies.
- Providers of nonemergency medical transportation.

Recent rapid increases in the number of providers and claims among these groups, which had no apparent relationship to caseload or program changes, were potential indicators of an upswing in fraudulent activity. The department—along with the State Controller's Office, the Bureau of Medi-Cal Fraud in the Department of Justice, and the Federal Bureau of Investigation—began to focus intensified investigative and enforcement activities on these provider groups in 1998-99. The 1999-00 Budget Act and budget trailer bill legislation provided DHS with additional antifraud resources—specifically, funding for 41 positions and enhanced statutory authority to fight Medi-Cal provider fraud.

In August 1999, DHS implemented a provider review and reenrollment process for all of the providers in the targeted groups. Providers were mailed letters and asked whether they wished to continue to participate in the Medi-Cal Program. Those who responded positively were required to provide additional information and were visited by field staff of the DHS Medi-Cal Fraud Prevention Bureau to check for indicators of fraudulent activities. A significant number of providers did not respond or did not seek continued Medi-Cal participation and were re-

moved from the Medi-Cal provider rolls, including 31 percent of DME providers and 18 percent of P&O providers.

Budget Understates Current-Year Savings. Medi-Cal payment data through November 1999 indicate that these efforts have begun to pay off. Claims by, and payments to, DME and P&O providers have declined significantly compared with 1998-99. Payments per processing day are down by 9.7 percent and 26 percent for DME and P&O providers, respectively. Based on this recent payment data, we estimate that the reduction in total payments to these two provider groups in 1999-00 will be \$18.4 million (\$8.9 million General Fund) compared with 1998-99. This estimate of General Fund savings for the current year is \$6.8 million more than the Governor's budget estimate of current-year savings that will result from antifraud efforts for *all* types of Medi-Cal providers (excluding family planning providers).

Projected Budget-Year Savings Also Too Low. The budget estimates that savings in 2000-01 from the positions added in the current year will grow by 270 percent over the current year, as the additional staff are hired and trained and as antifraud activities affect more types of providers. Using this growth factor in conjunction with our estimate of current-year savings, we estimate that savings in 2000-01 due to the ongoing efforts of the positions added in the current year will exceed the budget savings estimate for 2000-01 by \$19.1 million (General Fund). Accordingly, we recommend a General Fund reduction of \$19.1 million in Medi-Cal expenditures for 2000-01.

Savings Could Be Much Larger. Savings potentially could be much larger than our estimate because our current-year estimate is conservative. We note, in this respect, that the current-year data so far do not reflect savings from antifraud efforts related to pharmacies, clinical laboratories, and medical transportation. Payments to these three types of providers total about \$1.5 billion—more than five times greater than payments to DME and P&O providers combined. Thus, as the department's antifraud activities become more fully implemented and affect these additional types of providers, savings should increase significantly.

Reduce DSH Takeout Or Increase Rates?

We withhold recommendation on a proposed General Fund augmentation of \$30 million to reduce the state "takeout" from disproportionate share hospital funding and/or to increase Medi-Cal provider rates, pending receipt of a specific proposal for the use of the funds.

The budget proposes a General Fund augmentation of \$30 million in 2000-01 to reduce the state "takeout" from intergovernmental transfers used to finance hospital DSH payments. Alternatively, the budget indicates that a portion of the funds could be used to increase Medi-Cal rates for emergency room physicians and on-call specialists.

Counties that operate hospitals, the University of California, and hospital districts make these intergovernmental transfers to the state under formulas in state law. These transfers, which total about \$1 billion, provide the state match to draw down federal funds which are paid to both public and private hospitals in California serving a disproportionate share of low-income patients. The state takeout, currently \$84.8 million, is the amount of these transfers that the state retains to offset General Fund Medi-Cal costs. In effect, the state takeout is an extra "fee" on top of the usual nonfederal match that the transferring entities pay in order to receive their federal DSH funds. Reducing the DSH takeout lessens the amount of intergovernmental transfers that these entities must provide to the state in order to receive their federal DSH allotment.

At present, the administration's proposal is unclear regarding how much of the proposed \$30 million augmentation would be used to reduce the takeout versus increasing provider rates; nor does the budget specify how the takeout reduction would be allocated or how the potential rate increases would be structured. Accordingly, we withhold recommendation on the \$30 million augmentation, pending receipt of a specific proposal that addresses these issues.

Federal Government Will Pay for Hepatitis A Vaccine

We recommend a General Fund reduction of \$2.9 million in 1999-00 and \$4.6 million in 2000-01 (and an equivalent increase in federal funds) because the state will receive Hepatitis A vaccine for children enrolled in Medi-Cal at no state cost through the federal Vaccines for Children Program. (Reduce Item 4260-101-0001 by \$4,588,000.)

The budget requests \$12.6 million (\$7.7 million General Fund) in 2000-01 for Hepatitis A vaccinations for children. In October 1999, the Advisory Committee on Immunization Practices of the federal Centers for Disease Control recommended that children in California receive the Hepatitis A vaccine. The budget request assumes that the state will purchase the Hepatitis A vaccine through the Medi-Cal Program at the usual state/federal cost-sharing ratio. However, Hepatitis A vaccine now is covered by the federal Vaccines for Children Program, which pays for the entire cost of vaccines for children who are enrolled in Medi-Cal or who are uninsured. Only the fee paid to health providers for administering the vaccinations (\$7.50 per vaccination) will require state matching funds.

About one-fourth of the amount requested in the budget is for the cost of paying providers for vaccine administration.

Based on cost factors provided by DHS, we estimate that the General Fund savings, compared with the budget request, will be \$4.6 million in 2000-01. Accordingly, we recommend a General Fund reduction of this amount. We also note that federal funding for Hepatitis A vaccines will result in a current-year savings of \$2.9 million because this vaccine has been provided through Medi-Cal since January 1, 2000.

“Panorama View” Is Nice, But It’s Not Enough

We recommend that the department report during budget hearings regarding when and how it intends to provide certain legislative committees with access to the DataScan component of the Medi-Cal Management Information System/Decision Support System, as required by existing law.

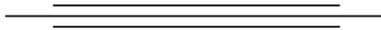
The department currently is implementing the final phase of its new Medi-Cal Management Information System/Decision Support System (MIS/DSS). The MIS/DSS is a comprehensive information system that (1) contains comprehensive detailed data on the use of services, provider payments, and eligibility, and (2) organizes the large amounts of data that it contains into a database with software that provides both standard reports and answers to individual inquiries. Potentially, the MIS/DSS can be an extremely powerful tool in understanding how Medi-Cal is used, determining the effectiveness of different treatment approaches, and detecting patterns of fraud or abuse. The total cost of system development exceeds \$40 million.

The Medi-Cal MIS/DSS data can be accessed in two ways. One is through “Panorama View,” which is a management information system that provides access to the data after they have been aggregated and compiled in certain ways. For example, Panorama View can show how many prescriptions Medi-Cal pays for each month for all beneficiaries statewide, or for certain subgroups, such as elderly Medi-Cal beneficiaries in Los Angeles County. Another way to access the data is through “DataScan.” This system can answer much more specific questions, such as how much of a particular drug Medi-Cal purchases. DataScan also has the ability to track courses of care in order to answer questions such as whether the use of a specific drug for a particular condition reduces the need for hospitalization.

Existing law requires DHS to provide the fiscal and health policy committees of the Legislature with access to *both* the management information system (Panorama View) and the *ad hoc* reporting system (Data Scan)

with safeguards to protect patient privacy by the conclusion of Phase 3 of the MIS/DSS. Although the department provided the designated legislative committees with access to Panorama View during fall 1999, it has not yet provided the required access to the more powerful DataScan system even though both Phase 3 and Phase 4 of the project have been completed. The department has not explained why the required access to the DataScan system has not been provided or when it will be provided.

Accordingly, we recommend that the department report to the budget committees regarding when and how it intends to provide the designated legislative committees with access to the DataScan component of the Medi-Cal MIS/DSS information system.



PUBLIC HEALTH

The Department of Health Services (DHS) delivers a broad range of public health programs. Some of these programs complement and support the activities of local health agencies in controlling environmental hazards, preventing and controlling disease, and providing health services to populations who have special needs. Other programs are solely state-operated programs such as those that license health facilities.

The Governor's budget proposes \$2 billion (all funds) for public health local assistance. This represents an increase of \$79 million, or 4 percent, over estimated current-year expenditures. The budget proposes \$349 million from the General Fund, which is a 7.1 percent decrease from current-year expenditures. The main reason for this decrease is the proposed substitution of federal funds for General Fund support of the Community Challenge Grant Program. This program funds local community projects designed to reduce teen pregnancy.

STATEWIDE IMMUNIZATION INFORMATION SYSTEM

Since 1995, the DHS has been planning a statewide immunization information system (SIIS). This is an electronic record-keeping system designed to improve immunization levels, primarily among the state's 3.2 million infants and children under the age of five.

Under DHS's model, the SIIS would consist of a central repository into which locally-developed registries would input immunization data. Local registries have been developing independently and in advance of the SIIS. While some county registries have received state support and are required to follow certain technical guidelines, other counties are developing registries outside of state oversight. Many counties, moreover, do not have registries in development.

Provider participation—the submission of immunization data to the local registries—is not required by state law and, therefore, the degree of such participation is uncertain. In this analysis, we address the issues

raised by the department's approach and recommend changes that, in our view, would move the state toward the implementation of an effective statewide immunization information system.

Why Does the State Need to Improve The Childhood Immunization Rate?

Children need immunizations to protect them from dangerous childhood diseases. If immunization rates drop significantly, these diseases resurface, such as in 1989 when a national measles outbreak and the subsequent death of 135 people were traced back to a decline in measles vaccinations. In California, the measles epidemic resulted in over \$31 million in direct medical and outbreak control costs. Immunizations are cost-effective: the federal Centers for Disease Control and Prevention recently reported that every dollar spent on a vaccination saves between \$6 and \$16 in direct medical costs, depending on the type of vaccine.

Because immunizations can prevent debilitating and life-threatening diseases, the federal government's goal is to increase childhood immunization rates to 90 percent by the year 2000. In 1997 (the most recent year for which data are available), the national immunization rate for 19- to 35-month-olds was 76 percent. California's rate was 74 percent.

Lack of Information: A Barrier to Immunization. A child can fall behind in his or her immunizations for various reasons, such as barriers to access and cultural beliefs. However, much of underimmunization can be explained by a lack of information: providers often overestimate the percentage of their patients who are fully immunized, parents do not know their children's immunization status, most providers do not remind their patients when an immunization appointment is due or missed, and providers frequently do not have access to a child's immunization history because of scattered records and lost immunization cards. Missed opportunities to immunize are common and may be increasing due to parental and provider confusion about the growing number of recommended immunizations and the complexity of vaccination schedules. (The number of vaccinations recommended by the age of two has increased from 3 in the 1950s to between 15 and 19 in 1999.)

What Is an Immunization Registry And Why Is It Beneficial?

Immunization Registries. Immunization registries are confidential, computerized information systems that contain information about immunizations of children. Typically, children's registry records are established at the time of their birth (often through a linkage with electronic

birth records) or at first contact with the health care system. If a registry includes all children in a given geographical area and all providers are reporting immunization information, it can provide a single data source for all community immunization participants, including parents, schools, health care providers, health plans, and public health departments. The value of creating an immunization registry statewide is that a child's immunization record can be updated and accessed regardless of the child's mobility across counties and regions within the state.

Benefits of Immunization Registries. The information available from registries provides several benefits. For example, immunization registries:

- Consolidate a child's immunization data into one electronic record that any provider can access. Currently, the only central source of a child's immunization history is a card that parents are responsible for keeping. This is an unreliable tracking system because parents often lose their cards or forget to bring them at the time of a visit to a health care provider. Generally, in such cases a provider must either delay the immunization until the card is retrieved, track down the patient's records at every other provider site the child has visited, or start the immunization process over again and potentially "overimmunize" the child.
- Produce reminders and recalls for immunizations that are due or overdue. Studies have shown that reminder/recall systems can improve immunization rates substantially. Registries can electronically alert providers when a client is due or overdue for an immunization, which means providers do not have to search their patient files in order to identify these clients for follow-up, and parents are more likely to be reminded of immunization appointments.
- Facilitate compliance with immunization requirements related to school and day care enrollment and receipt of public assistance. Under current law, parents must present certification that their children's immunizations are up-to-date in order to enroll them in child care centers, licensed family day care homes, and elementary schools. Similarly, California Work Opportunity and Responsibility to Kids program applicants must present this information in order to qualify for grants. An immunization registry would expedite this verification process, improve quality assurance, and eliminate enrollment delays because service providers would be able to access these records on-line.
- Assist public health administrators in identifying under-immunized populations and county- and community-level immunization coverage rates.

- Facilitate the production of performance reports by managed care organizations. Most managed care organizations annually submit Health Plan Employer Data and Information Set (HEDIS) data to the National Committee for Quality Assurance in order to remain accredited. Childhood immunization coverage rates are one of the measures used in HEDIS.

Key Assumptions in Assessing the Benefits of a Registry. The benefits of an immunization registry as described above do not happen automatically. Rather, they only occur if:

- Every child's immunization record is entered into the registry database.
- Every provider who administers immunizations participates in the registry.

As we discuss below, the registry system currently being developed by the state will not ensure that either one of these conditions will be met.

What Is the State's Current Approach to Registry Development?

Background. In 1993, the federal government adopted a goal of developing a national electronic immunization tracking system. Although there is no federal requirement to do so, all 50 states have begun development and implementation of statewide tracking systems. Beginning in 1994, the federal government began allowing state and local governments to include immunization registries as one of the activities for which federal immunization grants could be used. Of the \$139 million that California's state and local governments have received from this grant since 1995-96, \$875,000 has been appropriated at the state level for the development of the SIIS. The DHS does not know how much of the local portion of the federal grant has been spent on local registry development.

In addition, the Legislature has appropriated a total of \$17.5 million from the General Fund since 1995-96 to fund the efforts of selected local health departments that opted to develop local immunization registries. In a recently submitted Feasibility Study Report (FSR), the department proposes to build a central statewide hub to which local immunization registries would voluntarily link. Due to a 1999 executive order to deny approval of any technical project proposal until the year 2000 transition is successfully completed, the department has been unable to advance its FSR through the state's technical review process.

Need to Change the Department's Procurement Strategy

We recommend the adoption of budget bill language requiring the Department of Health Services to submit an Alternative Procurement Business Justification for the statewide immunization system, in which the department's procurement strategy would be based on desired program outcomes rather than technical specifications.

Background. In 1995, the Legislature enacted Chapter 314 (AB 254, Alpert), which authorized local health officers to operate immunization information systems "in conjunction with" DHS. In addition, the 1995-96 Budget Act included an initial appropriation of General Fund monies to DHS for the development of a state immunization registry, with most of the funds designated for the local level ". . . to develop a statewide network of local immunization tracking systems." Between 1995-96 and 1999-00, General Fund appropriations for support of local registry development totaled \$17.5 million, or \$3.5 million annually. The budget proposes to appropriate \$3.5 million from the General Fund in 2000-01 for further local registry development.

Require DHS to Complete an Alternative Procurement Business Justification (APBJ). We believe that the department's recently released FSR for a central state hub for the SIIS is too prescriptive. This is because it specifies the technical solutions needed to accomplish the desired business functions of the registry, rather than allowing potential vendors to submit their proposed solutions. As we have recommended for other state system procurements, the department should not prescribe a technical solution during the procurement process, but instead should specify the objectives of the system. In other words, the department should state what it wants from the project and let the vendor community propose how it is to be accomplished. Such an approach has the advantage of not constraining vendors in proposing solutions, and places the burden of success on the vendor who contractually agrees that its solution could resolve the business problem.

Typically in this type of procurement, the department submits an APBJ prior to the FSR. The APBJ includes a description of the problem or opportunity prompting the request; a presentation of the current business process that is the subject of the proposal; the current cost of any existing system that the procurement would likely address; and the anticipated costs, benefits, and resource requirements that may result from a bid award. Because the current FSR is in its earliest stages of the development process, shifting to an APBJ procurement should not significantly affect the state's time line for completion of SIIS.

Accordingly, we recommend adoption of budget bill language to require the department to submit an APBJ for the statewide immunization

information system, and that the APBJ (and the FSR to follow) specify the business requirements and objectives of the system rather than the technical solutions.

Our recommendation can be implemented by adoption of the following budget bill language in Item 4260-111-0001:

Of the amount appropriated in this item, \$3,500,000 shall not be expended for local registry development until the department submits to the Department of Finance an Alternative Procurement Business Justification for the Statewide Immunization Information System.

Encouraging Coordination of Regional Registry Development

We recommend the adoption of budget bill language directing the Department of Health Services to require the inclusion of “project charters” in grant applications from counties that are developing regional registries, in order to facilitate regional cooperation and coordination in these efforts.

Half the Counties Have No Registry. Under the state’s current approach, the first step in ensuring that every child’s immunization record is entered into the SIIS is to ensure that every county or region develops a local registry. As of August 1999, 24 local registries were in development: 15 of the registries, covering 14 counties and 1 city in another county, have received state support; the other 9 registries, covering 15 counties and 2 cities, have begun developing their registries without state support—using only local and private funding.

Half of the state’s counties currently are not developing registries. The majority of these counties are small and rural. About 15 percent of the state’s zero-to-five-year-olds reside in these counties.

Budget Proposes Funds for Additional Grants for Regional Registries. The department expects to use the proposed \$3.5 million General Fund appropriation for 2000-01 to provide regional development grants to groups of counties that do not have immunization registries and that wish to develop regional registries with adjoining counties. These grants would require regional registries to use data elements consistent with the other SIIS-funded registries, so that a uniform set of data can be transmitted to a statewide system.

Make Regional Collaboration Explicit. In order to ensure that regional immunization registries are developed collaboratively, we recommend that DHS require grant applications to include project charters. The Legislature recently applied this management tool in its child support automation legislation—Chapter 479, Statutes of 1999 (AB 150, Aroner). A project charter is a project management tool: the document articulates

the goals and objectives that an organization or consortium is attempting to accomplish when an automation project is undertaken. These charters outline:

- The project's scope and description.
- A governance structure.
- An intercounty communications plan.
- Specifications of the contracting authority, data ownership, and responsibility for maintenance of data.
- Counties' roles and responsibilities.
- A description of how changes will be managed during project development.
- Exit and entrance rules for entities participating in the consortium.
- A process for conflict resolution.

Absent these specifications, we believe the process of developing a regional registry is likely to be delayed by problems that could be prevented by working out solutions in advance.

Our recommendation can be implemented by adoption of the following budget bill language in Item 4260-111-0001:

In awarding grants to groups of counties for the purpose of developing regional immunization registries, the department shall require applicants to submit project charters that specify: the project's scope and description; a governance structure; an intercounty communications plan; specifications of the contracting authority, data ownership, and responsibility for maintenance of data; counties' roles and responsibilities; a description of how changes will be managed; exit and entrance rules for participants in the consortium; and a process for conflict resolution.

Ensuring Statewide Compatibility of All Local Registries

We recommend enactment of legislation requiring any local registry that chooses to participate in the statewide immunization system to comply with the state's guidelines for local registry development.

State Lacks Oversight of Some Registries. While the 15 registries that have received state support are contractually required to be equipped with certain functions and follow certain technical guidelines (and the regional grants would require this of new registries), 9 registries that have not received state funding are being developed outside the oversight of

the state. Although the department is optimistic that these registries will be able to “communicate” with the statewide hub, there is no assurance of this.

In Order to Link-Up, Registries Need to Be Compatible. The DHS does not have explicit assurance from the nine registries developing outside the oversight of the state that they intend to link to the SIIS once it is developed. However, the involvement of some of the registries in a SIIS work group and the benefits of participating in a statewide information system provide some indication that these counties will link their registries to the SIIS. We are concerned, however, that the state is not ensuring that these registries’ data and technical functions will be compatible with the other (state-funded) registries. Such compatibility will be important for the success of a statewide database. Therefore, we recommend the enactment of legislation requiring any local registry that wishes to link to the statewide database to comply with the state’s registry guidelines that state-funded registries already follow.

Assuring Provider Participation in A Statewide Immunization Registry

We recommend the enactment of legislation requiring all immunization providers to participate in local registries, or in the statewide registry if the county in which the provider is located chooses not to develop a local registry.

Providers’ submission of immunization data to registries is the linchpin of an effective immunization information system. When a provider administers an immunization, that information must be added to the child’s electronic immunization record in the registry so that records remain up-to-date and to avoid unnecessary immunizations.

Participation of Providers—Public and Private. To reiterate, the success of the SIIS will depend largely on the degree of participation by the providers. In order to ensure that all children’s immunization records are entered and updated in the SIIS, we recommend enactment of legislation to require all immunization providers (public and private) to participate in their respective local registries or in the state registry (the central hub) where counties do not have their own registries. We note that ten states currently require provider participation in their statewide immunization registries. As we cited earlier, there are benefits to providers from an immunization registry, such as avoiding the manual search for immunization records, avoiding the administering of unnecessary immunizations, and more efficient delivery of reminder and recall notices when clients are due and overdue for immunizations.

Provide a State Match for Registries' Ongoing Costs

We recommend enactment of legislation to provide a state match for local registries' ongoing costs, effective 2001-02, in order to encourage the continuation of local participation in the statewide immunization system.

Raising children's immunization rates is a statewide goal, and the benefits are generally statewide. As such, it is important that the state take actions to facilitate statewide coverage by the local registries. To help accomplish this, we recommend that the state provide matching funds to participating counties for the ongoing costs of their registries, to take effect in 2001-02, when it is anticipated that all participating counties will be in the operational phase of the project.

Estimating the Costs of Local Immunization Registries. In its FSR, the department estimates that its proposed centralized state hub would result in a one-time cost of \$3 million and annual ongoing costs of \$1.1 million. This figure does not include the development and ongoing costs of local registries.

The cost of building a local immunization registry is not well-documented, partly because of variations among local registries, including population size, technical infrastructure, and vendor contracts. The DHS does not have information on the total cost of any local registry being developed in the state. However, the Robert Wood Johnson Foundation has examined the cost of certain registries (located in various states) that receive foundation support. Depending on various factors—population size, preexisting infrastructure, sophistication of registry functions—development costs ranged from \$2.4 million to \$6.9 million over a five-year time period. The average annual operating cost of a registry was \$3.91 per child. This per-child figure includes the costs of entering immunization data into the registry, managerial oversight of the registry, software rentals, telecommunication costs, and overhead costs such as rent and heat.

Cost of a State Match. Based on the Robert Wood Johnson Foundation's estimates, if all of California's 3.2 million zero-to-five-year-olds had immunization records in local registries, the ongoing operating costs would total \$12. million. Since the registries are not likely to capture every child's record, the cost will probably be less (\$10 million is a rough estimate). Thus, it might cost the state about \$5 million annually to bear half the cost of maintaining local registries. We note that the current \$3.5 million General Fund appropriation for the *development* of local registries will not be ongoing. In addition, DHS estimates that the SIIS would avoid \$3.7 million in annual costs that would otherwise be incurred by the department for activities such as consultations to immunization pro-

viders, patient immunization status determinations in private and public clinics, and immunization record verifications and replacements. Therefore, a state match of \$5 million probably would not introduce any additional costs above the current-year budget level.

Funding Sources for a Statewide Immunization Registry

We recommend the enactment of legislation requiring the department to apply for federal matching funds, under the Medi-Cal and Healthy Families Programs, for the development and operation of the statewide immunization information system.

In this section, we identify potential funding sources that may be available to the state for the development and ongoing costs of the SIIS.

Medicaid. The federal Health Care Financing Administration is currently providing a federal match to states for the improvement of their Medicaid Management Information Systems. Currently, California receives a 90 percent federal match to build the state's system (called Management Information System/Decision Support System) and will receive a 75 percent federal match for ongoing costs of the system. These federal matches could be used to partially finance state-sponsored immunization registry development and maintenance *if* the registry system is part of an overall system that can be shown to benefit Medicaid clients. Thus, with 28 percent of California's zero-to-five-year-olds enrolled in Medi-Cal, the state may be able to obtain federal Medicaid funds for a percentage of the cost to build and maintain a registry system. Absent the enhanced Medicaid funding, there is reason to pursue a regular Medicaid match of 50 percent for registry costs (potentially state and local) that can be attributed to the Medi-Cal population.

Healthy Families Program. The state also may be able to obtain a federal Title XXI match (on a 2-to-1 federal/state basis) for the maintenance of a statewide immunization registry that benefits Healthy Families clients. We note however, that currently the state is claiming the maximum amount of federal funds available for administration under the 10 percent limit for administrative costs in the Healthy Families Program. Thus, at this time it would not be possible to obtain additional federal funds under this program for the registry. As Healthy Families enrollment increases, however, the program's administrative costs may fall below this limit and, thereby, free up room to submit claims for the costs of the registry, if allowed by the federal administration.

OTHER PUBLIC HEALTH PROGRAMS

Proposition 99 Revenues Declining Slightly

The budget projects that Proposition 99 revenues will decrease by 1 percent in 1999-00 and 1.7 percent in 2000-01. Despite the overall decline in funding, the budget proposes to meet the demands of caseload-driven programs and augment certain other activities, particularly the statewide media campaign and emergency room physician services for uninsured individuals, by using additional resources from carry-over balances from 1999-00 and the budget's proposed release of \$12 million from litigation reserves.

Proposition 99, the Tobacco Tax and Health Protection Act of 1988, established a 25-cent surtax on the sale of cigarette and tobacco products in California. The proposition requires that the revenues from the surtax be distributed to six accounts within the Cigarette and Tobacco Products Surtax Fund (C&T Fund) according to specified percentages, and further provides that expenditures from each account must be used for specific kinds of activities.

Declining Revenue Source. While Proposition 99 has been a diminishing revenue source due to the decreasing use of cigarettes, events in 1998-99 caused a greater reduction in these revenues (see Figure 1 on page 100). Specifically:

- **Proposition 10.** This measure, enacted by the voters in 1998, increases the excise tax on cigarettes by 50 cents per pack. The measure also increases the excise tax on other types of tobacco products. The tax increase results in a price increase on cigarettes and other tobacco products, which has the effect of reducing consumption (sales), thereby reducing Proposition 99 revenues. Proposition 10 provides that some of its revenues will be used to backfill some of these Proposition 99 revenue losses—specifically in the health education and research accounts—but not for other Proposition 99 accounts. We note that Proposition 28 on the March 2000 ballot, if adopted, would repeal the Proposition 10 taxes.
- **Lawsuit Settlement.** In response to the recent lawsuit settlement with the states, the major tobacco companies increased the price of cigarettes by 45 cents per pack.

Figure 1		
Proposition 99 Revenues Declining		
<i>1990-91 Through 2000-01 (Dollars in Millions)</i>		
Year	Revenues	Percent Change
1990-91	\$539	—
1991-92	518	-3.9%
1992-93	499	-3.7
1993-94	473	-5.2
1994-95	465	-1.7
1995-96	462	-0.6
1996-97	463	0.2
1997-98	450	-2.8
1998-99	405	-10.0
1999-00 (est.)	401	-1.0
2000-01 (est.)	394	-1.7

Partly as a result of these factors, Proposition 99 revenues decreased by 10 percent in 1998-99. The budget, however, projects that the revenues will decrease by only 1 percent in the current year and 1.7 percent in the budget year.

Governor’s Proposal. Additional resources are forecasted to be available in the budget year due to the carry over of unexpended balances (\$76 million) from 1999-00 and the budget’s proposal to reduce by \$12 million the amount of funds set aside for pending litigation. As reflected in Figure 2, the Governor’s budget proposes to meet the demands of caseload-driven programs (such as the Child Health and Disability Prevention Program and the Access for Infants and Mothers Program), and, compared to current-year expenditures, allocate additional resources to the following activities:

- State administration of Proposition 99 (\$1 million).
- California Cancer Registry (\$1 million).
- Anti-tobacco media campaign (\$23 million).
- California Healthcare for Indigents Program and the Rural Health Services program for emergency room physician services (\$25 million).

Figure 2**Proposition 99 Expenditures
Cigarette and Tobacco Products Surtax Fund***1998-99 through 2000-01
(Dollars in Thousands)*

Departments/Programs	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Percent Change From 1999-00
Department of Health Services				
<i>Chronic Diseases/Smoking Prevention</i>				
Breast Cancer Early Detection	—	\$11,660	\$9,000	-23%
Media Campaign	\$22,370	22,057	45,264	105
Competitive Grants	17,068	28,325	17,690	-38
Committee and Evaluation	3,634	4,420	4,381	-1
Local Lead Agencies	25,065	17,426	17,426	—
<i>Primary Care and Family Health</i>				
Clinic Grants	\$14,208	\$7,653	\$7,653	—
Comprehensive Perinatal Outreach	3,162	1,802	1,802	—
Child Health and Disability Prevention	49,291	55,160	59,882	9%
Children's Hospitals	990	565	565	—
<i>County Health Services</i>				
Managed Care Counties	\$2,343	\$1,336	\$1,336	—
County Medical Services Program Expansion	9,983	5,693	5,693	—
California Healthcare for Indigents	146,387	83,483	105,806	27%
Rural Health Services	6,484	2,456	4,935	101
<i>State Administration</i>	5,692	5,086	7,148	41
Managed Risk Medical Insurance Board				
Major Risk Medical Insurance Program	\$46,033	\$42,764	\$40,000	-6%
Access for Infants and Mothers	37,499	45,796	39,059	-15
Office of Statewide Health Planning and Development				
	\$1,837	\$1,047	\$1,047	—
University of California	\$23,871	\$97,286	\$27,451	-72%
Department of Education	\$35,404	\$28,024	\$28,038	0.1%
Resources programs^a	\$33,477	\$31,672	\$30,330	-4%
State Board of Equalization	\$1,202	\$1,293	\$1,357	5%
Pro rata charges	\$1,497	\$1,821	\$1,118	-39%
Totals	\$493,018	\$496,825	\$456,981	-8%

^a Includes transfers to Habitat Conservation Fund and Natural Resources Infrastructure Fund.

Budget Proposes to Permanently Eliminate General Fund Support for County Medical Services Program

We recommend adopting trailer bill legislation that suspends the state’s General Fund allocation of \$20.2 million for the County Medical Services Program for 2000-01, rather than permanently eliminating the appropriation as proposed by the Governor.

Background. The County Medical Services Program (CMSP) was established in 1983 to provide medical and dental care to low-income “medically-indigent adults” (MIAs) who are not eligible for the state’s Medi-Cal Program and who reside in small counties (see Figure 3 for participating counties). The CMSP governing board, comprised of ten county officials, is responsible for the administration of pooled funds from 34 counties to provide services to approximately 40,000 CMSP clients at an estimated cost of \$198 million in 1998-99. The governing board sets eligibility requirements, benefit levels, and provider reimbursement rates, but contracts with DHS to administer a program offering uniform benefits and to provide claims processing functions.

Figure 3	
Counties Participating in the County Medical Services Program	
<i>1999-00</i>	
Alpine	Mendocino
Amador	Modoc
Butte	Mono
Calaveras	Napa
Colusa	Nevada
Del Norte	Plumas
El Dorado	San Benito
Glenn	Shasta
Humboldt	Sierra
Imperial	Siskiyou
Inyo	Solano
Kings	Sonoma
Lake	Sutter
Lassen	Tehama
Madera	Trinity
Marin	Tuolumne
Mariposa	Yuba

History Behind General Fund Contribution. Prior to 1983, the MIA population was eligible for Medi-Cal coverage. However, in response to the state's budget problems, this population was transferred from the Medi-Cal Program to the counties, which were made responsible for their health services. Small counties, with populations of 300,000 or less, were permitted to contract with the state for administration of their programs, and this became known as the CMSP. Thirty-four counties initially chose the option. The counties adopted uniform eligibility criteria and benefits similar to the Medi-Cal Program. Initially, the state allocated \$23.2 million to the program for health care services, which was 30 percent less than the estimated amount that would have been spent for services under the Medi-Cal Program. Until 1992-93, the state bore the risk for CMSP cost increases above specified revenue amounts.

Legislation was enacted in 1992 to cap the General Fund responsibility for CMSP at \$20.2 million, which was the *estimated* amount needed for the program in 1991-92. In 1999-00, the General Fund appropriation for CMSP was eliminated for that fiscal year, keeping intact the statutory \$20.2 million General Fund commitment for subsequent fiscal years.

The CMSP Fund Sources. Funding for CMSP includes realignment revenues (from the 1991-92 realignment legislation), Proposition 99 revenues, county funds, and hospital settlements (audit recoveries for overpayments to hospitals). Until 1999-00, the state General Fund was also a fund source. Figure 4 (see next page) displays the program's 1998-99 revenues.

Governor's Proposal. The Governor's budget proposes trailer bill legislation to permanently eliminate the state's General Fund appropriation of \$20.2 million. The budget indicates that (1) CMSP has substantial fund reserves in its local program account and (2) expansions of health care programs by the state have reduced demand for county-funded health care services.

The CMSP Reserve Is Robust. Our review indicates that the CMSP's fund condition is sufficient to absorb the loss of the \$20.2 million General Fund allocation in the budget year and possibly for a few additional years. In 1998-99, the CMSP Account showed a reserve of \$141 million. Of this amount, \$10.5 million was allocated for legal costs associated with a pending lawsuit. The board's approved budget for 1999-00 projects the reserve to be reduced to \$97 million, partly as a result of the 1999-00 elimination of the General Fund appropriation and because estimated expenditures exceed projected revenues. At the same time, however, historical trends show that budgeted expenditures are consistently overestimated; therefore the 1999-00 fund reserve could be greater. We project that without the General Fund allocation, the fund will have sufficient resources to

support the program for two years beyond the budget year, although there is some uncertainty in this projection.

Figure 4

**County Medical Services Program
Estimated Revenues**

1998-99
(Dollars in Thousands)

Source	Amount	Percentage of Total
Realignment	\$124,382	67%
General Fund	20,237	11
Hospital settlements	17,801	10
Proposition 99	9,983	5
County funds	5,459	3
Interest	3,068	2
Third-party payers	3,825	2
Unclaimed warrants	8	—
Totals	\$184,763^a	100%

^a Revenue totals do not include one-time receipt of \$8.5 million from a private foundation.

Budget's Expansion Rationale Misleading. We note that one of the administration's reasons for proposing to permanently discontinue the \$20.2 million General Fund contribution—that program expansions within the Medi-Cal Program, Healthy Families Program, and indigent health care programs will relieve some of the demand for CMSP—is not entirely accurate. For example, the Healthy Families Program serves children, whereas CMSP serves adults; and most of the \$24.8 million that the budget proposes for augmenting emergency medical care services for uninsured individuals would be allocated to the California Healthcare for Indigents Program, which serves the 24 larger counties, not the counties that participate in CMSP.

Recommendation. Rather than permanently eliminate the General Fund contribution to CMSP, we recommend that the budget discontinue the appropriation for 2000-01 so that the CMSP Account's reserve can be monitored for unexpected revenue reductions and/or expenditure increases. For example, a downturn in the economy would likely generate an increase in the MIA population, as well as reductions in sales tax revenues that contribute to CMSP's realignment revenues.

Budget Does Not Maximize Federal Grant for Drinking Water Loan Fund

The budget's proposal to appropriate \$15.4 million from the General Fund for the Safe Drinking Water State Revolving Fund does not maximize receipt of federal funds that are available. Passage of a water bond measure on the March 2000 ballot, however, would replace this General Fund appropriation and could maximize federal funds. We withhold recommendation pending the results of the March election.

Background. The department maintains the Safe Drinking Water State Revolving Fund to assist public water systems in financing the costs of their infrastructure improvements to comply with the requirements of the federal Safe Drinking Water Act. Federal funds are received from the U.S. Environmental Protection Agency (EPA), which provides capitalization grants to states according to a need-based formula.

State Match Requirements. Federal law requires that states match 20 percent of the federal funds. States must appropriate the match no later than the end of the following federal fiscal year (FFY). For example, in order for a state to draw down federal funds from FFY 1999 (October 1998 through September 1999), the 20 percent match must be appropriated by September 30, 2000, otherwise the state would lose these funds. The state then has until September 30, 2001 to obligate the funds to local water projects.

Available Federal Funds. By appropriating \$15.1 million from the General Fund in the 1998-99 *Budget Act*, the state received its first federal grant of \$75.7 million from FFY 1997. In 1999-00, the budget act appropriated \$15.4 million from the General Fund in order to draw down the maximum \$77.1 million in federal funds available from FFY 1998. Currently, both the FFY 1999 federal award of \$80.8 million and the FFY 2000 federal award of \$83.9 million are available for California's use to the extent that the state provides the matching funds.

Budget Proposal. The budget proposes to appropriate \$15.4 million from the General Fund in the budget year in order to draw down \$77.1 million in FFY 1999 federal grants. Under this proposal, the state will not receive the balance of the FFY 1999 federal award—\$3.7 million. We note that according to the EPA, upgrading the state's local public water systems to meet current and anticipated federal regulations will cost \$18 billion. Thus, it is apparent that local systems could benefit from additional funds. In order for the state to maximize receipt of all of the FFY 1999 federal grant, the state match would need to total \$16.2 million, or \$750,000 more than what the budget proposes.

Passage of Water Bond Measure Could Resolve State Match Deficiency. Proposition 13—the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act—on the March 2000 ballot provides \$1.97 billion in general obligation bonds for various water program purposes. Of this amount \$70 million is available to use as the 20 percent state match to access the annual federal capitalization grants through state fiscal year 2004-05. If Proposition 13 is adopted by the voters, the water bond funds would be used in lieu of the General Fund appropriation for 2000-01, thereby providing the 20 percent state match of \$16.2 million in order to draw down the full FFY 1999 federal grant of \$80.8 million. Bond funds could also be used to draw down any portion of the FFY 2000 federal grant of \$83.9 million that is also available in the budget year.

Consequently, we withhold recommendation, pending the results of the election.

Budget Proposes to Extend the Community Challenge Grant Program and Use Federal Funds

The budget proposes to extend the Community Challenge Grant Program for one year, using a \$20 million federal award allocated to California for reducing its out-of-wedlock birth rates in 1997. The final report of the program evaluation, due January 1, 1999, had not been submitted at the time this analysis was prepared, but should be available prior to budget hearings.

Program Description and Budget Proposal. The Community Challenge Grant Program (CCGP) was established in 1996-97 to support local community projects to reduce teen pregnancy. Since 1996-97, the Legislature has appropriated \$20 million from the General Fund annually to DHS for competitive grant awards under the CCGP.

Under current law, the program sunsets on June 30, 2000. The budget proposes to extend the program for one additional year and to continue funding it at \$20 million in 2000-01. The budget proposes to fund the program in 2000-01 using a federal award received by the state because it reduced its out-of-wedlock birth rates in 1997.

Nature of Federal Bonus Award. The 1996 federal welfare reform legislation included bonus funds for states that could show they had reduced their out-of-wedlock birth rates without increasing their abortion rates. In 1997, California's out-of-wedlock birth rate declined by 5.7 percent from the previous year. The federal welfare reform legislation specifies that these bonus awards can only be used to carry out the goals of the Temporary Assistance for Needy Families (TANF) block grant. The four TANF goals are to (1) provide assistance to needy families; (2) end wel-

fare dependency by promoting job preparation, work, and marriage; (3) prevent and/or reduce out-of-wedlock pregnancies; and (4) encourage the formation and maintenance of two-parent families. The federal government will continue to allocate these bonus awards for another three years.

Legislature Has Been Awaiting Program Evaluation. The CCGP's authorizing legislation—Chapter 197, Statutes of 1996 (AB 3483, Friedman)—required that the department conduct a statewide independent evaluation of the program and submit its findings to the Legislature on or before January 1, 1999. To meet the requirement, the department contracted with an independent evaluator, who submitted an interim report to the department in January 1999, essentially describing the implementation of program components. The Legislature was told during last year's budget hearings that the final evaluation would be completed in December 1999. At the time this analysis was prepared, however, the evaluation report was still under review by the administration. The department indicates that the evaluation should be submitted to the Legislature prior to the budget hearings.

Some Local California Children's Services Programs Not Complying With Statutory Requirement

Current law requires that all California Children's Services claims be submitted by counties to the state fiscal intermediary for payment no later than January 1, 1999. Ten counties have not yet transferred their claims processing activities to the centralized billing system. We recommend that the department report, at budget hearings, on the reasons for counties' noncompliance and present a plan for ensuring their cooperation.

Program Background. The California Children's Services (CCS) Program provides diagnostic and treatment services, medical case management, and medical and occupational therapy services to children under 21 years of age who have eligible medical conditions, such as severe genetic diseases, chronic health problems, or major traumatic injuries. The Medi-Cal Program pays for eligible CCS services for those children who are covered by Medi-Cal. Other costs attributed to the CCS Program are shared equally by the state General Fund and county funds. Additionally, for those CCS children who are also enrolled in the Healthy Families Program, federal funds will cover two-thirds of the cost of their CCS services.

The CCS Program is administered jointly by the state and counties. There are 28 "dependent" counties—counties with populations less than

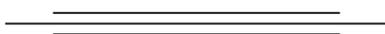
200,000—that share CCS case management responsibilities with a state regional office. These counties are responsible for approximately 10 percent of the total CCS caseload. There are 30 “independent” counties—with populations greater than 200,000—that are solely responsible for case management activities.

Statutory Deadline Not Met. Chapter 1210, Statutes of 1994 (AB 2793, B. Friedman) establishes a centralized billing system and requires that all counties submit claims for payment of CCS services to the state fiscal intermediary—currently Electronic Data Systems (EDS)—no later than January 1, 1999. The statute further states that the department shall work with the counties to develop a timeline for the counties to begin submitting claims to the state. In addition, if a department review of the system demonstrates that as of January 1, 2000, any county has incurred increased costs as a result of submitting claims to the state fiscal intermediary, that county is exempt from the statute’s requirement.

Benefits of Centralizing Claims Processing. The department indicates that the implementation of a centralized billing system (1) improves efficiencies and economies of scale in processing CCS claims, (2) ensures a consistent application of state CCS policies for coverage of services and provider reimbursement rates, (3) provides statewide information on CCS expenditures, and (4) processes claims in a timely manner.

In addition, the department states that it needs all counties to process their claims through EDS in order for it to fully implement the Children’s Medical Services (CMS) Network Enhancement 47—a comprehensive database that will interface with other state information systems. Through this database, the CCS Program will, for example, be able to systematically identify whether a client has enrolled in the Healthy Families Program, in which case the state would be eligible for federal matching funds.

Ten Counties Still Outstanding. At the time that this analysis was prepared, 48 counties—covering 72 percent of the CCS caseload—were submitting their CCS claims to EDS for authorization and billing purposes. However, ten counties (Alameda, Fresno, Kern, Napa, Orange, Sacramento, San Francisco, San Joaquin, San Mateo, and Sonoma) had not yet transitioned to the centralized claims processing system. According to the department, six of these counties appear “committed” to completing this task, as they have provided the department with work plans and prospective implementation dates. Four counties, however, do not have these implementation plans in place. Consequently, we recommend that the department report, at budget hearings, on the reasons for the counties’ noncompliance and present a plan for ensuring their cooperation.



MANAGED RISK MEDICAL INSURANCE BOARD (4280)

The Managed Risk Medical Insurance Board (MRMIB) administers several programs designed to provide health care coverage to adults and children. The Major Risk Medical Insurance Program provides health insurance to California residents unable to obtain it for themselves or their families because of preexisting medical conditions. The Access for Infants and Mothers program provides coverage for women seeking pregnancy-related and neonatal medical care and whose family incomes are between 200 percent and 300 percent of the federal poverty level. The Healthy Families Program provides health coverage for uninsured children in families with incomes up to 250 percent of the federal poverty level and not eligible for Medi-Cal.

The budget proposes \$422 million from all funds for support of MRMIB programs in 2000-01, which is an increase of 32 percent over estimated current-year expenditures. This is due primarily to an increase of \$71 million in federal funds and \$42 million from the General Fund for caseload growth in the Healthy Families Program.

HEALTHY FAMILIES PROGRAM

The Healthy Families Program implements the federal government's State Children's Health Insurance Program enacted in 1997. Funding for California generally is on a 2-to-1 federal/state matching basis. Families pay a relatively low monthly premium and can choose from a selection of managed care plans for their children. Coverage is similar to that offered to state employees and includes dental and vision benefits. The program began enrolling children in July 1998.

Current-Year Expansions. The 1999-00 Budget Act expanded eligibility in the Healthy Families Program by (1) increasing the family income limit

from 200 percent to 250 percent of the poverty level, (2) allowing use of the same income deductions used in Medi-Cal in computing family income, (3) permitting enrollment of newborns (for those with family incomes of 200 percent to 250 percent of the federal poverty level), rather than excluding them until their first birthday, and (4) establishing a one-year, state-only program to cover children who entered the U.S. after August 22, 1996.

The Budget Proposal. The Governor proposes \$336 million (\$121.3 million General Fund) in MRMIB's budget for the Healthy Families Program in 2000-01, which is an increase of about 50 percent over estimated current-year expenditures. After accounting for program expenditures (outreach and related Medi-Cal benefits) in the Department of Health Services (DHS) and related expenditures in other departments, the total budget for the Healthy Families Program is proposed at \$425 million (\$141.8 million General Fund), which is an increase of 46 percent over the current year. The proposed increase is due primarily to an expected 32 percent increase in caseload in the budget year. We note that the budget does not include funding for provider rate increases in 2000-01. The rate increases will be negotiated in February and will be included in the May revision of the budget. The budget projects that enrollment will increase to 279,450 by the end of the current year and 369,518 by the end of the budget year.

Budget Underestimates Enrollment in Current Year

The budget projects a slow-down in enrollment in the current year in the Healthy Families Program. While there is considerable uncertainty about the actual number of children who are eligible for the program, we estimate that the program's caseload at year's end will be 11 percent greater than the budget estimates, with an additional cost of \$3.3 million (\$1.1 million General Fund) in 1999-00. The administration will update its enrollment projections in the May revision of the budget.

Budget Assumes Significant Slow-Down in "Base" Enrollment. The budget estimates that 279,450 children will enroll in the Healthy Families Program by the end of the *current* year, and that 250,000 of these will be in families whose incomes are less than 200 percent of the federal poverty level. (This income group is referred to as the "base" population—children who qualify under the original income limits of the program.)

We believe that the base caseload of the budget's estimated current-year enrollment is understated. The budget projects that an average of 6,442 new enrollees (in this income group) will enroll each month between November 1999 and June 2000. Actual caseload data, however, show that an average of 15,280 new children enrolled each month during the nine months prior to November 1999. The budget, therefore, assumes a significant slow-down—a 58 percent drop in the monthly average—in the last half of the current year.

Larger Caseload Will Cost More. Based on caseload trends to date, we see no reason to expect a 58 percent decline in the average number of new enrollees with incomes below 200 percent of the federal poverty level. Therefore, after adjusting for a slight slow-down in the base enrollment per month (since there is a diminishing percentage of children who are eligible but have not already enrolled) and for the disenrollment of some children who will be found no longer eligible for the program during their annual eligibility redetermination, we estimate that by the end of 1999-00 enrollment of the base population will total 281,500. This would be a 110 percent increase over the prior year, compared to the 87 percent increase reflected in the Governor's budget (for the base population only). We estimate that the cost associated with this caseload adjustment will be \$3.3 million (\$1.1 million General Fund). We note that the administration will provide an updated caseload estimate in the May revision of the budget.

No Policy Rationale for Excluding Some Legal Immigrants

The budget proposes to extend, for one year, Healthy Families eligibility for legal immigrant children who entered the U.S. after August 22, 1996, but only for those who enrolled in the program in the current year. We see no policy rationale for excluding certain legal immigrants from this one-year extension solely on the basis that they did not enroll in the program in the current year. Therefore, we recommend extending the budget proposal to include all legal immigrant children who entered the U.S. after August 22, 1996, at a General Fund cost of \$2.4 million in 2000-01. (Increase Item 4280-101-0001 by \$2,365,920.)

Background. Under the Healthy Families Program expansions that were implemented in the current year, legal immigrant children who entered the U.S. after August 22, 1996 (and who otherwise meet program eligibility requirements) became eligible for the program for a period of one year. The cost of these clients is borne solely by the General Fund because federal law excludes the use of federal funds to cover recent legal immigrant children under Title XXI of the Social Security Act (the State Children's Health Insurance Program).

Governor's Proposal. The budget proposes to provide a second year of eligibility for the recent legal immigrant children *who enroll in the program in the current year*. The General Fund cost of extending their coverage in the budget year is estimated to be \$1.9 million.

No Policy Rationale for Distinguishing On Basis of Time of Enrollment. Under the Governor's budget proposal, a recent legal immigrant child who does not enroll in the program in the current year would be ineligible to apply for coverage in the budget year, while his or her counterpart who enrolled in the program in 1999-00 would be eligible to seek

a second year of coverage. We see no policy rationale for basing eligibility on this distinction. We further note that applying the proposal to all recent legal immigrant children would not be costly in the context of this program—about \$2.4 million from the General Fund.

Consequently, we recommend that the Legislature adopt the Governor's proposal but extend it to all recent legal immigrant children, regardless of whether they enrolled in the program in the current year. We estimate that adoption of this recommendation would increase the number of recent legal immigrant enrollees at the end of the budget year by about 5,370 children.

Technical Error Overbudgets \$3 Million from the General Fund

The budget double counts the caseload cost of the legal immigrants in 2000-01. Consequently, we recommend a technical correction to the budget, for a General Fund savings of \$3 million. (Reduce Item 4280-101-0001 by \$2,946,470.)

Due to a technical error, the budget double counts the caseload cost of the legal immigrant children for which it proposes to provide an additional year of health coverage. Accordingly, we recommend correction of this error, for a savings to the General Fund of \$3 million in 2000-01.

ACCESS FOR INFANTS AND MOTHERS PROGRAM

Since 1992, the Access for Infants and Mothers (AIM) Program has served low- to moderate-income women who are pregnant but without health insurance to cover their pregnancy. The AIM Program covers comprehensive health care throughout the pregnancy, the delivery, and sixty days of post-pregnancy care for the mother and up to two years of care for the infant. The state contracts with health insurance plans to provide these services. To be eligible for the program, women must be pregnant, have no health coverage for their pregnancy, and have incomes between 200 percent and 300 percent of the federal poverty level. (The Medi-Cal Program provides coverage to pregnant women and their infants in families with incomes up to 200 percent of the federal poverty level.)

Currently, program participants pay a fee of 2 percent of their family income toward the costs of services received by the mother and the infant. For example, in 1998, a single pregnant woman without other children whose annual income was \$21,701 would pay a fee of \$434. Infants can receive coverage for a second year, for an additional \$100, or \$50 if the recommended one-year vaccinations are up to date.

The AIM Program is funded mostly through revenues from the Cigarette and Tobacco Products Surtax (C&T) Fund established by Proposition 99. In addition, federal Title XXI funds support about 65 percent of the cost of AIM infants between the ages of birth and one year whose family incomes are between 200 percent and 250 percent; the General Fund pays for the other 35 percent of these infants' costs.

Caseload Overestimated for Current Year

We recommend reducing the budget's estimated level of spending for the Access for Infants and Mothers Program in the current year by \$1.3 million, for a corresponding savings to the Perinatal Insurance Fund (Proposition 99), to reflect more realistic caseload changes.

Background. The MRMIB will promulgate regulations in February that will incorporate the use of income deductions in computing the family income of AIM applicants (these are the same income deductions used to assess eligibility in the Medi-Cal and Healthy Families Programs). Applying these income deductions in AIM will eliminate a current overlap in eligibility for the AIM and Medi-Cal Programs for those women whose income, before applying income deductions, is just above 200 percent of the federal poverty level.

Budget Proposal. The budget estimates that an average of 420 women will enroll in AIM in each of the first six months of the current year. Additionally, the budget assumes that, once income deductions are implemented in February, 25 percent of potential AIM enrollees will be ineligible for the program because their adjusted incomes will be less than 200 percent of the federal poverty level. Instead, these women will be eligible for the Medi-Cal Program. Accordingly, the budget estimates that 315 new women will enroll in AIM each month from February through the end of the current year. The budget further estimates that 315 new women will enroll each month in the budget year.

Overbudgeting in Current Year. We believe that the budget overestimates AIM's caseload in the current year by 2.8 percent, or 120 new enrollees, and is therefore overbudgeted by \$1.3 million in Proposition 99 funds. Our estimate differs from the budget's in three ways. First, using actual data and historical trends, we estimate that the monthly enrollment of new women in the first half of the current year will average 399 women, rather than the budget's estimated 420 women. Second, by applying our caseload estimate of the first six months of the current year to the estimated 25 percent reduction in caseload beginning in February (due to the use of income deductions), we reduce the estimated caseload in the second six months of the current year to 299 new enrollees per month, compared to the budget's 315 women per month. Finally, we increase

this estimated monthly enrollment of 299 women to a monthly average of 306 because the budget does not account for women of moderate income (just above 300 percent of poverty) who will become newly eligible for the AIM Program once income deductions are applied.

For these reasons, we recommend that the current year budget be reduced by \$1.3 million in Proposition 99 funds.

Budget-Year Estimate Uncertain. We do not take issue with the budget's estimated caseload for the budget year, primarily because there is more uncertainty as to how the use of income deductions will affect enrollment in 2000-01. The administration will present updated estimates during the May revision of the budget.

Program Underbudgeted for Current Year Due to Unpaid Claims

The budget does not account for \$2.2 million in unpaid claims that the board must pay in 1999-00. We recommend that the board present, at budget hearings, a fiscal plan for satisfying this obligation without jeopardizing the Perinatal Insurance Fund's reserve.

Background. One of the health plans that provide AIM services has presented the board with \$3.2 million in back claims. By contractual agreement, MRMIB is required to pay these claims in the current year.

Budget Increases Appropriation for Payment of Claims. The budget includes a current-year deficiency request of \$4.6 million. While the stated purpose of the deficiency is to accommodate a caseload increase, \$2 million of the deficiency is to (1) pay \$1 million of the back claims, and (2) increase the Perinatal Insurance Fund's (PIF) reserve from \$485,000 (or 1 percent of current-year expenditures) to \$1.4 million (or 3 percent). Thus, there is still \$2.2 million in outstanding payments that MRMIB must make in the current year, but the budget does not include these expenditures.

Recommendation. If the Legislature adopts our previous recommendation—to reduce expenditures by \$1.3 million in the current year—then these funds would be available to pay off 60 percent of the balance of unpaid claims. However, almost \$1 million in unpaid claims would remain unaddressed. Further, any use of the PIF's balance in the current year would jeopardize the reserve (3 percent of the fund's expenditures).

Therefore, we recommend that the board present, at budget hearings, a fiscal plan for how it will pay the back claims while preserving the PIF's reserve.



DEPARTMENT OF DEVELOPMENTAL SERVICES (4300)

A developmental disability is defined as a disability, related to certain mental or neurological impairments, that originates before a person's eighteenth birthday, constitutes a substantial handicap, and is expected to continue indefinitely. The Lanterman Developmental Disabilities Services Act of 1969 entitles individuals with developmental disabilities to a variety of services, which are overseen by the state Department of Developmental Services (DDS). The department contracts with 21 nonprofit regional centers (RCs) to coordinate educational, vocational, and residential services for approximately 170,000 clients each year. In addition to providing some services directly, such as intake and assessment, individual program planning, and case management, RCs purchase a variety of services from community-based providers.

Individuals with developmental disabilities have a number of residential options. While most live with their parents or other relatives, thousands live in their own apartments or in group homes that are designed to meet their medical and behavioral needs. The department also operates five developmental centers (DCs) and one 55-bed facility, which provide 24-hour care and supervision to approximately 4,000 individuals.

The budget proposes \$2.4 billion from all funds for support of DDS programs in 2000-01, which is a 9 percent increase over estimated current-year expenditures. The budget proposes \$997 million from the General Fund, which is \$76 million, or 8 percent, above estimated current-year expenditures from this funding source. The increase is primarily due to (1) caseload and cost increases for community-based services, (2) the full-year cost of program augmentations enacted in the current year, and (3) the development of a facility for the developmentally disabled with severe behavioral problems.

COMMUNITY SERVICES PROGRAM

The Community Services Program provides community-based services to clients through the RCs. The RCs are responsible for client assessment and diagnosis, the development of an individualized program plan, case management, and the coordination and purchase of various services. Services fall into three broad categories: residential, supported living, and day program services. Day program services include early intervention services for infants and young children, daytime activity programs for adults, and in-home respite care.

The budget proposes \$1.8 billion from all funds (\$896 million from the General Fund) for support of the Community Services Program in 2000-01.

Statutorily Required Rate-Setting Methodologies Still Not Established

The department is required, by legislation enacted in 1998, to develop performance-based rate-setting methodologies for residential, supported living, and day program services. The methodology for supported living services is overdue, and all three methodologies are still in the early developmental stage. We recommend that the department report, during budget hearings, on the status of the development of these methodologies. We withhold recommendation on the related \$1.1 million request for contract services, pending receipt of additional information on the scope and costs of the proposed contracts.

Background. The rates for supported living, residential, and day program services are determined by different rate-setting methodologies. Rates for supported living services are negotiated between each regional center and the service providers, residential rates are determined by the Alternative Residential Model (ARM), and day program rates are determined by the department based on cost statements from providers.

There were no increases between fiscal years 1992-93 and 1997-98 for day program rates, and residential rates have not been updated to reflect changes in the costs of running these facilities. As a result, service providers and the Association of Regional Center Agencies expressed concerns that inadequate rates resulted in high staff turnover, unqualified staff and, in some cases, a lack of services. In response to these concerns, the Legislature appropriated funds for rate increases ranging up to 13 percent in 1998-99.

New Rate-Setting Methodologies Required. Two pieces of legislation were enacted that required the department to develop performance-based rate-setting methodologies for the residential, supported living, and day program services. Chapter 1043, Statutes of 1998 (SB 1038, Thompson) required such methodologies for residential and supported living services. The 1998-99 budget trailer bill for health programs—Chapter 310, Statutes of 1998 (AB 2780, Gallegos)—required a methodology for day programs. The supported living services rate methodology was to be established by January 1, 2000, and the residential methodology is to be developed by January 1, 2001. No due date for the day program rate methodology was specified. The department indicates that all three methodologies are still in the early developmental stage.

Current-Year Rate Increase Vetoed. Senate Bill 1104 (Chesbro) included a 4 percent rate increase in the current year for direct care staff providing day program services. However, citing the department's effort to establish a new rate-setting methodology for these services, the Governor vetoed the bill, indicating that it was premature to provide additional rate increases before the methodology was developed.

Performance-Based Rate Systems Are Complex. In 1998, the department convened a stakeholder advisory group, the Service Delivery Reform Committee (SDRC), to develop the required rate methodologies. The department envisions the development of the methodologies as a three- to five-year process. This process involves three primary phases: (1) identification of desired client outcomes, (2) development of the personnel and service standards required to obtain the outcomes, and (3) development of a cost model that is based on the costs of meeting the personnel and service standards and that can be adjusted according to vendor size, geographical differences, and economic variables. The department indicates that because they involve sophisticated analysis, the second and third phases require the services of a contractor.

The department has also indicated that it has sought consensus on the desired outcomes—the basis for the cost models—in order for the department to promulgate the new regulations as quickly as possible once a cost model is developed. We note, however, that reaching consensus among a stakeholder group of over 70 participants has been a lengthy process.

As a result of the time and complexity involved in the development of the cost models, the department has been unable to meet the statutory deadline for the rate-setting methodology for supported living services, and the methodologies for day program and residential services remain in the early developmental stage.

The department indicates that consensus on outcomes for residential services has been reached, and that a contract will be signed in February 2000 for the development of a residential cost model. The department proposes to enter into a contract in the budget year for the development of cost models for day program and supported living services. However, at the time this analysis was prepared, consensus on outcomes for day program and supported living services had not been reached.

Consequently, we recommend that the department report, during budget hearings, on the status of the development of all three rate-setting methodologies.

Budget Proposes \$1.1 Million For Contract Services. The department proposes to enter into two contracts in 2000-01. The first, as indicated above, is for the development of cost models for day program services and supported living services. The second contract is for the development of a "performance accountability" data system designed to collect data on client outcomes. However, the scope of the contract is yet to be determined. Consequently, the department cannot provide sufficient detail on the scope and costs of this contract. Therefore, pending receipt of additional information, we withhold recommendation on the department's request for \$1.1 million for the contracts and a limited-term contract manager.

DEVELOPMENTAL CENTERS PROGRAM

The DCs provide residential care for developmentally disabled persons. The budget proposes \$613 million from all funds (\$71 million from the General Fund) for support of the DCs in 2000-01.

Costs Of Southern California Facility Uncertain

We withhold recommendation on the department's request for \$13.2 million (\$9.1 million General Fund, including Medi-Cal reimbursements) for the lease and development of a facility to serve individuals with severe behavioral problems, pending an update on the department's progress in finding a site.

Under an interagency agreement, the department contracts with the Department of Mental Health (DMH) to serve 110 forensic developmentally disabled individuals at Napa State Hospital. These are individuals who are found to (1) be gravely disabled and unwilling or incapable of accepting treatment voluntarily, (2) be a danger to self or others, or (3) have committed a crime but are incompetent to stand trial. The department has committed to move these individuals out of Napa by November 1, 2000, so that the DMH can accommodate its own growing forensic population.

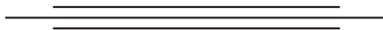
Because the 110 individuals require a secured facility, they must be moved to Porterville Developmental Center. Before this can happen, however, the individuals with severe behavioral problems at Porterville must be transferred to another facility. The five developmental centers do not have enough vacant beds to accommodate this transfer. The department has leased a 55-bed facility in Northern California for individuals with behavioral problems who come from this region.

In order to meet the November 1, 2000 deadline to accommodate the persons from Southern California, the budget proposes funds to lease a facility (or, if necessary, more than one facility) with 80 beds in Southern California, to be occupied by September 1, 2000.

In total, the budget requests \$5.7 million for 126 new positions and \$7.5 million for lease payments, operating expenses, and equipment for the facility.

The cost estimate for lease payments is based on the assumption that 125,000 square feet of space will be required. We note that the Northern California facility, which will serve 55 individuals, is approximately 50,000 square feet. On this basis, considerably less than 125,000 square feet would be needed to house 80 persons. The department acknowledges that if it is able to lease a single facility, or even two smaller facilities, the lease payments will be less than projected because the number of square feet would likely fall between 60,000 and 100,000 square feet.

The department is currently involved in site selection and, because of the urgency involved, will enter into lease negotiations as soon as possible. Thus, pending further information on the development of the negotiations and revised cost projections, we withhold recommendation on the department's request.



DEPARTMENT OF MENTAL HEALTH (4440)

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 the delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled, (2) operate four state hospitals, (3) manage treatment services at the California Medical Facility at Vacaville (a state prison), and (4) administer nine community programs directed at specific populations.

The state hospitals provide inpatient treatment services for mentally disabled county clients, judicially committed clients, clients civilly committed as Sexually Violent Predators (SVPs), and mentally disordered offenders and mentally disabled clients transferred from the California Department of Corrections.

The budget proposes \$1.7 billion from all funds for support of DMH programs in 2000-01, which is an increase of 1 percent over estimated current-year expenditures. The budget proposes \$758 million from the General Fund, which is an increase of \$67 million, or 9.7 percent, above estimated current-year expenditures. The increase is primarily due to (1) increases in the judicially committed and SVP populations in the state hospitals, (2) continuation and expansion of local incentive grants for mentally ill homeless persons, and (3) special repair projects at the four state hospitals.

Funding for Americans with Disabilities Act Projects Should Be Requested as Capital Outlay Proposal

We recommend a reduction of \$5.6 million from the General Fund for support of the state hospitals because proposed Americans with Disabilities Act compliance projects should be considered capital outlay projects, and should be resubmitted as a capital outlay budget change proposal. (Reduce Item 4440-011-0001 by \$5,573,000.)

The budget proposes a General Fund increase of \$5.6 million to fund projects that will bring three of the four state hospitals into compliance with the Americans with Disabilities Act (ADA). The projects would include widening doors, installing ramps and automatic door openers, and restroom modifications.

Section 3.00 of the Budget Act defines capital outlay as including any alteration, renovation, addition, or improvement which changes a structure's function, layout, capacity, or quality. Such projects are budgeted as capital outlay items. Routine maintenance and special repairs, by contrast, are intended to keep a facility functional at its *designed* level of services, and are budgeted as "support" items.

The department indicates that it had previously submitted requests for funding the ADA projects as capital outlay budget change proposals, but that the Department of Finance directed that stand-alone capital outlay projects relating to ADA compliance be submitted as support items. By definition, however, additions or renovations undertaken in order to comply with ADA regulations—such as installing ramps and automatic doors and modifying restrooms—are capital outlay projects, because they upgrade the quality of the existing structure or change its function. In order to be consistent with the long-standing definition of capital outlay projects, we recommend that the department resubmit its proposal as a capital outlay budget change proposal, and that the proposed \$5.6 million General Fund augmentation for the support of state hospitals be denied. In this way, the proposal will be evaluated in the context of other capital outlay projects.

We also note that the proposal as currently submitted lacks sufficient information for the Legislature to evaluate it as a capital outlay project. For example, the proposal includes \$4 million for work at Patton State Hospital. The information submitted in support of the request indicates that work will be undertaken in 42 buildings and will include, but not be limited to, improvements such as ramps, handrails, toilet rooms, and signs. There is no information, however, on either the existing problems in these buildings or what work will be undertaken in each of the buildings.

In addition, the budget amount is based on an estimate that was prepared in 1994 and simply updated for inflation. Information in support of the proposals for the other state hospitals is similar. In order for the Legislature to determine the need for these projects and the appropriate level of funding, the department needs to provide definitive information on existing conditions, proposed work to correct the specific problems, and the associated costs.

Equipment Request Is Premature

We recommend a reduction of \$845,000 from the General Fund for support of the state hospitals because the department's request for equipment for the new administration building at Metropolitan State Hospital should be made with the 2001-02 budget request. (Reduce Item 4440-011-0001 by \$845,000.)

The department has received approval to replace the receiving and treatment tower and the administration building at Metropolitan State Hospital with a new, consolidated clinical and administration facility. The new building is scheduled to be completed in November 2001, and move-in is scheduled to begin in December 2001 and be completed by February 2002.

The budget proposes \$845,000 from the General Fund to purchase equipment for the new facility, including a telecommunications system, a medical records filing system, and radiology equipment. This equipment would replace equipment in the existing buildings that cannot be transferred to the new building. The "lead time" for the requested equipment—the time between when the order is placed and when the equipment is delivered—ranges from three weeks for the telecommunications system to three months for the radiology equipment and other large items.

While we believe the proposed equipment list is justified, we also believe that the request is premature, since move-in is not scheduled to begin until December 2001—five months *after* the budget year. Therefore, we recommend that the request be resubmitted for consideration in the 2001-02 budget. We note that in the event that passage of the 2001-02 Budget Act is delayed, the department can put equipment out to bid with the provision that the contract be awarded subject to appropriation of funds by the Legislature. Upon passage of the budget act, the contracts could be awarded and the orders could be placed.

Decision on Mentally Ill Homeless Pilot Projects Should Await Evaluation Review

We withhold recommend on the \$20 million proposed for the continuation and expansion of pilot projects to assist the homeless mentally ill, pending review of the statutorily required report (due May 1, 2000) on the effectiveness of the three existing projects. We further recommend that, if the Legislature does approve funding to expand the pilot projects to other counties, at least one of the new projects be targeted primarily at providing assistance to parolees.

Please see "Crosscutting Issues" in the Judiciary and Criminal Justice section for our discussion of this issue and our analysis of the Governor's initiatives to keep the mentally ill out of the criminal justice system.

EMPLOYMENT DEVELOPMENT DEPARTMENT (5100)

The Employment Development Department (EDD) is responsible for administering the Employment Services (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 youths, 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, and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The budget proposes expenditures totaling \$6.3 billion from all funds for support of the EDD in 2000-01. This is an increase of \$25 million, or 0.4 percent, over estimated current-year expenditures. The budget proposes \$25.5 million from the General Fund in 2000-01, which is a reduction of \$1.7 million (6.3 percent) compared to 1999-00.

Proposed Disability Insurance Tax Rate Does Not Meet Statutory Requirement

Without a rate increase, the Disability Insurance Fund will develop an estimated deficit of \$278 million by the end of December 2000. The budget proposes to increase the disability insurance tax rate, but the rate would still be below the level required by current law. The proposed rate will result in a small deficit by the end of December 2000, increasing to a reserve of \$304 million by June 2001.

Background. The DI Program provides benefits to workers who are unable to work due to nonwork related illness, injury, or pregnancy. The DI program is financed by a payroll tax on workers' earnings. In 1999, the

rate was 0.5 percent of the first \$31,767 in annual wages, resulting in a maximum tax of \$159. Chapter 973, Statutes of 1999 (SB 656, Solis) increased the maximum benefit payment from \$336 per week to \$490 per week, effective January 2000. Chapter 973 also resulted in an increase in the wage ceiling (for the tax) from \$31,767 to \$46,327. The two changes made by Chapter 973 are estimated to be budget neutral.

Fund Condition. At the end of 1997-98, the DI Fund had a balance of \$1.1 billion. In 1998-99, the DI disbursements of \$1.8 billion exceeded revenues of \$1.3 billion; thus, the fund balance was reduced to about \$600 million. Without an increase in the current tax rate of 0.5 percent, the EDD projects that the DI Fund will have a deficit of \$278 million by December 2000. The Governor's budget proposes to increase the tax rate to 0.63 percent in April 2000 and 0.65 in January 2001. Assuming these rate increases go into effect, the Governor's budget projects that the DI Fund will have a balance of \$304 million as of June 2001. We note, however, that even with these rate increases the fund will experience a deficit of \$33 million in December 2000. Thus, the fund will need a temporary loan in order to pay anticipated benefit payments.

Statutory Formula for Setting the DI Contribution Rate. Section 984 of the Unemployment Insurance Code specifies a methodology for the Director of EDD to set worker contribution rates for the DI Program each January. Section 984 also grants the Director discretionary authority to reduce or increase the statutory "formula" rate by 0.1 percent. The statute also requires the Director to prepare a public statement by October 31 of each year which declares the rate of worker contributions for the succeeding calendar year.

Recent History. During calendar years 1997 and 1998 the DI tax rate was 0.5 percent. In fall 1998, the department determined that the statutory formula would result in a rate of 0.6 percent for calendar year 1999. Using his statutory authority to set rates within 0.1 percent of the formula rate, the Director retained the rate at 0.5 percent for 1999.

Rate for Calendar Year 2000 Conflicts with Current Law. In October 1999, the statutory formula indicated that the tax rate for calendar year 2000 should be 0.8 percent. Thus, the statute requires that the rate be *at least* 0.7 percent (the formula rate of 0.8 percent less the discretionary authority to reduce by 0.1 percent). The new Director of EDD, however, has not changed the rate (currently 0.5 percent). Instead, the budget proposes an increase to 0.63 percent in April 2000 (and 0.65 percent in January 2001). Therefore, even with the proposed increase, the rate for 2000 would be below the level required by current law. Thus, the budget proposes urgency legislation to set rates at the levels described above. The department estimates that the DI Fund will have a deficit of \$33 million as of December 2000. The budget projects a positive balance of \$304 million on June 30, 2001.

Caregiver Training, Retention, and Recruitment

As part of the Governor's Aging with Dignity Initiative, the budget includes \$50 million (\$15 million Workforce Investment Act funds, and \$35 million Welfare-to-Work state matching funds) to train, recruit, and retain workers in the caregiver industries. For our analysis of this issue, please see our analysis of the Aging with Dignity Initiative in the Cross-cutting Issues section of this chapter.

Update on Workforce Investment Act Implementation

Background. The federal Workforce Investment Act (WIA) of 1998, which replaced the Job Training Partnership Act, provides employment and training services to youths and adults. The goal of the new legislation is to strengthen coordination among various employment, training, and education programs. The act requires states to submit plans for implementing the new program to the Department of Labor by April 2000. Actual implementation of the WIA is scheduled to begin on July 1, 2000.

State Board Appointed. The Governor appointed 63 members to the statutorily required California Workforce Investment Board (CWIB) in December 1999. The board includes four members of the Legislature (two from each house) and representatives from business, labor, education, local government, and the job training provider community. The board is responsible for assisting in the development of the required state plan.

Draft State Plan Released. On January 28, 2000, the CWIB released the draft State Workforce Investment Act Plan for review and comment. During February 2000, the CWIB will hold five public hearings to receive comments on the plan. As noted above, the plan must be submitted to the Department of Labor by April 1, 2000.

Budget Proposal. For 2000-01, the budget proposes an appropriation of \$574.5 million in federal WIA funds in EDD's budget. These funds will be expended on training programs and services for adults, economically disadvantaged youths, and dislocated workers. In addition, the budget proposes \$3.6 million in federal WIA funds to support the CWIB.



DEPARTMENT OF REHABILITATION (5160)

The Department of Rehabilitation (DR) provides basic vocational rehabilitation and habilitation services to persons with disabilities. The purpose of vocational rehabilitation services is to place disabled individuals in suitable employment, while habilitation services help individuals who are unable to participate in vocational rehabilitation programs achieve a higher level of functioning. Services are provided in sheltered workshops under the Work Activity Program (WAP) and to groups or individuals on job sites through the Supported Employment Program (SEP).

In addition, the department helps legally blind clients support themselves as operators of vending stands, snack bars, and cafeterias throughout the state; provides prevocational rehabilitation services to newly blind adults; develops cooperative agreements with school districts, state and community colleges, and county mental health programs to provide services to mutually served clients; and assists community-based rehabilitation facilities such as independent living programs, halfway houses, and alcoholic recovery homes.

The budget proposes \$430 million from all funds for support of DR programs in 2000-01, an increase of 4.1 percent over estimated current-year expenditures. The budget proposes \$127 million from the General Fund, which is \$8 million, or 6.7 percent, above estimated current-year expenditures from this funding source.

Funding for Statutory Rate Increase Will Be Proposed in May

The budget does not include funding for the statutory rate increase for the Work Activity Program in 2000-01. However, the budget indicates that the administration will propose a rate increase in May. Preliminary projections by the department indicate that the rate increase would result in a General Fund cost of \$7 million in 2000-01.

Current law requires the department to adjust rates for WAP providers every two years. The next adjustment is scheduled to take effect July 1, 2000. Because actual service provider cost statements are used to determine the rate increase, the budget indicates that the increase will be proposed in May when more information is available. The budget as introduced therefore includes no funding for the rate increase. Based on cost statements available through December 1999, the department's preliminary projection is a 12.4 percent rate increase (covering two years), resulting in increased General Fund expenditures of \$7 million in the budget year.

Caseload May Be Underbudgeted, Based on Recent Trends

Recent trends in the Work Activity Program and the Supported Employment Program indicate that the budget's projected caseloads may be too high in some programs and too low in others, resulting in a potential net underfunding of \$6.1 million in General Fund expenditures. The administration will revise its projections in May, when more caseload data will be available.

The budget proposes expenditures of \$135 million in total funds (\$104 million General Fund) to support vocational rehabilitation and habilitation services programs for clients with developmental disabilities. This is an increase of \$1.3 million, or 1 percent, from the General Fund.

Our analysis of the department's caseload projections indicates that the budget does not account for recent caseload trends.

Habilitation Services Program/Work Activity Program (HSP/WAP) Projection Too Low. The budget proposal projects an increase of eight HSP/WAP cases per month during 2000-01, with total cases increasing from 9,165 at the beginning of the fiscal year to 9,209 in June 2001. Based on our analysis of the most recent 12 months of data (December 1998 through November 1999), the actual caseload is increasing by an average of 17 cases monthly, as shown in Figure 1. Applying this trend to the actual caseload of 9,325 in November 1999, we estimate that the caseload will increase to 9,648 by June 2001. We estimate an average monthly caseload of 9,555, which is 368 cases higher than the department's projection. This caseload adjustment would result in increased General Fund expenditures of \$2.1 million in 2000-01.

Vocational Rehabilitation/Work Activity Program (VR/WAP) Projection Too High. The budget proposal projects an increase of one VR/WAP case per month during 2000-01, resulting in a caseload of 2,525 in June 2001. However, our review of the most recent eight months of data shows that the actual caseload is *decreasing* by an average of 29 cases per

month, as shown in Figure 1. Applying this trend to the actual caseload of 2,104 cases in August 1999, we estimate that the caseload will fall to 1,466 clients in 2000-01, resulting in an average monthly caseload of 1,626, or 894 less than the department's projection. This caseload adjustment results in a savings of \$5.2 million (\$1.1 million General Fund) in 2000-01.

Figure 1

Department of Rehabilitation Program Caseload Trends

(In Millions)

Program	Recent Caseload Trends		2000-01 Average Monthly Caseload			General Fund Impact Difference
	Monthly Change ^a	Actual November 1999 ^b	Governor's Budget	LAO	Difference	
HSP/WAP	17	9,325	9,187	9,555	368	\$2.1
VR/WAP	-29	2,104	2,520	1,626	-894	-1.1
HSP/SEP Group	21	3,223	3,081	3,507	426	4.2
VR/SEP Group	28	957	609	1,335	726	1.5
VR/SEP Individual	-9	938	1,055	790	-265	-0.6
Net Difference						\$6.1

^a Based on most recent 12 months (December 1998 through November 1999, except for the VR/WAP and VR/SEP individual-placement programs, which had data available only through August 1999. For the VR/WAP program, based on data from the most recent eight months).

^b Actuals for the VR/WAP and VR/SEP individual-placement programs are from August 1999.

Supported Employment Program Projections: Group Placement Too Low, Individual Placement Too High. Supported employment program services can be provided for individual clients as well as in group settings. Chapter 329, Statutes of 1998 (AB 2779, Aroner), changed the rate-setting methodology for SEP from a rate per client hour to a rate per job coach hour. The change was projected to be cost neutral, but General Fund expenditures in 1998-99 increased unexpectedly. The department identified an unexpected increase in the number of SEP groups as one reason for the increased costs.

Chapter 147, Statutes of 1999 (AB 1111, Aroner), extended the 1998-99 rates through 1999-00 with the provision that rates be prorated if necessary to ensure that General Fund expenditures for the program not exceed appropriations. In order to contain costs, the budget proposes to extend this provision in the budget year.

The budget proposal projects a monthly increase of six HSP/SEP group-placement clients and a monthly increase of one VR/SEP group-placement client during 2000-01. Our analysis of the most recent 12 months of data shows that the HSP/SEP group-placement caseload is increasing by 21 clients per month, and the VR/SEP group-placement caseload is increasing by 28 clients per month, as shown in Figure 1. Applying these trends to the actual November 1999 caseloads, we estimate that the HSP/SEP group-placement caseload will increase to 3,622 clients in June 2001, and that the VR/SEP group-placement caseload will increase to 1,489 by the end of the fiscal year. Our average monthly caseload projections are 426 and 726 above the department's projections, respectively. The adjusted caseload projections result in an increase of \$5.7 million from the General Fund.

The budget proposal projects that the VR/SEP individual-placement caseload will increase by two clients per month during 2000-01. Our analysis indicates that the caseload is *decreasing* by an average of nine clients per month. Applying these trends to the actual November 1998 caseload, we project a caseload of 740 in June 2001, with an average monthly caseload of 790 in the budget year. This is 265 clients less than the department's estimate. Our projection would result in a savings of \$612,000 from the General Fund.

Summary. Based on the most recent caseload trends, we estimate that WAP and SEP caseload projections would, on net, be higher than the amounts assumed in the budget, resulting in a net increase of \$5.8 million in General Fund expenditures. We note, however, that additional caseload data will be available at the time of the May revision of the budget.

High Vacancy Rates Reduce Accountability

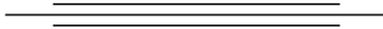
We recommend that the department present a staffing plan to the budget committees that either (1) identifies and proposes to eliminate approximately 150 vacant authorized positions from the department's Field Operations Division in order to reflect actual staffing patterns, or (2) proposes funding to fill the vacant positions.

The department's Field Operations Division administers the VR program through the department's 120 field offices. The division has 1,822 authorized positions, most of which are filled by counselors who deliver VR services to clients.

Currently the division has approximately 240 vacancies (13 percent of all authorized positions). This vacancy rate is not new; since 1994-95, the division has had vacancy rates as high as 14 percent. We note that all departments have some vacant positions due to normal personnel turn-

over and hiring delays, but generally these vacancies are about 5 percent of total positions and are reflected in the department's salary savings requirement. The DR indicates that it intentionally left positions in the Field Operations Division vacant in order to absorb the cost of the 3 percent salary increase granted January 1, 1995, which was not fully funded in the budget for DR and most other departments.

We believe that maintaining such high vacancy rates undermines the Legislature's ability to effectively oversee the VR program because the department's staffing appears to be "richer" than what is actually occurring. A more straightforward method of budgeting would be to keep vacancies at the normal salary savings rate of 5 percent. For this reason, we recommend that the department submit a staffing plan to the budget committees that either (1) identifies and proposes to eliminate approximately 150 of the division's 240 vacant authorized positions (leaving vacant approximately 90 positions, or 5 percent of all positions), or (2) proposes funding to fill the positions, with appropriate justification.



DEPARTMENT OF CHILD SUPPORT SERVICES (5175)

The primary purpose of California's child support enforcement program is the collection of payments from absent parents for custodial parents and their children. Child support offices in the state's 58 counties provide services such as locating absent parents; establishing paternity; obtaining, enforcing, and modifying child support orders; and collecting and distributing payments. Federal law requires states to provide these services to all custodial parents receiving Temporary Assistance for Needy Families (TANF, which is the California Work Opportunity and Responsibility to Kids [CalWORKs] program in California) and, on request, to non-TANF parents. Child support payments collected on behalf of TANF families have historically been used primarily to offset the federal, state, and county costs of TANF grants. Collections made on behalf of non-TANF parents are distributed directly to these parents.

As discussed below, legislation enacted in 1999 transferred state administration of the program from the Department of Social Services (DSS) to the newly created Department of Child Support Services (DCSS). The budget proposes \$969 million from all funds (\$359 million General Fund) for the DCSS in 2000-01. This includes \$874 million (\$332 million General Fund) for local assistance for the operation of the local child support offices. The proposal for local assistance represents an increase of \$23 million from the General Fund (about 7 percent) over the current year. The budget proposes to transfer the state share of child support collections for CalWORKs families—\$284 million—into General Fund revenues in 2000-01. Currently, these collections are budgeted as state savings in the form of offsets to CalWORKs grant expenditures.

LEGISLATIVE REFORMS OF 1999

Prior to the legislative reforms in California, the child support program was administered at the local level by the county district attorneys (DAs),

with state oversight by the DSS. In an effort to improve program performance, the Legislature passed a package of bills in 1999, including Chapters 478 (AB 196 Kuehl), 479 (AB 150, Aroner), and 480 (SB 542, Burton and Schiff). Together, these acts made significant changes to the organization, administration, and funding of the program (see Figure 1). Generally, these reforms significantly increased state authority and oversight over the program, and changed state administrative responsibility for developing the statewide child support automation system. Included among the changes are the creation of a new state Department of Child Support Services; the transfer of local administration from the county DAs to separate county child support agencies; and the transfer of responsibility for procurement of the automation system from the state Health and Human Services Agency Data Center to the Franchise Tax Board. (Please refer to our analyses of the "Health and Human Services Agency Data Center" and the "Franchise Tax Board" in the General Government chapter.)

THE BUDGET PROPOSAL FOR THE DEPARTMENT OF CHILD SUPPORT SERVICES

The Governor's budget proposes \$95 million from all funds (\$26.5 million General Fund) for state operations to support the Department of Child Support Services in 2000-01. The proposal includes a transfer of \$79 million (\$23 million General Fund) and 95 positions from DSS to the newly created DCSS, and \$3.5 million (General Fund) for 128 new positions and additional operating expenses.

Administration Division Is Overbudgeted

We recommend (1) deletion of five proposed new positions from the Administration Division of the new Department of Child Support Services, (2) the conversion of five proposed permanent positions in this division to two-year limited term, and (3) the transfer of four more positions, in addition to the 13.5 transfer positions proposed, from the Department of Social Services to the Department of Child Support Services. This will result in General fund savings of \$220,000. (Reduce Item 5175-001-0001 by \$125,000 and Item 5180-001-0001 by \$95,000.)

The Governor's budget proposed a total of 229 positions for the DCSS (see Figure 2 on page 134). The department is organized into the following units: Executive offices; Program Division; Systems Division; and Administration Division. While the Program Division includes a significant increase in positions (compared to the staffing levels in DSS), we recommend approval of this component because (1) a significant proportion of the new

workload is to carry out new tasks required by the legislative reforms, and (2) we believe there is a need to provide more program support in order to improve the performance of the local child support programs. With respect to the proposed staffing level for the Administrative Division, however, we find that the budget (1) proposes more positions than are needed and (2) underestimates the number of positions that should be transferred from DSS.

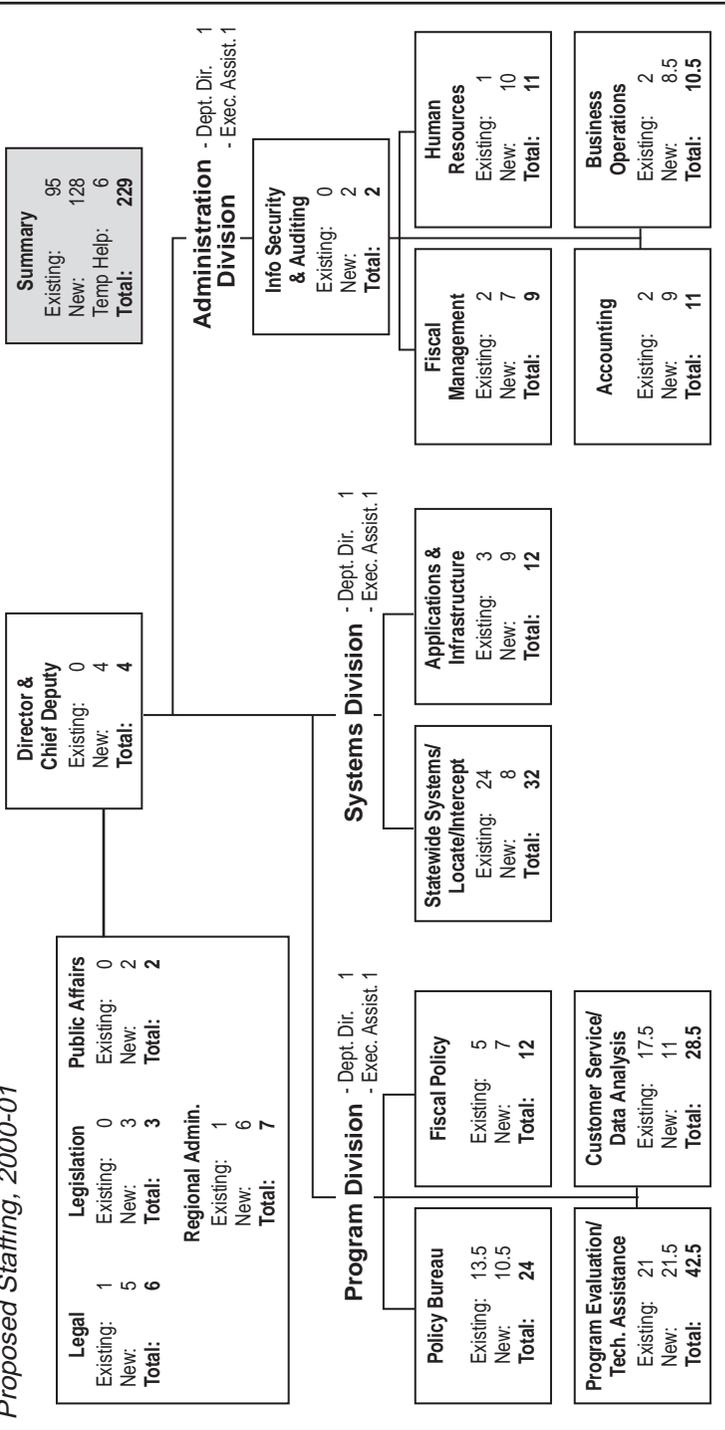
Figure 1**Major Provisions of the Child Support Reforms of 1999**

- **Creates New State Department.** As of January 2000, state-level administration and oversight of the child support enforcement program was transferred from the Department of Social Services to the new Department of Child Support Services.
- **Shifts Local Administration to New County Agencies.** At the local level, administrative responsibility will be shifted from the county district attorneys to newly-created county agencies.
- **Shifts Responsibility for Determining Program Expenditures to the State.** Responsibility for determining program expenditure levels and how funds will be allocated among the local agencies will shift from the counties to the state.
- **Establishes a Program Performance Improvement Process.** Local agency failure to comply with plans could lead to state assumption of responsibility.
- **Revises the County Fiscal Incentive Payment System.** Establishes new incentives for counties, subject to availability of funding.
- **Changes Approach for Automation to a Single-Statewide System.** Previously, the approach was county-based.
- **Transfers Responsibility for Procurement of the Automation System to the Franchise Tax Board (FTB).** Previously, the Health and Human Services Agency Data Center was responsible for procurement.
- **Requires Performance-Based Procurement for the New Statewide Automation System.** The procurement for the single statewide system will be based on the vendor's ability to meet pre-agreed upon program performance levels.
- **Shifts Responsibility for Interim Automation Systems to the State.** The state is responsible for determining changes and enhancements to county-based systems.
- **Establishes a Project Charter for the Statewide Automation System.** Project charter will describe the governance structure, roles and responsibilities, and the management for the single-statewide system.
- **Requires State to Assume Responsibility for Automation Penalties.** The state, rather than counties, will be responsible for the federal financial penalties for not meeting deadlines for the statewide system.
- **Expands the FTB's Child Support Delinquency Collection Program.** The program will cover a broader range of cases.

Figure 2

Department of Child Support Services

Proposed Staffing, 2000-01



More Positions Than Comparable Departments. In order to evaluate the Administrative Division, we compared the staffing proposal with the corresponding administrative positions in other departments of similar size (a total of 100 to 300 positions). Our analysis of administrative units focuses on those components that are similar in function to the DCSS administrative functional areas (administrative division management; fiscal and accounting units; human resources; and business operations).

Figure 3 summarizes this comparison. It shows that the budget proposes staffing DCSS with 18 percent of total positions in these administrative units, whereas the comparison departments are staffed at an average of 14 percent for the same units. If held to this administrative average of comparison departments, DCSS should have 32, not the proposed 42, positions in these administrative areas.

While we recognize the need for enhanced staffing to start a new department, we believe that providing DCSS with ten more administrative positions than comparable departments is excessive. Accordingly, we recommend (1) the deletion of five of the proposed new positions from the division and (2) the conversion of five proposed permanent positions to two-year limited term. We believe that this will be sufficient to meet the workload demands of the Administration Division, including tasks associated with starting up a new department. This component of our recommendation would result in General Fund savings of \$125,000.

Figure 3

Administrative Division Staffing Department of Child Support Services and Comparable Departments

2000-01

Department	Total Positions	Administrative Positions ^a	Percent
Aging	142	33	23%
Community Services and Development	158	28	18
Real Estate	303	33	11
Fair Housing and Employment	306	11	4
Average of comparison departments	227	26	14%
Child Support Services	229	42	18%

^a Excludes positions not comparable to the Department of Child Support Services.

The DSS Should Transfer More Positions. In addition to transferring program staff from DSS, the Governor's budget proposes to transfer 13.5 administrative and support positions from DSS to DCSS. The proposed transfer of 13.5 positions consists of positions from the following units in DSS: Administration; Data Analysis; Legal Services; and Information Systems. In order to calculate the proportionate number of positions to reassign from DSS, the administration used the ratio of DSS's Office of Child Support staffing to total departmental staffing in 1990-91. The rationale for using this baseline year was that, while the staffing of the Office of Child Support grew significantly beginning in 1990-91, DSS grew only minimally in relevant administrative units during the same time period.

We believe the relevant question is whether the DSS has provided adequate administrative support recently, not ten years ago. The administration has not requested additional administrative positions in DSS due to the increase in child support program staff, and has not demonstrated that departmental activities such as accounting and personnel management currently are inadequate. Consequently, we believe it would be more reasonable to apply the department's methodology to current-year staffing levels in DSS, rather than 1990-91. We therefore made the same calculation using the 1999-00 staffing levels and determined that a total of 17.5 administrative and support positions, or four more than proposed in the budget, should be transferred. This is generally consistent, moreover, with the fact that the department claimed federal child support matching funds for 18 administrative positions in 1998-99. Accordingly, we recommend a transfer of four additional positions, and a General Fund reduction of \$95,000 in the DSS budget. In total, our recommendations would result in combined General Fund savings of \$220,000.

How Should Local Assistance Be Funded in 2000-01?

We recommend (1) a \$5 million General Fund augmentation for local assistance in 2000-01, to be allocated to local agencies on the basis of county cost-effectiveness (the ratio of historical increases in collections to increases in costs) and (2) enactment of legislation requiring the department to include cost-effectiveness as a criterion in the allocation of all funds to local agencies. We believe that the augmentation will result in a net long-term savings to the state. (Increase Item 5175-101-0001 by \$5 million.)

Past Research Suggests Program Underinvestment. In previous analyses, we have shown that the principal goal of the program—the collection of child support—is strongly related to the amount of fiscal resources committed to the program (administrative expenditures). It does not necessarily follow, however, that increasing program spending (and the re-

sulting increase in collections) will be cost-effective to government. This will depend, in large part, on how much it costs to achieve the additional collections. In addressing this question, we found that (1) the counties vary significantly in their levels of cost-effectiveness, as measured by the ratio of collections to costs, and (2) it is likely that an increase in expenditures in many of the counties would yield not only an increase in collections, but net savings to the state due to the welfare grant reductions that result from collections on behalf of these families.

We also found that the funding structure of the prior program—whereby the counties ultimately determined expenditure levels—tended to result in an “underinvestment” of resources in the program. This is primarily because (1) in many cases, counties did not benefit fiscally from the program and therefore had no fiscal incentive to increase spending even when such spending would benefit the state, or (2) in other cases, counties probably would benefit but, without having any assurance of such an outcome, did not want to risk an increase in spending. (For more detail on these findings, please see *The 1992-93 Perspectives and Issues* and our April 1999 report entitled *The Child Support Enforcement Program From a Fiscal Perspective: How Can Performance Be Improved?*)

Reforms Create New Opportunity. Under the new reforms, control over spending will shift to the state, creating an opportunity to allocate resources so as to increase both collections and state savings. To achieve this, additional spending should occur in those counties, or local program sites, where there is reason to believe that the resulting increase in collections will be sufficient to yield a net savings to the state. We note that this could be accomplished by a reallocation of existing funding resources among the counties and/or a net augmentation to the program.

Under the new reforms, control over spending will shift to the state, creating an opportunity to allocate resources so as to increase both collections and state savings. To achieve this, additional spending should occur in those counties, or local program sites, where there is reason to believe that the resulting increase in collections will be sufficient to yield a net savings to the state. We note that such an investment could be accomplished by a reallocation of existing funding resources among the counties and/or a net augmentation to the program.

Regardless of the source of funds (reallocation or net augmentation), the state is still faced with the question of how best to allocate program funding among the local jurisdictions. One way to allocate the funds is based on the relative cost-effectiveness of counties as measured by their collections to cost ratios. To illustrate the underlying concept, we note the following two hypothetical examples of counties with different, but generally representative, levels of cost-effectiveness in collecting child sup-

port, as indicated by their ratios of marginal collections to marginal costs (that is, the increase in collections that accompany an increase in administrative costs).

In Figure 4, County A is a relatively efficient county which collects an additional \$3 in child support for every additional \$1 spent in administering the program. County B represents a relatively inefficient county which collects an additional \$1 for every \$1 expended. The figure shows that after accounting for federal reimbursements, CalWORKs grant savings, and federal incentive payments, a \$1 increase in spending in County A would yield a net state savings (12 cents), whereas a \$1 increase in spending in County B would result in a net state cost (29 cents).

Figure 4	
Net State Costs (Savings) From \$1 Increase in Spending Under Two Marginal Collections/Costs^a Scenarios	
Hypothetical County A: Collections/Cost Ratio = \$3/\$1	
Cost	\$1.00
Federal reimbursement ^b	-.50
Federal incentive payment	-.15
Welfare savings	-.47
Net state costs (savings)	-\$.12
Hypothetical County B: Collections/Cost Ratio = \$1/\$1	
Cost	\$1.00
Federal reimbursement ^b	-.50
Federal incentive payment	-.05
Welfare savings	-.16
Net state costs	\$.29
^a	Ratio of increase in total collections (net of \$50 disregard payments) to increase in total administrative costs.
^b	Assumes reduced federal reimbursement due to automation penalties.

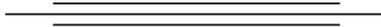
Thus, one option would be to reallocate funds from County B to County A. We note, however, that at some point this option could result in significant program disruptions to County B (which, while relatively inefficient, is still providing some programmatic benefits through its efforts), depending on the amount of such reallocations.

A second option would be to augment the program, with the increase limited to those counties that hold the most promise of using the funds cost-effectively (such as County A in our example). In this respect, we note that county cost-effectiveness can be a relatively dynamic phenomenon. In other words, we would expect it to change over time. Furthermore, historical data are only an indication of what might happen in the future, and provide no guarantee.

Analyst Recommendations. After reviewing the historical data on marginal collections and costs among the counties, we believe it would be reasonable to pursue both options. Consequently we recommend (1) a \$5 million General Fund augmentation for local assistance in 2000-01, to be allocated to local agencies on the basis of county cost-effectiveness (the ratio of historical increases in collections to increases in costs) and (2) legislation requiring the department to include marginal cost-effectiveness as a criterion in the allocation of all funds to local agencies. We believe that the augmentation, in particular, will result in a net long-term savings to the state.

If our proposed augmentation is adopted, we recommend adoption of the following budget bill language in Item 5175-101-0001:

Of the amount appropriated in this item, \$5 million shall be allocated to the counties solely on the basis of the counties' cost-effectiveness, as measured by the ratio of historical increases in collections to increases in costs.



DEPARTMENT OF SOCIAL SERVICES CALWORKS PROGRAM (5180)

In response to federal welfare reform legislation, the Legislature created the California Work Opportunity and Responsibility to Kids (CalWORKs) program, enacted by Chapter 270, Statutes of 1997 (AB 1542, Ducheny, Ashburn, Thompson, and Maddy). Like its predecessor, Aid to Families with Dependent Children (AFDC), the new program provides cash grants and welfare-to-work services to families whose incomes are not adequate to meet their basic needs. A family is eligible for the one-parent component of the program if it includes a child who is financially needy due to the death, incapacity, or continued absence of one or both parents. A family is eligible for the two-parent component if it includes a child who is financially needy due to the unemployment of one or both parents.

The budget proposes an appropriation of \$5.6 billion (\$2.1 billion General Fund, \$195 million county funds, \$30 million from the Employment Training Fund, and \$3.3 billion federal funds) to the Department of Social Services for the CalWORKs program. In total funds, this an increase of \$186 million, or 3.5 percent. Similarly, General Fund spending is proposed to increase by \$78 million (3.8 percent). Although the current-year amounts reflect the grant savings from child support collections, the budget proposes a technical change to treat child support collections as revenues in the budget year. If the budget-year figures for CalWORKs are adjusted, for purposes of comparison, to include the savings from child support collections (net of the costs of child support incentives paid to the counties), then proposed total CalWORKs spending would be \$316 million (5.9 percent) *less* than the current year, and General Fund spending would be \$126 million (6.3 percent) below the current year.

Impact of Maintenance-of-Effort Requirement

Because the Governor's budget proposes to expend all available federal block grant funds and the minimum amount of General Fund monies required by federal law, any net augmentation will result in General Fund costs and any net reductions will result in savings in federal block grant funds (which would be retained by the state).

Maintenance-of-Effort (MOE) Requirement. To receive the federal Temporary Assistance for Needy Families (TANF) block grant, states must meet a MOE requirement that state spending on welfare for needy families be at least 75 percent of the federal fiscal year (FFY) 1994 level, which is \$2.7 billion for California. (The requirement increases to 80 percent if the state fails to comply with federal work participation requirements.) Although the MOE requirement is primarily met with state and county spending on CalWORKs and other programs administered by the Department of Social Services (DSS), we note that \$400 million in state spending in other departments is used to help satisfy the requirement.

Proposed Budget Is At the MOE Floor. For 2000-01, the Governor's budget for CalWORKs is at the MOE floor. We note that the budget also includes, \$59 million for the purpose of providing state matching funds for the federal Welfare-to-Work block grant funds. These funds cannot be counted toward the MOE because they are used to match federal funds.

The Governor's budget also proposes to spend all available federal TANF funds in 2000-01, including the projected carry-over of unexpended funds (\$459 million) from 1999-00. We note that without these carry-over funds, General Fund spending would be significantly above the MOE floor in 2000-01, under the budget's assumption of fully funding the estimated needs for the program.

Caseload Projection is Overstated

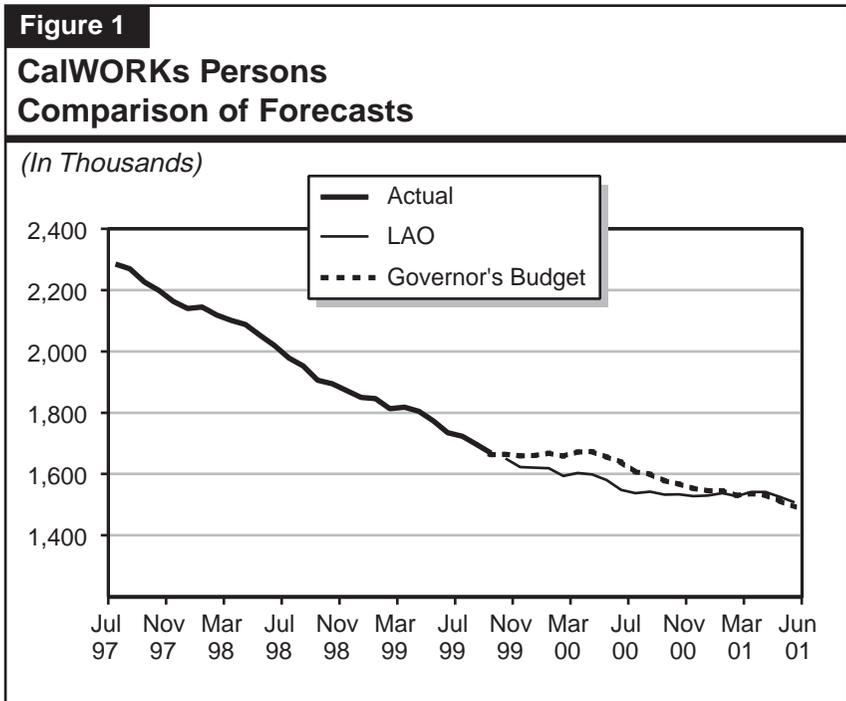
We recommend that proposed spending for California Work Opportunity and Responsibility to Kids grants be reduced by \$66 million (federal Temporary Assistance for Needy Families funds) in 1999-00 and \$35 million in 2000-01 because the caseload is overstated. (Reduce Item 5180-101-0890 by \$34,900,000.)

The CalWORKs caseload has been declining rapidly since reaching its peak in 1994-95. During 1998-99, the number of persons in the CalWORKs program decreased by approximately 14 percent. The Governor's budget projects that the average monthly number of persons in CalWORKs will decrease by 10 percent in 1999-00 and 6.8 percent in 2000-01. Thus, on a year-over-year basis the budget assumes a continuing caseload decline. However, the budget's month-by-month estimates show that the caseload is pro-

jected to decrease until October 1999, at which point it increases until April 2000. Beginning in May, the budget assumes that the caseload will once again begin to decline, but not as rapidly as in prior years.

Our review of caseload trends does not suggest any reason to project an abrupt end to the caseload decline during the current year. We note that the CalWORKs program was not completely implemented in 1998-99, and that the tendency for recipients to benefit from welfare-to-work services and subsequently leave assistance is likely to be stronger in 1999-00 when the program is fully implemented. Accordingly, we estimate that caseload decline will continue steadily throughout 1999-00. We recognize, however, the possibility that caseloads will level off at some point in the future, once the program is fully implemented. Consequently, in order to be conservative in forecasting budget savings, we project that the caseload will begin to level off in 2000-01.

Figure 1 shows the actual caseload through September 1999 (the last month for which data are available) and then compares the Legislative Analyst’s Office (LAO) caseload forecast with the Governor’s budget forecast. The LAO forecast projects that the caseload will decline by 12 percent in 1999-00 and 5.8 percent in 2000-01. Compared to the Governor’s budget, the LAO forecast will result in grant savings of \$65.8 million (federal TANF funds)



in 1999-00, and \$34.9 million in 2000-01. Accordingly, we recommend that the budget be reduced to reflect these savings.

Budget Overestimates Cost of Providing Statutory Cost-of-Living Adjustment

We recommend that proposed spending for California Work Opportunity and Responsibility to Kids grants be reduced by \$20 million (federal Temporary Assistance for Needy Families funds) because the statutory cost-of-living adjustment will be lower than estimated in the budget. (Reduce Item 5180-101-0890 by \$20,000,000.)

Pursuant to current law, the Governor's budget proposes to provide the statutory cost-of-living adjustment (COLA), effective October 2000, at a General Fund/TANF fund cost of \$112 million. The statutory COLA is based on the change in the California Necessities Index (CNI) from December 1998 to December 1999. The Governor's budget, which is prepared prior to the release of the December CNI figures, estimates that the CNI will be 3.61 percent, based on partial-year data. Our review of the actual full-year data, however, indicates that the CNI will be 2.96 percent. Applying the actual CNI of 2.96 percent reduces the cost of providing the COLA to \$92 million, a savings of \$20 million compared to the Governor's budget. We recommend that the budget be reduced to reflect these savings. The CalWORKs Grant Levels

Figure 2 (see next page) shows the maximum CalWORKs grant and food stamps benefits for a family of three, effective October 2000, as displayed in the Governor's budget assuming a 3.61 percent CNI and as adjusted to reflect the actual CNI of 2.96 percent. As the figure shows, grants for a family of three in high-cost counties will increase by \$19 to a total of \$645, and grants in low-cost counties will increase by \$18 to a total of \$614.

As a point of reference, the federal poverty guideline for 1999 (the latest reported figure) for a family of three is \$1,157 per month. (We note that the federal poverty guidelines are adjusted annually for inflation.) When the grant is combined with maximum food stamps benefit, total resources in high-cost counties will be \$890 per month (77 percent of the poverty guideline). Combined maximum grant and food stamps benefits in low-cost counties will be \$873 per month (75 percent of the poverty guideline).

Figure 2

CalWORKs Maximum Monthly Grant and Food Stamps Governor's Budget and LAO Projection Family of Three

1999-00 and 2000-01

	1999-00	2000-01		LAO Projection Change From 1999-00	
		Governor's Budget ^a	LAO Projection ^{a, b}	Amount	Percent
Region 1: High-cost counties					
CalWORKs grant	\$626	\$649	\$645	\$19	3.0%
Food Stamps ^c	254	243	245	-9	-3.5
Totals	\$880	\$892	\$890	\$10	1.1%
Region 2: Low-cost counties					
CalWORKs grant	\$596	\$618	\$614	\$18	3.0%
Food Stamps ^c	267	257	259	-8	-3.0
Totals	\$863	\$875	\$873	\$10	1.2%

^a Effective October 2000.
^b Based on California Necessities Index at 2.96 percent (revised pursuant to final data) rather than Governor's budget estimate of 3.61 percent.
^c Based on maximum food stamps allotments effective October 1999. Maximum allotments are adjusted annually each October by the U.S. Department of Agriculture.

Budget Underestimates Savings From Imposition of Sanctions

We recommend that proposed spending for California Work Opportunity and Responsibility to Kids (CalWORKs) grants be reduced by \$32 million in 1999-00 and \$30.1 million in 2000-01 (federal Temporary Assistance for Needy Families funds) because grant savings from the imposition of sanctions on CalWORKs recipients are underestimated. (Reduce Item 5180-101-0890 by \$30,095,000.)

The CalWORKs program requires able bodied adults to participate in work or work-related activities for a minimum of 32 hours per week. Failure to comply with this requirement results in a sanction, in the form of a grant reduction. In addition, participants are required to have their children immunized, ensure that their children attend school, and cooperate with child support enforcement. Failure to comply with these requirements results in a penalty (also a grant reduction). Based on data from 1998, the Governor's budget assumes that an average of 4 percent of all CalWORKs cases will

have a sanction or penalty imposed upon them during 1999-00 and 2000-01. Consistent with this assumption, the budget estimates savings from penalties and sanctions to be \$43.3 million in 1999-00 and \$40.7 million in 2000-01.

The most recent data—from July and August of 1999—indicate that the combined sanction and penalty imposition rate was 7 percent, a substantial increase from the 1998 levels used as the basis for the Governor's budget (largely due to increased participation requirements in CalWORKs). Based on the more recent data, we estimate that savings from sanctions and penalties will be \$32 million above the budget estimate in 1999-00 and \$30.1 million above the budget projection for 2000-01. Accordingly, we recommend that the budget be reduced to reflect these savings.

Count Spending on Health Care Programs for Recent Legal Immigrants Toward MOE Requirement

We recommend that the department count toward the California Work Opportunity and Responsibility to Kids (CalWORKs) maintenance-of-effort requirement \$49.9 million in General Fund expenditures for health care for legal immigrants. This action permits the replacement of General Fund expenditures for CalWORKs grants with an identical amount of available federal Temporary Assistance for Needy Families funds, thereby resulting in \$49.9 million of General Fund savings. (Reduce Item 5180-101-0001 by \$49,900,000 and increase Item 5180-101-0890 by \$49,900,000.)

Countable MOE Funds. Pursuant to the federal welfare reform legislation, California may count many types of state spending on families eligible for CalWORKs, even if they are not in the CalWORKs program, for purposes of meeting the MOE requirement. To be countable, such spending must be consistent with the broad purposes of federal welfare reform—providing assistance to families so that they can become self-sufficient. For health expenditures to be countable, they must (1) satisfy a “new spending” test whereby the countable expenditures are limited to the amount by which they have grown since FFY 1995, (2) not be used as matching funds for any federal health program, and (3) not be part of the federally-supported Medicaid program.

State Health Programs for Recent Immigrants. In the budget year, the Medi-Cal program, administered by the California Department of Health Services, will expend approximately \$90 million on nonemergency (and primarily preventive) health care for legal immigrants who arrived in the United States after August 1996. This program is not part of the federal Medicaid program, and is therefore supported entirely by the General Fund. In addition, the Managed Risk Medical Insurance Board will expend \$4.9 million from the General Fund (also state-only funding) on health care for recently arrived legal immigrant children in the Healthy Families Program.

Providing preventive health services for families with children keeps parents and children healthy and thus assists the parents in keeping regular work hours. Therefore, these health care expenditures are consistent with the purpose of TANF. Because these programs were not created until after 1995 and are paid for with General Fund monies that are not used to match federal funds, they meet the federal requirements for counting health expenditures toward the MOE.

In order to count all of the health care expenditures described above, toward the CalWORKS MOE, the state TANF plan would need an amendment. We note that such an amendment would have no impact on eligibility rules for CalWORKs cash assistance and welfare-to-work services.

Analyst's Recommendation. We recommend that the DSS count the \$49.9 million budgeted for these health services toward the MOE and amend the state TANF plan accordingly. This action would result in \$49.9 million in General Fund savings. This is accomplished through a fund shift as follows: Counting these health care expenditures raises total state spending to \$49.9 million above the MOE floor. Thus, General Fund spending on CalWORKs grants may be reduced by \$49.9 million while still maintaining compliance with the MOE. To maintain funding for the grants, \$49.9 million in federal TANF funds must be shifted, from available reserves, to support the grants. The TANF reserves will be made available by adoption of all, or part of, our technical recommendations (discussed above) with respect to CalWORKs caseloads and costs.

Budget Should Reflect Award of High Performance Bonus Funds

We recommend a technical adjustment in the federal Temporary Assistance for Needy Families fund balance (reserves) to reflect the December 1999 award of \$45.5 million in federal High Performance Bonus funds.

The federal welfare reform legislation of 1996 authorized the High Performance Bonus award program. From FFY 1999 through FFY 2003, the U.S. Department of Health and Human Services will award \$200 million annually in High Performance Bonus funds to qualifying states. In 1999, California was one of 27 states that received an award for outstanding performance during FFY 1998. As a result, the state was awarded \$45.5 million in federal TANF funds in December 1999. Because part of the formula for future awards is based on *improvement* in job placement and success in the workforce among CalWORKs recipients, it seems likely that continued implementation of the CalWORKs program should result in additional bonus awards.

Although the Governor's budget summary recognizes the award, the budget's TANF fund balance for 1999-00 does not reflect the receipt of these funds. Consequently, we recommend a technical adjustment in the TANF fund condition statement to account for the receipt of these funds. This adjustment will increase the TANF reserve by \$45.5 million.

We note that the Governor's budget summary indicates that a plan for expending the 1999 award funds will be developed in spring 2000. Because these are TANF funds, they must be spent on families eligible for TANF. The funds could be held in reserve, expended within CalWORKs, or expended on new initiatives for the non-CalWORKs working poor. Please see "The TANF Regulations Increase State Flexibility to Serve the Working Poor" at the end of the CalWORKs analysis for a discussion of potential uses for TANF funds.

Finally, we also note that the \$45 million in High Performance Bonus funds are distinct from the \$20 million received by California for being one of the top five states in reducing the ratio of out-of-wedlock births. The Governor's budget proposes to expend the \$20 million awarded for reducing out-of-wedlock births on the Community Challenge Grant Program, which is administered by the Department of Health Services.

Withhold Recommendation on Budget for Employment Services

Current law requires that a new methodology for budgeting California Work Opportunity and Responsibility to Kids (CalWORKs) employment services be implemented in 2000-01. Because the new county expenditure plan model for budgeting CalWORKs employment services was not completed in time for inclusion in the Governor's budget, we withhold recommendation on the budget for CalWORKs employment services (\$884 million from the General Fund and Temporary Assistance for Needy Families funds).

Chapter 147, Statutes of 1997 (AB 1111, Aroner) requires that beginning in 2000-01 the budget for CalWORKs employment services be based on "projected county costs" (essentially county CalWORKs services expenditure plans), using a methodology jointly developed by DSS and the County Welfare Directors Association. This new budgeting system was not completed in time for inclusion in the January budget but will be used for the May revision of the Governor's budget. Thus, the January budget for employment services (\$884 million General Fund and federal TANF funds) represents a placeholder, pending the completion of the county expenditure plan model. Because the new system may result in substantial changes, we withhold recommendation on the budget for CalWORKs employment services.

Budget Proposes to Prohibit Counties from Earning Additional Performance Incentives

The Governor proposes enactment of legislation prohibiting counties from earning new performance incentive payments until the estimated prior obligation owed to the counties (approximately \$500 million) has been paid by the state. Once the obligation has been met, the Governor proposes to either repeal or modify the fiscal incentive system. We concur with the Governor's proposal to prohibit new incentives until the past obligation to the counties has been satisfied. We recommend either repealing the county performance incentive provision or replacing it with a new system that would (1) be funded with General Fund monies that the counties could use for any purpose and (2) tie the amount of incentive payments to improvements in program outcomes.

Background. The CalWORKs legislation requires that savings resulting from (1) exits due to employment, (2) increased earnings, and (3) diverting clients from aid with one-time payments, be paid by the state to the counties as performance incentives. Current law also requires that DSS, in consultation with the welfare reform steering committee, determine the method for calculating these savings.

Steering Committee Actions. In 1998, the steering committee determined that savings would be calculated as follows. Savings from exits due to employment would be based on the increase in exits compared the average number of exits in the three years prior to welfare reform. Savings attributable to the earnings of recipients would be paid in their entirety to the counties. Similarly, all savings from diversion were also to be paid to counties.

Growing Obligation to the Counties. By the end of 1998-99 counties had earned approximately \$900 million in performance incentives. This amount excludes incentives based on exits due to employment during 1998-99 because the data are not yet available. By the end of 1999-00, we estimate total incentives earned by the counties (including incentives based on exits to employment) will be approximately \$1.6 billion. The total of the appropriations (from 1998-99 and 1999-00) for incentive payments is approximately \$1.1 billion. Thus, we estimate that the unfunded obligation to the counties will be approximately \$500 million by the end of 1999-00. We note that county receipt of fiscal incentives has significantly lagged the appropriation, and that counties have spent very little of their incentive payments. As of September 1999, they had received a total of \$685 million but had spent only \$5.3 million.

Governor's Proposal. The Governor proposes to prohibit counties from earning additional performance incentives until the unmet obligation to the counties has been satisfied. For 2000-01, the budget proposes an expenditure of \$252 million toward this obligation, which, as noted

above, is estimated to be \$500 million by the end of 1999-00. If \$252 million is paid to the counties in 2000-01, a remaining obligation of about the same amount will be carried forward into 2001-02. The department estimates that the counties would earn an additional \$500 million in 2000-01, under current law. Thus, the Governor's proposal to prohibit counties from earning additional incentives results in savings of approximately \$500 million in 2000-01. The administration also indicates that it will propose legislation to either eliminate or "sharply modify" the performance incentive program.

Department and Steering Committee Could Modify the Methodology. As noted above, the method for calculating the performance incentives is determined by DSS, in consultation with the welfare reform steering committee. The administration has the authority to convene the steering committee at any time, consult with the committee, and then modify the methodology for calculating the incentives.

Legislative Considerations. To assist the Legislature in considering these issues, we begin by examining the rationale for the county performance incentive program. While the Legislature did not specify the purpose of the program, we can identify several possible rationales. Specifically, performance incentives could have been intended as (1) a *reward* for county performance, (2) an *inducement* for counties to make an effort to achieve better program outcomes, and/or (3) a *funding source* for the CalWORKs program. Below we discuss each of these potential rationales for the program.

Reward System. The incentive payments may have been intended simply to be a reward to the counties. If this is the case, however, it is not clear what distinguishes county implementation of CalWORKs from county administration of other state programs in areas such as health, welfare, and criminal justice. Counties administer many programs on behalf of the state. For most of these, counties are provided with operating funds but are not provided with "incentive" bonuses for improved program outcomes. The CalWORKs and child support enforcement programs are the only significant county-administered state programs that offer incentive payments to the counties and under the recent child support reforms, the incentive payments will be largely replaced by a new funding system. There is, however, no analytical basis for determining whether incentive payments should be provided as a reward.

Inducement for Better Program Performance. Another argument for providing incentive payments is that they may act as an incentive for counties to make extra efforts toward improving their programs. As noted above, the counties have spent very little of their incentive payments and are still in the early stages of CalWORKs implementation. Thus, while incentive payments could have some impact in the future, it does not appear that they have had any appreciable effect on county behavior so far.

We also note that, as currently structured, counties can earn substantial incentive payments without demonstrating any program improvement. About \$800 million of the performance incentives owed to the counties as of 1998-99 are due to savings attributable to the earnings of recipients. According to DSS, about two-thirds of these savings would have occurred even if CalWORKs had never been implemented (because many recipients were working before CalWORKs started). We believe that for incentives to serve as an inducement, the conditions under which incentives are "earned" must be limited to situations in which program outcomes actually improve.

Finally, we note that given the way fiscal incentives have been budgeted, the counties must spend the incentive payments within the CalWORKs program. Thus, county government programs outside of CalWORKs receive no direct fiscal benefit from the incentive payments.

Program Funding. A third argument for the performance incentives is that they could provide the counties with a source of funding for the CalWORKs program. Under CalWORKs, counties have had two sources of funds for employment services (1) the regular budget allocation to fund estimated program needs and (2) the performance incentives. The regular budget allocation (referred to as the "single allocation") has been based on statewide experience with the Greater Avenues for Independence (GAIN) program—California's previous welfare-to-work program. Under this budgeting system, performance incentives were to be used for county-specific enhancements to the CalWORKs program. We note that this has not been the experience to date. Counties have spent only about 60 percent of their single allocation funds and hardly any of their performance incentives.

Pursuant to Chapter 147, Statutes of 1999 (AB 1111, Aroner) the regular budget allocation for employment services will shift from a system based on the GAIN cost model to one based on county expenditure plans, beginning in 2000-01. The shift to budgeting employment services according to individual county expenditure plans should reduce the need for county performance incentives as a *funding source*. This is because the county plans, or budgets, can include any funding proposals the counties deem appropriate.

Conclusion. The experience so far with CalWORKs suggests that the county performance incentives have not served as an effective reward, inducement toward better program outcomes, or funding source for program enhancements. While it is possible that, in the future, incentive payments might have some behavioral effect in inducing better performance, we believe that based on experience to date there is little chance of this as the program is currently structured.

Analyst's Recommendation. Based on the amount of prior-year obligations, we concur with the Governor's proposal to prohibit counties from earning new county performance incentives until the outstanding obligation to the counties is satisfied. With respect to whether the program should be eliminated, we have no analytical basis for determining the cost-effectiveness of fiscal incentives. Should the Legislature choose to retain such a system, however, we recommend that it (1) be funded with General Fund monies that can be used by the counties for *any* purpose and (2) tie the amount of incentive payments to *improvement* in CalWORKs program outcomes.

We believe that performance incentives would have a better chance of being effective if paid for with General Fund monies that the counties can use for any purpose. This will increase their value to the counties, therefore making it more likely to induce the counties to make an effort to improve the program. Furthermore, it will require the Legislature and the Governor to weigh the potential benefits of the incentives against the costs, because the incentives would compete with other state priorities for funding.

As we have previously recommended, tying performance incentive payments to improvement in outcome measures should increase the chances that these payments will induce counties to make an effort to improve their programs. (For a discussion of this aspect of the issue, please see our analysis of CalWORKs in the *Analysis of the 1999-00 Budget Bill*.)

Finally, we note that repealing the performance incentive system, or replacing it with a new system supported by the General Fund, will free up a significant amount of federal TANF funds, which have been the principal source of funding for the incentive payments. These TANF funds could be (1) held in a reserve, (2) provided to the counties or other local governments to provide services to TANF-eligible individuals, or (3) used to fund state-level initiatives for the working poor. (Please refer to "TANF Regulations Increase State Flexibility to Serve Working Poor" later in this chapter for a discussion of the possible uses of TANF funds.)

The CalWORKs Community Service Law Needs Clarification

The provision of current law permitting counties to divert grants to employers for the purpose of funding wages for community service participants conflicts with other sections of the Welfare and Institutions Code. Because of these conflicts, counties are effectively precluded from providing wage-based community service. We recommend enactment of legislation to clarify these provisions so that counties will have the option of providing wage-based community service jobs for California Work Opportunity and Responsibility to Kids recipients.

Background. Chapter 270, Statutes of 1997 (AB 1542, Ducheny) created the CalWORKs program. Under CalWORKs, able-bodied adult recipients (1) must meet participation mandates, (2) are limited to five years of cash assistance, and (3) must begin community service employment after no more than 24 months on aid, unless they have obtained nonsubsidized employment. With respect to “grant diversion,” Chapter 270 authorizes counties to divert all or part of a recipient’s cash grant to an employer to fund a recipient’s wages. The statute specifically states that such grant diversion can be used to fund wages for community service participants. (We believe that wage-based community service is a good option for CalWORKs recipients, as explained in our February 1999 report, *CalWORKs Community Service: What Does It Mean for California?*)

Earned Income Disregard. Under CalWORKs, recipients who obtain nonsubsidized employment are entitled to a specific “earned income disregard.” Under this system, the first \$225 of earnings, plus 50 percent of each additional dollar of earnings, are disregarded (not counted as income) in determining a family’s grant. This structure is designed to encourage recipients to obtain nonsubsidized employment.

Based on our understanding of current law, a CalWORKs community service participant who is receiving wages that are funded through grant diversion would be entitled to the same \$225 and 50 percent earned income disregard that is available to a recipient in a *nonsubsidized* job. We believe that application of the disregard substantially reduces the incentive to find nonsubsidized employment. Accordingly, we previously recommended (in our February 1999 report) that the Legislature eliminate or reduce the earned income disregard for community service participants whose grants are diverted and paid to them in the form of wages.

Maximum Aid Payment Statute Effectively Precludes Grant Diversion. The DSS concurs that a recipient of a diverted grant is entitled to the earned income disregard. The department also believes that, under current law, total grant payments cannot exceed the maximum aid payments prescribed in Section 11450 of the Welfare and Institutions Code. Therefore, the department concludes that current law has the effect of precluding counties from diverting most or all of a recipient’s grant to an employer because such a grant diversion, when combined with the application of the earned income disregard, would ultimately result in a total grant (\$1,052 for a family of three) that would exceed the maximum aid payment (\$626). In other words, DSS believes that the statute governing maximum aid payments overrides the provision that applies the disregard to wages funded with grant diversion (which is the statutory basis for a wage-based community service program).

In summary, current law includes two technical obstacles to wage-based community service. First of all, it severely restricts counties' ability to use grant diversion to fund wage-based community service positions because of the interaction between the code sections pertaining to grant diversion, the earned income disregard, and the maximum aid payments. Secondly, by applying the earned income disregard to community service participants, it makes no distinction between subsidized and nonsubsidized employment, thereby reducing the incentive for participants to obtain nonsubsidized employment, and increasing the costs of the program.

Analyst's Recommendation. We believe that applying the disregard to subsidized employment results in an unintended consequence of Chapter 270. In order for wage-based community service to be a viable option for counties, we recommend enactment of legislation to clarify that the earned income disregard does not apply to "diverted grants" that are used to fund community service wages. As an alternative to eliminating the disregard, the Legislature could also provide a work expense supplement in the amount of \$50 in lieu of the current \$225 and 50 percent disregard, on the basis that recipients participating in wage-based community service must pay employee Federal Insurance Contributions Act taxes (about \$50 per month).

These clarifications to current law would allow counties to provide wage-based community service positions, while maintaining the incentive for recipients to obtain nonsubsidized jobs.

The CalWORKs Child Care Program

The Governor's budget fully funds the estimated need for California Work Opportunity and Responsibility to Kids (CalWORKs) child care, plus a reserve of \$81 million. The budget proposal includes an increase of \$85 million for the Stage 3 "set-aside" designed to provide former CalWORKs families with child care beyond the two-year time limit for such services. We summarize the CalWORKs child care program.

Background. The CalWORKs child care program is delivered in three stages. Stage 1 is administered by county welfare departments (CWDs) and begins when a participant enters the CalWORKs program. In Stage 1, CWDs refer families to resource and referral agencies to assist them with finding child care providers. The welfare department then pays providers directly for the child care services.

Families transfer to Stage 2 when the county determines that the families' situations become "stable"—that is, they develop a welfare-to-work plan and find a child care arrangement that allows them to fulfill the obligations of that plan. Stage 2 is administered by the State Department of Education (SDE) through its voucher-based Alternative Payment (AP)

programs. Participants can stay in Stage 2 while they are on CalWORKs and for up to two years after the family stops receiving a CalWORKs grant. Because it is up to the CWD to determine when a recipient is stable, the time at which families are transferred from Stage 1 to Stage 2 varies significantly among counties. Some counties make the transfer to Stage 2 as soon as possible, while others wait until the family has left CalWORKs. The variance in county practice contributes to the uncertainty in budgeting child care funds for each stage.

Although Stages 1 and 2 are administered by different agencies, families do not need to switch child care providers upon moving to Stage 2. The real difference in the stages is in who pays the providers—in Stage 2, AP programs, operating under contracts with SDE, do this instead of CWDs.

Stage 3 refers to the broader subsidized child care system administered by SDE that is open to both former CalWORKs families and working poor families who have never been on CalWORKs. Once CalWORKs recipients leave aid, they have two years of eligibility in Stage 2. During this time, they are expected to apply for “regular” Stage 3 child care (in contrast to the Stage 3 set-aside child care discussed below). We note, however, that typically there are waiting lists for such child care because there are significantly more eligible families than the available child care slots. (Families with incomes up to 75 percent of the state median are eligible for regular SDE child care, but priority is given to families with the lowest income. Most of the available slots go to families with incomes below 50 percent of the state median).

In order to provide continuing child care for former CalWORKs recipients who reach the end of their two-year Stage 2 time limit, the Legislature created the Stage 3 set-aside in 1997. Recipients timing out of Stage 2 are eligible for the Stage 3 set-aside if they have been unable to find regular Stage 3 child care. Assuming funding is available (and legislative and administrative practice to date has been to fully fund the estimated need), former CalWORKs recipients may receive Stage 3 set-aside child care as long as their income remains below 75 percent of the state median and their children are below age 14.

Current-Year Spending. For 1999-00, the total appropriation for CalWORKs child care was \$1.2 billion, including a reserve of \$270.7 million that can be allocated to Stage 1 or Stage 2 depending on a subsequent determination of actual need. As of January 2000, \$128 million of the reserve had been allocated to Stages 1 and 2. The budget estimates that an additional \$98 million will be transferred from the reserve to either Stage 1 or State 2 before the end of 1999-00. Although total spending for 1999-00 is estimated to be about \$45 million below the appropriation, spending

for the Stage 3 set-aside is approximately \$10 million greater than estimated. The administration has proposed to fund this anticipated \$10 million shortfall mostly with savings from 1998-99.

Proposed Budget. For 2000-01, the Governor's budget proposes \$1.3 billion for CalWORKs child care. This is an increase of \$117 million (9.8 percent) over the current-year appropriation. Figure 3 summarizes the proposed spending plan. As discussed below, most of the increase is due to higher costs in Stage 3. The budget proposal includes a reserve of \$150.4 million. Of this total, \$69.4 million is "held back" from the estimated need for Stage 2 child care. The remaining \$81 million is above the estimated need and represents a "true" reserve for Stages 1 and 2. This includes \$45.4 million that is anticipated to go unspent from the current-year reserve and is proposed to be transferred to the budget-year reserve.

Figure 3

CalWORKs Child Care Estimated Children Served and Proposed Budget

2000-01
(Dollars in Millions)

	Estimated Number of Children	Funding			
		Total	TANF ^a	CCDF ^b	General Fund
Stage 1	83,000	\$424.2	\$389.7	—	\$34.5 ^c
Stage 2	117,000	624.5	442.8	\$43.0	138.7 ^d
Child care reserve ^e	29,000	150.4	150.4	—	—
Stage 3 set aside	21,000	115.7	—	63.4	52.3 ^f
Totals	250,000	\$1,314.8	\$982.9	106.4	\$225.5

^a Temporary Assistance for Needy Families.

^b Child Care Development Fund.

^c General Fund used toward CalWORKs maintenance-of-effort requirement.

^d Proposition 98 funds, including \$15 million in the California Community Colleges.

^e Proposition 98 funds.

^f The reserve will be allocated to Stage 1 or Stage 2 depending on actual need.

Stage 3 Set-Aside Costs Are Growing Rapidly. As shown in Figure 3, the estimated cost for the Stage 3 set-aside is \$116 million, an increase of almost \$90 million compared to the current-year estimate. This increase is because a growing number of former CalWORKs recipients are expected to reach their two-year Stage 2 post-assistance time limit. Preliminary estimates from the Department of Social Services indicate the cost for the Stage 3 set-aside will increase to about \$200 million in 2001-02 and about \$265 million in 2002-03.

For a discussion of the how child care for CalWORKs families differs from child care for the non-CalWORKs working poor families, please see “Child Care for CalWORKs Families and the Working Poor” in the Cross-cutting Issues section of this chapter.

County Probation Departments Should Report Juvenile Justice Data to Department of Justice

We recommend the adoption of budget bill language requiring county probation offices to report data on all juvenile probation referrals, court actions, and final dispositions to the Department of Justice, in order to receive full-funding allocations for county probation facilities.

Background. County probation departments receive about \$200 million annually from the state for support of probation camps and ranches that house juvenile offenders and for a wide range of juvenile justice system services, from basic prevention to various kinds of residential placements for juvenile offenders. These services are funded with federal TANF monies.

Information on these children and other juveniles involved with the probation system is collected by the Department of Justice (DOJ) and stored in the Juvenile Court and Probation Statistical System (JCPSS). This is a statewide database that collects information from county probation departments on all juvenile probation referrals, court actions, and final dispositions. The database was active through the 1980s, using information voluntarily provided by all 58 counties, but was eliminated in 1989 due to budget reductions at DOJ.

The purpose of the JCPSS is to provide a statewide database of information about juveniles in the criminal justice system. The database is used for many purposes, including assessing potential impacts of recent and proposed changes in law.

Many Counties Not Reporting Data. Chapter 803, Statutes of 1995 (AB 488, Baca) directed DOJ to reestablish a juvenile justice data collection system, and the Department of Information Technology approved a new database design in August 1996. Since that time, DOJ has attempted to collect information from all of the counties. Currently, 15 counties are submitting data and 15 counties are testing to determine whether their reprogrammed databases are effective. Of the remaining counties, 10 intend to begin testing software within the next few months, and 18 have taken no action to submit data to DOJ.

Statewide Database Participation Is Necessary. In our view, it is important for the state to have complete and accurate data as to how juve-

niles are treated in the criminal justice system in order to assist policymakers in analyzing the state of the juvenile justice system and in making decisions about proposed legislation. The information is valuable to the counties as well as the state in assessing trends among counties and impacts of county-based programs. For this reason, we believe that it is vital that all counties submit data to DOJ, in order to ensure that information from the JCPSS reflects the *statewide* juvenile justice situation.

These concerns about the need for better county reporting were raised during 1999-00 budget hearings last spring and the county probation officers committed to begin submitting data to the JCPSS. To date however, only a handful of counties are submitting data.

Analyst's Recommendation. In order to ensure that the state has complete data in JCPSS, we recommend that the Legislature adopt budget bill language that would require counties to forfeit a portion of the TANF monies provided to probation if they do not submit data to DOJ by March 2001. We believe that this will give all counties adequate time to develop their reporting mechanisms. We do not believe that this will create a hardship on counties since they already collect the requested data for their own use. Based on our discussions with DOJ and counties, the costs to counties to report the data to DOJ should be minimal. The TANF dollars provided to probation departments could cover these minimal costs.

Specifically, we recommend the following budget bill language be adopted in Item 5180-101-0001:

A county shall receive no more than 50 percent of its respective allocation of funds appropriated under Schedule (a)(5) 16.30.050—County Probation Facilities until the Department of Justice (DOJ) has certified to the Department of Social Services that the county is participating in the Juvenile Court and Probation Statistical System. Counties that fail to receive certification by March 31, 2001 shall forfeit the balance of their allocation. Any funds forfeited pursuant to this provision shall be reallocated to counties that have received DOJ certification. The distribution shall be proportionally based on such counties' original allocations.

The TANF Regulations Increase State Flexibility to Serve the Working Poor

The final federal Temporary Assistance for Needy Families (TANF) regulations increase state flexibility to serve working poor families that are not eligible for the California Work Opportunity and Responsibility to Kids program. We summarize the TANF regulations and present some options for program changes permitted by the regulations.

Background: Federal Welfare Reform. The federal welfare reform legislation of 1996 replaced the AFDC program with the TANF program. The federal law made numerous changes in the nation's welfare system, including the following: the individual entitlement to a grant is eliminated; federal funding for the program is provided as a block grant; recipients are subject to a five-year time limit for receipt of federal funds; and states are subject to various penalties for failing to meet specified objectives, including work participation rates.

In order to receive the federal block grant, states must meet a MOE requirement that state spending on welfare for needy families be at least 75 percent of FFY 1994 level, which is \$2.7 billion for California (the requirement increases to 80 percent if the state fails to comply with federal work participation requirements). State MOE funds can be spent in conjunction with TANF funds or may be expended on separate state-only programs for needy families.

Previous Federal Guidance Limited State Flexibility. The U.S. Department of Health and Human Services (DHHS) issued its first written guidance for the TANF program in January 1997 and later issued proposed regulations in December 1997. Both of these documents had the effect of limiting state flexibility in implementing the TANF program. State flexibility was limited by (1) the way in which DHSS defined the term "assistance," and (2) cautions against the creation of state-only programs. These limitations are explained below.

Definition of Assistance. The definition of assistance is important because a recipient of TANF assistance is subject to all TANF program requirements, including time limits, work participation requirements, and certain child support rules. In both the initial federal guidance and the proposed regulations, the DHHS defined almost all benefits or services funded with TANF funds as assistance. This broad definition meant that almost any recipient of a benefit funded with TANF funds would be subject to TANF rules, including the federal time limits. Thus, under this regulatory approach receipt of services such as child care, or counseling for victims of domestic violence, would require recipients to meet time limits and other TANF requirements.

Limits on State-Only Programs. State TANF programs, such as the CalWORKs program in California, are funded with a combination of TANF federal block grant funds and state MOE funds. (In California, most of the MOE funds are state funds appropriated for the CalWORKs program, but some state funds supporting TANF-eligible families in other programs also qualify.) The federal legislation indicated that if states create separate state-only programs for needy families (funded only with state MOE funds), TANF requirements such as time limits and work participation

would not apply to such programs. The DHHS guidance and proposed regulations, however, threw this provision into question by cautioning that states creating separate state-only programs may not be eligible for federal TANF penalty relief. (We note that the dollars at stake were not insignificant. For example, in FFY 1997, the DHHS used its authority to reduce California's penalty for noncompliance with federal work participation rates by about \$32 million.)

Final Regulations Increase Flexibility. In April 1999, the DHHS released its final TANF regulations. These regulations became effective on October 1, 1999. In comparison to the proposed rules, the final regulations increased state flexibility in several ways as follows.

Narrowing the Definition of Assistance. The term assistance is now defined narrowly. Under the final rules, assistance is generally limited to payments directed at providing for a family's ongoing basic needs. The definition of assistance specifically *excludes* (1) nonrecurring short-term benefits designed to respond to crisis situations lasting less than four months, (2) child care, (3) transportation benefits, (4) work subsidies paid to employers, (5) refundable earned income tax credits, and (6) services such as education and training. Thus, a state can provide such "nonassistance" benefits with TANF or state MOE funds without triggering TANF requirements for the recipients of such benefits.

State-Only Programs Permitted. Prior warnings that the creation of state-only programs might result in a state being ineligible for penalty relief have been dropped. The regulations simply require that states report program information on state-only programs to DHHS.

State Authority to Define Needy. The final regulations affirmed and strengthened state flexibility to define the term "needy." Because most TANF spending is limited to needy families or parents, the definition of needy is important. Under the final regulations, states may set multiple definitions of needy and tailor benefits to the populations falling within each respective definition. For example, the state could set one definition of needy for cash assistance and a "higher" definition of needy to allow for the provision of services, without cash assistance, to working poor families. The final regulations do not establish any income limit on the definition of needy.

Options for Using New Flexibility. Below we identify two types of changes that are permitted by the final regulations. The first category consists of program expansions. These options would require additional resources or redirection of resources within the TANF program. Second, we present certain program changes that do *not* require substantial additional resources.

Generally, the significance of this added flexibility is that it gives the state new options for using federal TANF funds to serve the working poor. Specifically, these funds are now available to support new activities or to replace CalWORKs General Fund support within the Department of Social Services (provided this meets the MOE requirement).

Potential Program Expansions. The expansions discussed below would result in program costs. Although counties were unable to expend all of the TANF funds provided for the CalWORKs program in 1998-99, the Governor's budget projects that these carryover balances will be exhausted by the end of 2000-01. Thus, if the Legislature were to use TANF funds for any of the options presented below, new funding eventually would have to be identified either from redirection within the CalWORKs program or from the General Fund in order to continue the expansions.

- **Expand Child Care for the Working Poor.** Currently, California provides funds for child care to CalWORKs recipients, former CalWORKs recipients, and working poor families that have never received cash assistance. Child care for CalWORKs recipients and former recipients is funded primarily with TANF funds. Child care for non-CalWORKs recipients is funded primarily with state General Fund monies and federal Child Care Development Funds. The final regulations expand the ability for California to use both TANF and state (MOE) funds for non-CalWORKs recipients. To accomplish this, the state TANF plan would have to be amended to establish a category of needy recipient for purposes of child care that is above the level for cash assistance. Under this option, CalWORKs recipients and the working poor could be treated in a more consistent manner.
- **Enact a Refundable Earned Income Tax Credit.** The federal regulations allow states to use TANF or state MOE funds to pay for the *refundable* portion of a state earned income tax credit (EITC), subject to certain restrictions. In this context, "refundable portion" means the portion of any credit that is over and above an individual's tax liability and is refunded to the taxpayer in the form of a check from the taxing authority. The federal regulations provide that TANF and state MOE funds may only be used for the refundable credit that is provided to needy families. States, however, are free to set the definition of needy for a state EITC program at a level higher than for cash assistance. If California were to adopt a refundable state EITC equal to 5 percent of the federal EITC, for example, the revenue loss would be approximately \$220 million, of which about \$205 million would be the refundable portion eligible for TANF or state MOE funding. Research indicates that the federal EITC results in an increase in the

number of people working and an increase in the hours of work for persons earning less than \$750 per month. The research also shows, however, that the EITC discourages work for some workers making more than \$750 per month.

- ***Provide New Services to the Non-CalWORKs Working Poor.*** Because states may establish different definitions of needy, TANF and state MOE funds may be used for programs designed to help working poor families whose incomes are too high to be eligible for cash assistance. In other words, under the new TANF regulations, California could provide services (such as mental health and substance abuse treatment, education, training, and transportation benefits) to working poor families ineligible for CalWORKs cash grants. Such services could help prevent these individuals from subsequently going on CalWORKs. Using this flexibility, the State of Ohio has developed a Prevention, Retention and Contingency (PRC) program to provide services to needy families that are ineligible for cash assistance. Services provided in the PRC program include job preparation, training, transportation, and shelter.

Potential Program Modifications. In contrast to the program *expansions* discussed above, the program changes presented below do not result in significant costs.

- ***Replace Grant Payments for Working Recipients With Work Expense Supplements.*** Those CalWORKs recipients who obtain employment may remain eligible for the program if their earnings are not too high. In these cases, their grant payments generally are relatively small because a portion of their earned income is “disregarded” when calculating the size of their grant. For recipients earning more than the minimum wage and working close to full time, the amount of their monthly CalWORKs grants can be less than \$100. Even though the CalWORKs grant in this situation is modest, the recipients of such grants are subject to the state and federal five-year time limits because they are receiving “assistance.” Under the new TANF regulations, however, states have the option of providing a “work expense supplement” instead of a grant, which would not be considered assistance. Accordingly, if California elected to provide a work expense supplement instead of a modest grant, these working recipients would no longer be subject to the *federal* five-year time limit (which applies to the use of federal funds). Replacing grants of less than \$100 for working recipients with a work expense supplement would have minimal program costs, mostly for administration.

Thus, at relatively little state cost, this policy change would provide certain working recipients additional months of eligibility for *federal* funding.

From the recipient's perspective, however, it is the state rather than the federal time limit that determines the availability of the grant. The federal time limit only affects how the grant is funded. Thus, adding additional months to an individual's federal eligibility would not, by itself, change the grant policy in California (which requires a grant reduction for families that exceed the *state* five-year limit).

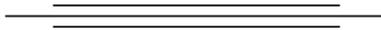
- ***Permit Counties to Expend Performance Incentive Funds on Stage III Child Care.*** Under current law, most of the savings resulting from CalWORKs recipients leaving the program due to employment, and from increased earnings, are redirected by the state to the counties as "performance incentives." For 1998-99, total performance incentives paid to counties were \$433 million. The counties may spend these incentives for CalWORKs program enhancements that are consistent with state and federal law, but they cannot use the incentives to provide child care to recipients who have reached the two-year post-assistance time limit on "transitional" child care.

Families that have reached such time limits may receive publicly subsidized child care to the extent funding is available under the CalWORKs Stage III child care "set aside" or under the child care programs administered by SDE. For 1999-00, the SDE estimates that the amount needed for child care by CalWORKs recipients who have exhausted their two years of transitional benefits will exceed the \$17 million Stage III set-aside budget by \$2 million to \$4 million. We note that the administration intends to address this shortfall in the current year and the Governor's budget fully funds the estimated need for Stage III set-aside child care in 2000-01.

As discussed above, the new federal regulations permit states to use TANF funds or state MOE funds to provide child care for non-CalWORKs recipients (such as recipients who have been off aid for more than two years). Another way of addressing shortfalls in the Stage III set-aside would be to allow counties to use their performance incentive funds on child care for CalWORKs recipients who have exhausted their transitional child care benefits. In order to provide counties with this flexibility, the state TANF plan would have to be amended.

- ***Permit Counties to Use Performance Incentive Funds on Services for the Working Poor.*** In addition to permitting counties to use their performance incentives on Stage III child care, the state TANF plan could be amended to permit counties to provide services to working poor families ineligible for cash assistance.

Conclusion. The final TANF regulations provide the Legislature with significant new flexibility to modify the CalWORKs program. In summary, the state can now use TANF and state MOE funds to provide services to working poor families that are not eligible for CalWORKs cash assistance without triggering TANF requirements such as the federal time limit, work participation requirements, and certain child support rules.



KIN-GAP PROGRAM

The Kin-GAP (Kinship Guardianship Assistance Payment) Program, authorized by Chapter 1055, Statutes of 1998 (SB 1901, McPherson) became effective January 1, 2000. Under the program, a relative caregiver is eligible for a Kin-GAP grant if he or she assumes legal guardianship of a foster child. To qualify, the child must have been in foster care placement with the relative caregiver for over 12 months. Once enrolled in Kin-GAP, the guardian receives a grant, paid at 100 percent of the basic foster care (foster family home) rate. The program is supported by the state General Fund, federal Temporary Assistance for Needy Families (TANF) block grant funds, and county funds.

Enrollment in Kin-GAP Program Not Automatic. Movement to Kin-GAP is not automatic. In order for it to occur, the court must terminate court dependency of the child and the caregiver must assume guardianship of the child.

Budget Overestimates Kin-GAP Caseload in 2000-01

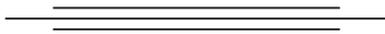
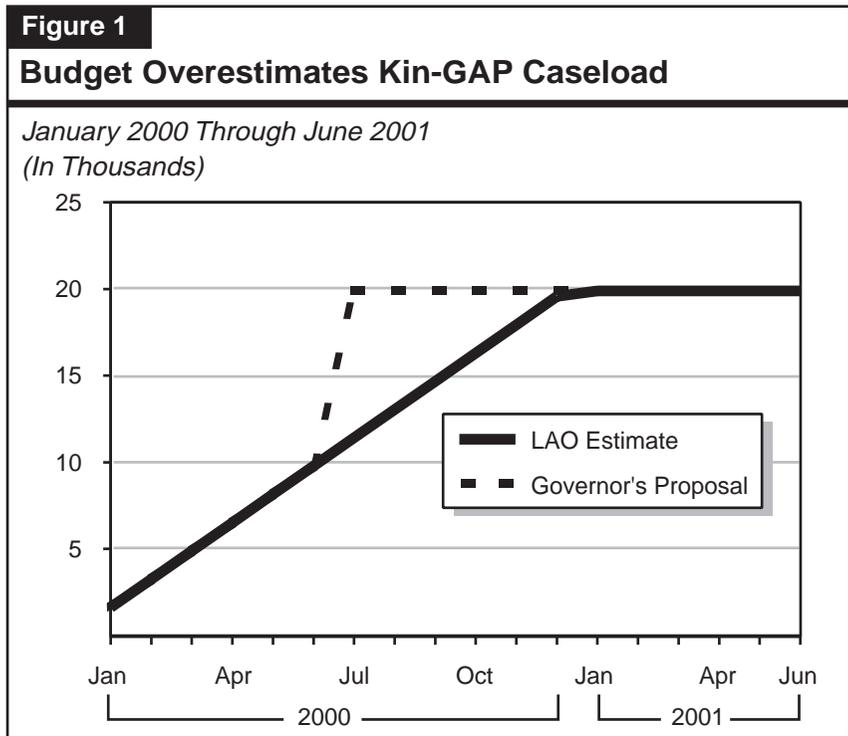
We recommend a General Fund reduction of \$443,000 because the Kinship Guardianship Assistance Payment Program caseload is overestimated. (Reduce Item 5180-101-0001 by \$1,841,000, increase Item 5180-141-0001 by \$273,000, and reduce Item 5180-151-0001 by \$1,125,000.)

The Governor's budget proposes \$109 million (\$28 million General Fund) for the Kin-GAP Program in 2000-01. In addition, the budget reflects savings (\$24 million General Fund) to the foster care and child welfare services programs, associated with termination of juvenile dependency for those children placed in the Kin-GAP Program.

The budget estimates that the Kin-GAP caseload will begin with 1,629 cases in January 2000 and increase by about 1,630 cases each month in the current year, ending with a caseload of 9,783 in June of 2000. The budget projects that the caseload will more than double (to 19,880 cases) in the one-month interval from June to July of 2000 and remain at this "full-implementation" level throughout 2000-01. When comparing the aver-

age monthly caseload in 2000-01 to the average for the six months covered in the current year, the budget projects a 248 percent increase.

The department has provided no policy rationale for the immediate doubling of caseload at the beginning of 2000-01. For this reason, in our caseload projection we maintain the administration's current-year phase-in of 1,630 cases per month, but we assume a continuation of that monthly trend until full implementation (19,880) is reached in January 2001 (See Figure 1). This would result in an increase of 210 percent over the six-month average in 1999-00, reflecting the ramp-up of the program, but less than the increase assumed in the budget. Consequently, we recommend that the budget reflect more steady caseload projections, for a net General Fund savings of \$443,000 in 2000-01.



FOSTER CARE

Children are eligible for grants under the Aid to Families with Dependent Children-Foster Care program if they are living with a foster care provider under (1) a court order or (2) a voluntary agreement between the child's parent and a county welfare or probation department. County welfare departments have the responsibility of placing children in foster homes. Children in the foster care system can be placed in either a foster family home (FFH) or a foster care group home (GH). Both types of foster care provide 24-hour residential care. Foster family homes must be (1) located in the residence of the foster parent(s), (2) provide services to not more than six children, and (3) be either licensed by the Department of Social Services (DSS) or certified by a foster family agency (FFA). Foster care GHs are licensed by the DSS to provide services to seven or more children.

The budget proposes total expenditures of \$1.5 billion (\$389 million General Fund) in 2000-01 for foster care local assistance. This represents a 1 percent (9 percent General Fund) decrease from the current year. The General Fund reduction is due primarily to (1) a one-time 1999-00 expenditure for a federal audit requirement and (2) a shift of KinGAP (Kinship Guardianship Assistance Payment) Program cases from foster care to the California Work Opportunity and Responsibility to Kids (CalWORKs) program in 2000-01.

Budget Overestimates Cost-of-Living Adjustment for Foster Family Agencies

We recommend that proposed spending for the foster care program be reduced by \$792,000 from the General Fund because the budget overestimates the statutory cost-of-living-adjustment for the foster family agencies. (Reduce Item 5180-101-0001 by \$792,000.)

The Governor's budget proposes to provide the statutory cost-of-living adjustment (COLA) to FFAs, effective July 1, 2000. The COLA is based on the change in the California Necessities Index (CNI) from December

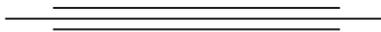
1998 to December 1999. The Governor's budget, which is prepared prior to the release of the December CNI figures, estimates that the CNI will be 3.61 percent, based on partial data, for a total cost of \$15.3 million (\$4.3 million General Fund). Our review of the final data, however, indicates that the CNI will be 2.96 percent. Applying the actual CNI of 2.96 percent reduces the cost of providing the FFA COLA to \$12.5 million (\$3.5 million General Fund). Accordingly, we recommend that the budget be reduced by \$792,000 from the General Fund to reflect these savings.

Budget Does Not Provide COLA for All Foster Care Providers

We recommend a \$12.3 million General Fund augmentation to provide a cost-of-living adjustment (COLA) for the foster family homes and group homes because (1) there is no policy rationale for distinguishing these types of providers from foster family agencies and (2) revenues are sufficient to provide the COLA. (Increase Item 5180-101-0001 by \$12,300,000.)

The budget proposes a COLA to FFAs in 2000-01, but does not provide a COLA to the other foster care providers—FFHs and GHs. The statutory COLA for the FFAs is mandatory. Current law provides the same COLA for FFHs and GHs, but makes them “subject to the availability of funds.” We recommend providing a COLA to FFH and GH providers because (1) there is no policy rationale for distinguishing these types of providers from FFAs, and (2) revenues are sufficient to provide the COLA. With respect to revenues, we note that we are projecting that General Fund revenues will be significantly higher than estimated in the budget, over the two-year period in 1999-00 and 2000-01. (Please see *The 2000-01 Budget: Perspectives and Issues*.)

The cost of providing the 2000-01 FFH and GH COLA of 2.96 percent is \$12.3 million from the General Fund (\$40.6 million all funds). We note that this amount includes COLAs for Adoption Assistance, Emergency Assistance, and KinGAP, whose rates are based on FFH rates.



FOOD STAMPS PROGRAM

The Food Stamps Program provides food stamps to low-income persons. With the exception of the state-only program (discussed below), the cost of the food stamp coupons is borne by the federal government (\$1.6 billion). Administrative costs are shared between the federal government (43 percent), the state (42 percent), and the counties (15 percent).

California Food Assistance Program

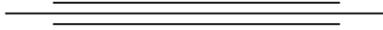
Federal Restrictions on Benefits for Noncitizens. With respect to non-citizens, current federal law generally limits food stamps benefits to legal noncitizens who immigrated to the U.S. prior to August 1996 and are under age 18 or over the age of 64.

State Program for Noncitizens. Created in 1997, the California Food Assistance Program (CFAP) provides state-only funded food stamps benefits to (1) pre-August 1996 legal immigrants who are ineligible for federal benefits (generally individuals age 18 through 64), and (2) a very limited number of post-August 1996 legal immigrants whose sponsors are dead, disabled, or abusive. The CFAP purchases food stamp coupons from the federal government and distributes them to eligible recipients. Adult recipients are subject to a specified work requirement.

Under prior law, the program was to sunset on June 30, 2000. Chapter 147, Statutes of 1999 (1) extended the sunset indefinitely and (2) significantly expanded eligibility, from October 1999 through September 2000, to legal immigrants who arrived after August 1996.

Budget Proposal. For 2000-01, the average monthly caseload for CFAP is estimated to be 85,000 persons. The budget proposes an appropriation of \$52 million from the General Fund for coupon purchases and an additional \$3 million for administration in 2000-01. This is a decrease of \$8 million from estimated expenditures in 1999-00, mostly attributable to nearly all of the post-1996 immigrants on CFAP losing their eligibility effective October 1, 2000, pursuant to current law.

We note that \$39 million of the proposed expenditure for 2000-01 counts towards meeting the federal maintenance-of-effort requirement for the California Work Opportunity and Responsibility to Kids program. We also note that the cost of extending eligibility for the approximately 13,000 post-August 1996 immigrants added temporarily by Chapter 147 would be approximately \$6.1 million in 2000-01 (October 2000 through June 2001) and \$8.1 million annually thereafter.



SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PROGRAM

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The budget proposes an appropriation of \$2.6 billion from the General Fund for the state's share of the SSI/SSP in 2000-01. This is an increase of \$137 million, or 5.5 percent, over estimated current-year expenditures. This increase is due primarily to the full-year cost of grant increases provided in the current year, caseload growth, the cost-of-living adjustment (COLA) to be provided in January 2001, and an increase in the federal administrative fee.

In December 1999, there were 328,998 aged, 21,813 blind, and 707,051 disabled SSI/SSP recipients. In addition to these federally eligible recipients, the state-only Cash Assistance Program for Immigrants (CAPI) is estimated to provide benefits to about 8,900 legal immigrants in December 1999.

Budget Overestimates Cost of Providing Statutory COLA

We recommend reducing the General Fund amount budgeted for the state portion of Supplemental Security Income/State Supplementary Program grants by \$6.6 million because the cost of providing the statutory cost-of-living adjustment is overestimated. (Reduce Item 5180-111-0001 by \$6,600,000.)

Background. Pursuant to current law, the Governor's budget proposes to provide the statutory COLA in January 2001. The state COLA is based on the California Necessities Index (CNI) and is applied to the combined SSI/SSP grant. It is funded by both the federal and state governments. The federal portion is the federal COLA (based on the Consumer Price Index for Urban Wage Earners and Clerical Workers, or the CPI-W) that is applied annually to the SSI portion of the grant. The remaining amount needed to cover the state COLA is funded with state monies. Based on its

assumptions concerning both the CNI and CPI-W, the budget includes \$55.1 million for providing the statutory COLA for six months, effective January 2001.

The CNI Has Been Revised. The January 2001 COLA is based on the change in the CNI from December 1998 to December 1999. The Governor's budget, which is prepared prior to the release of the December CNI figures, estimates that the CNI will be 3.61 percent, based on partial data. Our review of the actual data, however, indicates that the CNI will be 2.96 percent.

The CPI Is Overestimated. The January 2001 federal SSI COLA will be based on the change in the CPI-W from the third quarter of calendar 1999 to the third quarter of calendar 2000. The Governor's budget estimates that the change in the CPI-W for this period will be 3.2 percent. Based on our review of the consensus economic forecasts for 2000, we estimate that the CPI-W will be 2.5 percent. This reduction in the CPI-W (compared to the Governor's budget) raises the state cost of providing the statutory COLA because it effectively reduces federal financial participation toward the cost of the state COLA, which is applied to the entire grant.

Cost of Providing COLA Is Overestimated. Taken together, the changes in CNI and CPI-W (in relation to the Governor's budget) reduce the General Fund cost of providing the statutory COLA by approximately \$6.6 million. Accordingly, we recommend that the budget be reduced to reflect these savings.

Supplemental Security Income/ State Supplementary Program Grant Levels

Figure 1 (see next page) shows SSI/SSP grants on January 1, 2001 for both individuals and couples as displayed in the Governor's budget and adjusted to reflect the actual CNI and the Legislative Analyst's Office estimate of the CPI-W. As the figure indicates, grants for individuals will increase by \$20 to a total of \$712 per month, and grants for couples will increase by \$36 to a total of \$1,265. As a point of reference we note that the federal poverty guideline for 1999 is \$687 per month for an individual and \$922 per month for a couple. Thus, the grant for an individual would be 3.7 percent above the 1999 poverty guideline and the grant for a couple would be 37 percent above the guideline. (We note that the poverty guidelines are adjusted for inflation annually.)

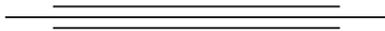
Figure 1

**SSI/SSP Maximum Monthly Grants
Governor's Budget and LAO Projections**

January 2000 and January 2001

Recipient Category	January 2000	January 2001		LAO Projection Change From 2000	
		Governor's Budget	LAO Projection ^a	Amount	Percent
Individuals					
SSI	\$512	\$529	\$525	\$13	2.5%
SSP	180	188	187	7	3.9
Totals	\$692	\$717	\$712	\$20	2.9%
Couples					
SSI	\$769	\$793	\$788	\$19	2.5%
SSP	460	480	477	17	3.7
Totals	\$1,229	\$1,273	\$1,265	\$36	2.9%

^a Based on actual California Necessities Index increase (2.96 percent) and projected U.S. Consumer Price Index increase (2.5 percent).



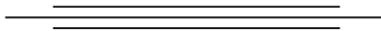
CHILD WELFARE SERVICES

The Child Welfare Services (CWS) program provides services to abused and neglected children and children in foster care, and their families. The CWS program provides:

- Immediate social worker response to allegations of child abuse and neglect.
- Ongoing services to children and their families who have been identified as victims, or potential victims, of abuse and neglect.
- Services to children in foster care who have been temporarily or permanently removed from their families because of abuse or neglect.

Child Welfare Services Case Management System

For a discussion of this issue, please see our review of the “Health and Human Services Agency Data Center” in the General Government chapter of this *Analysis*.



COMMUNITY CARE LICENSING

The Community Care Licensing Division (CCLD) develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. Licensed facilities include child care; foster family and group homes; adult residential facilities; and residential facilities for the elderly. The Governor's budget proposes expenditures of \$117 million (\$46 million General Fund) for the CCLD in 2000-01. This represents a 17 percent increase in General Fund expenditures from the current year. This increase is primarily due to a proposal of \$5 million from the General Fund for the Child Care Safety Initiative.

Need More Information on Child Care Safety Initiative

We withhold recommendation on the Child Care Safety Initiative, pending receipt of additional information supporting the budget proposal.

The Governor's budget proposes a one-time \$5 million General Fund augmentation in 2000-01 for the Child Care Safety Initiative. These funds would be used to distribute informational material to 13,000 child care centers and to train 10,000 child care center staff. The materials would include a guide to evaluate the security of facilities. The training would address how to reduce the threat of traumatic events and how to counsel families coping with the stress and trauma associated with violence, earthquakes, and fires. Of the \$5 million proposal, \$3.4 million would be used to provide the training while \$1.6 million would be used to produce and distribute supporting material.

We have requested information from the department on how the costs of the training and materials were estimated. At the time this analysis was prepared, we had not received sufficient information to determine if the proposal is funded appropriately. Consequently, we withhold recommendation on the Child Care Safety Initiative, pending receipt of additional information supporting the budget proposal.

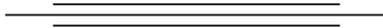
Positions Exceed Estimated Need

We recommend elimination of four community care licensing positions, for a General Fund savings of \$230,000, because the positions are not needed according to the department's formula for determining ongoing workload needs. (Reduce Item 5180-001-0001 by \$230,000.)

As part of its annual budget for community care licensing, the department uses a caseload-driven formula for determining the number of positions needed to accommodate the ongoing licensing workload. This component of the budget proposal—referred to as the “Program Growth” budget change proposal—is distinct from the 46 positions (18 new and 28 continuing) being requested to address specific needs identified separately by the department.

The formula for the Program Growth component shows that the number of positions needed by the department is approximately four positions *less* than the number currently authorized (consisting of 2.7 licensing program analysts, 0.4 supervisors, and 1 clerical). The budget, however, does not propose to eliminate these positions.

While this is a relatively small number of positions compared to the base of about 490 positions, we believe that it would be appropriate to follow the formula. Accordingly, we recommend elimination of the four positions, which would result in a General Fund savings of \$230,000 in 2000-01.



FINDINGS AND RECOMMENDATIONS

Health and Social Services

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Crosscutting Issues

Aging with Dignity Initiative

- C-21 ■ **Long-Term Care Tax Credit Unlikely to Be An Efficient Or Effective Incentive.** The proposed \$500 long-term care tax credit (1) is unlikely to be a means of effectively targeting a significant subsidy to many taxpayers who currently provide in-home long-term care or to provide a significant incentive for many families or individuals to provide this type of care; (2) has an inherent potential for higher-than-intended costs because its eligibility qualifications will be difficult to enforce; and (3) will have its impact diluted by increasing federal tax liabilities. We recommend that the Legislature consider alternative means of helping seniors and disabled persons to remain in their homes or the community, such as further expansion of Medi-Cal coverage for seniors and the disabled.
- C-23 ■ **Expanding Medi-Cal Coverage for Seniors and the Disabled.** Recommend that the Legislature consider expanding Medi-Cal coverage for seniors and the disabled as an alternative to the long-term care tax credit proposed in the budget because expanding Medi-Cal coverage has the potential for more effectively targeting state assistance to individuals and families with the greatest needs and would enable the state to leverage federal funds.
- C-27 ■ **Need Additional Information on Department of Aging Components.** Withhold recommendation on \$22 million proposed for three program components, pending receipt of additional information.

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- C-27 ■ **Caregiver Training, Retention, and Recruitment.** Withhold recommendation on the proposal to establish a caregiver training, recruitment, and retention program, pending receipt of additional justification.

- C-28 ■ **Medi-Cal Rate Increase for “Distinct Part” Nursing Facilities Not Justified. Reduce Item 4260-101-0001 by \$2,558,000.** Recommend reduction of \$2.6 million to delete funding for wage pass-throughs for “distinct part” nursing facilities because these facilities currently receive much higher rates than other nursing homes for similar care.

- C-28 ■ **More Developed Proposal for Quality Awards Needed.** Withhold recommendation on \$10 million (\$8 million General Fund) requested for nursing home quality awards, pending a specific proposal that describes the criteria for (1) awarding grants and determining their amount, and (2) the use of the funds by awardees.

- C-28 ■ **Nursing Home Inspection and Enforcement Staff Requests Overbudgeted. Reduce Item 4260-001-0001 by \$584,000.** Recommend General Fund reduction of \$584,000 and 16 positions to eliminate overbudgeting for increased unannounced inspections. Withhold recommendation on a total of \$11.2 million (\$6 million General Fund) and 106 positions requested for improving nursing home regulation and enforcement pending receipt of specific workload information, including how much of that workload could be addressed by filling currently authorized, but vacant, positions.

- C-30 ■ **Increase In Bed Licensing Fee Would Reduce General Fund.** Recommend an increase in the per-bed nursing home licensing fee for 2000-01 in order to adjust fee revenues to the amount needed to fully fund additional enforcement and regulatory staff approved in the budget for a potential General Fund savings of up to \$10.5 million.

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Child Care

- C-32 ■ **Child Care for CalWORKs Families and the Working Poor.** Recommend enactment of legislation to conduct a pilot test of the Wisconsin-style child care program in up to four counties in California.

Emergency Medical Services Authority

- C-41 ■ **Ease Statutory Requirement and Restore Fund Reserve.** Recommend legislation to reduce from 25 percent to 5 percent the statutory requirement for the Emergency Medical Services (EMS) Personnel Fund. Further recommend that the Emergency Medical Services Authority provide a fiscal plan for the EMS Personnel Fund.

Department of Alcohol and Drug Programs

- C-45 ■ **Excess Special Fund Revenues Should Be Used to Reduce Fees.** Recommend adoption of budget bill language requiring the department to implement a fee reduction for Driving-Under-the-Influence program provider licenses, because the program fund's year-end balance is sufficiently high to support reduced fees.
- C-47 ■ **Excess Special Fund Revenues Should Be Transferred to Fund. Increase General Fund Revenues by \$206,000.** Recommend adoption of budget bill language to transfer the amount of the year-end balance in excess of \$20,000 from the Audit Repayment Trust Fund to the General Fund, because a balance of \$20,000 would constitute a prudent reserve and it is appropriate to return these repayment revenues to their original source, the General Fund.
- C-48 ■ **Department Should Report on Medicaid Rehabilitation Option.** Recommend that the department advise the Legislature on the status of the statutorily required report on the programmatic and fiscal implications of adopting the Medicaid rehabilitation option under the Medi-Cal Drug Treatment Program (Drug Medi-Cal [D/MC]) and its recommendations regarding adoption of the option.

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- C-48 ■ **Statewide Strategic Plan Needed to Address Gap in Substance Abuse Treatment.** Recommend adoption of budget bill language requiring the department to submit by December 1, 2000 a statewide strategic plan to address the need for substance abuse treatment, including an adolescent component and consideration of expanding benefits under the Healthy Families Program and D/MC.

California Children and Families Commission

- C-54 ■ **Establish a State-Funded Voluntary Matching Grant Program for the Proposition 10 County Commissions.** Recommend legislation to create a state-funded matching grant program which would fund (1) early childhood programs that have been shown to be cost-effective and/or (2) demonstration programs that are potentially cost-effective, based on existing research.

Department of Health Services State Operations

- C-56 ■ **Vacant Positions Should Be Filled Before Adding New Positions.** In addition to specific recommendations regarding individual staffing requests, we withhold recommendation generally on all of the department's proposals to increase staffing (which result in a net increase of 557 positions in 2000-01) because the department's large number of unfilled existing positions calls into question the need for the requested staffing increases. We recommend that the department evaluate its staffing vacancies in order to identify workload that can be met by filling existing positions instead of adding new positions and funding, and report the results of this review to the budget committees.
- C-57 ■ **Salary Savings Estimate Should Be Realistic.** Recommend that DHS prepare, for the budget committees, a realistic hiring plan for its revised staffing needs and a revised salary savings estimate for 2000-01 that is consistent with that plan, in order to avoid budgeting funds that are not likely to be spent.

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- C-58 ■ **Employer Retirement Contribution Overbudgeted.** Recommend reducing the amount budgeted for employer retirement contributions to the correct amounts for proposed new positions in 2000-01, for a total savings of \$1.1 million (\$442,000 General Fund, \$158,000 special funds, \$501,000 federal funds, and \$27,000 reimbursements), subject to adjustment for other budget actions affecting these proposals.
- C-59 ■ **Medi-Cal Fraud and Fiscal Integrity Initiative—More Information Needed.** Withhold recommendation on \$26.2 million (\$10 million General Fund) and 255 positions requested for the Governor’s Medi-Cal Fraud and Fiscal Integrity Initiative pending further analysis of the proposal and receipt of additional information from the department regarding (1) the potential use of existing vacant positions to address identified workload and (2) more specific workload justification that relates staffing requests to specific goals and outcomes and recognizes the interactive effects of the components of the Governor’s initiative.

Medi-Cal

- C-79 ■ **Caseload Estimate Probably Too High But Clouded by Uncertainty.** We find that the budget’s estimate for the Medi-Cal caseload of families and children is likely to be too high, based on current trends. General Fund caseload savings could total as much as \$150 million through 2000-01. However, a number of factors currently add considerable uncertainty to Medi-Cal caseload projections. Accordingly, we will monitor caseload trends and recommend appropriate adjustments at the time of the May revision to the Governor’s budget.
- C-81 ■ **Legislative Notification Not Provided for Medi-Cal Deficiency.** We find that the Department of Finance (DOF) did not provide the Legislature with notification of the 1999-00 Medi-Cal deficiency as required by Section 27.00 of the *1999-00 Budget Act*.
- C-83 ■ **Departments Should Identify Funding Needed for Potential Managed Care Rate Increases.** Recommend that the DOF and the Department of Health Services report at budget hearing on

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(1) their plans for considering Medi-Cal managed care rate increases in 2000-01 and (2) the potential amount of additional funding needed in 2000-01 for those rate increases.

- C-84 ■ **Antifraud Efforts Starting to Pay Off. Reduce Item 4260-101-0001 by \$19.1 Million.** Recommend General Fund reduction in 2000-01 (and reduction of \$6.8 million in 1999-00) because recent payment data indicate that savings from the department's efforts to prevent Medi-Cal provider fraud are greater than the savings anticipated in the budget.
- C-85 ■ **Reduce Disproportionate Share Hospital (DSH) Takeout Or Increase Rates?** Withhold recommendation on a proposed General Fund augmentation of \$30 million to reduce the state "takeout" from DSH funding and to increase Medi-Cal provider rates, pending receipt of a specific proposal for the use of the funds.
- C-86 ■ **Federal Government Will Pay for Hepatitis A Vaccine. Reduce Item 4260-101-0001 by \$4,588,000.** Recommend General Fund reduction of \$2.9 million in 1999-00 and \$4.6 million in 2000-01 because the state will receive Hepatitis A vaccine for children enrolled in Medi-Cal at no cost through the federal Vaccines for Children Program.
- C-87 ■ **"Panorama View" Is Nice, But Not Enough.** Recommend that the department report during budget hearings regarding when and how it intends to provide certain legislative committees with access to the DataScan component of the Medi-Cal Management Information System/Decision Support System, as required by existing law.

Public Health

- C-93 ■ **Change the Department's Immunization Information System Procurement Strategy.** Recommend budget bill language requiring the department to submit an Alternative Procurement Business Justification for the statewide immunization system, in which the department's procurement strategy would be based on desired program outcomes rather than technical specifications.

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- C-94 ■ **Encourage Coordination of Regional Registry Development.** Recommend budget bill language directing the department to require the inclusion of “project charters” in grant applications from counties that are developing regional registries, in order to facilitate regional cooperation and coordination in these efforts.
- C-95 ■ **Ensure State Oversight of All Local Registries.** Recommend legislation requiring any local registry that chooses to participate in the statewide immunization system to comply with the state’s guidelines for local registry development.
- C-96 ■ **Assure Provider Participation in a Statewide Immunization Registry.** Recommend legislation requiring all immunization providers to participate in local registries, or in the statewide registry if the county in which the provider is located chooses not to develop a local registry.
- C-97 ■ **Provide a State Match for Registries’ Ongoing Costs.** Recommend legislation to provide a state match for local registries’ ongoing costs, effective 2001-02, in order to encourage the continuation of local participation in the statewide immunization system.
- C-98 ■ **Obtain Funding Sources for a Statewide Immunization Registry.** Recommend legislation requiring the department to apply for federal matching funds, under the Medi-Cal and Healthy Families Programs, for the development and operation of the statewide immunization information system.
- C-99 ■ **Proposition 99 Revenues Declining Slightly.** The budget projects that Proposition 99 revenues will decrease by 1 percent in 1999-00 and 1.7 percent in 2000-01. Using additional resources from carry-over balances from 1999-00 and the budget’s proposed release of \$12 million from litigation reserves, the budget proposes to meet the demands of caseload-driven programs and augment certain activities, particularly the statewide media campaign and emergency room physician services for uninsured individuals.

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- C-102 ■ **Budget Proposes to Permanently Eliminate General Fund Support for County Medical Services Program (CMSP).** Recommend adopting trailer bill legislation that suspends the state's General Fund allocation of \$20.2 million for CMSP for 2000-01, rather than permanently eliminating the appropriation as proposed by the Governor.
- C-105 ■ **Budget Does Not Maximize Federal Grant for Drinking Water Loan Fund.** The budget's proposal to appropriate \$15.4 million from the General Fund for the Safe Drinking Water State Revolving Fund does not maximize receipt of federal funds that are available. Passage of a water bond measure on the March 2000 ballot would replace this General Fund appropriation and could maximize federal funds. We withhold recommendation pending the results of the March election.
- C-106 ■ **Budget Proposes to Extend Community Challenge Grant Program and Use Federal Funds.** The budget proposes to extend the Community Challenge Grant Program for one year, using a \$20 million federal award allocated to California for reducing its out-of-wedlock birth rates in 1997. The final report of the program evaluation, due January 1, 1999, had not been submitted at the time of this analysis, but should be available prior to budget hearings.
- C-107 ■ **Some Local California Children's Services (CCS) Programs Not Complying With Statutory Requirement.** Current law requires that all CCS claims be submitted to the state fiscal intermediary for payment no later than January 1, 1999. We recommend that the department report, at budget hearings, on the reasons that ten counties are not in compliance, and present a plan for ensuring their cooperation.

Managed Risk Medical Insurance Board

- C-110 ■ **Budget Underestimates Enrollment in Current Year.** We estimate that the program's caseload at year's end will be 11 percent greater than the budget estimates, with an additional cost of \$3.3 million (\$1.1 million General Fund).

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- C-111 ■ **No Policy Rationale for Excluding Some Legal Immigrants. Increase Item 4280-101-0001 by \$2,365,920.** The budget proposes to extend, for one year, Healthy Families eligibility for legal immigrant children who entered the U.S. after August 22, 1996 and who enrolled in the program in the current year. We see no policy rationale for excluding certain legal immigrants solely on the basis that they did not enroll in the program in the current year.
- C-112 ■ **Technical Error Overbudgets \$3 million from the General Fund. Reduce Item 4280-101-0001 by \$2,946,470.** Recommend a technical correction to the budget.
- C-113 ■ **Caseload Overestimated for Current Year.** Recommend reducing the budget's estimated level of spending for the Access for Infants and Mothers Program in the current year by \$1.3 million, for a corresponding savings to the Perinatal Insurance Fund (Proposition 99), to reflect more realistic caseload changes.
- C-114 ■ **Program Underbudgeted for Current Year Due to Unpaid Claims.** The budget does not account for \$2.2 million in unpaid claims that the board must pay in 1999-00. We recommend that the board present, at budget hearings, a fiscal plan for satisfying this obligation without jeopardizing the Perinatal Insurance Fund's reserve.

Department of Developmental Services

- C-116 ■ **Statutorily Required Rate-Setting Methodologies Still Not Established.** Recommend that the department report on the status of the development of rate-setting methodologies for residential, day program, and supported living services. Withhold recommendation on the department's related \$1.1 million request for contract services, pending receipt of additional information on the scope and costs of the proposed contracts.
- C-118 ■ **Costs Of Southern California Facility Uncertain.** Withhold recommendation on the department's request for \$13.2 million (\$9.1 million General Fund, including Medi-Cal reim-

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bursements) for the lease and development of a facility to serve individuals with severe behavioral problems, pending an update on the department's progress in finding a site.

Department of Mental Health

- C-120 ■ **Funding for Americans with Disabilities Act (ADA) Projects Should Be Requested as Capital Outlay Proposal. Reduce Item 4440-011-0001 by \$5.6 million.** Recommend reduction because proposed ADA compliance projects should be considered capital outlay projects, and should be resubmitted as a capital outlay budget change proposal.
- C-122 ■ **Equipment Request Is Premature. Reduce Item 4440-011-0001 by \$845,000.** Recommend reduction because the equipment request for the new administration building at Metropolitan State Hospital should be made with the 2001-02 budget request.
- C-122 ■ **Decision on Mentally Ill Homeless Pilot Projects Should Await Evaluation Review.** Withhold recommendation on \$20 million proposed for the continuation and expansion of mentally ill homeless pilot projects, pending review of the statutorily required report due May 1, 2000. Further recommend that, if the Legislature does approve funding to expand the pilot projects to other counties, at least one of the new pilots be targeted primarily to parolees.

Employment Development Department

- C-123 ■ **Proposed Disability Insurance Tax Rate Does Not Meet Statutory Requirement.** Without a rate increase, the Disability Insurance Fund will develop an estimated deficit of \$278 million by December 2000. The budget proposes to increase the disability insurance tax rate, but the rate would still be below the level required by current law.

Analysis**Page****Department of Rehabilitation**

- C-126 ■ **Funding for Statutory Rate Increase Will Be Prepared in May.** Preliminary estimates project a General Fund cost of \$7 million in 2000-01.
- C-127 ■ **Caseload Projections May Be Underbudgeted.** Recent trends indicate that the Work Activity Program and Supported Employment Program caseloads may result in increased General Fund expenditures of \$6.1 million.
- C-129 ■ **High Vacancy Rates Reduce Accountability.** Recommend the department submit a staffing plan that either (1) identifies and proposes to eliminate 150 of the Field Operations Division's 240 vacant authorized positions in order to reflect actual staffing patterns, or (2) proposes funding to fill the positions.

Department of Child Support Services

- C-132 ■ **Administration Division is Overbudgeted. Reduce Item 5175-001-0001 by \$125,000 and Item 5180-001-0001 by \$95,000.** Recommend deletion of five proposed new positions from the Administration Division of Department of Child Support Services (DCSS); conversion of five proposed permanent positions in this division to limited term; and transfer of four positions, in addition to the 13.5 transfer positions proposed, from the Department of Social Services to the DCSS.
- C-136 ■ **Local Assistance Allocations Should Be Based On County Cost-Effectiveness. Increase Item 5175-101-0001 by \$5 million.** Recommend (1) a \$5 million General Fund augmentation for local assistance in 2000-01, to be allocated to local agencies on the basis of county cost-effectiveness (ratio of historical increases in collections to increases in costs) and (2) legislation requiring the department to include marginal cost-effectiveness as a criterion in the allocation of all funds to local agencies.

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Department of Social Services CalWORKs Program

- C-141 ■ **Impact of Maintenance-of-Effort (MOE) Requirement.** Because the Governor's budget proposes to expend all available federal block grant funds and the minimum amount of General Fund monies required by federal law, any net augmentation will result in General Fund costs and any net reductions will result in savings in federal block grant funds (which would be retained by the state).
- C-141 ■ **Caseload Projection is Overstated. Reduce Item 5180-101-0890 by \$34,900,000.** Recommend reducing proposed spending for California Work Opportunity and Responsibility to Kids (CalWORKs) grants by \$66 million in 1999-00 and \$35 million in 2000-01 because the caseload is overstated.
- C-143 ■ **Budget Overestimates Cost of Providing Statutory Cost-of-Living Adjustment (COLA). Reduce Item 5180-01-0890 by \$20,000,000.** Recommend reducing proposed spending for CalWORKs grants by \$20 million because the cost of providing the statutory COLA will be lower than estimated in the budget.
- C-144 ■ **Budget Underestimates Savings from Imposition of Sanctions. Reduce Item 5180-101-0890 by \$30,095,000.** Recommend reducing proposed spending for CalWORKs grants by \$32 million in 1999-00 and \$30.1 million in 2000-01 (federal Temporary Assistance for Needy Families [TANF] funds) because grant savings from the imposition of sanctions on CalWORKs recipients are underestimated.
- C-145 ■ **Count Spending on Health Care Programs for Recent Legal Immigrants Toward Maintenance-of-Effort (MOE) Requirement. Reduce Item 5180-101-0001 by \$49,900,000 and increase Item 5180-101-0890 by \$49,900,000.** Recommend that the Department of Social Services count \$49.9 million in General Fund expenditures for health care for recent legal immigrants towards the CalWORKs MOE requirement. This action results in a \$49.9 million General Fund savings by replacing General Fund expenditures for CalWORKs grants with an identical amount of federal TANF funds.

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- C-146 ■ **Budget Should Reflect Award of High Performance Bonus Funds.** Recommend a technical adjustment in the TANF fund balance to reflect the December 1999 award of \$45.5 million in federal High Performance Bonus funds.
- C-147 ■ **Withhold Recommendation on Budget for Employment Services.** Withhold recommendation on proposed budget for employment services (\$884 million General Fund and federal TANF funds) because the new methodology for budgeting employment service was not completed in time for inclusion in the Governor's budget.
- C-148 ■ **Budget Proposes to Prohibit Counties from Earning Additional Performance Incentives.** Recommend either repealing the performance incentive provision or replacing it with a new system that would (1) be funded with General Fund monies that the counties could use for any purpose and (2) tie the amount of incentive payments to improvement in the CalWORKs program.
- C-151 ■ **The CalWORKs Community Service Law Needs Clarification.** Recommend legislation to clarify conflicting provisions of current law so that counties will have the option of providing wage-based community service jobs for CalWORKs recipients.
- C-153 ■ **The CalWORKs Child Care Program.** The Governor's budget fully funds the estimated need for CalWORKs child care, plus a reserve of \$81 million. The budget proposal includes an increase of \$85 million for the Stage 3 "set-aside" designed to serve families who have reached their two-year post-assistance time limit. We summarize the CalWORKs child care program.
- C-156 ■ **County Probation Departments Should Report Juvenile Justice Data.** Recommend adoption of budget bill language requiring county probation offices to report specified data on juveniles to Department of Justice in order to receive funding for county probation facilities.

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- C-157 ■ **The TANF Regulations Increase State Flexibility to Service the Working Poor.** The final federal TANF regulations increase state flexibility to serve working poor families that are not eligible for the California Work Opportunity and Responsibility to Kids program. We summarize the TANF regulations and present some options for program changes permitted by the regulations.

Kinship Guardianship Assistance Payment Program

- C-164 ■ **Budget Overestimates Kinship Guardianship Assistance Payment (Kin-GAP) Caseload in 2000-01. Reduce Item 5180-101-0001 by \$1,841,000, increase Item 5180-141-0001 by \$273,000, and increase Item 5180-151-0001 by \$1,125,000.** Recommend a General Fund reduction of \$443,000 because the Kin-GAP Program caseload is overestimated.

Foster Care

- C-166 ■ **Foster Family Agencies (FFAs) Cost-of-Living Adjustment (COLA) Overestimated. Reduce Item 5180-101-0001 by \$792,000.** Recommend reduction based on more recent data, for a General Fund savings of \$792,000.
- C-167 ■ **Budget Does Not Provide COLA for All Foster Care Providers. Increase Item 5180-101-0001 by \$12,300,000.** Recommend a \$12.3 million General Fund augmentation to provide a COLA for the foster family homes and group homes because (1) there is no policy rationale for distinguishing these types of providers from FFAs and (2) revenues are sufficient to provide the COLA.

Supplemental Security Income/ State Supplementary Program

- C-170 ■ **Budget Overestimates Cost of Providing Statutory Cost-of-Living Adjustment (COLA). Reduce Item 5180-111-0001 by \$6,600,000.** Recommend reducing General Fund amount for the statutory Supplemental Security Income/State

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Supplementary Program COLA by \$6.6 million because the cost of providing the COLA is overestimated.

Community Care Licensing Division

- C-174 ■ **Need More Information on Child Care Safety Initiative.** Withhold recommendation on the Child Care Safety Initiative, pending receipt of additional information supporting the budget proposal.

- C-175 ■ **Positions Exceed Estimated Need. Reduce Item 5180-001-0001 by \$230,000.** Recommend elimination of four community care licensing positions, for a General Fund savings of \$230,000, because the positions are not needed according to the department's formula for determining ongoing workload needs.

