Senate Budget and Fiscal Review

Subcommittee No. 3 2002 Agendas

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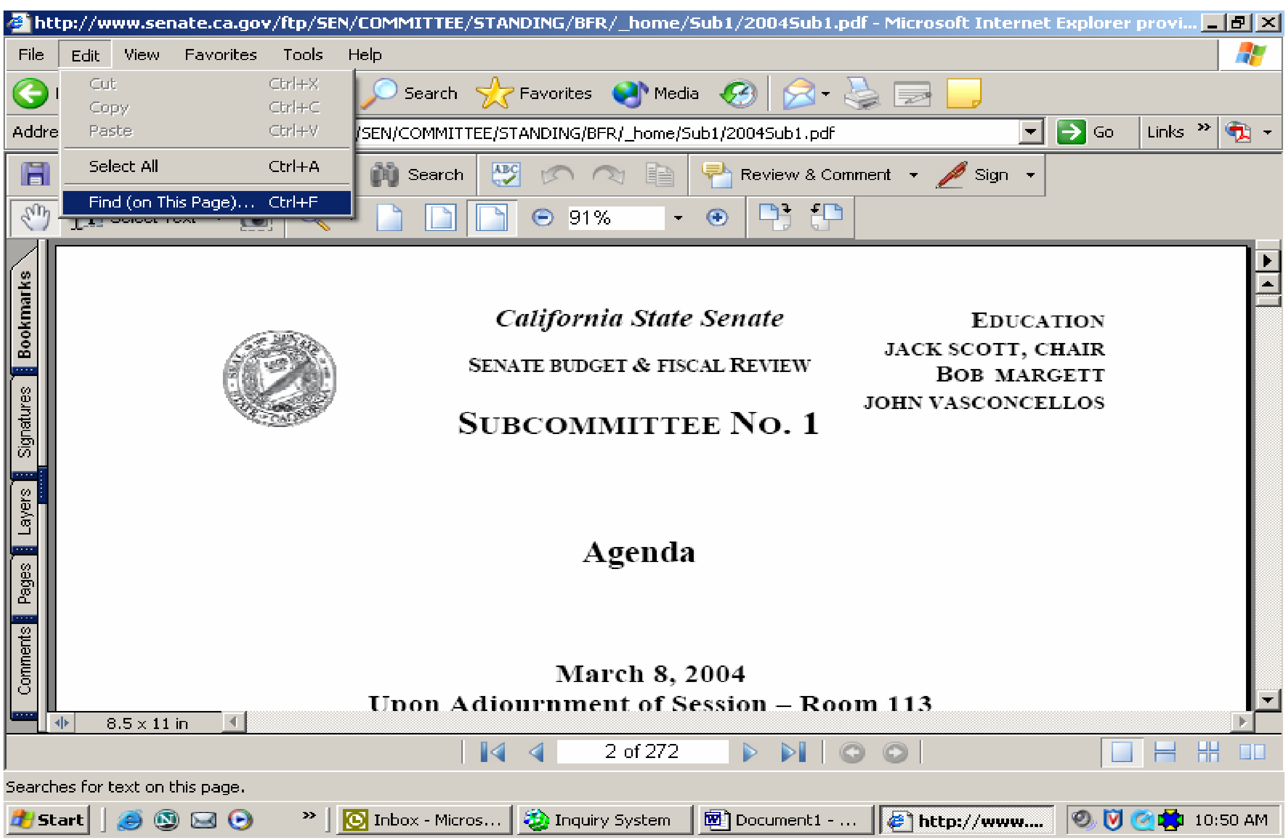

Senate Budget and Fiscal Review Committee

Governor's Budget:
A Compendium of the Subcommittee Analyses
March 2002 through May 2002

Volume 3

Health

Social Services

Labor

(Note: to select page,place cursor over page number)

Index

Index

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

March 11, 2002
Upon Adjournment of Senate Session
ROOM 112

(Diane Van Maren, Consultant)

Item ***Description***

4280 **Managed Risk Medical Insurance Board, including**

- Healthy Families Children's Program
- Healthy Families Parent Waiver
- Rural Health Demonstration Program
- Health-e-App

4260 **Department of Health Services—Selected Medi-Cal Issues, including**

- Asset Test
- Medi-Cal/Healthy Families Outreach
- Express Lane Eligibility
- Single Point of Entry
- Outstationing

I. 4280 MANAGED RISK MEDICAL INSURANCE BOARD (MRMIB)

A. Background on the MRMIB

Purpose and Description

The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health coverage through private health plans to certain groups without health insurance. The MRMIB administers the **(1)** Healthy Families Program, **(2)** Major Risk Medical Insurance Program, and **(3)** Access for Infants and Mothers (AIM).

Total Proposed Governor's Budget

The budget proposes total expenditures of $777.4 million ($1.8 million General Fund, $248.8 million Tobacco Settlement Fund, and $526.8 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. Of this amount, $7.2 million is for state operations and $770.2 million is for local assistance.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
Program Source				
Major Risk Medical Insurance (including state support)	$45,011	$40,010	($5,001)	(11.1)
Access for Infants & Mother (including state support)	$71,932	$80,408	$8,476	11.8
Healthy Families Program (including state support)	**$556,231**	**$656,962**	**$100,731**	**18.1**
Totals, Program Source	$673,174	$777,380	$104,206	15.5
General Fund	$155,141	$1,777	($153,364)	(98.8)
Federal Funds	$342,926	$401,735	$58,809	17.1
Tobacco Settlement Fund	$55,272	$248,792	$193,520	350.0
Other Funds	$119,835	$125,076	$5,241	4.4
Total Funds	$673,174	$777,380	$104,206	15.5

A. ITEMS FOR DISCUSSION

1. Update on *Current Year* Enrollment of Children in Healthy Families *(Informational Item Only)*

Background: Through the federal Balanced Budget Act of 1997, President Clinton proposed and Congress adopted, a comprehensive children's health initiative-- the States Children's Health Insurance Program (SCHIP)-- to expand health coverage to eligible low-income children.

California's program—Healthy Families—commenced enrollment of children in July 1998 (up to 200% of poverty)**. In 1999, the HFP was expanded to include children up to 250 % of poverty**. **The HFP provides health, dental and vision coverage through managed care arrangements. The benefit package is modeled after that offered to state employees (Cal-PERS). Families pay a monthly premium and copayments as applicable. Eligibility is conducted on an annual basis.**

Budget Act of 2001 Enrollment & Revised Governor's Current Year Budget: The Budget Act of 2001 provided funding to enroll **an estimated 524,848 eligible children by June 30, 2002 for total expenditures of $498.5 million ($126 million General Fund and $52.4 million Tobacco Settlement Funds).**

Governor's Revised Current Year Budget Increase: The Governor's revised current year budget assumes an enrollment level of **558,888 children by June 30, 2002, for an increase in the estimate of 34,040 children or about 6.5 percent over the Budget Act of 2001.**

The revised current-year budget assumes a ***net* increase of $37 million** (increase of $20.3 million General Fund and $19.4 million federal Title XXI funds, and a reduction of $4.2 million in Tobacco Settlement Funds) to fund the caseload increase and related adjustments. The Legislature approved this current year General Fund adjustment through the current-year, Section 27 process.

Subcommittee Request and Questions: The Subcommittee **has requested the MRMIB to provide an update on the following:**

- **1.** The current year enrollment rate of children.
- **2.** The HFP's retention rates for those children enrolled in the program.

2. Healthy Families Program for Children—Budget Year Estimate *(Two Issues)*

ISSUE "A"—Baseline Children's Program *(No adjustment for CHDP)*

Governor's Proposed Budget: The budget proposes total expenditures of **$633.9 million ($240.3 million Tobacco Settlement Funds** and $384.6 million federal funds) for the baseline children's program. **The primary adjustment for the baseline program pertains to anticipated caseload increases.**

The budget proposes to fund **an increase of 64,418 children over the revised current year.** This assumes that enrollment **will reach 623,306 children by June 30, 2003**. The total children enrolled figure is based on the sum of three population segments as follows:

2002-03 Caseload (Children & % of Poverty	Estimated Total (As of June 30, 2003)	Increase Over Current Year
100-133%	82,524	371
134-200%	388,733	33,432
SUBTOTAL Up To 200%	**471,257**	**33,803**
201-250%	119,575	18,834
Legal Immigrants	32,474	11,781
TOTALS	**623,306**	**64,418**

The MRMIB anticipates that caseload growth rates for children in families with incomes at or below 200 percent of poverty should level-off since enrollment. In addition, it is estimated that caseload growth rates for children between 201 percent and 250 percent will slow significantly to about 1 percent per month.

The budget year adjustment also assumes the following key adjustments:

- $84.70 (average cost) for health, dental and vision plan payments per child per month (eligible children aged 1 to 19 years). This reflects a slight increase (was $84.54) over the current year and is based on recent invoiced amounts. **The actual monthly rate paid is based on MRMIB negotiating with the participating plans through a model contract process.** Negotiations have recently been completed and the May Revision will reflect adjustments.

  At this time, **26 health plans, five dental plans and one vision plan participate** in the HFP.

- Includes an adjustment **to provide children with two months of continued eligibility in the HFP when a child is transitioning to Medi-Cal coverage.** This **"bridge"** will take effect when the HFP determines at annual eligibility review that the family's income qualifies the child for no-cost Medi-Cal coverage. **(This is part of the state's HFP Waiver.)**

- An adjustment to the federal matching percentage to reflect adjustments made at the federal level. Specifically, **the S-CHIP federal match for California has been slightly reduced** to 65 percent for the federal fiscal year(from October 1, 2002 through September 30, 2003). As such, the weighted federal match for state fiscal year 2002-03 will be 65.25 percent.
- Shifts the entire state funding for the baseline children's program from a mixture of General Fund and Tobacco Settlement Funds as done in the current year, to complete dependence on Tobacco Settlement Fund revenues (along with the federal match).

Subcommittee Request and Questions: The Subcommittee has requested for the MRMIB to respond to the following questions:

- **1.** Please provide **a brief summary** of the budget year caseload estimate.
- 2. Why is the Administration proposing to utilize Tobacco Settlement Funds in lieu of General Fund for the state matching portion?

Subcommittee Staff Comment: Subcommittee staff has raised no issues with the baseline children's budget. **Therefore, it is recommended to approve the baseline children's budget, pending receipt of the May Revision.**

ISSUE "B"—Adjustment to Reflect Elimination of Child Health Disability Prevention (CHDP) Program

Governor's Proposed Budget for Eliminating CHDP: The Administration proposes to eliminate the Child Health Disability Prevention (CHDP) Program as of July 1, 2002 **and shift the caseload to Medi-Cal, the Healthy Families Program and community-based health care clinics who participate in the Essential Access to Primary Care (EAPC) Program.**

The budget proposes ***net*** **savings of $55.8 million in state funds** ($12.3 million General Fund, $39.9 million Tobacco Settlement Fund, and $3.6 million Childhood Lead Poisoning Prevention Fund), **a savings of $6.3 million in federal Title V Maternal and Child Health funds, and an increase of $38.6 million in federal funds** (Title XXI, Title XIX and Title V) **through this program elimination**.

This *net* savings level assumes that: (1) 20,666 children will enroll in the Healthy Families Program; **(2)** 98,997 children will enroll in the Medi-Cal Program; and **(3)** $17.5 million (Tobacco Settlement Fund) will be appropriated for EAPC clinics to provide services to children who are not otherwise eligible for Medi-Cal or Healthy Families. **It should be noted that the figures provided by the Administration, are very sketchy because the state does not have comprehensive CHDP data on caseload, family income levels, or health treatment services.** As such, it is difficult to estimate what the Medi-Cal or Healthy Families programs enrollment uptake will be, or the costs to be incurred under the EAPC Program if this CHDP Program elimination occurs.

Numerous key questions on how this proposal would be crafted still remain. For example, what will be done to facilitate the enrollment of existing CHDP children into Medi-Cal and Healthy Families? Will the EAPC clinics receive caseload and service utilization adjustments in future years as presently calculated in the existing CHDP Program? How will beneficiary access to services be maintained when there is a much more limited universe of providers (about 320 EAPC clinic sites participate in CHDP currently versus a total of 4,100 CHDP providers overall)?

The Governor has directed Director Diana Bonta' to convene discussion groups to discuss potential opportunities and challenges if the CHDP were to be restructured. These groups are presently meeting. As such, the Administration states that a more comprehensive proposal may be forthcoming at the time of the May Revision.

Governor's Proposed Budget—HFP Adjustment for CHDP: **The budget provides an increase of $15.4 million ($5.9 million Tobacco Settlement Fund) in the Healthy Families Program to cover the cost of 20,666 projected new children who are estimated to enroll due to this proposal.** Again, because no definitive data is available to discern how many children would actually enroll in the HFP, this figure just represents a placeholder at this time.

Subcommittee Request and Questions: The Subcommittee has requested the MRMIB and DOF to respond to the following questions:

- Please provide **a brief summary of the HFP portion of the Administration's proposal to eliminate the CHDP Program.**

Budget Issue: Does the **Subcommittee want to defer (hold open) this issue pending further discussions with constituency groups and the Administration** regarding the potential restructuring of the CHDP and Medi-Cal programs, **or take action today?**

3. Healthy Families—Waiver for Parents to 200% of Poverty *(ISSUES "A" to "C")*

Overall Background on Waiver Approval and Expansion: The federal government **approved the state's Healthy Families Program (HFP) Waiver on January 25, 2002. However, approval of the Waiver is conditioned upon compliance with special terms and conditions which are still awaiting federal CMS approval.**

The approved Waiver will extend HFP eligibility to uninsured parents, including legal immigrants, of children eligible for (1) the HFP with family incomes up to 200 percent of the federal poverty level, and **(2)** the Medi-Cal for Children Program (this includes several eligibility categories) up to 200 percent of the poverty level. The eligibility of the parent is tied to the eligibility of the child. **Parents would qualify for HFP without regard to family assets.** Parents with employer-sponsored coverage in the past three months would not be eligible.

There are two hypothesis being tested under the Waiver. First, it is thought that a greater percentage of eligible **children will be enrolled in the HFP if coverage is offered to the parental decision-makers in the household.** Second, it is believed that the **continuity of children's coverage will be increased in the HFP**, if coverage is offered to the parental decision-makers in the household.

In a January 29, 2002 letter, Susan Kennedy directed the Managed Risk Medical Insurance Board (MRMIB) to take the necessary administrative steps to implement the program such that when funds become available to enroll parents they can be enrolled quickly. It further states that Governor Davis will be working with the Legislature to identify funds to enroll eligible parents.

At full implementation, it is estimated that 337,000 parents will be eligible for enrollment (at 200%). The proposed HFP expansion is not an entitlement. Parents will only be covered to the extent funding is available. The coverage of children would continue to be fully funded.

Overview of Waiver Program Design: The program is designed to operate in the same fashion as the existing HFP. The benefits package will be based on the state employee plans for health, dental, and vision. The monthly premiums would be as follows:

Healthy Families Plan	Premium Up to 150%	Premium 150% to 200%
Standard	**$34 total per month**	**$58 total per month**
Two Parents	**($20)**	**($40)**
Two Children	**($14)**	**($18)**
Community	**$22 total per month**	**$46 total per month**
Two Parents	**($14)**	**($34)**
Two Children	**($8)**	**($12)**

For a family at 100% of poverty (about $17,064 annually), HFP premiums would equate to about 2.4 % of their annual income. For a family at 150% of poverty (about $25,600 annually), HFP premiums would equate to about 2.7 % of their annual income. With respect to copayments, a maximum cap of $250 (annual) per family will apply. **These are the same levels as agreed to during budget deliberations last year.**

ISSUE "A"—Federal Special Terms and Conditions for Waiver & Coordination with Private Health Insurance *(Informational Only)*

Background: As noted above, the federal Terms and Conditions for the Waiver are still pending completion.

In addition, the federal CMS has requested the state to coordinate with private health insurance coverage as a feature of the HIFA demonstration Waiver. In response to this, **the state has proposed to conduct a feasibility study about coordinating the HFP with private, employer-based health insurance coverage.**

According to the Administration, the feasibility study will describe a model for premium assistance that is tailored to the characteristics of California's employer and insurer marketplace and will specify the implementation strategy. It is anticipated that the study will take 18 months to design, conduct and finalize. Further, it is assumed that the regular monthly MRMIB Board meetings will serve as a public forum for consultation with constituency groups. It is also stated that work on the study will commence when the parents coverage program is operational.

Subcommittee Request and Questions: The Subcommittee has requested the MRMIB to respond to the following questions:

- **1.** Please provide **a brief update** on the status of the Terms and Conditions. When will they be completed and **what key issues are still being discussed?**
- **2.** Please provide **a brief description of the key issues** that the feasibility study will assess.

ISSUE "B"—Status Update on Pre-Enrollment Waiver Activities *(Informational Only) (See Hand Outs)*

Background (See Hand Out): The MRMIB and DHS have been proceeding with numerous administrative activities in preparation to implement the HFP Waiver. **The Board took a key action by formally adopting the regulations to implement the Waiver in its February 27, 2002 meeting.** This regulation package is slated to be filed with the Office of Administrative Law by mid-April.

Subcommittee Request and Questions: **The MRMIB and DHS have provided the Subcommittee with a timetable for completing key activities.** As such, the Subcommittee has requested them to provide a **brief update** on these activities and to **respond to the following questions:**

- **1. Please provide a brief update** on these activities.
- **2.** Of the key activities, **are there any which may be more difficult to complete than others?** Is so, please explain.
- **3.** Will ***all*** of the activities be completed to commence implementation by July 1, 2002, or is that date somewhat optimistic?

ISSUE "C"—Required Funding for Waiver Implementation

Background and Expenditure Estimate: At the **request of the Subcommittee**, the MRMIB has provided a budget year estimate of expenditures for implementation of the Waiver. If the Subcommittee wants to proceed with implementation of the Waiver, **an increase of $88.5 million (General Fund) would be needed to serve a projected total of 202,178 parents for 2002-03. Total expenditures would be about $241.8 million ($88.5 million General Fund and $153.3 million federal funds).**

This estimate **assumes the following key attributes:**

- A **July 1, 2002 implementation date**.
- A total of **202,178 parents enrolled as of June 30, 2003** (end of the fiscal year). This equates to **about 60 percent of the total estimated eligible parent population**. This enrollment level assumes that 143,036 parents are linked to children enrolled in the HFP, including 7,984 legal immigrant parents, and 59,142 parents are linked through children in Medi-Cal.
- Includes expenditures for certain program costs, including the Administrative vendor (payment processing), a two-month **bridge** from HFP to Medi-Cal, and HFP handbooks. **All of these assumptions are consistent with the existing HFP for children program.**
- Assumes that payments to health, dental and vision plans will average about $176.35 per month (for parents). (This rate level will be adjusted at the May Revision based on recently completed HFP rate negotiations.)

Alternative Implementation Dates: If implementation of the Waiver cannot occur as of July 1, the level of funding required for later implementation would be reduced by about $13 million (General Fund) per month. **For example, an August implementation date would cost $75.6 million (General Fund), or about $13 million less than a July 1 start date.** Accordingly, a January, 2003 (mid-year implementation) implementation date would cost about $24.7 million (General Fund), or about $63.8 million less than a July 1 start date.

Federal Fund Availability (See Hand Out): At the request of the Subcommittee, MRMIB has provided a projected five-year **federal fund** chart which is based on current federal law. This chart provides an ***estimate*** of:

- California's federal allotment amount for each federal fiscal year (second row);
- Any unexpended carryover funding from prior federal allotments (third row);
- Total federal funds available by federal fiscal year (fourth row);
- The estimated federal funding expenditure for children for each year (seventh row);
- The estimated federal funding expenditure for parents for each year (tenth row);
- Total estimated federal fund expenditures for each year (twelfth row);
- Total estimated unexpended federal funds to be carried forward to the next year (fifteenth row)

This chart shows that commencing with federal fiscal year 2006, the federal S-CHIP funds (Title XXI) will not provide sufficient support to fully sustain both the childrens' and parents' programs at their fully projected levels. As noted by comparing the children's costs and parent's costs (see rows 7 and 10) for federal fiscal years 2005 and 2006 (see columns 8 and 9), the children's costs continue to increase, while the parent's costs must decrease to stay within the appropriation level. If this decrease for parental costs did not occur, the federal funds would be over spent, which cannot occur.

Subcommittee Request and Questions: The Subcommittee has requested the MRMIB to respond to the following questions:

- **1.** Is the Administration actively pursuing federal law changes which would enable California to either carryover or retain more of its unspent federal funds?
- **2.** Can any portion of the remaining unexpended federal funds be used for a public health initiative or for providing a federal match for certain county-sponsored health programs as proposed under AB 495 (Diaz), Statutes of 2001? If not, why not?
- **3.** Do you have any comments that you would like to make regarding implementation of the Waiver?

Budget Issue: Does the Subcommittee want to increase the Healthy Families Program budget by **$241.8 million ($88.5 million General Fund and $153.2 million federal funds) to provide health, dental and vision care coverage to 202,178 parents who would be eligible to enroll in the HFP Waiver program?**

4. Medi-Cal to Healthy Families Bridge—for Waiver Parents up to 200% *(See Hand Out)*

Background--Eligibility "Bridge" Under the HFP Children's Program: The budget includes funds for the Medi-Cal Program to offer an additional two-months of coverage for children leaving the Medi-Cal Program and transitioning to the HFP. In turn, the HFP will offer an additional two-months of coverage to enable transitioning children to obtain Medi-Cal coverage, when appropriate.

HFP Waiver—Need for Medi-Cal Bridge: The HFP Waiver provides for the two-month bridge for transitioning parents to both programs as well. **As such, funding for the Medi-Cal Program piece of the bridge is needed if the Waiver is to be fully implemented in the budget year.**

Budget Issue: Does the Subcommittee **want to provide an increase of $5.8 million (General Fund)** for total expenditures of $16.7 million ($5.8 million General Fund and $10.9 million federal Title XXI funds) to provide for the two month Medi-Cal to HFP bridge?

5. Conforming Medi-Cal to Healthy Families—*Annual Redeterminations*

Background (See Hand Out): Currently, children enrolled in Medi-Cal or HFP under go an **annual redetermination.**

As such, under California's Waiver submittal to the federal government in Spring 2001, the state proposed to use an annual redetermination process for parents to be enrolled in the HFP and Medi-Cal. However, the federal CMS told the state to remove continuing eligibility for Medi-Cal adults from the Waiver and to **instead, submit a Medi-Cal State Plan Amendment (SPA) as the means to do this change.**

Subsequently, the state submitted a SPA (in August 2001) as requested. In response, the federal CMS requested additional information. Specifically, they wanted to know if there would be any increased federal fund need due to the proposed change, and wanted assurances that Medi-Cal applicant and recipients would be treated similarly.

In response to the CMS request, the DHS noted that since the state had eliminated the Quarterly Status Report requirements (effective as of January 1, 2002 as contained in the Budget Act of 2000), there would be no federal (nor state) budget affect. Second, the DHS states that there is no comparability problem because the income standard used for determining eligibility within the 1931 (b) program is consistent with federal law.

According to the DHS, the federal CMS has 90-days to respond to the state's February 15, 2002 letter.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide a **brief update** on the SPA and any further communication with the federal CMS.
- **2.** If the SPA is not approved, will the state be submitting an 1115 Waiver request to the federal CMS? If so, when may that occur?

6. Conforming Medi-Cal to Healthy Families—*Asset Test (See Hand Out)*

Background and Legislative Concern: Through legislation enacted in 1997, the asset test was removed for all children enrolled in Medi-Cal. **However the cumbersome test is still in effect for adults (Medi-Cal 100 percent of poverty level), though the Legislature has worked for its elimination for the past three years.**

Under the HFP Waiver, the need for its elimination becomes even more glaring because families with incomes above 100 percent of poverty are exempt from asset test review, leaving only the poorest of parents to undergo it. These parents have such low-incomes they very rarely have significant assets.

As such, millions of dollars are wasted in administrative processing costs. In fact, based on fiscal information provided by the DHS during deliberations on the Budget Bill for 2001, a savings of about $8.5 million ($4.25 million General Fund) was identified if it were eliminated.

Constituency groups note that the unequal treatment across income groups (higher incomes not tested), as well as within families (all children are exempt from the test), will only serve to complicate the enrollment process and act as a barrier for enrollment. Extensive research has shown that enrollment practices people find demeaning or burdensome will deter participation.

Further, the antiquated policy adds to the dilemma of "split families". Under the Waiver, a child might be enrolled in Medi-Cal but the parent could be enrolled in the HFP due to assets.

Budget Issue: Does the Subcommittee want to **(1)** adopt trailer bill language to eliminate the asset test in the Medi-Cal Program, and **(2)** reduce the Medi-Cal budget by $8.5 million ($4.250 million General Fund) to reflect overall net savings?

7. Submittal of Supplemental Waiver for Parents from 201% to 250%

Background: Existing state statute requires **the Administration to submit a supplemental Waiver for the enrollment of parents with family incomes from 201 percent to 250 percent.**

In August, 2001, the federal CMS released a new initiative to expand access to health care coverage for low-income individuals through Medicaid (Medi-Cal) and the State Children's Health Insurance Program (S-CHIP) demonstrations. This new Health Insurance Flexibility and Accountability (HIFA) Initiative is intended to promote state flexibility in providing health care coverage and expedited federal review of Waiver requests.

Among other things, the federal CMS guidelines for HIFA Waivers reflect that they are intended for income levels at or below 200 percent of the federal poverty.

Subcommittee Request and Questions: The Subcommittee has requested the MRMIB to respond to the following questions:

- **1.** When will the **Administration be submitting the Waiver amendment to include parents with incomes between 201 percent to 250 percent of the federal poverty?**
- **2.** Do you have **any perspective on how the federal CMS may respond?**

8. The Rural Demonstration Projects (RHDP)—Proposed Elimination

Background: The Rural Health Demonstration Projects, **enacted into law in 1997**, **are vital projects and have been used to develop and enhance existing health care delivery networks for special populations and to address geographic access barriers.** For the past three fiscal years, the annual appropriation has been $6 million ($ 2 million General Fund and $4 million federal Title XXI funds), with funding equally split between the two areas—special populations, and geographic access.

Funding for the **special populations projects** is made available to projects located in rural and urban communities that have high concentrations of migrant and seasonal farm workers, and workers in the fishing and forestry industry and American Indians.

Funding for geographic access projects is made available to projects located in Rural Medical Services Study Areas (area with a population density of less than 250 persons per square mile and with less than 50,000 people within the area).

Specifically, the funds have been used to extend community clinic hours, expand telemedicine applications, provide bilingual specialty health care services, provide mobile medical services and dental services, provide health education and nutrition counseling, and rate enhancements to increase HFP provider networks in remote areas, including San Bernardino and Riverside counties.

For the current year, 28 projects were funded under the special populations strategy and 29 projects were funded under the geographic access strategy. These projects were suppose to be funded on a two-year basis (i.e., through June 30, 2003).

Subcommittee Staff Comment: The Rural Demonstration Projects have been highly successful and have received nationwide accolades for their effectiveness and innovation. With the pending implementation of the Waiver, it would seem that these projects are even needed more with families seeking comprehensive health care. In addition, the state receives a 65 percent federal match for these projects.

Governor's Proposed Budget: The budget proposes to eliminate the Rural Health Demonstration Project funds used in the Healthy Families Program **for savings of $6 million ($2 million General Fund and $4 million federal Title XXI funds). This proposed elimination would cut short existing contracts which are scheduled to operate through June 30, 2003.**

Subcommittee Request and Questions: The Subcommittee has requested the MRMIB to respond to the following questions:

- **1.** Please provide a **brief description of the different types** of Rural Health Demonstration projects.
- **2.** Please **summarize the key components of the evaluation** which was recently completed regarding the projects.
- **3.** Have the Rural Demonstration Projects been successful?

Budget Issue: Does the **Subcommittee want to provide funding for the Rural Demonstration Projects or approve the budget which would eliminate the projects?**

9. Medi-Cal & Healthy Families Program Outreach *(See Hand Out)*

Governor's Proposed Budget (See Hand Out): A total of **$32.7 million ($11.1 million General Fund), including almost $3.8 million in foundation funds coupled with matching federal funds, is proposed for expenditure in the budget.**

This reflects **a reduction of $10.3 million when compared with the revised current year, and a reduction of $20.7 million ($4.1 million General Fund) when compared to the Budget Act of 2001.**

Specifically **the Administration proposes to:**

- Eliminate all advertising targeted to the children's program for a reduction of $3.3 million
- Eliminate $1 million for advertising targeted to parents (Their January budget proposal did not include funding for the parental Waiver.)
- Reduce by $4 million the amount allocated for Application Assistance Fees for children, and reduce by $400,000 funding for Payment Processing Fees. The DHS states that this adjustment is due to a revised estimate of need, and is not a reduction intended to limit Application Assistance Fees.
- Reduce by $1.4 million the amount allocated for Application Assistance Fees for parents
- Reduce by almost $500,000 funding for the 1-800 toll free line

Current Year One-Time Only Funds: **It should be noted that the state was able to capture about $38.6 million in one-time only additional federal funds last year** due to federal action regarding the S-CHIP 10 percent cap. As such, the state used (1) $22 million for county outreach (which required a county match), (2) $7.4 million for various outreach functions, and (3) $10.8 million to pay off prior year deficits (i.e., when the state went over the 10 percent cap, and the state had to use 100 percent General Fund support).

Subcommittee Request and Questions: The Subcommittee **has requested the DHS and MRMIB to respond to the following questions:**

- **1.** Please provide **a brief overview** of the Administration's proposal.
- **2.** Please provide a brief update on the school-based outreach activities.
- **3.** If needed, could the school-based outreach or community-based outreach also be focused on parent enrollment as well as children's enrollment ?
- **4.** From a technical assistance standpoint, if the Waiver is implemented, what adjustments may be needed with respect to Application Assistance Fees, outreach and education efforts?
- **5.** Will the Medi-Cal & HFP Outreach Report be provided to the Legislature in April as required by statute?

Budget Issue: Does the **Subcommittee want to (1)** make any adjustments to the proposal, or **(2)** approve the proposal pending receipt of the May Revision?

10. "Health-e-App" Implementation (DHS and MRMIB)

Background and Statewide Implementation: The California HealthCare Foundation (CHCF) created an automated, electronic, **internet-based application processing system call Health-e-App.** The CHCF conducted a pilot in San Diego County to demonstrate the benefits of the application to the state. Preliminary findings revealed that Health-e-App improves the Medi-Cal and Healthy Families application process by enhancing customer service, efficiency, accuracy, and accountability.

Given Health-e-App's success in the pilot, **the California Health and Human Services Agency (CHHS Agency) has begun** a statewide implementation process for Health-e-App. This implementation will be conducted in several steps.

First, the state will enroll those enrollment entities (EEs) with the highest volume of claims in groups of 20. These EEs will get trained on Healthy-e-App primarily through an on-line connection and with the assistance of the EDS Help Desk. The state has also developed a web site at www.dhs.ca.gov/health-e-app to provide both EEs and the counties with information to assist in implementing the Health-e-App. In addition, the state is developing a promotion plan to help ensure that EEs and Certified Application Assistors use Health-e-App.

Once enrolled the Certified Application Assistors will be able to use the "front-end" of the system to capture the applicant's personal information onto the application electronically, which is then transmitted to the Single Point of Entry (currently EDS) for an initial eligibility screening.

Second, the state will then contact all EEs in selected counties. Counties will be **selected based on their progress in developing the "back-end" or county interface** part of the system. **According to the CHHS Agency, counties have the option to install the Health-e-App county interface, but will likely have to dedicate funds for this function. As such, a critical component for success with the counties will be their ability and willingness to develop the "back-end" interface.**

With this "back-end" programming, the application information sent from the Single Point of Entry will automatically update a county's case data system. If the county does not have the interface, the application will be printed out (at the Single Point of Entry) and forwarded to the county as a paper application**. Currently, San Diego is the only county that has the "back-end" interface.**

The CHHS Agency has provided the following **Health-e-App implementation** schedule:

Enrollment Entity	**Anticipated Date**
Remainder of San Diego Central Region	February 11, 2002
Butte County Consortium	February 13, 2002
Top 20 EEs	February 26, 2002
EEs within Counties w / interface	March 11, 2002
Next 20 EEs (from Top 100)	April 1, 2002
EEs within Counties w / interface	April 22, 2002
Next 20 EEs (from Top 100)	May 13, 2002

Enrollment Entity	Anticipated Date
EEs within Counties w / interface	June 3, 2002
Next 20 EEs (from Top 100)	June 24, 2002
EEs within Counties w / interface	July 15, 2002
Next 20 EEs (from Top 100)	August 5, 2002
EEs in Remaining Counties	August 26, 2002

Other Adjustments Needed: The CHHS Agency notes that there are several items that will require minor changes to the Health-e-App, but these updates will not be made until the parent Waiver expansion version is released.

Current Year Funding: The revised 2001-02 budget provides a total of almost $1.2 million ($217,000 General Fund) **for the MRMIB and DHS** to fund the local assistance costs of the Health-e-App process. In addition, $90,773 ($22,700 General Fund) was provided for state support costs.

Budget Year Funding: The budget does not propose a local assistance appropriation, but does continue the support funding.

Subcommittee Request and Questions: The Subcommittee **has requested the Administration to respond to the following questions:**

- **1.** Please provide **a brief overview of how the Health-e-App functions.**
- **2.** Specifically, **what is needed for counties to do the "back-end"?**
- **3.** Could the system be further developed to interface with Medi-Cal?
- **4.** Is the Administration anticipating a May Revision adjustment to further implement the Health-e-App?

11. Discussion and Clarification of Single Point of Entry and Accelerated Eligibility *(See Hand Outs)*

Overall Background: Over the past several years, a clear universal theme has been that the applications and enrollment processes for Medi-Cal and the HFP need to be shorter, more simple and function as a seamless system. As such, several changes have been enacted to make improvements. **These include: (1) a Single Point of Entry, (2) Express Lane Eligibility, and (3) Accelerated Eligibility.**

Overall Background—Single Point of Entry (See Hand Out): Under the "Single Point of Entry" (SPE) process, initiated in 1999, **joint applications** (Medi-Cal for children and the existing HFP) are sent to a contractor (EDS as the Administrative Vendor) and **an initial income eligibility screen** is conducted. **Under the proposed budget, a unique Client Index Number (CIN) will be assigned to all children and parents (under the Waiver) in the household that are applying for health care. This CIN will allow linkage with the state's Medi-Cal Eligibility Data System (MEDS).**

At this time, if applicable, children who may be eligible for Medi-Cal are given *Accelerated Eligibility* until a full determination is made by the county. This process is to commence as of July 2002.

Based on this initial screen, the application is either forwarded to the HFP contractor (currently EDS) for processing, or sent to the appropriate County Department of Social Services (County DSS) for Medi-Cal processing.

<u>County Department of Social Services Processing Under Single Point of Entry:</u> Generally, the County DSS has up to 45-days to approve or deny Medi-Cal when eligibility is not based on a disability. **According to federal law, this 45-day processing standard must cover the period from the date of application to the date the agency mails notice of its decision to the applicant.**

The County DSS processes the children's case immediately, requests additional information to aid parents, and reports application information to MEDS. The Single Point of Entry will review MEDS on a monthly basis for tracking purposes. **If the child or parent is deemed ineligible or eligible for Medi-Cal with a share-of-cost, the County DSS refers them back to the HFP for eligibility determination.** If the child or parent is deem eligible for Medi-Cal, they are enrolled on the first of the month of the application (and are eligible for up to 3 months ***prior*** to the month of application.)

<u>Healthy Families Program—Processing Under Single Point of Entry:</u> The Administrative Vendor (currently EDS) **is to determine HFP eligibility within 10 days if <u>all</u> of the following conditions are met:**

- The application is complete;
- At least one month premium is provided;
- Income documentation is provided; and
- A health and dental plan is selected.

If information is missing, the HFP applicant is contacted. They must provide the requested information within 20-days or the application is denied. If the individual is eligible, HFP coverage starts no later than 10 days after they are determined eligible.

There is no accelerated eligibility offered under the HFP, and no retroactive benefits are available. Medi-Cal provides for an accelerated eligibility enrollment and reimbursement coverage for up to three months prior to enrollment.

<u>Single Point of Entry Statistics:</u> According to the MRMIB's February 2002 report, the Single Point of Entry process has:

- Processed 670,328 applications (cumulative)
- Forwarded almost 60 percent of these applications to the Healthy Families Program
- Forwarded about 26 percent of these applications to the Medi-Cal Program
- Forwarded almost 11 percent to both programs

Further, of the applications processed via the Single Point of Entry, 61 percent were processed with assistance, and 39 percent were processed without assistance.

<u>Governor's Proposed Budget—Single Point of Entry:</u> The budget provides a total of almost **$15.1 million ($7.5 million General Fund) in the MRMIB item** to fund the Single Point of Entry process. This level of funding reflects a nominal increase (less than $100,000) over the current year level.

Of the total amount, about $12 million is for telephone services and about $3.1 million is for processing of applications forwarded to Medi-Cal. This assumes that an average of 12,040 applications are processed per month.

<u>Background on Accelerated Eligibility:</u> The omnibus health trailer legislation to the Budget Act of 2001 provided for Accelerated Eligibility under the Medi-Cal Program. **As such, beginning July 2002 all children applying at the Single Point of Entry who appear eligible for no-cost Medi-Cal as a result of the screening process will be enrolled in fee-for-service, full-scope Medi-Cal.**

A Medi-Cal Benefit Identification Card will be mailed to the family (for the child) for use while the County DSS makes a final determination of their eligibility. The beneficiary is to be tracked using the Medi-Cal Eligibility Data System (MEDS). **The Accelerated Eligibility for the child will end when the County DSS sends a MEDS transaction either approving (i.e., on-going enrollment in Medi-Cal as applicable) or denying the child.**

<u>Governor's Proposed Budget—Accelerated Eligibility:</u> The budget proposes **an increase of $12.2 million** ($6.1 million General Fund) to provide funds for those children enrolled in Accelerated Eligibility who do not become eligible for on-going Medi-Cal. **This estimate assumes that two months of coverage will be provided and that about 23 percent will not become eligible.** According to the DHS, the primary reason children are not enrolled in Medi-Cal on an ongoing basis is due to a lack of follow-up in providing needed information/documentation.

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the MRMIB and the DHS to respond to the **following questions:**

- **1.** Will **Accelerated Eligibility be up and operational by July 1, 2002,** including all of the system changes needed to have a smooth operation?
- **2.** How does the **DHS and MRMIB track individuals through the Single Point of Entry process who are not eligible for Medi-Cal** (or who would have a share of cost) **and are referred back to the HFP for eligibility determination?**
- **3.** Does **the DHS know if the state is meeting the federally required 45-day Medi-Cal application processing timeline** through the Single Point of Entry process?

<u>12. Discussion and Clarification of Express Lane Eligibility *(See Hand Out)*</u>

<u>Background:</u> AB 59 (Cedillo), Statutes of 2001, established a statewide pilot, **effective July 1, 2002,** to provide Express Lane Eligibility to children qualified to receive free meals through the National School Lunch Program (children under 133 percent of poverty receive free meals, and children between 134 percent and 185 percent receive reduced price meals). **Children under the age of 6 shall be deemed income eligible for Medi-Cal and children who are younger than 6 years must be determined income eligible for Medi-Cal.**

This legislation also created a process to authorize consent for the release of information on applications for free lunches to County DSS and authorizes them to quickly enroll children in Medi-Cal upon receipt of such information from school districts.

As shown on the Hand Out, parents will be offered the option of using the National School Lunch Program application as an initial application for Medi-Cal (for no share-of-cost). **With their consent, the school would then do an income screen and make a determination about Express Lane enrollment into Medi-Cal. The information would then be sent to the County DSS who would (1)** issue a temporary Medi-Cal benefits card for full-scope benefits, and **(2)** obtain additional documentation to determine ongoing Medi-Cal eligibility. **Children would continue to receive full-scope Medi-Cal until the County DSS completes its determination.**

The only exception to this is for children who are income eligible and already enrolled in emergency-only benefits. These children will continue in Medi-Cal with those limitations unless additional immigration information is obtained.

<u>Technical Language Clean-Up for Program Implementation (See Hand Out) and Related Changes/Fixes:</u> The DHS states that in order to implement the legislation, schools will need to do accelerated enrollment based upon the income information on the school lunch form. As such, the DHS has drafted some minor language changes to the existing statute.

In order to implement AB 59, **the school lunch application will need to be revised** to include a check box to indicate that the parent(s) want Medi-Cal for their children, and boxes to indicate the relationship of each member of the household to determine family size, countable family income, and an optional field for the child's social security number.

Implementation is subject to approval of a Medi-Cal State Plan Amendment (SPA) which would designate schools determining free National School Lunch Program eligibility as a qualified Medi-Cal entity.

<u>Governor's Proposed Budget:</u> **The budget proposes increases of (1)** $23.4 million ($11.7 million General Fund) for health care services, **(2)** $2.8 million ($1.4 million) on a one-time only basis for county administration of application intakes, and **(3)** $825,000 ($412,500 General Fund) for ongoing county administration. Subcommittee staff raised no issues with these proposed amounts for the budget year.

Subcommittee Request and Questions: The Subcommittee has requested the DHS and MRMIB to respond to the following questions:

- **1. Please clarify how schools are going to conduct the initial Medi-Cal income screening.** Are schools willing to participate?
- **2.** How will the County DSS follow up to obtain the additional documentation?
- **3. Are there any other challenges or changes** that are needed to the program in order for it to operate smoothly and to commence as of **July 1, 2002**, including approval of the State Plan Amendment?

13. Outstationing of Medi-Cal Eligibility Workers—Elimination of Perinatal

Overall Background: Eligibility workers have historically been placed in hospitals and health care clinics in order to facilitate recipient enrollment in Medi-Cal. This process has assisted both the recipient and provider by improving access to health care services and by securing payment for the services.

Many studies have demonstrated that application sites outside the welfare office **can greatly assist in enrolling eligible children and adults in Medi-Cal.** Recent studies by the Kaiser Commission on Medicaid and by George Washington University find that parents say they are much more likely to enroll children in Medicaid if they could do so in convenient locations within the community, such as a clinic or school.

Further, the need for outstationing assistance has grown in importance as an increasing number of persons who are not eligible for either case assistance or food stamps can establish eligibility for Medi-Cal and do not otherwise have a need to go to a County DSS office.

Federal Medicaid law, Section 1902 (a)(55) of the Social Security Act, requires states to meet certain outstationing requirements. **In general, unless a state has provided the federal CMS with an alternative plan for outstationing, it must establish outstation locations at all Federally Qualified Health Centers (FQHCs), including Rural Health Centers and Indian Health Centers, and at disproportionate share hospitals (DSH).**

While federal regulations give states flexibility to determine how best to comply with the outstationing requirements, states must comply with certain mandatory requirements. For example, the regulations do not require states to outstation staff at every satellite site operated as an FQHC or DSH on a full-time basis. **However, it does require a commitment to provide some modicum of outstationing at *each* FQHC, DSH, Indian Health Centers and Rural Health Center site.**

Current State Funding and Activities: According to the DHS, California **has a total of $28.4 million** ($14.2 million General Fund) **in the current year** budget for outstationing activities. This funding supports about **290 county positions overall. Of these positions, about 98 are doing outstationing activities for perinatal enrollment. Outstationing occurs at about 180 FQHC and DSH sites and at about 116 perinatal sites.**

It should be noted that outstationed workers must meet the same county productivity standards as workers located in a County DSS office. Meeting these productivity standards at outstationing locations is nearly impossible since the eligibility worker must travel to and from the site, and is often required to answer questions regarding other programs, such as CalWORKS, in addition to doing Medi-Cal eligibility processing.

Subcommittee Staff Comment: According to data provided by the DHS, a significant portion of the **children utilizing the Child Health Disability Prevention (CHDP) Program are aged one and under (i.e., 333,374 infants/toddlers, or 30 percent of the total 1.1 million CHDP children).** With the Administration's budget proposal to eliminate CHDP as currently structured, it seems disingenuous to significantly reduce outstationing for perinatal assistance. It would appear that increased enrollment assistance would be needed, particularly for this age group, in order to transition individuals from the CHDP to Medi-Cal and more comprehensive health care.

Governor's Proposed Budget: The budget proposes **to reduce by $8 million ($4 million General Fund) the resources available for outstationing. The DHS states that this reduction will be eliminating most of the optional perinatal outstationing. Since actual costs for perinatal are about $9.6 million (total funds), this would leave about $1.6 million ($800,000 General Fund) for allocation in the budget year.**

According to the DHS, a **"perinatal site"** is defined as a "Maternal and Child Health Comprehensive Community-Based Perinatal site". **Examples of the sites** that would be affected include the following

- Ukiah Valley Perinatal Program
- Great Beginnings Prenatal Clinic (Solano)
- Marin Maternity
- University of San Francisco
- Mercy General Hospital (Sacramento)
- North Highlands Planned Parenthood (Sacramento)
- Eastside Health Center (Riverside)
- Fontana Clinic (San Bernardino)
- Alameda Planned Parenthood—Oakland (West)
- Fifteen various sites in Los Angeles

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Is California **currently meeting its federal mandate for outstationing?**

- **2.** How does the **state monitor the County DSS with respect to outstationing?**
- **3. Please briefly describe the perinatal sites and their function.**
- **4.** How many perinatal sites would be maintained if the reduction is taken?

Budget Issue: Does the Subcommittee **want to sustain or deny the budget proposal** to reduce by $8 million ($4 million General Fund) the resources used to provide outstationing assistance for perinatal enrollment in Medi-Cal?

(LAST PAGE)

Senate Budget & Fiscal Review
Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

Thursday, March 14, 2002
Upon Conclusion of Senate Floor Session
Room 4203

8350 Department of Industrial Relations

Purpose and Descriptions. The Department of Industrial Relations (DIR) is intended to protect the workforce, improve working conditions and advance opportunities for profitable employment. The department has three major programs: the adjudication of workers' compensation disputes, the prevention of industrial injuries and deaths, and the enforcement of laws relating to wages, hours and working conditions.

The budget proposes to reduce the department's expenditures to $259 million, a reduction of about $10 million (about 4.1 percent) from current year levels.

The Legislative Analyst's Office (LAO) withheld recommendation on an information technology project, pending receipt of the project's feasibility study report (FSR). Since the *Analysis* was published, the LAO has notified the committee that it believes the FSR will provide sufficient justification for the project.

CONSENT AGENDA

No other issues have been raised about this budget. **Adopt the DIR budget.**

4130 Health and Human Services Agency Data Center and

5180 Department of Social Services Automation Issues

The Health and Human Services Agency Data Center (HHSDC) provides departments and agencies within the Health and Human Services Agency support to use electronic data processing resources effectively, efficiently and economically. HHSDC is supported entirely by reimbursements from departments that contract with the data center for services.

The HHSDC has two general components. The **operations component** provides computer services, telecommunications support, information systems, and training support for departments in the Health and Human Services Agency. The **systems management component** manages five major projects for the Department of Social Services. Typically federal, state and county funds are used to finance the planning, implementation, and maintenance of the projects. The projects include:

- The Child Welfare Services/Case Management System (CWS/CMS)
- The Electronic Benefit Transfer program (EBT)
- The Statewide Fingerprint Imaging System (SFIS)
- The Statewide Automated Welfare System (SAWS)
- The Case Management, Information and Payrolling System of the In-Home Supportive Services system (CMIPS)

CONSENT AGENDA

SYSTEM MANAGEMENT COMPONENT

Funds for the five projects are budgeted within DSS. The Data Center has established, through budget action, an overhead rate for providing overall support to these projects. In 2000-01, the overhead rate was 19.45 percent. Effective 2001-02, the Data Center reduced that overhead rate to 14.47 percent.

The LAO notes that the new, lower rate has been unevenly applied to all DSS projects: the budgets for the Electronic Benefit Transfer project and the Interim Statewide Automated Welfare System have been reduced; other systems have not been budgeted at the 14.47% rate. **The Analyst recommends reducing the remaining projects to reflect the reduction in overhead.**

- **The Department will address this issue in a Spring Finance Letter**.

Child Welfare Services/Case Management System

The CWS/CMS system is required by state and federal law to provide automated case management support to child welfare workers. The main system has been developed, and all counties are using the system.

The ongoing budget for maintenance and support includes a net reduction of $14.5 million, reflecting the completion of upgrade and replacement of hardware and software for CWS/CMS workstations in the current year. The Legislature last year provided budget language that requested the Data Center to update the Maintenance and Operations Plan concurrently with the upgrade, completing the plan update by December 1, 2001. **The Plan has been completed**.

Last year's budget included funding in the amount of $1.2 million for replacement of an Application Server. The Legislature requested that the Data Center prepare a risk mitigation plan for the server replacement project, concurrent with preparation for replacement of the services. **The plan was developed.**

Last year's budget included new funding for an expanded element to serve adoptions workers with a case management component. The new functional element was developed as part of federal Statewide Automated Child Welfare Information System (SACWIS) requirements. The budget includes a one-time contract augmentation of $100,000 to develop a Special Project Report for the CWS/CMS Expanded Adoption Subsystem.

Last year's trailer bill legislation created a pilot program in Los Angeles of an internet-based program for health and education information for foster care children. Ultimately, interface between such a system and CWS/CMS will be crucial to its success and use by child welfare workers. A project document has been prepared for review by state and federal control agencies. **Additional clean-up of this provision will likely be necessary in trailer bill language.**

- **No issues have been raised with this budget.**

Electronic Benefits Transfer (EBT)

Electronic Benefits Transfer (EBT) is the automation of welfare benefit authorization, delivery, redemption and reconciliation. It would replace paper food stamp coupons and benefit checks with transfer and use of benefits through point-of-sale devices and automated teller machines. Federal welfare reform requires states to implement EBT for food stamps by October, 2002. State law requires DSS and the Data Center to establish an EBT committee to advise on development of a statewide system, and to establish a single statewide EBT system that counties may use for other benefits. Procurement difficulties delayed the selection of a vendor for a year; a vendor was selected in July,

2001. The roll-out of implementation is now on schedule. The current schedule would implement EBT fully by April, 2004. The federal government has formally provided a waiver of the October 2002 deadline.

EBT costs during the current year are $18.6 million. The budget requests an augmentation of $39.7 million reflecting the implementation of the program in 15 counties (in addition to the single pilot county of the current year). Funds will be used for state and county staff, project consultants, EBT equipment, and conversion, maintenance and operation activities.

- **No issues have been raised with this budget.**

Statewide Automated Welfare System (SAWS): Interim Statewide Automated Welfare System (ISAWS)

The total budget for ISAWS, one of the four SAWS consortia, is proposed to be $39.7 million, including county contributions. This is a net increase of $5 million, composed of increased costs for the replacement of aging mainframes, and reductions associated with the end of welfare reform modification funding.

This consortium is the oldest in the SAWS system, and uses proprietary software that is expensive to change. The current contract ends December, 2003, and there does not appear to be the funds or the time to re-procure a vendor for this system. The county consortium members in November voted to end this program, and to plan for county members to move to one of the other consortia in SAWS, most likely C-IV or WCDS. The counties in the ISAWS program are small or medium, and generally do not have the resources to independently change to a new consortium, without state support.

The County Welfare Directors Association of California asks that the subcommittee adopt placeholder budget bill language requiring the Department of Social Services and the Health and Human Services Data Center work with the ISAWS Consortium to determine the steps necessary to ensure that ISAWS counties migrate expeditiously to one of the remaining SAWS consortia.

- **Recommend that the subcommittee adopt placeholder budget bill language requiring planning for the end of the ISAWS consortium.**

SAWS: Los Angeles Eligibility Automated Determination, Evaluation and Reporting System (LEADER)

LEADER, one of the SAWS consortia, began implementation in fall, 1999. Countywide implementation was completed in April 2001. There were considerable problems in the pilot stage of LEADER, and there have been some implementation difficulties. Advocates have claimed that hundreds of aid recipients have been denied benefits because of errors in the computer system during the transition. Los Angeles county managers believe that the transition problems have been resolved. However, the problems in LEADER implementation have delayed the adoption of enhancements to the system to reflect state and local legal and regulatory changes, especially for Medi-Cal changes.

The total budget for LEADER in the budget year is proposed to be $15.2 million, including Health Services funding. This is a reduction of $5.2 million over the current year, principally related to the transition from implementation to maintenance and operations.

There may be unspent current year funding; Los Angeles County and control agencies will discuss whether to roll these funds into the budget year to undertake enhancements to reflect legal and regulatory changes, in addition to the basic maintenance and operation costs currently in the budget.

- **Discussions will continue and this issue will be considered in May.**

<u>**SAWS: Welfare Client Data System (WCDS)**</u>

The WCDS consortium began implementation in the 18 counties that are members in February 2000. Implementation is scheduled to be completed in 2004-05. The complete budget for the project, including county contributions, is $86.0 million, the same as current year. However, General Funds are increased by a net of $2.1 million due to a change in the project's cost allocation plan and the elimination of a current General Fund loan to purchase equipment. **The funding for this project has been reduced compared to planning documents for implementation. As a result, the implementation schedule has been extended by four months.**

- **No issues have been raised about this budget.**

<u>**In Home Supportive Services (IHSS)/Case Management Information and Payrolling System (CMIPS)**</u>

The IHSS program provides supportive services to eligible aged, blind and disabled persons that allow them to stay at home and healthy and safe, avoiding institutionalization. Beginning in 1979, the state developed and maintained a case management information and payrolling system for providers of IHSS services (the Case Management Information and Payrolling System, or CMIPS). The current contract to provide the system has been extended, and the Data Center is in the process of developing an RFP for a new system to replace the 20-year-old system. Development of the RFP has taken longer than anticipated, due in part to the new complexity of the system associated with new employer-of-record requirements for counties in the IHSS program**. The total budget for CMIPS is $12.0 million. This represents an increase of $561,000 to cover the cost of increased caseload.**

The proposed budget includes an increase in spending authority of $376,000 for the Data Center to extend 6 limited term positions and associated operating expenses to extend the planning phase to complete the award and administration of a contract to replace the current system. The planning phase is now schedule to be completed by November 30, 2003, with a new contract in place.

The LAO recommends that the Legislature deny the spending authority increase, but extend the authority for the limited-term positions, currently authorized through 12/31/02, until 6/30/03. This is because the Analyst finds that the funds for the limited-term positions in the current year were not removed from the baseline expenditures, and hence new funds are not required.

- **The administration concurs with the reduction of spending authority of $376,000 to the Data Center.**

<u>OPERATIONS COMPONENT</u>

The budget proposes a $2.2 million increase in spending authority for equipment to meet consumer needs. The Data Center submits a BCP annually that consolidates infrastructure equipment requests. The year's requests include expanded capacity for the shared system processors. This processing platform is expanded based on usage by Health and Human Services Agency Departments and other purchasers of service; that usage has expanded an average of 20% per year since 1995. The Data Center also requests expanded Enterprise Disk storage for shared system needs. Finally, the request includes funds for additional UNIX servers to meet customer requests.
Annually, the Data Center also provides technical adjustments to their budgets that reflect the actual expenditures in prior years. Typically, this has resulted in a reduction of Operations Expenditures.

The LAO withholds recommendation on the $2.2 million increase, pending submission of a revised budget that adjusts the expenditure authority based on the actual cost of the $7.5 million in new computer purchases budgeted in the current year.

- **The Administration will address this issue in a Spring Finance letter**

The LAO also notes that the Data Center typically has conducted a rate study examining data center operations and that results in improved rates and services to client departments. The Data Center is due, based on historical practice, to conduct a rate study within the next year. The LAO notes that in 2001 the Teale Data Center conducted a financial assessment that broadly compared its rates with private and other government entity rates and evaluated its operation with an eye to improving services. **The LAO recommends that the Legislature adopt Supplemental Report Language requiring the Health and Human Services Data Center to conduct this more comprehensive financial assessment in lieu of the expected rate study**.

The Health and Human Services Agency Data Center (HHSDC), in consultation with the Department of Finance, shall conduct a rate study that evaluates HHSDC current operations and processes and identifies operations and processes that should be improved thereby resulting in reduced HHSDC costs and rates and improved services to client departments.

- **The Data Center agrees to the proposed LAO language.**

DISCUSSION AGENDA

SYSTEMS MANAGEMENT COMPONENT

Statewide Fingerprint Imaging System (SFIS)

State law requires DSS and the Data Center to design, implement and maintain a system for gathering a fingerprint image for applicants for and recipients of CalWORKs. Imaging is a requirement of eligibility for CalWORKs and a condition of issuance for Food Stamps. It is designed to identify multiple requests for aid, and is labeled a fraud deterrence and identification mechanism.

This program has been legally contentious. A court decision last year limited the capacity of the state to require fingerprints for non-aided adults in the household, but affirmed other elements of the program (including the requirement of a photo image with the fingerprint and the requirement that a caretaker relative be fingerprint and photo imaged). The state is appealing the decision. The appeal may take up to a year.

The Legislature last year requested a state audit of the effectiveness of this program as a fraud deterrent. The Auditor General has scheduled an audit; it will not be completed until January, 2003. No data is being collected on savings associated with this program.

The current vendor to the program, EDS, has notified the Data Center that they will not renew the contract, which expires September 2003. The contract requires that both parties agree to an extension. It seems likely that if the contract is to be extended, the contractor may want more money.

Total costs for the program are proposed to be $11.4 million, all General Fund. The budget includes $561,000 in additional funding for three functions. These new costs are offset by a reduction of $957,000 due to the end of implementation and a change to the maintenance phase of project operation.

- Software Independent Verification and Validation, to assure that software development complies with project standards and policies;
- Data Center Systems Integration Division (SID) overhead (adds $78,000 to base SID overhead funding of $93,000)
- Fingerprint Expert consulting.

The LAO recommends that the budget be reduced by $464,000, denying the Software Independent Verification funds and the SID overhead (both the augmentation and the base funding), and withholds recommendation on the fingerprint consulting services pending additional information demonstrating the need for such consulting.

- The LAO will present their recommendation, and the Data Center will respond.
- **Should the subcommittee adopt the LAO reduction?**

Statewide Automated Welfare System (SAWS)

SAWS is a multi-program automated system that provides support to eligibility determination, benefit computation, benefit delivery, case management and management information for CalWORKs, Food Stamps, Medi-Cal, Foster Care, Refugee Assistance and the County Medical Services program. The system is delivered through a multiple county consortium including four consortia. (Interim SAWS, 35 counties; Los Angeles Eligibility Automated Determination, Evaluation and Reporting System or LEADER, 1 county; Welfare Client Data System, 18 counties; and Consortium IV, 4 counties).

The Data Center provides oversight for the four consortia, including review of project documents and budgets, deliverables and risk management. The Data Center assures that state and federal control agency approvals are completed in a timely fashion. The budget includes a total of $7.1 million for such oversight, no change over the current year. The oversight expenditures include $2.3 million for consulting services. **The LAO has recommended that the Data Center budget be reduced by $2.3 million, as there is no information as to the specific activities and tasks that would require consulting services.** The Data Center has provided an extensive list of activities needed for project management. They particularly believe that these activities require the use of consultants with specific expertise that is not available with state staff.

- The LAO will present its recommendation and the Data Center will summarize its response..
- **The subcommittee will determine whether to adopt the LAO recommendation.**

Consortium IV (C-IV)

The SAWS consortium that is furthest from implementation is Consortium IV. The budget for C-IV is $75.5 million, identical to the current year. This amount is also a reduction from the planning documents. The Analyst suggests that this project could be eliminated, and the four counties affected (San Bernardino, Riverside, Stanislaus, Merced) be directed to join another consortium. Given the proposal to end ISAWS, ending C-IV as well would result in 39 counties being added to WCDS (or LEADER).

This would end the most current technology among the consortia, and would concentrate vendor selection to only the two remaining systems. There would likely be a legal challenge on the contract. And, roll-out to all counties would likely be delayed. Advocates believe that any budget year savings would be offset by costs to move the four affected counties to other SAWS consortia. The savings from a cancellation would include $16.3 million General Fund and $52.4 million TANF funds.

- **Should the subcommittee consider canceling the Consortium IV project?**

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and to maximize their ability to live independently in the community. The Department operates the Vocational Rehabilitation Services program (VR), funded primarily with federal funds and state matching funds. The VR program provides vocational services to persons with disabilities, including through cooperative agreements with other state and local agencies (education, mental health, welfare) to provide specialized services. The Department also provides Habilitation Services, vocational and supported employment services for persons with developmental disabilities, using state funds and federal Medicaid Home and Community-Based Services Waiver reimbursements. The department provides support services for Community Rehabilitation Programs, including independent living centers. The budget is anticipated to be $483.9 million ($167.6 million General Fund), an increase of 2%.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$166,163	$167,575	$1,412	0.8
Vending Stand Account	3,360	3,360	0	0.0
Federal Funds	280,615	289,976	9,361	3.3
Reimbursements	24,099	23,028	(1,071)	-4.4
Total	$474,237	$483,939	$9,702	2.0

CONSENT AGENDA

Departmental Operating Expenditures

The Department has proposed to reduce departmental operating expenditures by a total of $2.2 million ($475,000 General Fund). This is in addition to total reductions in departmental operating expenditures in 01-02 of $3.0 million total funds, including General Fund and unmatched federal funds; and an additional net reduction of $0.4 million in personal services and operating expenditures, also in 01-02. **The Department proposes to institute hiring and purchasing freezes in order to achieve this level of savings**.

- **Propose to adopt the operating expenditure reductions.**

Vocational Rehabilitation Services: Cooperative Agreements

The Department provides a portion of its Vocational Rehabilitation services through cooperative agreements with school districts, state and community colleges, county mental health programs and county welfare departments to provide rehabilitation services to clients served by these agencies. In these cases, the cooperating entity provides match collars and the Department provides federal VR funds. **The budget proposes to increase cooperative agreements with colleges to generate General Fund savings of $430,000.** These savings are in addition to the $1.6 million General Fund identified under VR Program Services in the Discussion Agenda, for a total of $2.1 million General Fund savings in VR case services.

The Budget contains Budget Bill Language requiring county mental health to identify in their cooperative program proposal match resources that supplement VR activities, and assure that the client is ready for VR services. The items requested are not unreasonable, but are included in the general cooperative agreement signed by every partner agency.

- **Adopt the expansion of cooperative agreements, with accompanying General Fund Savings.**
- **Eliminate the mental health-specific Budget Bill Language.**

Vocational Rehabilitation Services: Ticket to Work Act

In December, 1999, the federal Ticket to Work and Work Incentives Improve Act became law, designed to increase the number of persons receiving Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) that obtain employment and thereby reduce or eliminate their benefit payments. The federal act provided that claimants could choose their own employment service provider, and that providers would only be paid when the claimant obtained work. The act also provided that claimants could maintain Medi-Cal or Medicare coverage while working.

The current budget include Supplemental Report Language requiring DR to report by January 1, 2002, on prospective and ongoing efforts to implement the Ticket to Work Act, including (1) a timetable for implementation, including release of federal regulations; (2) the impact of the act on Californians, including on DR caseloads; (3) the status of any negotiations with providers for services; and (4) any changes in law or regulation necessary to achieve compliance.

The federal government has been slow in initiating Ticket to Work authority to states. The current schedule is for California to begin its program in August 2003. The Department has completed the report; it is in the administrative review and approval process..

- **Put Ticket to Work on May Open Issues agenda.**

Vocational Rehabilitation Services: One-Stop Career Centers

The Department of Rehabilitation is a mandated participant in the operation of One-Stop Career Centers, required as a part of the federal Workforce Investment Act and managed by the 50 Workforce Investment Areas throughout the state. The Department has negotiated the placement of VR services in at least One-Stop Center in each Workforce Investment Area.

In addition to co-location of VR services, the Department has provided leadership to a work group reporting to the California Workforce Investment Board to address the issues of disability access in the workforce investment system. The work group has completed various activities:

- Acquired discretionary Workforce Investment Act funds for training and services to support improved access in local One-Stop Centers. This funding includes a small fund for grants to local One-Stop Centers to improve accessibility.
- Provided training to One-Stop Centers on ADA, disability services, and facility and program access.
- Developed a plan for statewide marketing on hiring persons with disabilities for the workforce investment system.
- Participated in the development of an assessment tool for One-Stop Centers to determine their accessibility to persons with disabilities.
- Participated in discussion of standards to provide guidance to One-Stop centers.

Survey results from the assessment of One-Stop Centers were requested from the Employment Development Department, and will be discussed more fully under their budget. The Department will report on how the Legislature can determine whether co-located services result in expanded enrollment by VR clients in job services, and whether such enrollment results in successful outcomes for VR clients. The Department will consider whether it can routinely identify how much in resources are spent on One-Stop participation by the Department?

- **This issue will be discussed under the EDD budget.**

Support of Community Facilities

The Department distributes federal and General Funds to support Independent Living Centers (ILCs) throughout the state to provide a variety of services to individuals with disabilities. ILCs provide peer counseling, housing registries, information and referral, attendant referral and personal and systems advocacy. For the last two years, the budget has provided funds for ILCs to assess local needs for assistive technology, and to provide assistance to individuals needing assistive technology.

The budget proposes to shift funding for ILCs from General Funds to federal Social Security Act funds, for a General Fund savings of $3.4 million. The state receives Social Security Act funds when departmental efforts successfully remove a SSI or SSDI recipient from the rolls, or reduce their benefits. SSA reimbursements already provide a portion of ILC funding, and were used last year to continue funding for assistive technology. The proposal for the budget year shifts the entire ILC grant funding to SSA reimbursements. There is no reduction in net ILC funding.

The current budget required the Department to report by January 1, 2002, on how to improve the provision of assistive technology devices and services to Department clients. The report has been drafted. It is in the administrative review and approval process. However, the Department reports that it is developing a formal memorandum of understanding with the California Department of Aging on independent living, including policy coordination and collaboration on housing and assistive technology efforts.

- **Adopt the shift to federal SSA funds, for a General Fund savings of $3.4 million.**

DISCUSSION AGENDA

Vocational Rehabilitation Services

The Vocational Rehabilitation Services (VR) program is the primary service delivered by the Department. Using federal Rehabilitation funds, and various state and local matching funds, the program assists individuals with disabilities to prepare for, enter into, and retain competitive employment. Services are delivered through field offices throughout the state, and include client assessment, counseling and guidance, purchase of individual rehabilitation services and job placement. In 2001-02, the federal grant was $254.5 million, with a required match of $68.9 million (the match could be General Fund, reimbursements, or third-party in-kind match). In 2002-03, the Department estimates that the federal grant will total $260.9 million, with a required match of $70.7 million in General Fund, reimbursements or third-party in-king match.

The VR program is not an entitlement program. The Department operates under a federal Order of Selection (OOS) process, a method of assessing applicants that gives priority for service to persons with the most significant disabilities. The OOS process has been operating since September 1995 and has twice ceased delivery of services to new applicants for periods of time due to lack of funds. Since July 1999 DR has been able to maintain stable service levels in the categories of Most Significantly Disabled and Significantly Disabled clients. This stability is due to improved cost estimating and reporting methods. In addition, the Department has implemented a new assessment tool that is more consistent in scoring and takes significantly less time to complete. 40% of the cases served by VR in 2000-01 received SSI, SSDI or both. This percentage has been growing over recent years, confirming that the programs serves very disabled clients.

The largest categories of clients include those with a psychiatric or substance abuse disability (23%), physical disability (27%) or learning disorder (19%).

Caseload Information

The budget proposes to maintain services to the categories of Most Significantly Disabled and Significantly Disabled clients through June 30, 2003, and estimates that **cost and caseload increases will require an increased appropriation of $13.65 million ($2.9 General Fund) for base program expenditures, for a total cost of $72.3 million.** The balance of the VR budget beyond the base program goes to support cooperative service programs with other agencies and WAP and SEP ($96.7 million); non-caseload programs such as Blind Services, administration of the cooperative programs, and the In-Service Training grant ($3.7 million); and staffing and related costs for the provision of direct services for VR consumers ($130 million).

VR Program Services

The budget proposes to achieve savings of $1.6 million General Fund ($7.7 million total funds) by instituting various efficiencies in the delivery of VR services. These savings are in addition to total reductions to case services of $1.5 million in 01-02. Specifically, the Department proposes to:

- Reduce the frequency and duration of medical examinations, psychological evaluations and vocational assessment evaluations. This reduction will be achieved by using MediCal to pay for medical and psychological evaluations, and by using existing medical, psychological and vocational information from other sources as appropriate. The budget proposes to reduce these costs by 20%, for a savings of $348,000 General Fund ($1.6 million total funds).
- Reduce the cost of post-secondary education services by requiring clients to attempt to identify alternative education benefits (such as Pell grants); by using community colleges, where appropriate, to meet higher education needs; and by limiting payment for private schools to the rate that would be paid to a public school or university. The budget proposes to reduce these costs by 20%, for a savings of $699,000 General Fund ($3.3 million total funds).
- Reduce the cost of Personal Social Vocational Adjustment services, which are services to train clients in appropriate work related behaviors designed to identify and eliminate specific barriers to employment. The budget estimates that costs of these services will be reduced by 20%, for a savings of $460,000 General Fund ($2.2 million total funds).
- Reduce the cost of computer services provided to clients, by maximizing the use of bids and statewide or regional contracts to procure computer services. The budget proposes to reduce these costs by 10%, for a savings of $97,000 ($450,000 total funds).
- Suspend the provision of modifications to a consumer's home or work site deemed essential to enable the consumer to function in that setting (ramps, removal of mobility barriers, etc.). Fewer than 10 consumers receive these

services annually. The budget proposes savings of $39,000 General Fund ($185,000 total funds).

The Department has indicated that it does not expect these reductions to reduce the number of clients or the performance success of rehabilitation services. The Department was required to report in 2000 on strategies to improve employment outcomes, better managed program costs, and more effective determination of disability. The Department reported that successful employment outcomes were increased from 1999-2000 to 2000-01. The Department could report on any changes in federal outcome indicators in the budget year.

- **The subcommittee should consider whether to adopt the proposed reductions.**
- **The subcommittee should consider whether to adopt Budget Bill Language requiring the Department to report on federal outcome indicators in the VR program in 00-01, 01-02 and 02-03.**

Americans with Disabilities Act Unit

The Department maintains a unit to provide training and consultation to other State agencies to assist them in their compliance with the Americans with Disabilities Act (ADA). In addition, the Director of the Department chairs a state-level committee, the ADA Interagency Task Force, appointed by the Governor, to make recommendations to assure that state buildings are accessible to persons with disabilities and to develop a plan to identify any unmet needs and recommend methods for meeting such needs to ensure that persons with disabilities have equal access to state programs and services. In addition, the 2000-01 budget included $60 million ($20 million General Fund, $20 non-governmental funds, and $20 million special funds) for projects addressing accessibility of state buildings by the disabled. The funds are available until June 2002. The ADA Interagency Task Force identified priorities for the expenditure of these funds.

The Department reports that $11.5 million was spent by August ($8.1 million General Fund, $1.5 million Special Funds, and $913,000 from Non-governmental funds). These funds were spent primarily on General Services state-owned buildings, EDD-owned job service locations, and CalTrans-owned building. In October, the Department reported that an additional $15.2 million was spent ($10.9 million General Fund, $2.7 million Special Funds, and $1.5 million non-governmental funds). These include Fish and Game, CalTrans, fairs, parks and recreation, and visitors areas for a variety of state agencies.

It seems likely that some funds will remain in these accounts, although the General Fund account has been exhausted. The initial solicitation for these funds generated responses from 15 departments, requesting over $80 million in funds. The Department may be able to develop plans to leverage use of special and non-governmental funds.

- **The subcommittee will consider whether to roll over remaining ADA funds.**

Habilitation Services

The Habilitation Services program provides services to clients with developmental disabilities through Work Activity Programs (WAP) and Supported Employment Programs (SEP). Clients in these programs are referred from Regional Centers, and the services are an entitlement to eligible clients under the Lanterman Act. WAP programs provide work experience and work-related services in a sheltered setting. SEP programs provide competitive employment opportunities, with training and ancillary support services to enable clients to learn job skills and maintain employment.

Some WAP and SEP services are provided with base Vocational Rehabilitation funding, when clients are potentially likely to succeed in supported or competitive employment in the community. Most, however, are provided under the Habilitation program. These services are for clients who are unable to benefit from base VR services, or who have progressed through base VR services and have continued long-term support needs in order to participate in supported employment.

WAP and SEP services are funded with a combination of federal VR funds and their accompanying state match, Medicaid Home and Community-Based Services Waiver reimbursements and other state General Funds.

WAP Rate Setting

WAP services are usually provided in a sheltered workshop and include both paid work and work related services. Services are paid on a per consumer day, and the rate varies from provider to provider based on their WAP historical costs. Statute requires the rate to be re-established every two years, based on the service provider's cost of providing services. In other words, rates would be set for the 2002-03 fiscal year, based on expenses incurred in the 2000-01 fiscal year.

The budget proposes to suspend the new rates that would otherwise be set in 2002-03. Preliminary estimates are that this suspension avoids $4.9 million in new costs ($3.8 million General Fund). WAP providers estimate that the increase would be more than twice this amount, based on actual costs.

- **The subcommittee will consider whether to freeze the statutorily-required rate process for WAP services, by adopting Trailer Bill Language to do so.**

WAP and SEP Program Changes

SEP services are usually provided at the work site of a community or private employer. Services can be provided in a group of 3 or more individual with a full-time job coach (Group SEP services), or through individual job coaching for an individual in a work setting (Individual Placement SEP services. Individual Placement services are reimbursed based on job coach hours, and it is anticipated that job coach hours decline over time.

The budget anticipates an increase of $10.9 million ($10.5 million General Fund) for the Habilitation WAP and SEP programs, due to caseload changes, in addition to increases in the VR portion of the budget of $689,000 ($143,000 General Fund) based on caseload changes in WAP and SEP. Current year spending was increased for WAP and SEP through a deficiency appropriation, related to an increase in the number of days clients attend WAP programs and the number of job coach hours provided in the SEP program.

The budget further anticipates that caseload cost increases in the Habilitation program will be offset by a reduction of $7.3 million ($5.9 million General Fund) to reflect various cost containment measures in the Habilitation WAP and SEP programs. The budget does not detail these reductions, and provides that the Department will convene a stakeholder group to make specific recommendations to accomplish these reductions. The Department notes that costs in the recent past have increased faster than caseload, and has identified limits on job coach hours, increased group sizes, elimination of payment for some supervision activities, changes the method of payment, and other areas for potential reductions.

- **The Department will report on the status of the stakeholder process.**

5170 State Independent Living Council

The State Independent Living Council (SILC) was established by executive order in June 1996. The SILC is required by the Federal Rehabilitation Act of 1973 (as amended in 1992) in order for the state to receive federal funding for Independent Living Services and the Centers for Independent Living. The SILC is responsible for developing a state plan for independent living in conjunction with the Department of Rehabilitation and is required to monitor, review and evaluate the implementation of that plan.

5170

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
State Council Services (Reimbursements)	$431	$432	$1	0.2
Total	$431	$432	$1	0.2

The SILC has a staff of three to support a Council membership of 18. The budget has remained virtually unchanged since the establishment of the office.

The SILC is currently engaged in working with the Department of Rehabilitation on the newest version of the state's plan for independent living. The SILC will hold public hearings on the plan in April, and it is expected to be submitted to the federal Rehabilitation Services Administration in June.

In addition to preparation of the state plan, the SILC publishes reports on disability issues, evaluates grants for the Department of Rehabilitation, and partners with other disability agencies and interest groups to provide information and referral to the public, and to promote independent living values and services. The SILC has not yet completed its 2000-01 annual report, but expects to do so in the next month. The SILC did publish a report in 2001, EMPLOYMENT SUPPORTS FOR PEOPLE WITH DISABILITIES: A SUMMARY AND ANALYSIS OF FOCUS GROUP RESEARCH. The SILC also funded an additional report on the impact of the energy crisis, and related increased costs, on people with disabilities. The final draft of the report has not been released yet, but is expected in the next two months. Finally, the SILC contracts for a Systems Change and Education network, operated through Independent Living Centers, with full-time advocates linked to a statewide network of empowerment teams.

CONSENT AGENDA

Adopt the SILC budget.

Senate Budget & Fiscal Review
Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Monday, March 18, 2002
UPON ADJOURNMENT OF SESSION

AGENDA – Part 1

0553 Office of the Inspector General for Veterans Affairs

Purpose and Description. AB 92 (Floyd, Chapter 894/99) established the office. The office reviews the operations and financial condition of the state and local veterans' programs, including the operations and financial condition of the veteran's homes and the veterans' loan programs.

Prior to establishment of the Inspector General's office, the Department of Veterans Affairs (DVA) maintained a five-person office of the internal auditor. The inspector general was to have replaced the internal audit function at DVA. DVA maintains two full-time internal audit positions.

Originally funded with $180,000 and two positions in the implementing legislation, the Governor proposes $531,000 and four positions in the budget year. This is $24,000 less than current year expenditures.

Staffing Schedule Accounts for 35 Percent of Assumed Workload. Pursuant to a supplemental report requirement, the office submitted a staffing schedule. The report accounts for 35 percent of the office's staff hours. It does not account for other anticipated workload, such as staff time for handling complaints and conducting investigations. Based on its review of the report, the Legislative Analyst's Office said, "It is difficult to assess from the information contained in the [Inspector General's] report whether the staffing provided to the office is adequate to meet its responsibilities. "

Staff recommend that the budget be placed on consent, as no budget issues have been raised.

8955-8966 DEPARTMENT OF VETERANS AFFAIRS and VETERANS' HOMES OF CALIFORNIA

Purpose and Description. The Department of Veterans Affairs (DVA) provides services to qualified veterans and eligible members of the National Guard. Principally, it

- Assists eligible veterans and their dependents in obtaining federal and state benefits.
- Makes below-market loans to qualified veterans for homes and farms. The loans made through the California Veterans Farm and Home Purchase Program use the proceeds from the sale of general obligation and revenue bonds.
- Operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County) and Chula Vista (San Diego County).

Expenditures Proposed in the Governor's Budget. The budget proposes total expenditures of $351 million, a slight increase from the current year. The budget anticipates a $5 million reduction in the cost of the veterans homes. Please see Table 1 for details.

Table 1
Summary of Expenditures, by Program
Dollars in Thousands

	2001-02	2002-03	Dollar Change	Percent Change
Farm & Home Loans to Veterans	$229,545	$231,905	$2,360	1.0%
Veterans Claims & Rights	5,321	5,284	-37	-0.7%
Care of Sick & Disabled Veterans	106,018	111,291	5,273	5.0%
Farm & Home Loans to National Guard Members	82	78	-4	-4.9%
Veterans' Memorials Fund	26	23	-3	-11.5%
Northern CA Vet's Cemetery	25	0	25	-100.0%
General Administration	3,049	2,958	-91	-3.0%
Totals	**$344,066**	**$351,539**	**$7,473**	

Update on Reports

As a condition of approving the department's budget, the Legislature required it to file reports on its progress in various management areas, including certification of the Barstow home, cash, and consultant contracts. These reports were intended to assist the Legislature in monitoring conditions at the homes in particular.

Between July 1, 2001 and March 1, 2002, the department was to have provided 12 reports to the Legislature. Eight of these reports were filed. All were late by at least four weeks. Table 2 displays the report required and when the department forwarded it to the Legislature.

Table 2

Reports Due from the Department between July 1, 2001 and February 28, 2002

	Due Date	Date Released
Barstow Recertification Progress Report (1)	7/1/01	Not Released
Barstow Recertification Progress Report (2)	8/1/01	11/20/01
Cash Flow Report	8/31/01	1/27/02
Barstow Recertification Progress Report (3)	9/1/01	1/24/02
Barstow Recertification Progress Report (4)	10/1/01	1/24/02
Barstow Recertification Progress Report (5)	11/1/01	1/24/02
Evaluation of Country Villa Services Contract	12/1/01	2/25/02
Barstow Recertification Progress Report (6)	12/1/01	2/25/02
Reimbursement Contract Performance Report	12/15/01	Not Released
Updated Cash Flow Report (1)	12/31/01	1/27/02
Barstow Recertification Progress Report (7)	1/1/02	Not Released
Updated Cash Flow Report (2)	2/28/02	Not Released

ITEMS FOR DISCUSSION

Staff raise the following issues:

1. Personnel Levels Are Overbudgeted
2. Reimbursements Underestimated
3. Loan Update
4. Cash Flow Update
5. Cash Management Systems Need Improvement
6. Capital Projects

1. Personnel Levels Are Overbudgeted

As part of last year's May Revision, the department identified expenditures of $800,000 associated with vacancies and other personnel expenditures which could be redirected to finance a one-time contract for improving the department's billing and collection systems. The department testified that the reduction would not affect services.

The subcommittee denied the contract and reduced the department's base budget by $800,000. The budget conference committee restored the $800,000 on a one-time basis to fund the contract.

The Governor's budget restores the $800,000 to the department's permanent base.

Staff recommend that the department's General Fund expenditures be reduced by $800,000. Because the department has foregone the personnel in the current year, it appears that the personnel are not essential to the department. The department provided no justification for restoring the funding.

2. Reimbursements Underestimated

The United States Department of Veterans Affairs (USDVA) provides a per diem reimbursement for each resident of the three homes. The federal government expects to provide a cost of living adjustment for the USDVA per diem in the budget year, thereby increasing reimbursements. The budget does not reflect this increase in per diem payments.

Recognizing the difficulty the department has faced collecting its Medicare and Medi-Cal reimbursements, the department has taken the following actions to improve reimbursements:

- In 2000, it contracted with Superior Consultants to reduce account receivable backlog and enhance the home's bill tracking system (known as the Meditech system), improve hospital business practices and to provide staff training. Superior Consultants improved operating efficiency of the system and helped the home collect approximately $3 million in reimbursements.

- In 2001, it contracted with CERTUS Corporation to review inpatient and outpatient surgery accounts receivable for the period October 1999 through June 2001. According to the Legislative Analyst, CERTUS identified 429 billable accounts for a potential increase in reimbursements of about $1.3 million. After reviewing the accounts assigned it, CERTUS now estimates that it can collect between $350,000 and $450,000.

- In 2001, it hired a financial manager, a former Medicare auditor, to help train clinical and Medi-Cal staff on procedures for billing, entering data and ensuring compliance with Medicare requirements.

- In January 2002, the department contracted for "a fiscal intermediary to capture reimbursement data and bill for inpatient services." The budget assumes this contract, which was to be in effect for a half year, will generate $3 million in additional reimbursements between January 1, 2002 and June 30, 2002.

Staff recommend that the subcommittee:

(a) Increase the budgeted level of USDVA reimbursements by the amount expected for all three homes and reduce the General Fund appropriation by an equivalent amount.

(b) Increase the budgeted reimbursement level for Medicare and Medi-Cal to reflected the improved collection rates associated with the contracts. The department indicated that the 2002 contract alone would generate $3 million in additional collections on a half-year basis. It would not be unreasonable to assume that, after adopting the contractor's suggestions about improving collections, the department could sustain higher collection rates for at least $4.5 million on an annualized basis. By increasing Medicare and Medi-Cal reimbursements by $1.5 million, the subcommittee could reduce General Fund costs by an equivalent amount.

3. Loan Update

In recent years, the budget bill authorized the Controller to provide the homes with a short-term loan to accommodate delays in receiving reimbursements, primarily from Medi-Cal and Medicare. The General Fund loan, which could be extended through administrative action was authorized by this provisional language:

> *A loan from the General Fund, in an amount not to exceed the level of reimbursements appropriated in Schedule (2) of this item, shall be made available to the Veterans' Home of California by the Controller to meet cash needs resulting from the delay in receipt of federal funds or reimbursements for medical services provided. The loan is short term, and shall be repaid within six months. Interest charges shall be waived pursuant to subdivision (e) of Section 16314 of the Government Code.*

When the homes cannot repay their short-term loan within a time frame established by the Controller, the department requests that the loan be "forgiven." When a loan is "forgiven," the budget effect is to increase General Fund expenditures. For example in the 2001 Budget Act, the Legislature forgave a $2 million loan made to the Barstow Home in 1999. As a result, General Fund expenditures increased by $2 million.

The Yountville home took out a loan of $7.8 million and $5.2 million in 1999-00 and 2000-01, respectively. It has repaid most of these loans, but has a total outstanding balance of $5.3 million for these loans, as displayed in Table 3. These loans are associated with shortfalls in reimbursements for claims against Medi-Cal and Medicare. Given the time limits for making valid claims for these reimbursements, it is highly unlikely that home will be able to repay the General Fund with the reimbursement revenue attributable to 1999-00 or 2000-01.

Table 3
General Fund Loans to the Yountville Home

Fiscal Year	Loan	Paid	Balance
1999-00	$ 7.8	$ 5.8	$ 2.0
2000-01	5.2	1.9	3.3
Totals	**$ 13.0**	**$ 7.7**	**$ 5.3**

The home expects to take out a loan for the current and budget years as well.

Staff recommend that the subcommittee revise the budget bill language authorizing loans, making it subject to 30-day notification of the fiscal committees.

> *(a) The Director of Finance may authorize a loan from the General Fund, in an amount not to exceed the level of reimbursements appropriated in Schedule (2) of this item to the Veterans' Home of California, provided that the (1) The loan is to meet cash needs resulting from the delay in receipt of reimbursements for medical services provided, (2) The loan is short term, and shall be repaid within six months, (3) Interest charges may be waived pursuant to subdivision (e) of Section 16314 of the Government Code, and (4) The Director of Finance may not approve the loan unless the approval is made in writing and filed with the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers appropriations not later than 30 days prior to the effective date of the approval, or not sooner than whatever lesser time the chair person of the joint committee or his or her designee may determine.*
>
> *(b) At the end of the six-month term of the loan, the department shall notify the Chairperson of the Joint Legislative Budget Committee whether the home has repaid the loan made pursuant to subdivision (4) of paragraph (a). If the department notifies the Legislature that the home cannot repay the loan within the six month loan period, it shall identify a payment schedule for full payment of the loan.*

This language ensures that the Legislature is apprised of the home's fiscal condition before a loan is extended and if the home is unable to meet the repayment condition of the loan.

4. Cashflow Update

The department continues to face cash flow problems. The department estimates that it will face a cash short fall of at least $1.7 million in April 2002. The cash deficit will grow to $7 million in June. Part of the department's difficulties arise when it delays billing the federal government and private insurers. The department says it has a four month backlog in making claims. This backlog causes the lag in collections.

Staff recommend that the subcommittee adopt the following supplemental report language.

Proposed Supplemental Report Language
8955-001-0001 – Department of Veterans Affairs

1. Managing Cash Flow.

The department shall submit the following reports to the chairs of the budget committees of both houses.

(1) On December 27, 2002, the department shall report on the cash flow needs of the department and veterans' homes. The report shall detail the expected expenditures and expected receipts of reimbursements and U.S. Department of Veterans Affairs per diem. The department shall notify the Legislature of the actions it will take to accommodate any estimated cash shortfalls, including any plans to reduce purchases. The department shall detail the balances and repayment schedule for General Fund loans.

(2) On February 28, 2003, the department shall update the report provided pursuant to subparagraph (1). The department shall describe the causes and fiscal implications of the differences between the December and February cash flow analysis. The department shall notify the Legislature of the actions it will take to accommodate any estimated cash shortfalls, including any plans to reduce purchases.

The reports shall provide sufficient information to sustain a thorough analysis

2. Reducing Lags in Collections.

On or before December 15, 2002, the department shall report to the chairs of the fiscal committees on the lags associated with collecting reimbursements. In particular, the department shall detail:

(1) The lags incurred between the rendering of services, making claims, and reimbursements received.
(2) Actions the department has taken to reduce lags since July 1, 2001.
(3) Actions the department intends to take in 2003 to reduce lags. The department shall identify the actions and the expected reduction in lags.

The report shall provide sufficient information to sustain a thorough analysis.

5. Internal Control System Update

Last year, the State Auditor reviewed the department's internal control system. In that review, the auditor determined that the department exhibits most of the warning signs for a poor internal control systems. The Auditor did not make recommendations to fix the control system.

The Inspector General for Veterans Affairs conducted a later review and also determined that the department has "several critical weaknesses in accounting practices with the provisions of laws, administrative rules, State Administrative Manual requirements and other guidelines..."

Of particular concern is the inspector's identification of weaknesses in accounting controls. These weaknesses, according to the inspector,

> *put CDVA at risk for theft, loss from unauthorized use or misappropriation of assets. Specifically, certain cash processing functions are not adequately separated, blank check stock and receipts are not secured and overpayments are not adequately monitored.*

For example, the inspector found that several salary advances had been made at Yountville and were outstanding beyond 60 days. The personnel office could "offer no explanation as to why the salary advances had not been resolved."

Staff recommend that the Department of Finance conduct an audit of the department's internal control system and make specific recommendations for improving the systems. Finance shall be reimbursed for its audit costs.

6. Capital Projects

The budget includes three projects at the Yountville home funded by $743,000 of general obligation bonds, approved by the voters through Proposition 16. The proposition requires that the bond funds be matched with federal funds. The Legislative Analyst recommends that the Legislature adopt budget bill language requiring the federal funds be available before the bond funds can be spent. The department is preparing language and expects to present it at the hearing.

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

March 18, 2002
1:30 P.M. (after Agenda I)
ROOM 113
(Diane Van Maren, Consultant)

AGENDA II

Item	***Description***
4440	**Department of Mental Health, including issues regarding**

- **Community Mental Health**
- **State Hospitals**
- **Department Support**

PLEASE NOTE: Issues pertaining to the DMH may be reviewed again at the Subcommittee's "OPEN" issues hearing and again at the time of the May Revision. **Please refer to the Senate Daily File for the dates and times for Subcommittee hearings.**

I. 4440 Department of Mental Health

A. BACKGROUND

Purpose and Description

The Department of Mental Health (DMH) administers the Bronzan-McCorquodale and Lanterman-Petris-Short Acts providing delivery of mental health treatment services through **(1)** a state-county partnership and **(2)** the involuntary treatment of the mentally-disabled. The DMH is responsible for the operation of five state hospitals and the acute psychiatric units at the California Medical Facility in Vacaville and the Salinas Valley State Prison.

Overview of Governor's Budget

The budget proposes expenditures of **almost $2.192 billion** ($943.4 million General Fund) for mental health services. This reflects an increase of $103.1 million, or 4.9 percent, over the revised 2001-02 budget. **Of the total amount, $1.471 billion is for local assistance, $611.2 million is for the state hospitals, $44.2 million is for department support, and $64.8 million (General Fund) is for state mandated local programs.**

In addition, it is estimated that $1.173 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. This amount does not include the estimated $14 million which may be made available from the Vehicle License Collection Account.

Further, an appropriation of $21.5 million ($736,000 General Fund and $20.8 million Public Building Construction Fund) is provided for capital outlay purposes at the State Hospitals.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
Program Source				
Community Services Program	$1,334,598	$1,471,364	$136,766	10.2
Long Term Care Services	$608,235	$611,237	$3,002	0.5
Headquarter Administration	$45,435	$44,208	($1,227)	(2.7)
State Mandated Local Programs	$100,303	$64,840	($35,463)	35.4
Total, Program Source	$2,088,571	$2,191,649	$103,078	4.9
Funding Source				
General Fund	$989,222	$922,052	($67,170)	6.8
Federal Funds	59,707	59,707		
Reimbursements	1,035,552	1,185,889	150,337	14.5
Other Funds	4,090	24,001	19,911	487
Total Department	$2,088,571	$2,191,649	$103,078	4.9

B. ITEMS FOR CONSENT (Items 1 through 8)

1. Adjustment for San Mateo Pilot Project--Pharmacy & Laboratory Services

Background and Governors Budget: The San Mateo County Mental Health Department has been operating as the mental health plan under a federal Waiver agreement and state statute as a "field test" since 1995. The field test is intended to test managed care concepts which may be used as the state progresses toward consolidation of specialty mental health services and eventually, a capitated or other full-risk model. As the model has matured and evolved, additional components have been added and adjusted.

As part of the contract negotiation with the DMH, trend factors for pharmacy and laboratory costs have been updated to more accurately reflect actual cost-based data. As such, the laboratory costs and pharmacy costs were adjusted in the current year.

For the budget year, the DMH is proposing to drop the risk corridor and settle on a fixed allocation for pharmacy and laboratory services. San Mateo is in agreement and is now ready to assume full risk of these services, if the allocation of General Fund for these services is increased to match cost data since January 1999. As such, the budget is proposing **an increase of $1.9 million** ($1.4 million General Fund) for this purpose.

DMH has determined that the pharmacy and laboratory benefit under the San Mateo field test is cost-neutral based on projections of the likely cost of the services if the benefit is eliminated from the field test.

Subcommittee staff has raised no issues.

2. Department of Mental Health Support Reductions

Background and Governor's Proposed Budget: The DMH **is proposing a reduction of $3,156,000 General Fund from their state support budget.** This level of savings assumes the following:

- Elimination of 8 positions from the Program Develop and Evaluation section for savings of $635,000.
- Reduction of 4 positions from the Information Technology contract funding for State Hospital Master Billing and Pharmacy Systems for savings of $437,000.
- Reduction of $400,000 in funding for the evaluation of AB 34/2034 projects.
- Reduction of $$361,000 for consultant and professional services contracts.
- Reduction of $282,000 for evaluation costs associated with the Sexually Violent Predator Program.
- A shift of $233,000 from the General Fund to federal SAMHSA block grant funds by claiming the full 5 percent for administrative activities as allowed under federal regulations.
- Reduction of $200,000 from information technology services associated with the State Hospital Trust System.
- Elimination of DMH participation in on-site reviews of seriously emotionally disturbed children in out-of-state placements conducted by the Department of Social Services for savings of $200,000.
- Closure of an office to eliminate $156,000 in rental space expenditures.
- Reduction of two positions from the Early Mental Health Program for savings of $140,000. The Administration is also proposing to slightly modify program requirements to allow for this staffing

level reduction. Specifically, the proposed language modification provides the Director of Mental Health with the authority to select program models that have been determined to be effective and based on sound research.

- Elimination of one position associated with second level appeals of treatment authorization requests for savings of $89,000.
- Deletion of one position associated with cost reporting and data collection for a savings of $46,000 ($23,000 General Fund and $23,000 in Reimbursements).

The DMH notes that these reductions are necessary in order to not exceed available resources.

Subcommittee staff has raised no issues with these proposed reductions in light of the present fiscal situation.

3. Department of Mental Health Local Assistance Reductions

Background and Governor's Proposed Budget: The DMH **is proposing a reduction of $4.2 million (General Fund) from the local assistance budget.** This level of savings assumes the following:

- Elimination of $2.7 million (General Fund) in supplemental funding for Santa Clara County related to the closure of East Valley Pavilion. This supplemental funding has been provided since 1993. No other county has received this type of supplemental funding.
- Elimination of $1.5 million (General Fund) from the Dual Diagnosis Projects. This proposal eliminates all General Fund support for these projects. The current year budget already reduced these projects by $400,000 (SB 1xxx). It should be noted that about $8 million in new federal SAMHSA grant funds for the current year was allocated to the counties to support existing efforts to provide integrated treatment services to adults with a dual diagnosis of serious mental illness and substance abuse.

The DMH notes that these reductions are necessary in order to not exceed available resources.

Subcommittee staff has raised no issues with these proposed reductions in light of the present fiscal situation.

4. Healthy Families Program—Adjustment for Caseload

Background: The Healthy Families Program provides health care coverage and dental and vision services to children between the ages of birth to 19 years with family incomes at or below 250 percent of poverty (with income deductions) who are not eligible for no-cost Medi-Cal. Monthly premiums, based on family income and size, must be paid to continue enrollment in the program. **California receives an annual federal allotment of federal Title XXI funds (Social Security Act) for the program for which the state must provide a 34 percent General Fund match, except for supplement mental**

health services in which County realignment funds are used as the match. With respect to legal immigrant children, the state provides 100% General Fund financing.

The enabling Healthy Families Program statute linked the insurance plan benefits with a **supplemental program** to refer children who have been diagnosed as being seriously emotionally disturbed (SED). The **supplemental services** provided to Healthy Families children who are SED can be billed by County Mental Health Departments to the state for a federal Title XXI match. **Counties pay the non-federal share from their County Realignment funds** (Mental Health Subaccount) to the extent resources are available.

Under this arrangement, the Healthy Families Program health plans are required to sign Memoranda of Understanding (MOU) with each applicable county. These MOUs outline the procedures for referral. It should be noted that the health plans are compelled, as part of the required Healthy Families benefit package and capitation rate, to provide certain specified mental health treatment benefits prior to referral to the counties.

Governor's Proposed Budget: The budget proposes total expenditures of almost $8 million (total funds) for supplemental mental health services provided by the County Mental Health Plans for children enrolled in the HFP. **This reflects a decrease of $853,000** (total funds) **to reflect adjustments to the HFP based on paid claims data and a reduction in the estimated percentage of legal immigrants requiring supplemental mental health services.**

Subcommittee staff has raised no issues regarding this adjustment.

5. Traumatic Brain Injury Cooperative Program

Background and Governor's Proposed Budget: The Traumatic Brain Injury (TBI) Pilot Program was initiated in 1988 and is intended to provide assistance to individuals who have sustained a brain injury as a result of an external force to the head. The purpose of the pilot project was to demonstrate the effectiveness of a coordinated service approach to assist persons with TBI to attain productive, independent lives.

As part of the TBI Program, DMH through reimbursement from the Department of Rehabilitation provides training and technical assistance to service providers and family members. The budget proposes to permanently establish a three-fourths time Associate Mental Health Specialist to absorb the workload associated with the program. This position is fully funded at about $40,000 through reimbursements from the Department of Rehabilitation.

Subcommittee staff has raised no issues with this proposal.

6. Mentally Disordered Offenders

Background and Governor's Proposed Budget: Pursuant to existing statute, CDC inmates who meet Mentally Disordered Offender (MDO) criteria are required to be treated for their mental illness as a condition of parole. In addition, the DMH must evaluate these inmates prior to their release on parole.

The budget requests an **increase of $184,000 (General Fund) to provide an additional 25 evaluations per month (total of 376 per month) to be completed on MDOs.** This request is simply caseload related.

Subcommittee staff has raised no issues regarding this proposal.

7. Adjustment for Worker's Compensation Costs for State Hospitals

Background and Governor's Proposed Budget: The budget requests an increase of $205,000 ($162,000 General Fund and $43,000 County Realignment funds) to the State Hospital appropriation in accordance with the new three-year Master Agreement negotiated by the Department of Personnel Administration for the administration and payment of workers' compensation benefits.

The new Master Agreement includes a provision that requires each state agency to deposit an amount equal to one-eighth of the benefits provided during the preceding twelve months. This amount is to be adjusted annually and will be rolled over at the beginning of each new rating period. All state agencies covered by the Master Agreement are required to pay their fair share of service costs associated with workers' compensation administrative services provided by the State Compensation Insurance Fund (SCIF).

No issues have been raised regarding this item at this time.

8. State Hospital Capital Outlay Projects—Public Building Construction Fund

Background and Governor's Proposed Budget: The budget provides a total of $20.8 million (Public Building Construction Fund) for preliminary plans and working drawings for two continuing projects—**(1)** construction at Atascadero State Hospital for the multipurpose building ($13.7 million, and **(2)** construction at Metropolitan State Hospital for a school building ($7.1 million). **These amounts are consistent with the Supplemental Report Language adopted by the Legislature in the Budget Act of 2001.**

Subcommittee staff has raised no issues with this proposal, nor has the LAO.

C. ITEMS FOR DISCUSSION—COMMUNITY BASED SERVICES

1. Medi-Cal Specialty Mental Health Managed Care—ISSUES "A" & " B "

Overall Background—Overview of Mental Health Managed Care: Implementation of Medi-Cal Mental Health Managed Care has included the consolidation of Medi-Cal psychiatric inpatient hospital services ("Phase I"), which occurred in January 1995 and the consolidation of Medi-Cal specialty mental health services ("Phase II"), which occurred from November 1997 through June 1998. **These two phases of implementation consolidated the two existing Medi-Cal mental health programs (Short-Doyle and Fee-For-Service) into one service delivery system. This consolidation required a Medicaid Waiver ("freedom of choice") and as such, the approval of the federal Health Care Financing Administration (HCFA).**

Under this delivery system, psychiatric inpatient hospital services and outpatient specialty mental health services, such as clinic outpatient providers, psychiatrists, psychologists, and some nursing services**, became the responsibility of a single entity, the Mental Health Plan (MHP) in each county. Medi-Cal recipients *must* obtain services through the MHP.**

Under this model, **MHPs generally are at risk for the state matching funds for services provided to Medi-Cal recipients and claim federal matching funds on a cost or negotiated rate basis. An annual state General Fund allocation is provided to the MHP's for this purpose.**

The DMH is responsible for monitoring and oversight activities of the MHPs to ensure quality of care and to comply with federal and state requirements.

ISSUE A: Status Update on Waiver Approval, HCFA Conditions and Need for An Independent Assessment *(Informational Item)*

Recent Waiver Renewal and Required Conditions: The federal Waiver for Medi-Cal Mental Health Managed Care was renewed by the federal Health Care Financing Administration (now the federal Centers for Medicare and Medicaid--CMS) on November 16, 2000. This is the state's third Waiver renewal. **The new Waiver period is from November 20, 2000 through November 19, 2002, or for two years.**

The **Waiver renewal was contingent on the following federal conditions:**

- ***Independent Assessment/Analysis:*** The state must submit an extensive **"Independent Assessment" of the Waiver program to the federal CMS by no later than August 2002**.
- ***State Assessment of Matching Funds:*** The **state must provide the federal CMS with an assessment of the source of state matching funds (including County Mental Health Realignment Funds) used in the waiver (by no later than November 2002).**

- ***Justification of Sole Source Contract:*** The state must provide the federal CMS with a re-justification of why the state contracts solely with the counties for administering mental health services provided to Medi-Cal recipients.
- ***Annual Reports on Children:*** The state must provide **detailed data reports** on children with special needs, **including utilization data on those enrolled in Foster Care, the CCS Program, and EPSDT**. **Further, the state must report on the following:**
    - County and/or **state oversight of the availability of mental health specialists** with experience treating children;
    - **County outreach and identification activities**, including coordination with programs such as Foster Care, special education, and juvenile justice; and
    - State's progress in developing and implementing performance measures related to children's mental health services.

Newly Proposed HCFA Regulations—Significant Changes: New ***proposed*** regulations governing all Medicaid (Medi-Cal) Managed Care Programs were issued in August 2001. **Implementation of these regulations must take effect by July 1, 2003. It is anticipated that the final regulations will be forthcoming from the federal CMS within the next month.**

The DMH states that **the full extent of the affect of these proposed regulations on California has not yet been fully evaluated but they will likely require significant changes in the administration of the program. For example:**

- The state may need to restructure the program in order to **provide recipient choice** (i.e., use a two plan model versus the existing County Mental Health Plan model).
- **The state (through an independent consultant) would be required to conduct annual "External Quality Reviews" of each County Mental Health Plan.** Presently this process is used (required by federal CMS) in the Medi-Cal Managed Care Program for health care services, but not for behavioral health services.
- The state would need to revise its Medi-Cal grievances, appeals and fair hearing processes to accommodate new time frames.

Generally, the state has three options for meeting the requirements of the regulations. We can either (1) fully comply, (2) request Waivers for certain provisions, or (3) restructure the existing program to meet all of the requirements.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following questions.

- **1.** Please **provide a brief update on the status of the Waiver renewal.**
- **2.** Will the Independent Assessment be available for public review?
- **3.** Please provide **brief comment on the proposed federal regulations.**

ISSUE B: Adjustment of Payments for Medi-Cal Mental Health Managed Care

Background—Standard Funding Adjustments: Mental Health Plans (MHPs) receive an annual state General Fund allocation from the DMH which is then used to draw down the federal Medicaid (Medi-Cal) matching funds. This allocation is adjusted each fiscal year to reflect adjustments as required by Chapter 633, Statutes of 1994 (AB 757, Polanco). **These adjustments typically include, changes in the number of eligibles served, factors pertaining to changes to the consumer price index for medical services, and other relevant factors**.

Governor's Proposed Budget: The budget proposes a ***net*** increase of about **$14.4 million ($ 14.1 million General Fund and $298,000 in Reimbursements) for both inpatient and specialty mental health services. This amount reflects the following key adjustments:**

- Increase of almost $14.3 million for inpatient services. Of this amount, $5.2 million is due to caseload increases, $5.5 million is for medical CPI, and $3.6 million is due to the federal Medicaid (Medi-Cal) match reduction.
- Increase of $1.2 million for specialty mental health services.
- Decrease of almost $500,000 due to a technical shift in having Kaiser and Western Health Advantage (two Medi-Cal Geographic Managed Care plans in Sacramento) retain fee-for-service mental health reimbursement via the Department of Health Services budget, and not the DMH.

Subcommittee staff has reviewed these adjustments and has no issues regarding them.

Budget Issue: **Does the Subcommittee want to adopt the proposed budget?**

2. Reimbursement for Psychiatric Services Provided Via Telemedicine

Overall Background: Dr. Thomas Nesbitt, Assistant Dean for Regional Outreach, Telehealth and Continuing Medical Education and Director for the Center for Health and Technology at UC Davis Medical Center, recently presented a paper on Telemedicine through a legislative CPAC policy briefing. **In his briefing he noted the following key challenges regarding the provision of mental health services in rural California:**

- There are severe shortages of mental health services in rural California.
- Limited access to mental health services may result in higher utilization of medical services and higher suicide rates. (For example, residents of northeastern California are filling themselves at twice the state average.)
- There is often a stigma in rural communities toward mental health services—concerns about privacy.

Dr. Nesbitt presented compelling data that illustrated how Telemental health services can be effectively used to mitigate these challenges by improving access to services and stabilizing rural health care systems. **In fact Telepsychiatry is the number one specialty used by rural primary care providers.**

<u>Background on Reimbursement and Constituency Concern:</u> Certain primary care providers are "carved-out" of the County Mental Health Plan system. **These providers, including FQHCs, Rural Health Clinics, and Adult Day Health Care Centers, are able to bill Medi-Cal for mental health services that are delivered in their facilities. Allowable clinic services include** services provided by Licensed Clinical Social Workers and Psychiatrists.

However, when these services are provided via Telemedicine, there is no reimbursement mechanism in place to enable the Psychiatrist to bill Medi-Cal and maintain the carve-out. UC Davis Health System, the largest provider of Telepsychiatry services in Northern California has indicated that they can no longer provide these services unless they receive prior authorization from each County. **As such, based on past experience, UC Davis anticipates that many patients will not be able to receive this authorization from the counties and therefore, will be unable to access needed psychiatric care.**

In an effort to address this concern, a coalition of provider groups and the UC Davis Telehealth Program formed a **work group** to develop options for receiving Medi-Cal reimbursement for these services. **Through their efforts, they determined that a viable solution would be to use a Medi-Cal billing code (Physician Consultative Services—code 9924) in lieu of billing as a county mental health service since the patient's primary care provider participates in the treatment planning component of the medical consult. They contend that billing in this manner will enable patients to continue to receive the Psychiatric consult without having to enter the County Mental Health system.**

<u>DMH Response (Hand Out):</u> In January, **the DMH responded** to the work group stating that their proposed solution was not workable because the Medi-Cal billing system would deny the claim with an error message stating that the provider of the service is covered by a County Mental Health Plan. They noted that County Mental Health Plans are generally not required to cover services by providers who are not contractors of the county, or services that the County Mental Health Plan has not authorized in advance. **The DMH also noted their interest in obtaining a solution to the problem; however, to-date, no solution has as yet been identified.**

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the DMH and DHS to respond to the following questions:

- **1.** As a temporary remedy, **Could the DHS have the Medi-Cal Fiscal Intermediary process the claims in question** in order to provide appropriate reimbursement pending further work by the DMH and involved organizations?

<u>Budget Issue:</u> Does the Subcommittee want **to adopt uncodified trailer bill language** to provide for a short-term remedy pending further work by the DMH and constituency groups?

3. Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program

Background: **Most children receive Medi-Cal services through the EPSDT Program**. Specifically, EPSDT is a federally mandated program that requires states to provide Medicaid (Medi-Cal) **recipients under age 21 *any* health or mental health service that is medically necessary** to correct or ameliorate a defect, physical or mental illness, or a condition identified by an assessment, **including services not otherwise included in a state's Medicaid (Medi-Cal) Plan.**

The state uses the term **"EPSDT supplemental services**" to refer to EPSDT services which are required by federal law **but are not otherwise covered under the state Medi-Cal Plan for adults**. **Examples of services include family therapy, crisis intervention, medication monitoring, and behavioral management modeling.**

Though the DHS is the "single state agency" responsible for the Medi-Cal Program**, mental health services, including those provided under the EPSDT, have been delegated to be the responsibility of the Department of Mental Health (DMH)**.

Further, at the local level, **counties are responsible for providing, arranging and managing Medi-Cal mental health services under the supervision of the DMH and DHS.**

EPSDT Implementation and Funding: Due to litigation, the DHS was required to expand certain EPSDT services, including outpatient mental health services. As such, the DHS and DMH **crafted an interagency agreement in 1995 to implement expanded services.**

Generally, this agreement requires the DHS to provide General Fund support as a match for EPSDT services administered by the counties which is above an annually adjusted baseline amount (essentially a county "maintenance-of-effort" requirement). The baseline amount is established for each county based on a formula. **For 2002-2003, the baseline is $129 million which means that the state will provide funding (via Medi-Cal) for costs above this amount.**

The General Fund dollars and accompanying federal matching funds are budgeted in the DHS and are transferred to the DMH as reimbursements. **The DMH distributes EPSDT funds to the county Mental Health Plans (MHPs) responsible for the provision of specialty mental health in each county. Final payment is based on cost settled actual allowable costs, or rates.**

Reasons Why Costs Continue to Increase: It is the ultimate goal of the state to eventually transfer the risk for EPSDT services to the counties, which now operate as Mental Health Plans (MHPs) under Medi-Cal Mental Health Managed Care. The transfer of risk, however, is dependent on determining a reasonable estimate of the appropriate level of reimbursement for that risk.

As noted by the DMH, the continuing expansion of EPSDT services in response to significant state policy changes has made such an estimate impossible. A variety of

factors have contributed to the continued expansion, including legislative mandates, recent Medi-Cal Program expansions, legal decisions, recent Medi-Cal reimbursement adjustments for Psychologist and Psychiatrist services, and the fact that several counties were delayed in initially expanding their EPSDT services in the first place.

Prevalence Rate for California: Based on a number of studies which estimate the prevalence of children exhibiting various levels of functional impairment, **it is estimated that 20 percent of children suffer from diagnosable mental disorder, and up to 13 percent of these children are estimated to be seriously emotionally disturbed. Given these estimates it is likely that between 500,000 to 1.3 million children and adolescents in California have a severe emotional disturbance. As a comparison, the statewide average EPSDT penetration rate is about 5.3 percent (as of 2000-01).**

Governor's Proposed Budget: The budget proposes **an increase of $133.7 million** (Reimbursements from the DHS—about $66.8 million General Fund and $66.8 million in federal Title XIX funds) **to reflect caseload growth and related adjustments.**

Legislative Analyst's Office Concerns: The LAO has expressed concerns about the increases for EPSDT services over the past few years. **They contend that the state needs to improve their monitoring of the program to better discern whether more intensive and more expensive services than just those that are "medically necessary" are being provided to some EPSDT clients.** Further, they believe that the program could be restructured to have counties share in the cost of the program.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following questions:

- **1.** Please provide **a brief overview of the EPSDT Program and the need for the requested funds.**
- **2.** Will the EPSDT survey, as requested by the Legislature, be provided to the Subcommittee by April 1, 2002? Are their any preliminary results from the survey that can be shared with the Subcommittee today?

Budget Issue: Does the **Subcommittee want to** adopt the proposed budget for EPSDT services pending receipt of the May Revision?

4. Therapeutic Behavioral Services

Background—Court Ruling and Description of the Services: As the result of a court injunction—***Emily Q. vs. Bonta'--***the DMH and County Mental Health Plans (MHPs) are required to provide **therapeutic behavioral services** as a Medi-Cal benefit. These services are intended to supplement other specialty mental health services addressing the target behavior(s) to maintain the child or youth's current living situation or to support a planned transition to a lower level of placement.

Specifically, therapeutic behavioral services are intensive one-to-one, short-term outpatient treatment interventions for children and youth with serious emotional problems or mental illness who are experiencing a stressful transition or life crisis and need additional short-term support to prevent placement in a more intensive, costly setting (such as a group home of Rate Classification Level 12 to 14).

A permanent injunction along with a judgment was issued by the court on May 11, 2001. Key aspects of this judgment include the following:

- TBS must be provided as compensatory equitable relief for class members who are no longer eligible for TBS since the state violated their rights for obtaining the service;
- TBS must be provided to recipients in skilled nursing facilities, Mental Health Rehabilitation Centers, and State Hospitals to facilitate transition into the community if the services would be eligible for federal Medicaid (Medi-Cal) reimbursement (potential May Revision issue);
- County Mental Health Plans must complete a certification that TBS has been considered prior to placement in Napa and Metropolitan State Hospitals, or other institution or group home settings when the county has been involved in the placement.
- DMH must provide some training to providers in behavioral analysis and positive behavior interventions for at least the next three years;
- DMH and County Mental Health Plans must provide notices or arrange for the provision of notices regarding TBS and EPSDT on a case-by-case basis to recipients, adults responsible for them, and dependency attorneys representing recipients.
- DMH must perform certain oversight activities and conduct certain quality improvement functions regarding TBS.

The court will maintain jurisdiction over many aspects of the case for the next three years.

Current Year Funding and DMH Oversight: It is estimated that **$18.8 million** ($9.5 million General Fund) is needed to provide TBS services for 2001-02 (current year).

County Mental Health Plans are required to notify the DMH within 30 days after TBS has been initiated for a recipient and quarterly thereafter if services continue. **From the date of implementation in July 1999 through June 25, 2001, there have been 1,555 recipients who have received TBS services statewide.**

Governor's Proposed Budget: The DMH states that costs for ongoing services and related adjustments for the budget year are estimated to be **$35.2 million.** As such, the budget proposes **an increase of about $16.6 million (Reimbursements from the DHS which reflects $8.3 million in General Fund support) for counties to provide TBS services. The DMH states that they expect about 2, 167 children and youth in the certified class will require TBS services, and that it will cost about $15,351 per recipient.**

The budget request also includes funds to carry out the requirements for delivery of services, notices, training and technical assistance, oversight activities and related administrative functions required by the final order and permanent injunction.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following questions:

- **1.** Please **briefly describe the key oversight functions and quality improvement activities conducted by the DMH regarding TBS.**
- **2. Why are costs continuing to escalate?**
- **3.** Is the **DMH anticipating adjustments** pertaining to service costs and quality assurance activities **at the time of the May Revision?**

Budget Issue: Does the Subcommittee want to adopt the request pending receipt of the May Revision?

5. Children's System of Care Program(CSOC) —Proposed Reduction &Trailer Bill Language

Background: Existing law authorizes counties to develop a comprehensive, coordinated children's mental health service system as provided under the Children's Mental Health Services Act.

The purpose of the program is to develop an integrated system of care for children who are severely emotionally and behaviorally disturbed, and their families. **The basic elements of the program include interagency coordination and collaboration, child/family-centered services, culturally competent services, and case management services.** Families of the children are full participants in all aspects of the planning and delivery of services.

The target population includes individuals 18 years of age and under who have a diagnosed mental disorder in which the disorder results in substantial impairment

in two or more areas (such as self care, school performance, family relationships and ability to function in the community).

Under the program, accountability of services is required through measurable performance outcome goals. An evaluation of the program generally concluded that the program has been **very successful and cost-beneficial, including savings in service expenditures for group homes, special education, and juvenile justice.**

Recent Funding History: **The Legislature has been very supportive of the program in the past**. Legislative budget augmentations to facilitate statewide expansion have included **(1)** $1.9 million in 1995, **(2)** $7.1 million in 1996, **(3)** $6 million in 1997, **(4)** $20 million in 1998 which was reduced by Governor Wilson to a total of $4 million, **(5)** $13.4 million in 1999 which was reduced by Governor Davis to a total of $2 million, and **(6)** a veto of $2.1 million (General Fund) by Governor Davis in 2001.

Current Year Funding: The 2001-02 budget (current year) for the Children's System of Care (CSOC) Program is about **$43.6 million ($39.6 million General Fund and $4 million federal SAMHSA grant funds). Of this amount $42.7 million ($38.7 million General Fund and $4 million federal SAMHSA) is for county-related services.** The remaining amount is primarily for an evaluation ($470,000), and technical assistance center ($350,000).

Based on DMH funding guidelines for the program, all participating counties are currently funded at the recommended level. Four counties are unfunded—Fresno, Tulare, Colusa, and Alpine.

Governor's Proposed Budget--Reduction: The budget proposes **a reduction of almost $4.2 million** (General Fund) for the Children's System of Care Program. This **reduction includes (1) $3.8 million in funding for counties**, and **(2)** about $370,000 for an independent evaluation of the CSOC Program.

The DMH states that the $3.8 million in reductions will have to come from base funding for the counties. In addition, they expect that this proposed reduction will result in some painful choices at the local level.

Proposed Trailer Bill Language (See Hand Out): The Administration **is also proposing trailer bill language to eliminate the independent evaluation** of the Children's System of Care. If the Subcommittee wants to capture the $370,000 (General Fund) savings for elimination of the independent evaluation, then this language needs to be adopted. It should be noted that the proposed language would have the DMH provide technical assistance to the counties regarding the program.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following questions:

- **1. Is any additional federal SAMHSA grant funds available for this purpose?**

- **2. Will the $4 million (federal SAMHSA grant funds) in the current year still be available in the budget year?**
- **3. Specifically, how would the Administration take the reduction from the counties? What criteria would be used?**

Budget Issue: Does the Subcommittee **want to make any adjustment to the proposed $3.8 million reduction to the counties** under the Children's System of Care Program?

6. Community Treatment Facilities (CTFs)—Supplemental Rate

Overall Background: Chapter 1245, Statutes of 1993, established a new category of **secured** (locked and can use seclusion and restraints) **residential care for the treatment of seriously emotionally disturbed (SED) children** referred to as **"Community Treatment Facilities" (CTFs)**.

CTFs were generally created as an alternative to out-of-state placement and state hospitalization for SED children. Specifically, this model was intended to provide more intensive treatment than normally provided in a group home but less oversight than a State Hospital or acute institution.

Under the statute, **the DMH** is responsible for the development and distribution of **400 secured community-based beds** within the five Mental Health Regions (i.e., Los Angeles, Bay Area, Southern, Central and Superior).

The DSS is required to develop licensing regulations for these facilities, and the DMH is responsible for certifying them (i.e., approving that they meet program standards). Regulations to proceed with the development of the CTF beds became effective on July 1, 1998. **However, difficulties arose due to lack of clarity regarding some of the regulations, and problems with adequate funding.**

Through the Budget Act of 2001 and related legislation, an agreement was reached to provide supplemental funding **(both state (40%) and county (60%))** for CTF beds and related services until longer-term solutions could be crafted. In addition, trailer bill legislation required **the DMH and DSS to develop joint protocols for the oversight of these facilities and specifies provisions for establishing payment rates for them.**

Recent Activities and New CTF Facilities: There are now **five CTF programs** which are operational; these include the following:

- San Francisco Alternatives Program (22 beds, ages 7 to 17 years);
- Seneca-Oak Community Alternatives Program (Concord) (18 beds, ages 6-17 years);
- Starlight Community Treatment Facility (Santa Clara) (36 beds, ages 3-18 years);
- Vista Del Mar Child & Family Services (Los Angeles) (21 beds, ages 9-17 years);
- Starview Children & Family Services (Torrance) (40 beds, ages 11-17 years);

These programs would be eligible to receive the supplemental funding.

The joint CTF regulations crafted by the DMH, DSS and other involved parties have been recently completed. In order to ensure that these regulations do not pose a burden to existing programs or serve as a barrier to starting additional programs, the DMH states that they (1) have established a CTF Advisory Committee which meets quarterly, (2) have joint meetings with the DSS and CTF providers to discuss issues, and (3) conduct bi-monthly conjoint visits with the DSS to the five CTF programs.

It should also be noted that the DMH will be releasing a Request for Application to address the absence of a CTF provider in the Central Region of California.

Further, the DMH has initiated a request to contract for a CTF study as required pursuant to Section 4094.2 of Welfare and Institutions Code.

<u>Governor's Proposed Budget and Trailer Bill Language (Hand Out):</u> The budget **proposes an increase of $1.2 million (General Fund) to continue the supplemental funding** for support of up to **140 CTF beds** until the appropriate rate structure for these facilities can be developed. This level of funding would continue the supplemental rate of up to $2,500 per child per month (with 40% state funds and 60% county funds).

In addition, **trailer bill language** to amend Welfare and Institutions Code Section 4094.2 to extend the CTF rate for one year (through 6/30/03), and to increase the number of beds from 100 to 140, is also proposed.

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested for the DMH to respond to the following questions:

- **1.** Generally, **how is the CTF model working?**
- **2.** When will the **CTF study be completed?**
- **3.** When will the **Request for Application** to obtain a Central Region CTF program be released?

<u>Budget Issue:</u> Does the Subcommittee want to adopt the proposed budget and trailer bill language pending receipt of May Revision?

<u>7. Supportive Housing Initiative—Proposed Reduction</u>

<u>Background—Need and Existing Programs:</u> The need to provide decent, affordable housing opportunities for individuals with mental illness, special health care issues, substance abuse issues, and developmental disabilities has been well documented. For example, there are **at least 150,000 people who are homeless in California and recent studies indicate that at least half are disabled with mental illness, medical problems or other health conditions**. Supportive housing and independent living arrangements offer a permanent place to live with services designed to assist an individual or family to attain stability and self-sufficiency.

Many studies have documented the cost-effectiveness of providing supportive housing. For example, as referenced by the DMH, **data indicates that the integration of services and low-cost housing increases workforce participation by severely disabled adults by at least 20 percent**.

Supportive Housing Initiative: Through the Budget Act of 1998, the **Legislature created the Statewide Supportive Housing Initiative** to assist low-income individuals with health problems (mental illness, alcohol or drug abuse, developmental disabilities, HIV/AIDS, and other health problems) obtain housing.

Under Initiative, funds are allocated through a competitive process (Request for Application) developed by the Supportive Housing Program Council **(Council)** and administered by the DMH. Funds are to be allocated to non-profit agencies, local government, or consortia for services to targeted populations (as referenced in the statute and Budget Act Language). **All grantees are required to provide a match**, **which increases each consecutive year** (i.e., 50% match in year one, 100% in year two, and 150% in year three).

Through the leadership of the Senate, the Budget Act of 2000 provided a $25 million (General Fund) increase for the Supportive Housing Program. This augmentation increased total funding to be about $26 million (General Fund). In the Budget Act of 2001, Governor Davis vetoed $5 million from the program, leaving a total appropriation of $21 million.

Governor's Budget Proposal: The budget **proposes to reduce the Supportive Housing Program by $17.5 million (General Fund) leaving a total of $3.5 million. In addition, the DMH states that they are considering to set aside $350,000 (10 percent) of the $3.5 million for administrative costs as provided in the enabling legislation. This would leave only $3.150 million for allocation for grants. A Request for Application (RFA) process would be used for allocation of the grants.**

The DMH states that they are considering offering grants only for the supportive services portion of supportive housing projects. While the requirement that each project offers both housing and services would remain the same under this potential approach, the DMH may not provide grant funds for rental subsidies until such time as sufficient funds are again available to support the subsidies.

The DMH states that the Administration's decision to delete funds from this program was extremely difficult; however, in order to achieve the required budget reductions, they chose to reduce the Supportive Housing Program because it is 100 percent General Fund supported.

Senate Bill 1227 (Burton)—Housing and Emergency Shelter Trust Fund Act of 2002: This bill would authorize the issuance of general obligation bonds in the amount of $2.1 billion for purposes of financing various existing housing and code enforcement programs, and additional specified programs, subject to the enactment of enabling legislation. Once adopted by the Legislature, the proposal would be submitted to the voters at the statewide November 5, 2002 General Election.

Among many other allocations, SB 1227 proposes to provide $195 million for supportive housing and $195 million for emergency housing and assistance.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following questions:

- **1.** Please briefly describe the budget proposal.

Budget Issue: Does the Subcommittee **want to adopt the budget proposal or establish other priorities due to the legislative bond proposal and difficult fiscal situation?**

(This completes the community mental health portion of the agenda).

D. ITEMS FOR DISCUSSION—STATE HOSPITALS

Overall Background for the State Hospital Budget: The budget proposes **expenditures of $611.2 million ($463.1 million General Fund) for the State Hospitals for a *net* increase of almost $3 million (increase of $13.5 million General Fund) over the revised 2001-02 budget.**

Further, an appropriation of $21.5 million ($736,000 General Fund and $20.8 million Public Building Construction Fund) is provided for capital outlay purposes.

State Hospital Population—Additional Penal Code: The DMH estimates **a population of 4,687 patients** for 2002-03 (as of June 30, 2003) **at the four State Hospitals -- Napa, Metropolitan, Patton, and Atascadero**. Of this population, **83 percent of the beds are designated for penal code-related patients** and less than 16 percent are to be purchased by the counties (i.e., Lanterman-Petris-Short beds).

Who Are the Penal Code Patients: **Penal Code-related patients include individuals who are classified as (1)** not guilty by reason of insanity, **(2)** incompetent to stand trial, **(3)** mentally disordered offenders, **(4)** sexually violent predators, and **(5)** other miscellaneous categories. The basic goal of the program is the restoration of a patient's optimal level of functioning to allow reentry into the community or the criminal justice system as appropriate.

1. State Hospital Population Adjustments

Governor's Proposed Budget: The DMH estimates **a population of 4,687 patients** for 2002-03 (as of June 30, 2003) **at the four State Hospitals -- Napa, Metropolitan, Patton, and Atascadero**. **This reflects an increase of 215 Penal Code-related patients (55 SVP and 160 various Penal Code) and a reduction of 93 county-committed patients.**

To accommodate the population shifts and related adjustments, **the budget is proposing a net increase of $9.4 million (increase of $21.6 million General Fund). In addition, the budget continues Budget Bill Language as crafted by the Legislature last year which, among other things, states that funds appropriated to accommodate projected hospital population levels in excess of those that actually materialize, if any, shall revert to the General Fund.**

The proposed caseload for each State Hospital is as follows:

Hospital & Patient Type	Revised 2001-02	Proposed Adjustment	Proposed 2002-03
Atascadero	**1,192**	**117**	**1,309**
Sexually Violent Predators	435	55	490
Penal Code	757	62	819
Metropolitan	**939**	**-127**	**822**

County Patients	563	-117	563
Penal Code	376	0	376
Napa	**1,118**	**81**	**1,199**
County Patients	257	-17	240
Penal Code	861	98	959
Patton	**1,,316**	**41**	**1,357**
County Patients	49	31	80
Penal Code	1,267	10	1,277
TOTALS	**4,565**	**122**	**4,687**
Penal Code	3,260	160	3,420
County Patients	869	-93	776
Sexually Violent Predators	436	55	491

Revised Budget Methodology and Reduced Expenditures: In her Analysis, the LAO expressed concerns about the DMH population projections stating that their methodology over estimated actual population trends. **Specifically, the LAO recommended a reduction of $12.6 million General Fund from the DMH proposal, as well as a reduction to the California Department of Corrections (CDC) for State Hospital beds used by the CDC which are provided through a memorandum of understanding.**

Since this time, **the Administration and LAO** have further discussed the methodology used for population projections. **Based on these discussions the DMH has agreed to make an adjustment in their methodology.**

Based on this revised methodology, the January proposed budget could be reduced by $5.378 million General Fund. In addition, County reimbursements would be reduced by $1.1 million. The Administration notes that they will provide a revised budget to the Subcommittee at the May Revision.

If the Subcommittee utilizes the revised methodology, the total General Fund increase would be $16.2 million for the budget year (versus the proposed $21.6 million level) over the revised current year.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following question:

- **1.** Please **briefly describe** the revised methodology.

Budget Issue: Does the Subcommittee **want to reduce the budget by $5.378 million (General Fund) pending receipt of the May Revision?**

2. Non-Level of Care Staff for State Hospital Expansion

Background: The Budget Act of 2001 provided funds for the DMH to purchase 25 modular trailers that would be placed at Atascadero State Hospital (ASH) and Patton State Hospital (PSH) and used as additional space to enable other buildings to be used as temporary beds for up to 500 additional patients. The funding was justified on the basis that the State Hospital system would run out of bed space for patients requiring a secure setting in 2002-03 (this upcoming budget year).

Governor's Proposed Budget: The budget proposes **an increase of $3.1 million** (General Fund) **to support almost 40 Non-Level-Of-Care Positions**, including food service workers, Hospital Police Officers, building maintenance workers, and systems analysts, **and related operating expenses to support clinical staff and meet other needs when the modular space is occupied.**

Legislative Analyst's Office Recommendation: In her Analysis, the LAO recommends **to delete the entire budget request** since they believe the additional beds will not be needed until 2003-04 at the earliest.

Changes Due to Revised Methodology: As noted in the discussion regarding the State Hospital patient population (item 1 above), the patient population estimating methodology is proposing to be changed. **Based on this revised methodology, the DMH concurs with the LAO that funds are not needed at this time.**

Budget Issue: Does the Subcommittee **want to reduce the budget by $3.1 million (General Fund)** to reflect elimination of this proposal?

3. Continued Activation of the Secure Treatment Facility in Coalinga (Hand Out)

Background: The Budget Act of 2001 provided funds for the construction of a new secure treatment facility for the care and treatment of patients committed under the SVP law or specified sections of the Penal Code. The 1,500 bed facility is to be located adjacent to Pleasant Valley State Prison in the city of Coalinga.

In addition to the construction funds, **the Budget Act of 2001 also included $375,000 (General Fund) for partial year funding to support the first phase of an activation team consisting of six positions (Executive Director, Hospital Administrator, Coordinator of Nursing Services, General Services Administrator II, Staff Services Manager I for Personnel Services, Executive Security). According to the DMH, the California Department of Corrections (CDC) advised the DMH that activation should begin as soon as possible so that staff could participate in construction issue resolution.**

Governor's Proposed Budget: The budget requests **an increase of just over $1 million (General Fund) and 15 positions** (7.4 personnel years for a total of $500,000) **to**

continue activation activities associated with Coalinga. In addition, funding is also requested for associated operating expense costs ($548,000) and relocation expenses ($140,000) associated with the recruitment of these new staff.

The requested 15 positions include: 5 for Plant Operations, 3 for Personnel and Training, 2 for Accounting and Fiscal Systems, 2 Warehouse Personnel, 2 Clerical Support and a Clinical Administrator. These positions will be phased-in at various times during the upcoming budget year.

The DMH states that these positions will continue a smooth transition as the facility construction progresses and ensure key operational staff are in place once construction of the facility is completed.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following questions:

- **1.** Please **briefly describe the Coalinga activation plan**. **Is it still on schedule?**
- **2.** Have all of the positions authorized in the Budget Act of 2001 been filled?
- **3.** Please **briefly describe the primary positions** that are needed for the budget year. **What may happen if you do not receive all of these positions?**
- **4.** How may the existing hiring freeze affect the hiring of these positions?

Budget Issue: Does the Subcommittee **want to adopt or modify the proposed budget?**

4. Office of Patient's Rights

Background: As **required by existing statute**, the DMH **must contract with an independent entity for patient's rights advocacy services at the four State Hospitals.** In addition, the contractor must provide training and technical assistance to county patient rights advocates.

Generally, each State Hospital is staffed by one full-time patient advocate and a part-time advocate assistant. **This currently provides, on average, one advocate per 1, 220 patients.**

Specifically, state law and regulation require the patients' rights advocate to: (1) investigate and respond to patient complaints regarding violation of their rights, **(2)** investigate patients' allegations of abuse and neglect, **(3)** provide information to patients about their rights and how to file complaints, and **(4)** provide training to staff about patients' rights.

Based upon recent annual data, the contractor investigated and responded to 8,434 patients' rights complaints and related issues. Major areas of concern raised by patients' included violations of statutory patients' rights, abuse and neglect.

The contractor notes that although the number or patients, as well as State Hospital staff, has increased over time, the number of advocacy staff is the same in 2002 as it was in 1993, the first year the DMH was required to contract for these services.

Governor's Budget Proposal: The budget proposes to reduce the appropriation available for this contract by $120,000 (General Fund), or a reduction of 14 percent, in 2002-03.

Constituency Concern: The current contractor—Protection and Advocacy Incorporated—states that this level of reduction will have a significant affect on their ability to provide viable patient rights advocacy services. **Specifically, they note the following concerns:**

- They will not be able to respond to all patient complaints.
- The increasing patient populations with even less contract staff will severely strain the system. This is particularly difficult when there are other staffing shortages (such as nursing positions) at the State Hospitals which can lead to increased incidents of patient abuse due to lack of supervision or the increased use of seclusion and restraints.
- They will not be able to provide "back-up" advocacy services at the State Hospitals.

Subcommittee Staff Comment: If the Subcommittee wants to identify another reduction within the DMH budget to backfill for this proposed contract reduction, **Subcommittee staff would recommend to eliminate (1)** a vacant Staff Mental Health Specialist position (number 461-600-8325-001 and) from the Program Compliance section which is used to provide assistance to the section's Deputy Director, **and (2)** a vacant Research Program Specialist I position (number 461-751-5756-001). **Elimination of these two positions would equate to General Fund savings of $138,000.**

Budget Issue: Does the Subcommittee **want to adopt the proposed budget reduction, or restore it by shifting the reduction to another area of the support budget?**

LAST PAGE

Senate Budget & Fiscal Review

Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

Thursday, March 21, 2002
Upon Conclusion of Senate Floor Session
Room 4203

CONSENT AGENDA

DISCUSSION AGENDA

CONSENT AGENDA

4170 California Department of Aging

Operations

CDA proposes a $945,000 cut to operating expenses in the budget year, a reduction of 17% of total operating expenses. These reductions include eliminating $261,000 in Senior Wellness Campaign, $59,000 in the Ombudsman administrative budget, $109,000 in the Senior Housing Information Center, and elimination of an Alzheimer Education and Information Program support for Training Conferences ($23,000). Staff training, minor equipment, facilities operations and departmental printing, equipment, travel, consultant and general expenses reductions make up the balance. The Department for the past two years has operated a policy unit to provide leadership in policy development on aging issues. The unit was supported with limited term staff. The budget does not continue this unit. **The CDA State Operations budget is augmented with $232,000 ($148,000 General Fund) to perform an assessment of the impact of HIPAA on the Department.**

No issues have been raised about this budget.

Health Insurance Counseling and Advocacy Program (HICAP)

The HICAP program provides education, counseling and assistance to California's Medicare population regarding health insurance coverage, managed care, long-term care insurance and related issues. HICAP is paid for with per capita funds from HMOs and insurers that enroll and insure the Medicare population. These funds are matched with funds from the Department of Insurance. These funds are administered by CDA.

The budget proposes to transfer $1.7 million from the HICAP fund to the General Fund. According to the Department of Finance, this was intended as a 'fund sweep'. As with many other special funds, the budget intended to take accumulated reserves not needed for ongoing program expenditures and provide them to the General Fund.

The California HICAP Association believes that because of cash flow needs, and the timing of Department of Insurance billing of HMOs, virtually all the fund is needed to maintain HICAP during the 02-03 budget year. In addition, declining HMO enrollment has reduced the funds available for HICAP services.
The Department of Finance has agreed to review the cash flow and program needs of the HICAP program. They will report on the capacity of HICAP to maintain services at current levels by the time the subcommittee hears Open Issues in May.

This issue will be rescheduled for the May Open Issues Hearing.

4180 COMMISSION ON AGING

The California Commission on Aging advises the Governor, the Department of Aging and other agencies at all levels of government regarding the problems and needs of older person in California. The Commission consists of 25 persons appointed by the Governor and Legislature. **The base funding for the operation of the Commission is provided from federal Aging funds, in the amount of $297,000 for the budget year, identical to current year funding**. The Commission's tasks include:

- Serve as the principal advocate body in the state on behalf of older individuals;
- Participate with the Department of Aging in training workshops for older Californians to understand legislative and program processes;
- Participate with the Department of Aging in the development of the State Plan on Aging;
- Meet at least six times annually to study problems of older individuals, present findings, and make recommendations, including through the publishing or dissemination of information;
- Hire an executive director and, within budget limits, such staff as may be necessary;
- Develop, with the Department, a method for the selection of delegates to the statewide legislative meeting of senior advocates;
- Meet and consult with area agency on agency advisory councils.

The Commission also sponsors, coordinates and convenes the California Senior Legislature (CSL). The Commission provides staff and other administrative support to the CSL throughout the year. The functions of the CSL are supported by voluntary contributions made through check-off included on personal income tax forms. These contributions are collected and disbursed through the California Fund for Senior Citizens**.** **The budget anticipates that $262,000 will be spent for this purpose in the budget year**. This is less than the current year ($309,000), reflecting the fact that the current year held the biennial Legislature. Budget year activities will include six meetings of the Rules and Legislation Committees of the CSL.

Current law also provides a personal income tax credit for taxpayers who are 65 years of age or older. Seniors who qualify for the exemption may contribute their tax credit to a California Seniors Special Fund. The first priority for these funds is to support the Area Agency on Aging Advisory Council of California (TACC) for advocacy for senior citizens. The TACC surveys the 33 local Advisory Councils to Area Agencies on Aging, and shares information and best practices among the Councils. **The budget for this function is anticipated to be $48,000 in the budget year, slightly higher than the current year budget of $42,000**.

<u>**Commission Budget Status**</u>

Last year's budget discussion focused on the fact that the Commission had suspended its meeting schedule for half the year, in order to remain within budget. Some of the reasons were that the costs for supporting the CSL and the TACC were great than the revenues from the two tax-based funds, and that the basic federal funds transferred from the Department of Aging were historically based, and not necessarily based on the costs of administering a 25-member Commission. Regardless, the subcommittee was concerned that the basic functions of the Commission were likely not to be met.

The Commission convened an Ad Hoc Committee to do fact finding on the budget problems, and took a number of cost-saving steps. These include reducing office expenditures, rental space, and delaying hiring of staff. The Commission developed a Memorandum of Understanding with the TACC, and is working on a similar Memorandum with the CSL. One provision of the MOU is to provide for clear, mutually agreed-upon budgets, within the resources available.
The Commission has taken the steps necessary to clarify its budget status, and appears prepared to carry out its core statutory function in the current and budget years. No issues have been raised about this budget.

5180 DEPARTMENT OF SOCIAL SERVICES

In-Home Supportive Services (IHSS): Federal Financial Participation
Some IHSS recipients and services are Medicaid eligible, and hence the costs of those services are matched with 50% federal participation. 75% of recipients are in the federal program, according to the Legislative Analyst. The Analyst has recommended that the Legislature act to require IHSS recipients to change their services to qualify for federal participation. Specifically, the LAO recommends that all IHSS recipients be required to elect nonrelative caregivers (affecting 14,500 recipients), and that the advance payment options for severely disabled recipients be eliminated (affecting 575 recipients). **These changes combined could result in General Fund savings of $35 million.**
Consumers and advocates believe that eliminating these options would jeopardize a vulnerable population, change the family-focus of the program, and result in significant disruption. The state has done some work on creating a payment system for Advance Pay cases that will meet federal requirements, partially in response to legislation passed last year that was vetoed. This option is likely resolvable, with a federal waiver.

- **The Administration should report by the May Open Issues hearing on a timeline for developing a waiver for federal participation in Advance Payment IHSS cases.**

The legal situation for relative providers is more complicated. The Department does not have information to suggest that federal approval of this category of service costs could be arranged.

The Administration should report in May on whether it is possible to identify federal reimbursement possibilities for relative providers.

4170 CALIFORNIA DEPARTMENT OF AGING

The California Department of Aging (CDA) is the designated state agency to coordinate federal Older Americans Act programs, to coordinate resources to meet the long term care needs of older individuals through the State Older Californians Act, and to coordinate with Area Agencies on Aging in services to elderly and functionally impaired Californians. The Department provides services under (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. **The budget is proposed to be $177.0 million, a reduction of 3.4%.**

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$46,232	$40,136	($6,096)	-13.2
State HICAP Fund	1,596	1,600		
Federal Trust Fund	129,471	129,461	(10)	0.0
Reimbursements	5,949	5,797	(152)	-2.6
Total	$183,248	$176,994	($6,254)	-3.4

DISCUSSION AGENDA

Linkages

The Linkages program is a case management program to serve frail elderly or functionally impaired adult clients. It targets persons who do not qualify for MediCal or who are functionally impaired but do not meet the age requirement of other programs. There are currently 36 Linkages sites, each with 100 client slots.

The Department administers three case management programs. The Multipurpose Senior Services Program (MSSP) serves individuals on MediCal. A federally funded case management program is small and offered by some Triple As. The third is Linkages. Each of the three programs operate under different rules and regulations, and each operates on a fixed funding basis, rather than an entitlement. The subcommittee last year augmented Linkages and MSSP, as well as some day service programs, and required that the day programs coordinate with care management programs. These augmentations did not survive the budget process. Linkages operates at an approximate cost of $1500/client, compared to an MSSP cost of approximately $4000/client.

The budget for Linkages is proposed to be $8.2 million General Fund in the budget year.. The budget constitutes a reduction of $126,000 General Fund for local assistance. The Department believes that increases in federal Older Americans Act funding could offset or mitigate this reduction, but has no specifics about the size of the federal increase, and does not typically direct Triple As in how to implement new federal funds.

Regardless, Triple A's were given a $1 million reduction at the start of the current year, associated with a veto of General Fund support for community-based services in the CDA budget.

- **The subcommittee will consider whether to support the reduction in Linkages proposed by the budget.**

Senior Wellness and Prevention Media Campaign

The Senior Wellness and Prevention Media Campaign was initiated in 2000-01 with a $1 million General Fund appropriation. The program had not been initiated when the CDA budget was heard last year, but an RFP had been developed for a campaign logo, public service announcements, newsletters, and a direct mail campaign. The campaign was intended to provide information to aging Californians about physical fitness, nutrition, physical and mental health. The CDA intention was to use the General Funds to develop campaign plans and materials, and to solicit private contributions to take the campaign to scale.

The current year budget provided an additional $1 million and two limited term positions to continue to operate the campaign. In addition, legislation in 2001 (SB 370, Chapter 689, Ortiz) put the program into statute, and renamed it the StayWell Program. Another part of SB 370 created a senior injury prevention program, subject to appropriation. **The proposed budget reduces the StayWell program by $261,000 as part of the reduction in operational funding. No funding is provided for senior injury prevention.**

The current year budget required that CDA prepare a report by March 1, 2002, on the accomplishments of the Senior Wellness and Prevention Media Campaign, including a description of the campaign and identification of the private resources to distribute the materials. The report has not been received.

- **CDA will provide information about the operation of the Campaign, including when the required report will be submitted.**
- **The subcommittee will consider the priority of full funding of this media campaign.**

Senior Housing Information and Support Center

The Department initiated a Senior Housing Information and Support Center in 2000-01 with a $1 million General Fund, which was continued in the current year. The Center is intended to provide seniors with information concerning housing options and home modification alternatives, that would allow seniors and persons with disabilities to live independently or with their families. CDA intends to serve as a statewide clearinghouse for information, and training and technical assistance to local community agencies concerning the benefits of assistive devices and home modification options. **The Center budget is proposed to be reduced by $109,000 as part of the reductions in operations for the budget year.**

Advocates questioned whether the program duplicates other activities designed to provide information concerning assistive technology support to persons with disabilities, including seniors, and whether funds should instead be targeted toward direct assistance. The subcommittee requested that CDA coordinate efforts to address issues of assistive technology, housing options, and home modifications. The Department has indicated that it has initiated discussions with the Long Term Care Council to facilitate collaboration at the State level, and that local agencies have been meeting to discuss local collaboration efforts.

- **The Department will report on the specifics of collaboration efforts.**

National Family Caregiver Support Program

Federal amendments to the Older Americans Act in 2000 created a new program, the national Family Caregiver Support Program (NFCSP). The program design was based in part on California's Caregiver Resource Center program, a network of 11 Caregiver Resource Centers funded by the Department of Mental Health to provide support and assistance to families and caregivers who care for adults with cognitive impairments.

The NFCSP funds were required to be distributed through local Area Agencies on Aging (TripleA's). Triple A's distribute other community service programs funded under the federal Older Americans Act and have a state statutory requirement to provide integrated financing and local management of community based services. Each Triple A creates a plan that considers available data and population trends, assesses the local need for services, identifies sources for funding these services, and develops and implements a plan for delivery of services.

NFCSP funds are required to be spent on the following services:

- Information to caregivers about available services;
- Assistance to caregivers in gaining access to services;
- Individual counseling, organization of support groups, and caregiver training;
- Respite care to caregivers;
- Supplemental services.

Caregivers include persons providing care to seniors, and include grandparents or other relatives who are caregivers of grandchildren or children with developmental disabilities.

The current year budget provided extensive implementation and reporting requirements, including that CDA report in November, 2001, in March 2002, and again in March 2003 on the implementation of this new program. CDA reported in November on the status of implementation activities to ensure that the new funds supplement, but do not supplant, existing services to caregivers and that they build on and coordinate with existing state-funded programs to the extent possible. They also reported on activities to ensure that local Triple A plans are developed that consider other sources of funding and services.

The budget for the NFCSP program in the current year is $10.8 million in ongoing funds, and $8.1 million in one-time funds, for a total of $18.9 million. In addition, state and local match funds in the amount of $6.3 million were required, for a total program of $25.2 million in the current year.. The federal government has increased the basic grant modestly. CDA will provide a Spring letter with the specific size of California's new funds. In addition, there will be carryover funds from the current year of at least $6 million. The budget assumes that the entire match of at least $6 million will be provided at the local level.

- **CDA will summarize the findings of the November 15 report on NFCSP implementation.**
- **CDA will describe the status of efforts at the state level to coordinate family caregiver services, including both the new federal program and the existing state-funded network.**

- **The subcommittee will determine whether to support the proposed budget for Family Caregiver services.**

Innovation Grants
The budget in 2000-01 provided $14.3 million for one-time grants to private and non-profit agencies to initiate or expand innovative delivery strategies and alternatives to nursing home placement. Funds were awarded in three categories: (1) 16 grants in community-based partnership building and planning; (2) 6 grants in innovative coordination and collaboration; (3) 6 grants for access to appropriate community-based services for special populations. Grants ranged from $61,000 to $2.3 million. All were intended to address the needs of seniors and/or their caregivers, with targeted information, skills training, in-home services, and service delivery in the languages, cultural settings, and living centers where California's seniors live. Grantees will operate through June 2002.

A legislative report is due March 2002 on the project. The report has not been received. The legislation also required that CDA fund an evaluation. At the time the initiative was proposed, CDA indicated it intended to work with the Health and Human Services Agency to identify other public and private entities that might augment the impact of this initiative, or provide for sustained operation of success programs.

- **CDA will report on the performance and activities of Innovation Grantees. CDA will report on the success of efforts to identify other support for the program. CDA will identify when the legislative report will be provided.**

5180 DEPARTMENT OF SOCIAL SERVICES

I. Supplementary Security Income/State Supplementary Program (SSI/SSP)

The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resources requirements. The program is administered by the federal Social Security Administration, which determines eligibility, computes grants, and disburses monthly payments to recipients. The state establishes the level of State Supplementary Program support for categories of individuals, and contributes the funds for this portion of the program.

More than 1.1 million individuals receive SSI/SSP in the average month. Two-thirds are disabled, two percent are blind, and the rest are aged. The caseload is expected to grow by 2.0% in the current year, and an additional 2.1% in the budget year. This level of caseload growth has been fairly consistent since 1998-99, after a reduction in caseload growth associated with the removal of some non-citizens, some disabled children and persons with substance-abusing disabilities from eligibility by federal welfare reform changes. The caseload of disabled individuals will grow faster in the budget (2.5%) than the caseload for aged (1.3%) or blind (0.2), a consistent trend over the recent past.

Maximum grants to individuals vary according to whether the recipient is aged, blind or disabled; the living arrangement; marital status; and minor status. As a result, there are 19 different payment standards. Payment rates are established for a calendar year. Grant levels for an aged or disabled individual living independently is $750/month from January – December 2002.

The budget proposes to spend $7.0 billion on this program ($2.5 billion General Fund) for basic grant costs, not including federal COLA expenditures, administration, and the costs of some state-only payments to noncitizens in the CAPI program, and to specific veterans in the California Veterans program.

In addition to the basic SSI/SSP program, California provides SSI-like benefits to individuals under the Cash Assistance Program for Immigrants (CAPI). These persons are legal immigrants who are aged, blind or disabled and who are not eligible under federal rules since welfare reform. They include persons who entered the country before August 1996; and those who entered after August, 1996, who meet specific sponsor conditions (such as, the sponsor is disabled, deceased, abusive), or who do not have a sponsor or whose sponsor's assets have been deemed available for a period of ten years or more. (Budget Year funding for CAPI will be $113.4 million.) In addition, California provides SSI-like benefits to certain veterans of World War II who have returned to the Republic of the Philippines (Budget Year funding will be $4.1 million General Fund).

Finally, California spends $118.1 million for administration of the SSP program. **No changes are proposed in any of these three program elements.**

Cost of Living Adjustments
The federal portion of the grant, SSI, is adjusted annually on January 1, by the Consumer Price Index (CPI). California law requires that the total payment an individual receives (both the federal SSI portion and the state SSP portion) be adjusted by the California Necessities Index (CNI), which varies from the federal amount. The budget assumes that the CNI will adjust the entire grant by 5.31% in January 2002, for a cost of $440.7 million ($318.4 General Fund). This year, the CPI is substantially smaller than the CNI.

The budget further proposes to suspend the provision of a state COLA based on CNI for the year beginning January 2003 (which was estimated to be 3.89%). This would provide recipients with the federal adjustment based on the CPI (1.80%) for the SSI portion of the grant only, for a total adjustment of $38.5 million in federal funds.

Since the budget was proposed, actual CNI figures have become available, and they are somewhat reduced to 3.74%. As a result, actual grant levels will be somewhat reduced, and **the General Fund savings against current law of suspending the COLA are somewhat smaller as well, $127.7 million.** The impact of the reduction against current law would be a reduction of approximately $19/month for aged and disabled individuals. The cost of each percent increase in SSI/SSP payments for the period January-June 2003 is approximately $50 million.

- **Should the subcommittee adopt the budget proposal to suspend the January 2003 COLA entirely?**

<u>II. Adult Programs</u>

<u>Special Circumstances</u>
Current law provides for emergency payments to recipients of SSI/SSP, CAPI or In-Home Supportive Services for special non-recurring needs. These one-time payments are intended to meet immediate needs in order to maintain individuals in their own homes rather than institutions. The program was established based on the expectation that in poverty households, such events as a fire or the breakdown of an appliance can be catastrophic. Special circumstances include replacement of essential household furniture and equipment (such as a refrigerator or oven), necessary housing repairs (fixing a leaky window or roof) and unmet shelter needs.

The Special Circumstances program was suspended between 1992 and 1998. The program was re-funded beginning with the 1998/99 budget, at a fixed amount of $8.3 million. In 2000-01, counties spent 100% of this allocation, nearly 40% of it on administration. Counties worked with the Department to develop a set of program changes, designed to reduce administrative costs. A Governor’s veto in 2001 reduced the fixed amount by $3.3 million, $1.3 million in benefits, and $2.0 million in administrative costs, based on expectations related to the 2001 Trailer Bill changes expected to simplify administration and expand benefits. The changes simplified eligibility determination, raised the limits for specific payments, and permitted the shift of funds from administrative to program costs

The budget proposes to fund Special Circumstances in the amount of $4.5 million General Fund ($3.4 million for services and the balance for administration). This reduction would constitute funding for the program at little more than half the funding available a year ago. As of December, 2001, counties had expended 62% of the total allocation in the current year.

The Department should report on the number of individuals expected to receive benefits under Special Circumstances, and the general breakdown of service types.

The Legislative Analyst's Office included an Option of eliminating the Special Circumstances program, in their February document providing choices for budget reductions. Their reasoning included the comparatively high fixed costs of administration for a very small sum for one-time cash assistance.

- **The subcommittee will consider whether to eliminate or suspend the Special Circumstances program.**

<u>**Adult Protective Services**</u>
Legislation in 1998 reformed statutes regarding adult protective services and established an enhanced and comprehensive Adult Protective Services (APS) system to protect California's older and dependent adults. The legislation expanded the list of persons required to report suspected abuse and broadened the definition of abuse to include abandonment, isolation, neglect and financial abuse in addition to physical abuse.

Counties access specific APS funds when they have expended funds equal to a maintenance of effort established at the level of expenditures made in fiscal year 1996-97. Counties have been required to respond to reports of elder and dependent adult abuse on a 24-hour emergency response basis, when the individual is imminent danger. Counties were required to respond within 10 days in all other cases. Counties provide investigations, needs assessments and case management services. Counties can provide food, emergency shelter care, in-home protection, transportation, and multidisciplinary teams for assessment and treatment. Some health-related activities provided to Medi-Cal recipients receive federal Medi-Cal matching funds.

The budget for APS in the current year was maintained at the previous year's level of $70.3 million (plus $27.3 million from the County Services Block Grant), a reduction of $17.9 million compared to anticipated caseload and costs. In adopting the proposed reduction, **the Legislature adopted Trailer Bill Language that permits counties to exclude some individuals from immediate response, if the individual is not in**

imminent danger or an in-person response is not required to protect the health or safety of the individual. Counties are required to document the numbers of people whose timelines were not met, the level of risk to the individual, and other information. The Department is required to report on or before April 1 on the number of individuals whose time frames were not met and the disposition of those cases. A previous report, when an identical deferral process was provided during the start-up of the APS program, found that few individuals were deferred by county workers (3% of referrals), and that county policy was very conservative about assuring that potential abuse was investigated.

CWDA proposes to eliminate the documentation for person they do not see face-to-face within the timeframes required within the law. Counties have found that the documentation requires more staff time than meeting the time frames, and that as a result, the suspension of the time frames has not been an effective way of dealing with the under-budgeting of this program. The CWDA proposal does not change the requirement that counties respond immediately to reports of imminent danger to an elder or dependent adult. The Department believes that the documentation is not required to assure safety, based on their previous experience with reviews.

- **Should the subcommittee adopt trailer bill language eliminating the requirement to document deferrals of the time frame for in-person case assessments? (The proposed language is included as DSS- A)**

The budget maintains funding at approximately the same level as last year, $78.9 million ($55.3 million General Fund; the balance is federal Medi-Cal funds). These funds are in addition to $27.3 million in County Services Block Grant funds. The growth over the last three years in total funds has been modest, and entirely in federal funds. Caseload was 16,494 in 00-01. The budget assumes no caseload growth, in order to maintain the budget at current levels. Because there is no caseload estimate, there is no information about the extent of underfunding beyond the $17.9 million estimated last year.

- **Should the subcommittee adopt the Adult Protective Services budget as proposed?**

III. Food Stamps

The Food Stamps program is a federal program under the U.S. Department of Agriculture that provides eligible individuals with no-cost food coupons in order to improve nutrition. The value of the coupons is funded entirely by the federal government. Administrative costs are shared by the federal government (50%), the state (35%) and counties (15%). The caseload of persons receiving food stamps has been steadily declining since the mid-nineties. The program is projected to serve an average monthly caseload of 706,000 households (1.8 million individuals).

Administration of the Program

The budget proposes to provide no increase in administrative costs of doing business for the counties for the budget year. This is a reduction of $11.3 million in total funds, $3.9 million of which are General Funds, using the 2.89% rate of cost increase used in the Department's November estimates.

Error Rate

The federal US Department of Agriculture (USDA) monitors the administration of food stamps, and can levy penalties for states whose rate of error is above the national average**. In 2000, California's error rate was 9.36% for overpayment of food stamps and 4.63% for underpayment, for a combined average of 13.99%.** The national average combined error rate was 8.91%. **Because of this rate, California is subject to a penalty of $11.9 million for Federal Fiscal Year 2000**. USDA has agreed to a settlement that would permit a reinvestment of $1.5 million in activities designed to improve operation of the Food Stamp Program by September 30, 2003. These activities must be agreed upon between the state and USDA. California will be subject to the remaining penalty ($10.4 million) if it is not able to achieve the national average combined payment error rate for Federal Fiscal Year 2003.

Complex eligibility requirements for small benefit amounts create the conditions that make a high error rate more likely. One element in California's poor performance is its continued use of monthly reporting by beneficiaries of changes in income and other eligibility requirements. Only eight states require beneficiary reporting with this frequency; each report is another opportunity for information to be improperly recorded or not acted upon by the system. Another element is the success California has had in getting food stamp and welfare recipients in the labor market. A larger percentage of food stamp recipients now work, with changing income levels that require changing amounts of food stamps. A third element is California's complex resource rules: the value of automobiles and housing must be estimated carefully. Although fraud exists, studies of the error rate indicate that it is a much smaller element of the error rate than mistakes in recording information, or failure to record information received. It is worth noting that a reduction in the administrative costs of this program is not likely to make the situation better.

The Department has worked with specific counties whose error rate is above the average to develop quality improvement plans. Despite these efforts, the Department anticipates that the error rate for Federal Fiscal Year 2001 will be even worse than the rate in 2000. Final error rate computations are not due until April. But USDA estimates that California's 2001 rate will be more than 17%, and the rate in Los Angeles county over 22%. As a result, reaching a settlement agreement with the USDA will be difficult. The Department believes that counties with a high rate have a strong commitment to reducing the rate, and that improvements have been made since the 2000 rate was established in the fall. Counties will share in any sanction paid.

- **The Department will report on actions it is taking to resolve the sanction problem.**

Food Stamp Recipiency Rate

The number of Californians receiving food stamps declined steadily from the mid-90's through last year. The Department estimates small increases in current year and budget year, reflecting the economic impact of recession on households. The drop from the peak in the mid-nineties has taken more than 40% of households off food stamps. National studies suggest that no more than half the drop was associated with the improved economy. A part of the reason for reduced participation is that, as California and other states successfully moved families off welfare, efforts were not successful in keeping poor families linked to food stamps, even when eligible. Lack of outreach, complicated application forms, burdensome reporting requirements have all played a role.

In 2000-01, the Legislature required the Department to develop a community outreach and education campaign. The plan was completed last year, and the Department has undertaken additional activities since then. Most notably, and in response to additional legislation in 2000, the Department in January transmitted to counties a new simplified application form for non-assistance households. There are other activities the state could undertake to improve the access to food stamps by eligible households. The Department has acted to co-locate food stamp eligibility activities in WIC offices.

Transitional Food Stamp Benefits

Federal rules enacted before last year would permit states to automatically continue food stamp benefits to former CalWORKs recipients for up to three months after they leave assistance for reasons other than a sanction. At the time of last year's budget hearings, the federal government had not established an effective date for this change. As indicated above, households leaving CalWORKs because of work are a target for outreach. Food stamps are a part of the package of services that will ensure that such families remain self-sufficient.

The federal government has released final regulations on the Transitional Benefit program. As a result, the state may choose to extend benefits for three months for cash recipients of CalWORKs who leave the program for reasons other than a sanction or noncompliance with program rules. Such household would continue to receive food stamps for three months; during this time period the family could be the recipient of additional outreach to assure that food stamps are continued, if eligible and appropriate to the family's self-sufficiency. **The Department estimates that the costs of a Transitional Benefit program would be $1.1 million per year**. Congress is now considering a further extension of the transitional Benefit program to six months, as a part of food stamp reauthorization.

- **The Department will describe when a transitional food stamp program could be provided.**
- **The subcommittee will consider whether to require the state to adopt a transitional food stamp program.**

IV. Food Stamp-CalWORKs Crossover Issues

Quarterly Reporting

California is one of only eight states that requires monthly reporting of income and eligibility changes from its CalWORKs and food stamp recipients. California rules require that beneficiaries report monthly on income and employment. They further require that eligibility workers then respond to the information reported in a timely fashion. California approved legislation in 1999 (AB 510, Chapter 826) that would permit Los Angeles and up to eight additional counties to change to quarterly reporting, but would continue to require recipients (subject to prosecution for fraud) to report changes in information that affect eligibility under food stamps and CalWORKs. Any county wishing to operate this pilot program must receive the approval of the local district attorney. No county has expressed an interest in, and been able to provide the approval for, participation in the pilot project.

Monthly reporting is assumed to be a significant part of California's problems with the error rate in food stamps. The counties collectively must process more than 700,000 pieces of paper each month, even if most of them include no reported changes. All but a few states have eliminated monthly reporting, in part to address their error rates. Every state that changed to quarterly reporting from monthly reporting has experienced a decline in error rates. In addition, the monthly reporting creates significant paperwork for beneficiaries, increasing the stigma of receiving food stamps and creating a continued barrier to participation. Currently, the state allows counties to use quarterly reporting for Medi-Cal. The Medi-Cal system reports that savings associated with simplification of Medi-Cal reporting have not been realized, since eligibility workers must review and respond to any information received in the monthly report the same recipients files for CalWORKs and/or food stamps.

The opposition to the pilot under current rests in part upon a conviction by district attorneys that prosecution is simpler when monthly reports are available (even though the change in reporting schedules does not change the legal requirement on the beneficiary to report). It is possible that the costs of maintaining the monthly system will change the approach to this issue, however, since most of any penalty associated with the food stamp error rate will be passed on to counties, based on their caseload and liability for errors. Any county that chooses to participate in the pilot will require changes to the SAWS computer system to accommodate the new reporting cycle.

The Department estimates that implementation of quarterly reporting statewide would cost a total of $2.8 million, federal, and county funds in the budget year. The General Fund cost would be $980,000, and includes the costs of computer reprogramming. The costs take no account of the fact that implementing quarterly reporting may avoid large food stamp sanctions. The impact in 2003-04 is estimated to be $15.3 million savings, $5.3 million of which is General Fund. Legislation has been introduced (AB 2415, Keeley) to require quarterly reporting statewide. The subcommittee could also consider removing the barrier of district attorney approval for pilot testing the program.

- **The Department will provide any information it has about the impact of a change in monthly reporting on error penalties, and administrative costs in CalWORKs and Food Stamps.**
- **The Subcommittee will determine whether additional action should be taken to encourage piloting of quarterly reporting.**

Auto Rules

Last year's budget implemented new federal rules for food stamps that require states to exempt more vehicles from consideration when determining a household's assets. (For example, vehicles with a small resale value are exempted from consideration as an asset when determining eligibility). State law also provides that asset rules in CalWORKs and the CFAP program will be the same as food stamp rules. Although the state adopted the required federal rules, it did not adopt optional vehicle valuation choices offered by the federal government. Principally, the state retained a requirement that all nonexempt cars must be assessed and be under a limited fair market value. The President has proposed a new vehicle asset rule requiring all states to allow the exemption of the value of one vehicle per aided adult. Currently, states have the option to provide such an exemption.

- **The Department will provide information about the costs (or savings) of implementing a proposal to exempt the value of one vehicle per aided adult in Food Stamps and CalWORKs**.
- **The subcommittee will determine whether to adopt a requirement that a single auto be exempted per adult.**

V: In Home Supportive Services (IHSS)

IHSS provides services to eligible persons who are unable to remain safely in their homes without those services. County welfare departments coordinate the program. Services are provided to low income elderly, blind or disabled individuals. Services include domestic services such as meal preparation, laundry, shopping and errands; personal care services; assistance while traveling to medical appointments or to other sources of supportive services; protective supervision; teaching and demonstration directed at reducing the need for supportive services; and certain paramedical services ordered by a physician.

In 1993, California implemented the Personal Care Services Program option under the federal Medicaid program. Under this option, the state can collect federal financial participation for medically necessary services provided to IHSS clients who are Medi-Cal eligible. Residual services not matched with federal funds include those in cases where the only services required are domestic chores; protective supervision tasks; services to persons who are not Medicaid eligible, including recipients covered by third party insurance; services in cases where the recipient is severely disabled and receives payment in advance of service delivery; and services provided by relatives, including spouses and parents.

Caseload has grown in this program, faster than population growth. Caseload is estimated to grow 7.3% in current year, and 6.3% in the budget year. The aging of California is one factor contributing to the increased caseload, and de-institutionalization in various disability and health fields is another. The new Adult Protective Services has identified persons who require IHSS services to remain healthy and at home. As a result of increased caseload, and as a result of increased rates for providers (discussed below), General Fund costs in this program have increased dramatically, nearly four-fold since 1993-94. Regardless, costs per individual (less than $7,000) are less than one-fifth the costs of nursing home placement.

Program Administration

The costs to county welfare departments for administering IHSS are shared at the rate of 70% of nonfederal costs by the state, based on caseload. The budget has funded caseload-related increases in administrative costs, but has not awarded a cost of doing business increase. **The Department estimates that this constitutes a savings of $23.2 million in all funds in the IHSS program, for a savings of $8.4 million General Fund.**

Provider Rate Increases

Historically, IHSS services have been delivered in three modes: the Individual Provider (IP) mode, where the provider is an individual, hired by the recipient; the County Contract mode, where services are performed by an individual under contract with a service provider; and the Welfare Staff mode, where services are provided by an individual who is a county employee.

Legislation in 1999 (AB 1682, Chapter 90) requires that counties act as, or establish, an employer of record for IHSS providers by January 1, 2003, for the purposes of employer/employee relations, including the opportunity for collective bargaining for wages and benefits. Counties will meet this goal by establishing Public Authorities for Individual Providers, or contracting with private agencies, or directly employing providers through the county. The Department estimates that by the end of the budget year, 95% of the caseload will be served by providers in the Public Authority mode.

In 2000, legislation (AB 2876, Chapter 108) authorized the state to pay 65% of the nonfederal cost of a series of wage increases for providers in Public Authorities. The increases began with $1.75/hour in 00-01, potentially followed by individual increases of $1/year, up to a maximum wage of $11.50/hour. State participation after the first year is contingent upon General Fund revenue growth exceeding 5%. The state will also participate in health benefits worth up to $.60/hour.

The Governor proposed, and the Legislature adopted, state participation in a $1/hour increase in 01-02, the current year, even though the 5% revenue growth trigger was not reached. Thus the state now participates in wages of up to $8.50/hour plus health benefits up to $.60/hour. The General Fund cost (moderated somewhat by estimates as to the extent to which Public Authorities would negotiate and pay wage increases, since the county share of such increases is 35% of the nonfederal share) was $23 million.

The Governor's budget estimates that General Fund revenue growth will exceed the 5% trigger level in the budget year. However, the budget proposes to suspend the trigger and not participate in the next $1/hour of wage increases, due to pressures on the General Fund. The budget notes that IHSS wages have met the level anticipated in 2000, due to last year's increase. Adoption of an addition $1 increase would cost approximately $26 million, based on the counties likely to award such an increase.

The budget also assume net cost increases of $20.8 million ($8.4 million General Fund) for increased minimum wages, to be paid to Independent Providers. The budget proposes no additional increase to IP or Contract providers in the budget year. Both modes received increases in the current year.

- **Should the subcommittee adopt the budget proposal to suspend the $1/hour wage increase? Implementing the suspension would require Trailer Bill language.**

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

April 1, 2002
1:30 P.M.
ROOM 2040
(Diane Van Maren, Consultant)

Item	***Description***
4260	**Department of Health Services, including issues regarding**

- Consent Calendar (issues as noted)
- Medi-Cal County Administration
- Medi-Cal Drug Program
- County Medical Services Program (CMSP)
- Hospital Funding Adjustments
- Medi-Cal Program Provider Rate Adjustments
- Other Medi-Cal Program Issues

PLEASE NOTE: **Please refer to the Senate Daily File for the dates and times of future Subcommittee hearings regarding the Department of Health Services.**

I. 4260 Department of Health Services

A. BACKGROUND

Purpose and Description of the Department

The goals of the Department of Health Services (DHS) are to (1) promote an environment that contributes to human health and well-being; (2) assure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness and the means of delivering health services to the public; and (5) assure economic expenditure of public funds to serve those persons with the greatest health care needs.

Overall Budget of the Department

The budget proposes expenditures of **$29.9 billion ($10.7 billion General Fund), or an increase of $131.3 million (total funds) over the revised 2001-02 budget. Of this amount, $29 billion is for local assistance and $886.4 million is for state support.** State support expenditures include funds for 5,684 personnel-years.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
Program Source				
Health Care Services	$28,865,867	$28,975,176	$109,309	0.3
Public and Environmental Health	908,733	934,666	25,933	2.8
State Mandated Local Programs	9,650	7,733	(1,917)	19.9
State Administration	2,175	2,159	(16)	0.7
Regional Projects and Adjustments	2,023	--	(2,023)	(100.0)
Totals, by Program Source	$29,788,448	$29,919,734	$131,286	0.4
Funding Source				
General Fund	$10,393,368	$10,715,813	$322,445	3.1
Federal Funds	16,630,424	16,495,558	(134,866)	(0.8)
Other Funds	2,764,656	2,708,363	(56,293)	2.0
Totals, by Fund	$29,788,448	$29,919,734	$131,286	0.4

Overview of the Budget for the Medi-Cal Program

The budget proposes local assistance expenditures of $26.9 billion ($10 billion General Fund). This reflects a *net* increase of $367 million General Fund, or 3.8 percent, over the revised 2001-02 budget. This net General Fund increase is attributable to several factors, including **(1)** eligibility simplification items adopted in the past legislative session, **(2)** adjustments to pharmaceutical expenditures, **(3)** proposed provider rate reductions, and **(4)** a reduction in the federal Medical Assistance Percentage (FMAP).

A caseload of almost 6.5 million recipients is projected for 2002-03, which reflects an estimated increase of 304,100 recipients, or 4.9 percent. This increased caseload is primarily due to the expansion of health care coverage to lower-income, uninsured working families and to the aged, blind and disabled populations.

B. ITEMS FOR CONSENT (Items 1 through 9)

1. Department of Health Services Reduction Proposal

Background and Governor's Proposed Budget: The DHS **is proposing a reduction of** about **$7.8 million General Fund from the budget.** This level of savings assumes the following:

- Delete the $4 million (General Fund) set aside for the Quality Award Program to support financial rewards to employees of long-term care facilities providing high quality care to Medi-Cal recipients.
- Reduce by $70,000 (General Fund) the contract for providing training to providers regarding sexually transmitted diseases and health education and counseling programs.
- Delete $100,000 (General Fund)by using electronic transmission, in lieu of written publication, for the release of monthly statistics regarding California's mortality and morbidity.
- Reduce by almost $1.5 million (General Fund) the contract with MEDSTAT to support the Management Information/Decision Support System. Any additional costs for the contract will be funded through Medi-Cal savings that MEDSTAT identifies.
- Reduce by $60,000 (General Fund) to reflect savings from closing a Medi-Cal field office in San Jose.
- Reduce by $290,000 (General Fund) to reflect the elimination of broad-based outreach and education activities targeting the general public regarding the availability of the New Born hearing Screening Program established in 1998. Resources would still be available to target high priority groups, such as families and pregnant women.
- Reduce by $135,000 (General Fund) to reflect a reduction in travel time by the Office of Legal Services. Specifically, this proposal will require most institutional providers to appear in Sacramento or pay the state's cost to travel to other locations. The DHS states that the proposal does *not* require indigent persons to travel to Sacramento or to reimburse state costs for hearings closer to their place of residence.
- Eliminates General Fund support of $120,000 which was used to conduct inspections of manufacturers of bunk beds and public facilities that use them.
- Eliminates a part-time Health Program Manager II position for savings of $40,000 (General Fund).
- Transfers a Public Health Medical Officer III position from General Fund support to special fund support for savings of $130,000.
- Reduces by $1 million (General Fund) contracts in the information technology area and transfers the responsibility to existing DHS staff.
- Reduces by $400,000 (General Fund) various costs in the information technology services section.

The DHS notes that these reductions are necessary in order to not exceed available resources.

Subcommittee staff has raised no issues with these proposed reductions in light of the present fiscal situation.

2. Southern California Laboratory Needs Study

Background and Governor's Proposed Budget: Through a recent Section Letter, the DHS requested termination of the Southern California Laboratory Fire and Life Safety Renovation project which was adopted in the Budget Act of 1999 (authorized $484,000 for preliminary plans and working drawings), and Budget Act of 2000 (authorized $4 million for construction of the project). The original scope provided for upgrades to the mechanical, plumbing, and electrical systems, and to address ADA, seismic, and fire and life safety noncompliance issues.

The DHS is not certain that the laboratory will continue to meet its needs in the future. Specifically, the events of September 11, 2002 and the potential for increased bioterrorism activities may have an impact on workload and laboratory sufficiency.

The budget proposes to delete the $4 million (General Fund) to improve the laboratory and instead, proposes to spend $150,000 (General Fund) for a study that will (1) identify DHS' current laboratory occupancy including existing program, workload, staff, and equipment, (2) identify future staff, workload, equipment and space requirements, including all assumptions for increased growth, (3) determine whether the existing laboratory can meet current and future workload needs, and (4) identify alternatives for meeting current and future laboratory needs.

Subcommittee staff has raised no issues with this proposal.

3. Richmond Laboratory Complex-Phase III

Background and Governor's Proposed Budget: Development of the Richmond Laboratory campus is scheduled to occur in several phases. Phase III entails construction of a three-story office building. It is anticipated that the building will house approximately 850 staff. Site work will include utilities and parking for about 600 vehicles.

The project will consolidate all DHS East Bay Area office programs at the existing Richmond Campus immediately adjacent to the Phase I and II Laboratories. As such, the DHS contends that this will provide the unified environment necessary to maximize program and administrative efficiency, reduce the total square footage occupied in the East Bay area and meet DHS' current and future office and infrastructure needs in the most cost-effective manner.

The budget proposes an increase of almost $47.7 million ($150,000 General Fund and $47.5 million Public Building Construction Fund).

Subcommittee staff has raised no issues with this proposal.

4. Center for Health Statistics—Processing of Backlog & Certified Copies

Background and Governor's Proposed Budget: Among other things, the Center for Health Statistics (CHS) is responsible for providing certified copies of vital records to individuals who need them, and also for registering every birth, death, fetal death, marriage, and dissolution that occurs in California.

In addition, the CHS is responsible for compiling and analyzing the statistical data gathered from vital records and providing crucial information to the DHS and to other government agencies for assessing the health status of Californians, tracking health trends, and closing health disparities.

The CHS receives and processes about 170,000 requests for certified copies of vital records and 50,000 amends per year. The number of certified copies processed has grown by 27 percent over the past five fiscal years, with an increase of about 10 percent in the last year alone.

According to the DHS, incoming workload averages 14,000 requests per month, not including requests that are received but rejected for lack of information or money. As of September 2001, the DHS states that there was a processing backlog of 60,041 requests. Based on the DHS' analysis, the backlog cannot be addressed given the current staffing levels.

The budget requests an increase of $600,000 (Health Statistic Fund) to provide for temporary help to reduce the backlog.

Subcommittee staff has raised no issues regarding this proposal.

5. Reengineering the Food Safety Program

Background and Governor's Proposed Budget: The budget proposes an increase of $550,000 (Food Safety Fund) on a one-time only basis to complete a business process reengineering project for the Food Safety Program. This project will evaluate the program's business processes in order to develop, upgrade and consolidate the Food Safety Program's electronic communication, licensing, and data systems.

The DHS notes that the Food Safety Program's ability to rapidly communicate emergency information has been seriously challenged with the volume and frequency of emergencies. Recent examples include: illness outbreaks related to Hepatitis A in strawberries, Cyclospora in berries, and Salmonella in eggs and sprouts.

The existing communication and data system has been pieced together using outdated technology. Rapid communication is now available which requires state-of-the-art hardware and software. Therefore, a business process plan is needed in order to develop and implement an improved process.

Subcommittee staff has raised no bones regarding this request.

6. Contract Adjustment for Licensing Functions in Los Angeles County

Background and Governor's Proposed Budget: The DHS contracts with LA County to perform facility surveys and complaint investigations. In fiscal year 2000-01, LA County maintained a total of 179 permanent positions to perform mandated facility surveys and investigations in the southern region of the state.

In the previous two fiscal years, state departments were granted personnel services cost of living increases equaling 7 percent. During this same period, LA County granted a 3.3 percent adjustment for its employees. However, this increase was not provided for in the annual baseline budget for contracts. As such, the DHS states that there is not adequate funding to pay for services in LA County. The DHS states that if funding is not granted, the number of surveys would have to be reduced and could endanger patients, or would require the DHS to hire additional state staff to accomplish these facility surveys.

The budget is requesting an increase of $417,000 ($167,000 General Fund) to provide for an adjustment to the LA County contract.

Subcommittee staff has raised no issues with the proposal.

7. Outcome and Assessment Information Set (OASIS) Workload

Background and Governor's Proposed Budget: OASIS is a patient assessment and care planning tool used by Home Health Agency (HHA) staff to gather information about the needs and care outcomes of the patients they serve. HHAs are required to report this information to the federal CMS. The DHS is required by the federal CMS to support the OASIS system as a condition of its federal contract in order to receive federal reimbursement through Medicaid and Medicare.

As such, the DHS states that there is permanent ongoing workload associated with providing training and clinical assistance to staff of the state's 800 licensed HHAs, and the Licensing and Certification Program's inspection staff located in 22 field offices around the state.

The budget is requesting an increase of $82,000 (federal funds) to permanently establish one Nurse Consultant II position.

Subcommittee staff has raised no issues regarding this request.

8. Placement of the Nursing Home Administrator Program within the DHS

Background and Governor's Proposed Budget: Chapter 687, Statutes of 2001, among other things, (1) establishes a designated citation and administrative fine assessment system, (2) streamlines enforcement functions, , and (3) moves the Nursing Home Administrator Program and its operations from the Department of Consumer Affairs to the DHS.

The budget proposes an increase of $530,000 (Nursing Home Administrator Fund) and 5 positions to reflect the changes as contained in Chapter 687, Statutes of 2001.

Subcommittee staff has raised no issues with this proposal.

9. East End Complex Adjustment—Budget Proposal and Finance Letter

Background and Governor's Proposed Budget: The DHS has a legislative mandate to relocate headquarters staff and operations from multiple currently leased and state owned locations in downtown to the East End complex when construction is completed in April 2003. The DHS will be relocating about 3,700 employees into three buildings totaling 689,000 useable square feet.

The budget requests an increase of $6.775 million ($2.9 million General Fund). Of this amount: **(1)** $277,000 is for one-time only moving and relocation costs, **(2)** $1.9 million is for increased rent, (3) $66,000 is for one-time only expenditures for furnishing and equipment, and $4.5 million is for one-time only information and technology costs (consulting, network equipment, and data center services).

The DHS notes that denial of these resources would impede deployment and utilization of the capital outlay investment. If the buildings in question cannot be occupied, the DHS contends that there would be added cost to the state from the burden of overlapping construction bond debt service with continued costs of occupying current facilities (i.e., double rent).

Finance Letter: **On March 29th, the Subcommittee received a Finance Letter** to update the budget proposal. Specifically, the letter requests **a reduction of** $2 million (General Fund) in equipment expenditures since these costs can be included in the long-term bond financing used to finance the overall project.

Subcommittee staff has raised on issues with this proposal.

C. ITEMS FOR DISCUSSION

1. Complaint Enforcement—Request for Staff

Background: Since 1987, the **Licensing and Certification (L&C) Branch** within the DHS has **been charged with the responsibility to certify and re-certify** Certified Nursing Assistants **(CNAs)**, Home Health Aides **(HHAs)**, and Certified Hemodialysis Technicians **(HHAs)**. CNAs and HHAs provide about 80 percent of direct patient care services in nursing homes and in the patients' home setting. **According to the DHS, there are about 114,000 CNAs, 36,000 HHAs, and 4,200 CHTs.**

As part of this certification function, the L&C receives complaints regarding licensed or certified staff, investigates those complaints, and takes appropriate disciplinary actions such as placing the individual on probation, and suspending or revoking their license/certification.

Complaints are received from various sources, including the facilities themselves, the long-term care Ombudsman, families, L&C district offices and law enforcement agencies. **The DHS states that about 590 complaints were filed and investigated in 2000.** Of these, 40 percent resulted in a disciplinary action against the licensee.

Existing DHS Resources: Currently, the L&C Enforcement/Complaint Unit has **9 positions, including one clerical support position. The DHS states that each investigator has an average of 94 cases in process.**

Governor's Proposed Budget: The budget is requesting **an increase of $790,000 ($395,000 General Fund) to fund 9 new positions—8 Health Facilities Evaluator II positions and one Program Technician II (clerical support) position. This request would double the number of existing staff.**

The DHS states that these additional resources are needed to meet anticipated workload. The DHS contends that the first 6 months of 2001 showed a markedly higher increase in complaints and that the volume is continuing to grow. For example, from January 2002 to March 21, 2002, the DHS states that they have received 517 new cases.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide a brief summary of the request.
- **2.** Has the DHS ever considered having this Unit be fee supported?

Budget Issue: Does the Subcommittee want to approve the budget proposal, or due to the existing budget situation, modify the request?

2. Request for DHS Positions to Conduct AB 1075 Nursing Home Rates & Ratios

Background: Chapter 684, Statutes of 2001 (AB 1075), among other things requires the DHS to do the following:

- Develop minimum staffing regulations that establish direct care staff-to-patient ratios at nursing homes by August 2003.
- Implement a facility specific Medi-Cal reimbursement system for nursing homes (both "freestanding" and Distinct-Part Nursing Facilities (DP-NF)) by August 2004.

The changes in these staffing requirements and the rate system will result in significant additional workload for the DHS.

Governor's Proposed Budget and Requested Staffing Needs: The budget is requesting an increase of **$5.3 million ($2.7 million General Fund) to fund 55.5 new positions and to provide for certain consultant contract services**. **It should be noted that the funding level assumes all of the positions are hired by July 1, 2002.** The requested positions are outlined below.

- ***Audits and Investigations (35 Positions):*** A&I is requesting a total of 35 positions to audit facilities' operating costs. **The DHS contends that in order to shift to a facility-specific rate system, A&I staff will need to (1)** audit a greater percentage of nursing facilities on an annual basis, and **(2)** expand the level of detail covered in each audit to ensure costs are reported accurately relative to facility staffing levels. **The requested positions include 28 Health Auditors, 5 Health Auditor Managers and two Office Technicians.**

  The DHS assumes that **an additional 417 facilities will need to be audited each year in order to reach every facility within a three-year window.**

  A&I presently has 194 audit staff available for all program areas. They contend that the current year workload for these staff equates to 201 full-time equivalents. As such, they maintain that there are no available resources to meet the new requirements.

- ***Licensing and Certification Program (13.5 Positions):*** L&C is requesting a total of 13.5 positions. The two main functions that these positions will be used for are to **(1)** verify patient acuity data (known as minimum data sets) obtained from the nursing homes and used to measure patient needs, and **(2)** verify nursing home compliance with the upcoming staffing ratios. **The requested positions for these activities are as follows:**

  - 11 positions-- one Health Facility Evaluator Manager, 9 Health Facility Evaluators and one System Analyst—for verifying the patient acuity data; and
  - 2.5 positions—1.5 Health Facility Evaluators and one Analyst (two-year limited-term)—for developing the staffing ratio regulations and verifying compliance with the staffing ratios.

The DHS states that 11 positions for verifying the patient acuity data are needed in order **to verify one-third of the facilities each year** for the accuracy of the minimum data set submissions, to assess the integrity of the data and to work with the rate setting team on technical issues pertaining to the data sets. **They contend that this data is critical in the development of the facility-specific reimbursement system.**

- ***Medical Care Services (5 Positions):*** This section is requesting a total of 5 positions to **(1)** develop nursing facility rates, and **(2)** determine the effect of staffing ratios on rates. **The requested positions include three Research Analyst IIs, one Research Program Specialist II, and one Research Manager I.**

  The DHS states that in order to conduct these functions many analytical activities must be conducted including (1) developing cost estimates based on the new nurse staffing requirements, (2) developing necessary adjustments in labor cost projections, and (3) refining the DHS' ability to collect and analyze data.

- ***Office of Legal Services (2 Positions—Limited Term):*** This office is requesting one Staff Counsel position (two-year limited-term) and an Analyst position (two-year limited-term) in order to provide legal support for new facility-specific rate development and develop staffing-ratio regulations. The DHS states that if timely legal advice is not provided then litigation may result.

Recommendation of the Legislative Analyst's Office and Response from the DHS: In her Analysis, the **LAO recommends deleting a total of 11.5 positions from the requested 55 positions for a savings of $672,000 ($336,000 General Fund), and adoption of Budget Bill Language** which requires that any unspent funds from the positions be reverted to the General Fund.

The 11.5 positions recommended by the LAO for deletion include: (1) 1.5 Health Facility Evaluators, **(2)** three Research Analysts for rate development, **(3)** Five Auditors, **(4)** Two positions—Staff Counsel, and an Analyst—from the Office of Legal Services.

After review of the LAO proposal, the DHS has agreed to modify their request by deleting 6.5 positions (Health Facility Evaluators and the Auditors) for a reduction of $499,000 ($250,000 General Fund).

However the DHS maintains that they need the three Research Analyst positions and the two positions for the Office of Legal Services in order to meet the legislatively mandated time frames for rate and regulation development as contained in AB 1075.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide a **brief summary** of the proposal.
- **2.** Please explain why the positions for rates and legal services are needed in the budget year.

Budget Issue: Does the Subcommittee want to approve or modify the budget proposal to provide the DHS with additional staff?

3. Medi-Cal County Administration—Requests for Trailer Bill Legislation

Background and Budget Act of 2001: Counties **are responsible for conducting Medi-Cal eligibility processing and enrollment functions.** The **state provides funding** (General Fund and federal funds) for this purpose **based on four general components:** **(1)** recent caseload data, **(2)** estimated policy changes that affect eligibility processing or related functions, **(3)** staff training and development, and **(4)** cost-of-doing business adjustments.

Through the budget process, the state generally provides counties with cost-of-doing business adjustments. These adjustments are intended to account for such factors as (1) increases in the cost of goods and services (such as office supplies and janitorial services), **(2)** expenses related to information technology upgrades or replacements, **(3)** adjustments to salaries, and **(4)** increases in facility operation costs.

Only twice during the recession years of the early 1990's did the state not provide an adjustment for the cost-of-doing business and this deletion was reflected in the final Budget Act.

In the Budget Act of 2001, the Legislature appropriated about $107 million (total funds) as proposed by the Administration for the counties' cost-of-doing business adjustments. This funding level was sustained by the Governor. **However at the direction of the DOF, the DHS withheld the allocation of the funds to the counties.**

This $107 million (total funds) appropriation was then proposed for deletion on January 10, 2001 when the Governor's budget was released and the Medi-Cal estimate package was revised for the current year (2000-01). No formal notification from the Administration regarding this issue was received prior to this date.

The Administration states that the cost-of-doing business adjustment should not have been included in the Budget Act of 2001 for the Medi-Cal Program because the Department of Social Services did not include a corresponding adjustment for this purpose in their budget. **However the Governor did not veto this item out, nor was the Legislature informed of the miscue at any time, until the release of the January change.**

Constituency Request—Two Items: The County Welfare Directors Association (CWDA) is requesting **adoption of trailer bill legislation which would require the Administration to notify the Legislature and counties** within 60-days of passage of the Budget Act if it plans to withhold and not allocate any of the local assistance appropriation for Medi-Cal Administration within the fiscal year.

The CWDA contends this language is needed in order for counties to plan their budgets accordingly. Finding out late in the year that there is no intention to allocate funds or portions of funds significantly impedes the counties ability to manage operations within the resources provided.

The CWDA is also seeking a statutory change to provide the DHS with the authority to re-allocate unspent Medi-Cal administrative funds to counties that overspend their allocations. In an environment when the cost-of-doing business is not being funded, the CWDA believes that the DHS should have the authority to re-allocate unspent administrative funds based on the needs of the counties**. This language would enable the counties to utilize funding for critical eligibility services without exceeding the appropriation.**

The CWDA also notes that the Department of Social Services has used this approach for several of their programs for many years.

Governor's Proposed Budget: The budget to delete $19.1 million ($9.6 million General Fund) from county administration of the Medi-Cal Program by eliminating funds for standard cost-of-doing business adjustments. This reduction is in addition to a current year reduction of $186.5 million (total funds) which was just proposed for elimination in the current year.

Budget Issue (See Hand Out): In addition to the budget proposal to reduce county administration by $19.1 million ($9.6 million General Fund), does the Subcommittee **want to adopt trailer bill legislation to (1)** require the Administration to provide notification if funds are not going to be allocated, and **(2)** provide the DHS with authority to re-allocate funds to counties that overspend their allocations?

4. Medi-Cal Drug Program—Various Proposed Adjustments (ISSUES "A" Through "H")

Overall Background on the Core Program: Nationwide pharmaceutical costs are **the fastest growing component of all health care.** Generally, the growth is mainly due to technological advances in and cost of the development of new pharmaceutical products. Numerous states have recently enacted changes to their Medicaid Programs (Medi-Cal in California) in order to control costs.

California has historically had one of the least expensive Medicaid pharmaceutical programs in the nation. **The Medi-Cal fee-for-service Drug Program controls costs through two major components—(1) a Medi-Cal List of Contract Drugs (or formulary), and (2) contracts with almost 100 pharmaceutical manufacturers for supplemental rebates. Drugs listed on the formulary are available without prior authorization. In turn, the manufacturers agree to provide certain rebates mandated by both the federal and state government.**

The state supplemental drug rebates are negotiated by the DHS with manufacturers to provide additional drug rebates above the federal rebate levels. For the budget year, it is estimated that the state supplemental rebates will save $265.4 million ($132.7 million General Fund). **With respect to the federal rebates**, the budget assumes savings of $769 million ($372.6 million General Fund).

According to the DHS, the fee-for-service pharmacy program services about 50 percent of the Medi-Cal eligible population. This half is mainly composed of Aged, Blind and Disabled individuals. **The budget estimates that $3.8 billion will be needed for fee-for-service pharmacy benefits.**

Background on DHS Activities: The DHS administers the pharmacy program and is responsible for the following activities:

- Review of new drugs for inclusion in the Medi-Cal List of Contract Drugs;
- Screen drugs for safety, efficacy, essential need, misuse potential, and cost;
- Negotiate with manufacturers for rebates;
- Collect rebates and resolve rebates disputes; and
- Develop drug and medical supply policies.

The DHS **currently has 23.5 positions dedicated to the pharmacy program.** Of these existing positions, there are **(1)** twelve Pharmaceutical Consultant I/IIs, **(2)** 7.5 Analysts, **(3)** one Staff Services Manager II, **(4)** one Staff Services Manager, and **(5)** two support staff.

Governor's Proposed Budget: The budget proposes **a reduction of about $200.8 million ($100.4 million General fund) by enacting the following adjustments to selected areas of the Medi-Cal pharmacy program:**

Area of Adjustment	Total Savings	GF Savings
AIDS and Cancer Drugs—supplemental rebate	$14.1 million	$7 million
Aged Rebate Disputes	$13.5 million	$6.8 million
Generic Drug Contracting	$53.4 million	$26.7 million
Atypical Antipsychotics—conduct a therapeutic category review	$29.5 million	$14.8 million
Enteral Nutrition contracts	$18.1 million	$9.1 million
Enteral Nutrition rate reductions	$21.3 million	$10.6 million
Medical Supply contracting	$17.9 million	$9 million
Nonsteroidal—conduct a therapeutic category review	$16.9 million	$8.4 million
Duration of therapy audits	$10 million	$5 million
Frequency of billing audits	$6 million	$3 million
TOTALS	**$200.7 million**	**$100.4 million**

Each of these proposals is discussed below.

ISSUE "A"—Aged Rebate Payment Dispute Resolution

Background and Governor's Proposed Budget: The DHS has **the fiscal intermediary** (currently EDS) **submit quarterly invoices to pharmaceutical manufacturers** reflecting the quantity of drugs reimbursed by Medi-Cal through the fee-for-service claims processing system. **The manufacturers then calculate the amount due based on the rebate agreements for each of their drugs, and remit the payment amount.**

When manufacturers disagree with the state invoices, they can dispute the amount of the rebate owed to the state. This places a portion of their payment on hold until the rebate dispute is resolved. Rebates resolved in favor of the DHS must be paid with interest costs.

The DHS states that additional aged rebate payment disputes could be resolved resulting in added state rebate payments. Specifically, the budget assumes that additional savings of $13.5 million ($6.8 million General Fund) could be achieved.

The DHS is presently developing a new rebate accounting and information system which is expected to make the payment dispute resolution process more efficient by 50 percent. **This new system, coupled with three additional staff (to be discussed under Item 5, below), is expected to achieve the savings level. The DHS assumes that each analyst can resolve an average of $1.5 million General Fund in aged rebate disputes.**

It should be noted that this proposal does *not* require any statutory changes.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following question:

- **1.** Please provide a **brief description** of the proposal.

Budget Issue: Does the Subcommittee **want to adopt the proposed local assistance savings level as contained in the budget for resolving aged rebate payment disputes?**

ISSUE "B"— Frequency of Billing Audits & Duration of Therapy Audits

Background and Governor's Proposed Budget: The DHS employs two methods to decrease inappropriate drug utilization. Under the **"Frequency of Billing Limitations" the number of claims for the same drug and strength dispensed to the same Medi-Cal recipient is limited during a specified time period.** Many drugs on the Medi-Cal List of Contract Drugs have frequency limitations; however there is a need for ongoing review and assessment of the appropriateness of current limitations or the potential for new limitations.

Another method available is the **"Duration of Therapy"** audit which was re-instituted last year. Under this audit, a Medi-Cal recipient's use of a specific drug is limited to a set period, after which prior authorization is required. The DHS states that this audit process forces some drug therapies into prior authorization review so that the appropriateness for chronic treatment can be accessed.

The budget proposes local assistance savings of $16 million ($8 million General Fund) for these audits ($5 million General Fund for the "Duration of Therapy" audits and $3 million for the "Frequency of Billing" audits).

No statutory changes are needed to proceed with this proposal.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following question:

- **1.** Please provide a **brief description** of the proposal.

Budget Issue: Does the **Subcommittee want to adopt the budget proposal** to save $16 million ($8 million General Fund) in local assistance by increasing these audits as proposed?

ISSUE "C"— Generic Rebate Contracting

Background and Governor's Proposed Budget: Currently 545 individual labelers (some manufacturers have more than one labeler code) have a federal Medicaid rebate contract. Some of these manufacturers produce only single-source or innovator multi-source drugs. **An innovator multi-source drug was the original single-source drug before generic drug introduction into the market. The remainder of the manufacturers produce only generic (multi-source) drugs.**

DHS currently does not contract with generic drug manufacturers. However, Section 14105.33 of W& I Code does allow the DHS to enter into contracts with manufacturers of single-source and multiple-source drugs, on a bid or non-bid basis. As such, DHS believes that this is an untapped source of cost reduction revenue within the Medi-Cal program.

According to the DHS, multi-source drugs account for about 20 percent of the state's drug expenditures, or about $763.6 million (total funds).

The budget proposes savings of $53.4 million ($26.7 million General Fund) by contracting with manufacturers for rebates or prices lower than those provided under current federal cost limits. This assumes about a 7 percent rebate amount.

No statutory changes are needed to enact the proposal. However, the DHS notes that California will need to obtain federal CMS exemption from the federal upper limit price aggregate reimbursement levels. Generally, federal regulations limit the amount which Medicaid reimburses for drugs with available generic drugs.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following question:

- **1.** Please provide a **brief description** of the proposal.
- **2.** What is needed in order to obtain federal CMS exemption?

Budget Issue: Does the **Subcommittee want to adopt the budget proposal to capture $53.4 million ($26.7 million General Fund) in local assistance savings?**

ISSUE "D"—Therapeutic Category Reviews for Nonsteroidal Anti-Inflammatory Drugs *and* Atypical Antipsychotics

Background and Therapeutic Category Review Process: One method for the DHS to add drugs to the Medi-Cal formulary is to **conduct a therapeutic category review (TCR) to assess a group of drugs designed to treat a particular symptom.** Under the TCR process, the Medi-Cal Drug Advisory Committee evaluates the drugs within a category (such as nonsteroidal anti-inflammatory) using criteria including safety, effectiveness, essential need, cost and misuse potential. Based on this evaluation, the Committee makes recommendations to the DHS on which drugs should be included on the formulary.

The DHS then reviews the Committee's recommendations, obtains input from the manufacturer's of the drugs, reviews cost data, considers other sources of information such as clinical studies, and **then submits recommendations for TCRs to the Director of the DHS for a final determination. Drugs can then be added or deleted from the list of contract drugs accordingly.**

Continuity of Care Provisions for Medi-Cal Recipients: Within existing statute, there are several references for maintaining existing Medi-Cal recipient continuity of care. Generally, a Medi-Cal patient has the legal right to continue their existing course of treatment as long as it is medically necessary.

As noted in Section 14105.33 (i), **the department is required to provide individual notice to Medi-Cal recipients at least 60 calendar days prior to the effective date of the deletion or suspension of any drug from the list of contact drugs.** Further, the notice shall include a description of the fair hearing process and will encourage the recipient to consult with their physician to determine medication needs.

It should also be noted that any drug which is not part of the Medi-Cal formulary but is required by the patient as prescribed by a physician, can be obtained through the Treatment Authorization Request (TAR) process. **According to the DHS, the TAR turn around time for prescription medications is to respond by the next business day.**

Governor's Proposed Budget: **The budget proposes savings of (1) $16.9 million ($8.4 million General Fund) to either renegotiate current contracts to increase the rebate obtained on nonsteroidal anti-inflammatory drugs, or possibly perform a review of the cost effectiveness of all drugs of this type through a TCR process, *and* (2) savings of $29.5 million ($14.8 million General Fund) for conducting a similar process for Atypical Antipsychotic drugs. No statutory changes are required for the DHS to implement this proposal.**

The DHS states that Atypical Anti-psychotic drugs are a therapeutic category of drugs for which the Medi-Cal Program expends more than any other class of drugs. Specifically, about $400 million is expended annually. The estimated budget savings assumes that the DHS **obtains a 7.5 percent reduction** in costs through the negotiation process.

The Non-Steroidal Anti-Inflammatory Drug is also a category of drugs for which Medi-Cal expends a significant amount of funds. The estimated budget savings assumes that the DHS obtains a 10 percent reduction in costs through the negotiation process.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide a **brief description** of the proposal.
- **2. How can the DHS ensure Medi-Cal recipient access to drugs, particularly the Atypical Antipsychotics?**
- **3.** Please briefly describe the TAR process for the receipt of medications.
- **4.** How many TCRs have been conducted by the DHS since its inception and have drugs ever been added to the formulary due to the TCR process?

Budget Issue: Does the Subcommittee **want to adopt the proposed budget to save a total of $46.4 million ($23.2 million General Fund)** in local assistance through the use of a TCR for Nonsteroidal Anti-Inflammatory drugs and Atypical Antipsychotics?

ISSUE "E"—AIDS and Cancer Drugs Supplemental Rebates

Background: and: Any drug approved for use in the treatment of Acquired Immune Deficiency Syndrome (AIDS) or an AIDS-related condition or for the treatment of cancer, is automatically added to the Medi-Cal List of Contract Drugs as required by existing statute. **This automatic addition bypasses the standard Medi-Cal contracting process. As such, Medi-Cal only receives the federally mandated rebates for these products (about a 20 percent rebate), not any state supplemental rebates.**

Currently, expenditures for **AIDS and Cancer drugs are about $162 million** in the Medi-Cal Program.

The DHS states that on average, contracting for state supplemental rebates would return an additional 6 to 10 percent. However, since existing statute mandates the automatic addition of these products to the List of Contract Drugs, the DHS contends that a state supplemental rebate must be mandated through legislation.

Governor's Proposed Budget (See Hand Outs): The budget proposes **savings of $14.1 million ($7 million General Fund) by requiring a 10 percent state supplemental rebate** on AIDS and Cancer drugs.

The Administration proposes trailer bill language to (1) require the 10 percent state supplemental rebate level from these manufacturers, (2) give the DHS authority to **suspend all drug products of any manufacturer that fails to contract for the rebates**, and **(3)** provide certain Medi-Cal recipient protections in the event that a drug is suspended from the List of Contract Drugs.

Constituency Concerns: Some manufacturers have expressed concern regarding the wording in the proposed trailer bill language as it pertains to the "10 percent" state supplemental rebate amount. **In lieu of a percentage designation, they would prefer alternative language which (1) does not make reference to a particular percentage level, (2)** re-crafts the ability of the DHS to delete the manufacturers other drug products from the formulary, and **(3)** establishes a two-year sunset on the state supplemental rebate requirement.

It should be noted that the Administration's proposed budgeted savings amount of $14.1 million ($7 million General Fund) is not being opposed, only the language as currently crafted.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide a **brief description** of the proposal, including the proposed trailer bill language.
- **2.** How will the DHS **ensure access to AIDS and Cancer drugs for Medi-Cal recipients?**

Budget Issue: Does the Subcommittee **want to adopt or modify the proposed budget to save $14.1 million ($7 million General Fund)?**

<u>ISSUE "F"—Medical Supply Contracting -- Blood Glucose Strips</u>

<u>Background and Governor's Proposed Budget:</u> Federal law classifies medical supplies as a Medicaid (Medi-Cal) optional benefit. **State law lists medical supplies as a benefit, sets the reimbursement rate, and allows the state to enter into contract agreements with these manufacturers and distributors.**

According to the DHS, medical supply claims have risen to become about 13 percent of the drug/medical supply item with expenditures of more than $200 million annually. Other than with incontinence supplies, the DHS does not contract with medical supply manufacturers.

Contracting for medical supplies requires that the individual supply items be easily identifiable by manufacturer and product. **The Universal Product Number (UPN)** is an essential part of that identification. **Since the development of the UPN requires significant claim processing system changes, the DHS proposes to start with medical supplies that can currently be identified using a UPN. Blood Glucose test-strips are such a product. The state spends about $56 million annually on these strips.**

The budget proposes a reduction of $17.9 ($9 million General Fund), or a reduction of about 32 percent, by contracting for Blood Glucose test-strips. The DHS states that this is based on discussions with manufacturers of the test-strips regarding their current level of contracting with other purchasers.

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the DHS to respond to the following question:

- **1.** Please provide a **brief description** of the proposal.

<u>Budget Issue:</u> Does the **Subcommittee want to adopt the budget proposal** to save $17.9 million ($9 million General Fund)?

<u>ISSUE "G"—Enteral Nutrition Contracts and Rate Reductions</u>

<u>Background and Governor's Proposed Budget (See Hand Out):</u> **The DHS currently does not contract with manufacturers for rebates on enteral nutrition products.** In order to reduce expenditures for these products, the DHS intends to establish a list of approved nutritional products and **contract with selected manufacturers for discounts or rebates.**

In addition, the current reimbursement rate for nutritional products is higher than the DHS believes to be required to maintain access to these products. As such, the Administration is proposing to change the reimbursement of these products from a "mark-up" based on an estimated acquisition cost to a flat dispensing fee.

From these two actions, the budget assumes savings of $39.4 million ($19.7 million General Fund) in local assistance.

Both of these proposals require state statutory changes. Specifically, statutory changes are required to: (1) allow the DHS to create a list of contract medical foods and dietary supplements, **(2)** allow the DHS at their option to declare those nutritional products not on the list to be non-benefits of the program, **(3)** provide discretion to the DHS to review additional products for inclusion on the list in future years, and **(4)** enable the DHS to alter the pharmacy reimbursement methodology for nutritional products.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following question:

- **1.** Please provide a **brief description** of the proposal.

Budget Issue: Does the Subcommittee **want to adopt or modify the budget proposal to save $39.4 million ($19.7 million General Fund) as proposed?**

ISSUE "H"—Other Proposed Trailer Bill Changes to the Medi-Cal Drug Program

Governor's Proposed Budget: In addition to the items outlined above, the budget proposes changes in trailer bill legislation as follows:

- ***1. Eliminates the Sunset Date for the Medi-Cal Drug Program:*** The overall Medi-Cal Drug Program is slated to sunset as of **January 1, 2003**. **The Administration is proposing to eliminate the sunset date in order to continue the program indefinitely.** Historically, the sunset date has been extended in two-year increments through budget trailer legislation since 1992. These two-year extension periods have occurred at the request of constituency groups who have desired the opportunity to revisit the program if problems arose regarding the administration of the statute and program.

  The Administration contends that the Medi-Cal Drug Program is an integral component to the overall Medi-Cal Program and should be permanently established.

- ***2. Drugs with Therapeutic Gain:*** The Administration **is proposing to delete existing statute** (i.e., Section 14105.39 (c)) which generally provides that any new drug designated as having an important therapeutic gain and approved by the FDA shall immediately be included on the list of contract drugs for a period of three years if certain conditions are met.

  The DHS contends this language is obsolete and needs to be deleted because of federal law changes that occurred in 1992. In 1992, the federal FDA discontinued the practice of labeling drugs as having an "important therapeutic gain" and instead, began using the designations of "P" (for priority) or "S" (for standard). **However, state law has never been updated to reflect these federal changes.**

As such, the DHS states that retaining this obsolete language has caused controversy among a few manufacturers regarding the automatic inclusion of new drugs on the Medi-Cal formulary. Therefore, the Administration believes the language needs to be deleted or it will have a detrimental affect on the budget. Specifically the Administration is concerned that if the provision is maintained litigation may ensue which **could result in a loss of state supplemental drug rebate revenues or could require the DHS to promulgate regulations to identify which new drugs have an "important therapeutic gain".**

Further, the DHS notes it gives first priority to reviewing manufacturer's requests to be added to the Medi-Cal List of Contract Drugs for "P" drugs. It should also be noted that all federal FDA approved drugs are available to Medi-Cal recipients via the prior authorization process if the drug is not on the list of contract drugs.

Opponents of the proposal maintain that though changes are needed to this section of statute, policy legislation should be used as the vehicle to more thoroughly craft a comprehensive solution instead of just deleting the provision.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please explain why the Administration is seeking to delete Section 14105 (c) from existing statute and why this may have budget implications.

Budget Issue: Does the Subcommittee want to adopt or modify the proposed trailer bill language?

5. DHS Request for Staff to Implement Medi-Cal Drug Program Changes

Background: The DHS **currently has 23.5 positions dedicated to the pharmacy program.** Of these existing positions, there are **(1)** twelve Pharmaceutical Consultant I/IIs, **(2)** 7.5 Analysts, **(3)** one Staff Services Manager II, **(4)** one Staff Services Manager, and **(5)** two support staff. **Generally, this staff does the following:**

- Reviews of new drugs for inclusion in the Medi-Cal List of Contract Drugs;
- Screens drugs for safety, efficacy, essential need, misuse potential, and cost;
- Negotiates with manufacturers for rebates;
- Collects rebates and resolve rebates disputes; and
- Develops drug and medical supply policies.

Governor's Proposed Budget: In order to achieve savings of $100.4 million (General Fund) in local assistance as discussed above in item 4, **the DHS contends it needs 16 new state positions, plus funds for 4 Pharmaceutical Consultant II positions to be hired through contractual arrangements.**

The budget proposes expenditures of almost $1.4 million ($483,000 General Fund) for the state positions, and an additional $640,000 ($160,000 General Fund) for the proposed contract staff. The proposed positions are as follows:

- 10 Pharmaceutical Consultant II **(including 4 contract staff) (PC II)**
- 2 Pharmaceutical Program Consultants **(PPC)**
- 1 Staff Services Manager II **(SSM II)**
- 1 Staff Services Manager I **(SSM I)**
- 1 Nurse Consultant II **(NC II)**
- 4 Associate Governmental Program Analysts **(Analyst)**
- 1 Office Technician **(OT)**

Area of Adjustment	**Requested Positions**	**GF Savings**
AIDS and Cancer Drugs—supplemental rebate	1 PC II plus contract staff	$7 million
Aged Rebate Disputes	3 analysts and OT	$6.8 million
Generic Drug Contracting	5 PC II's plus contract staff	$26.7 million
Atypical Antipsychotics—conduct a therapeutic category review	1 PC II	$14.8 million
Enteral Nutrition contracts	1 PC	$9.1 million
Enteral Nutrition rate reductions	(same as above)	$10.6 million
Medical Supply contracting	NC II	$9 million
Nonsteroidal—conduct a therapeutic category review	1 PC	$8.4 million
Duration of therapy audits	1 analyst & 1 PC II	$5 million
Frequency of billing audits	(same as above)	$3 million
Overall supervision and monitoring	SSM I and SSM II	
TOTALS		**$100.4 million**

It should be noted that the pharmacist positions and the Nurse Consultant position are eligible for enhanced federal funding of 75 percent.

In addition, the DHS is proposing trailer bill language to enable them to contract for pharmacists directly or through the fiscal intermediary (currently EDS).

Legislative Analyst Office Comment: In her Analysis, the LAO recommends for the Legislature **to modify the budget proposal to provide for higher-level pharmacists positions.** She notes that the maximum amount for a DHS pharmacist salary is $6,323 per month, while the private sector offers entry level individuals about $8,000 per month in addition to signing bonuses. **Therefore, in order to attract pharmacists, the LAO recommends for the DHS to consult with the Department of Personnel Administration to establish a higher-level position that offers a more attractive salary to fill the requested positions.**

Since the state can receive an enhanced federal match (i.e., 75 percent) for pharmacist positions, there would be minimal General Fund expenditure.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide **a brief overview** of the request.
- **2.** What actions will the DHS be taking to fill existing pharmacist positions?

Budget Issue: Does the Subcommittee **want to adopt or modify the budget request?**

6. County Medical Services Program (CMSP)—ISSUES "A" and "B"

Overall Background: The County Medical Services Program (CMSP) provides medical and dental care to low-income "medically indigent" **adults who reside in small counties (total of 34 counties)** (populations of 300,000 or less, with a few exceptions). The responsibility for providing these services was transferred from the state to the counties as of January 1, 1983.

The CMSP Governing Board is responsible for the administration of pooled funds (mainly County Realignment, county participation fees, state General Fund and Proposition 99 funds) **from the participating counties to provide services to over 60,0000 CMSP participants.**

Program Sunset Date: The statute (Section 16809 of W&I Code) that establishes the CMSP is scheduled **to sunset as of January 1, 2003 unless it is extended in statute.**

Preliminary Fund Condition Statement: Revenues to support the CMSP come from several somewhat volatile sources, including County Realignment Funds (i.e., sales tax, vehicle license fees, and growth account), Proposition 99 Funds (selected accounts), and the General Fund (on deferral for the past 3 years). In addition, expenditures can vary considerably contingent upon fluctuating enrollment levels and health care needs.

Based on preliminary information, it appears that the CMSP has a fund balance of $107 million as of the current year. However, within this fund balance, there is a need to maintain a provider claims reserve of $46 million. This claims reserve excludes any reserve for litigation or caseload increases. **According to the CMSP Governing Board, the program expends about $20 million per month.**

ISSUE "A"—Proposed Elimination of the $20 million in General Fund

Background and Budget Proposal: As referenced above, the state capped its participation in the local assistance portion of the CMSP at $20 million General Fund in 1993 as part of an overall agreement with the counties.

Since 1999 the Administration has proposed to permanently eliminate this funding commitment. **However the Legislature has repeatedly rejected this proposal for permanent elimination and has instead, agreed to simply defer the $20 million since the funds have not been needed to support CMSP expenditures.**

Governor's Proposed Budget: **The budget proposes trailer bill language to (1)** eliminate the $20 million in General Fund support for the CMSP for the 2002-03 only, and **(2)** continuously appropriate the CMSP Account (i.e., fund) without regard to fiscal years. The budget also assumes deletion of the $20 million (General Fund) for the budget year.

It should be noted that the Administration does not propose to extend the sunset of the program.

Constituency Request: The CMSP Governing Board is requesting for the Subcommittee to **(1)** extend the $20 million (General Fund) deferral for one-year only, and **(2)** provide for a five year extension of the sunset.

Budget Issue: Does the Subcommittee **want to adopt the Administration's proposal to defer for one more year the $20 million** General Fund commitment ***and*** provide for continuous appropriation of the CMSP Account? **In addition, does the Subcommittee want to extend the sunset for the program by an additional five years?**

Subcommittee Request and Question: The Subcommittee has requested the DHS to respond to the following question.

- **1.** Please provide a brief summary of the request, as it pertains to the $20 million deferral and proposed trailer bill language.

ISSUE "B"—Administration's Proposal to Charge CMSP for Support

Background: **As required through existing state statute, the DHS provides administrative support to the program**, including payment of reimbursement to providers for CMSP services, program data analysis, fiscal analysis and related support. **This arrangement was part of an overall agreement that was made in 1993-94 when the state required the counties to be at risk for overall program expenditures. Specifically, the state capped the General Fund amount it was willing to provide at $20 million with the understanding that the state would provide administrative support to the program.**

Governor's Budget Proposal: The budget proposes to delete $5 million in General Fund support and to amend Section 16809 of the Welfare and Institutions Code **to require the CMSP Board to reimburse the state for administrative services provided by the DHS. Their proposed language amendment is as follows:**

> (a)
> (3) The contract between the department and the County Medical Services Program Governing Board shall require that the ~~state maintain at least the level of administrative support provided to the County Medical Services Program for the 1993-94 fiscal year~~ County Medical Services Program Governing Board fully reimburse the State for all State costs of providing administrative support to the County Medical Services Program. ~~The department may decline to implement decisions made by the governing board that would require a greater level of administrative support than that for the 1993-94 fiscal year. The department may implement decisions upon compensation by the governing board to cover that increased level of support.~~

It should be noted that the language as crafted is completely wide open for the Administration to charge the counties for any expenditures, valid or not.

The Administration first proposed this change in the May Revision last year during budget deliberations for the Budget Act of 2001. **The proposal was rejected by both houses and it was never raised during the Conference Committee discussions.**

DHS CMSP Estimated Administrative Cost Document (See Hand Out): **On March 25th,** the DHS released a 20-page document in which they estimate the annual administrative costs for the CMSP.

Several items can be noted from this document. **First, the DHS identified costs only account for about $3.6 million in General Fund expenditures, not the $5 million identified for budget purposes. The DHS notes that a total of $5.2 million in estimated CMSP expenditures has been identified but that about $1.6 million of this amount was *inappropriately* claimed for federal reimbursement.**

Second, **about $1.2 million is for fiscal intermediary claims processing** costs (including both EDS and Delta Dental).

Third, there are four remaining primary cost areas—(1) Medi-Cal Operations at $1.6 million, **(2)** CMSP program staff at $1 million, **(3)** Medi-Cal pharmacy operations at $426,000, and **(4)** Audits and Investigations at $366,000. The remaining costs, with the exception of about $8,000 in CMSP Board travel expenditures, are spread throughout several areas of the DHS operations.

Further, it should be considered that given an opportunity, the CMSP Governing Board may choose to opt for a different arrangement than to have the DHS provide administrative support functions. It is possible that the CMSP may choose to utilize consultant staff, hire their own staff, or craft some other arrangement.

Subcommittee Request and Questions: The Subcommittee has requested the DHS, and Mr. Lee Kemper, Administrative Officer of the CMSP Governing Board, to respond to the following questions:

- **1. DHS,** Please provide **a brief summary** of the proposal.
- **2.** DHS, What needs to be done to address the federal fund claiming issue?
- **3. Mr. Kemper,** What is the CMSP Governing Board's perspective of the proposal?
- **4. Mr. Kemper**, What actions is the Board pursing to reduce expenditures?

Budget Issue: Does the Subcommittee **want to adopt or modify the budget proposal?**

7. Hospital Outpatient Services Settlement Agreement--Adjustment

Background—Hospital Outpatient Services: Hospital outpatient services are those services described in Section 51113 of Title 22 of the California Code of Regulations. Generally these services include (1) Medi-Cal covered California Children Services, (2) Medi-Cal covered Comprehensive Perinatal Services, (3) Medi-Cal covered Child Health and Disability Prevention Program services, and (4) Medi-Cal covered Early and Periodic Screening, Diagnostic and Treatment Services. For example, this would include occupational therapy, speech therapy, physical therapy, audiology, psychology, laboratory, radiology, pharmaceuticals, and use of the facilities.

Background—Settlement Agreement: There were five lawsuits filed in federal and state court challenging the validity of Medi-Cal reimbursement rates for hospital outpatient services from March 1, 1987 through June 30, 2005**.** Generally, the plaintiffs in these lawsuits contended that the Medi-Cal rates violated federal law which requires payment to be "consistent with efficiency, economy, and quality of care" and sufficient to assure adequate access. **After years of litigation a Settlement Agreement was reached last year between the state and plaintiffs, though the required federal CMS approval is still pending.**

Generally, the Settlement Agreement contained the following key provisions:

- Provide a 30 percent rate increase as of July 1, 2001 (in the Budget Act of 2001);
- Grant annual rate increases of 3.33 percent for the next three years thereafter (effective July 1, 2002, 2003 and 2004); and
- Provide a $350 million ($175 million General Fund) lump sum payment to address prior years' low reimbursement levels (in the Budget Act of 2001).

It should be noted that since the federal CMS has not yet approved the lump sum payment provision, federal matching funds for this provision of the Settlement are not yet secured.

Subcommittee Request and Question: The Subcommittee has requested the DHS to respond to the following question:

- **1.** What is the **status of federal CMS approval** regarding the lump sum payment portion of the Settlement Agreement and what are the next steps?

Governor's Proposed Budget: The budget **proposes an increase of $183.1 million ($91.5 million General Fund) to provide a 3.33 percent rate increase for hospital outpatient services, effective July 1, 2002.**

Budget Issue: Does the Subcommittee want to approve the proposal?

8. Disproportionate Share Hospital Program—"State Administrative Fee"

Background--DSH: **SB 855**, Statutes of 1991, established the Medi-Cal Disproportionate Share Hospital **(DSH)** Payment Program **to maximize federal funds and provide special payments to eligible hospitals which serve a disproportionate share of Medi-Cal and uninsured patients.**

Funds obtained from public hospitals are transferred to the state (i.e., "Intergovernmental Transfer Funds) and used to obtain a federal match. **These funds are then allocated to eligible hospitals, including private hospitals who are restricted by federal law to providing any transfer funds, for expenditure ($1.815 billion total funds for 2002-03).** These funds are intended to compensate hospitals for the vital services they offer as "safety net" providers.

Background—State "Administrative Fee": Prior to obtaining the federal match**, the state acquires over $29.7 million from the Intergovernmental Transfer Fund for expenditure in the Medi-Cal Program. The $29.7 million transferred to the state is used to off-set General Fund dollars.** From the hospitals perspective, the effect of the "state fee" is to reduce the financial benefit of the DSH Program to eligible hospitals.

This "state fee" process began at the direction of Governor Wilson during the early years of the state's fiscal crisis and was intended to be a short-term solution for addressing the General Fund deficiency problem. **At its height in 1995, a total of $239.7 million was transferred to the state to provide a General Fund backfill.**

Since this time, the Legislature has worked to reduce the "state fee" and return the funds to the hospitals. The Budget Acts of 1996, 1997, 1998, 1999 and 2000 have all reduced the fee by a total of about $209 million over the five year period.

Governor's Budget Proposal: The budget **proposes to increase by $55.2 million** (from the existing $29.8 million to a **total of $85 million**) the amount transferred to the Medi-Cal Program. **The Administration states that this transfer is necessary due to the short-term fiscal shortfall.**

Constituency Request: A coalition of hospitals **is requesting the Subcommittee to oppose any increase in the "state fee".** They state that any increase in the "state fee" will serve to destabilize the DSH program and will likely generate increased federal scrutiny of the Medi-Cal Program. **In addition, the coalition contends that hospitals are losing ground financially for several key reasons as follows:**

- ***DHS "Cliff":*** **Recent federal law changes** have reduced federal Disproportionate Share Hospital (DSH) funds to be received by the state from about $2 billion in the current year to an estimated $1.815 billion, or **a reduction of $184 million in the budget year.** As such, hospital groups are seeking federal law changes.
- ***Upper Payment Limit:*** **Recent federal law changes and federal CMS regulatory changes** will reduce the hospital upper payment limit from 150 percent to 100 percent for public hospitals. Once the final regulations are fully implemented, California could lose as much as $300 million annually. As such, hospital groups are seeking federal law changes.

Budget Issues: Does the **Subcommittee want to approve or modify the budget proposal?**

9. Graduate Medical Education (GME)—Extension of Sunset

Background: Within the Medi-Cal Program, funds (intergovernmental transfer funds matched with federal Title XIX funds) are provided to teaching hospitals to support graduate medical education needs. About 26 hospitals currently receive these supplemental funds, including Children's Hospitals, major non-university hospitals and University of California hospitals. These funds are used for graduate students enrolled in medicine, nursing, public health, pharmacy, dentistry, and optometry.

It should be noted that the federal funds used to match the intergovernmental transfer funds maybe at risk due to the need for the state to obtain federal CMS approval of the Waiver used to operate the Selective Provider Contracting Program (under which the California Medical Assistance Commission contracts with hospitals for inpatient services). **However, it should also be noted that allocation of the GME funds by CMAC is discretionary. If funds are not available, an allocation does not need to occur.**

The existing statute sunsets as of June 30, 2002.

Governor's Proposed Budget: The budget proposes **(1)** expenditures of $77.4 million (federal funds) which will be obtained using the intergovernmental transfer funds, and **(2)** proposes **to extend the statute which established the program by one-year.**

Constituency Request: The Subcommittee has received several letters representing hospital organizations, including the UC system, requesting **a two-year extension** to the sunset (i.e., to June 2004).

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following question:

- 1. Why is the DHS proposing to extend the statute for only one-year?

Budget Issue: Does the Subcommittee **want to extend the sunset date for one or two years?**

10. Proposed Changes to the Medi-Cal Copayments

Background: Existing state statute allows providers to collect copays for certain services**. Currently, there are three services subject to copayment**—outpatient services ($1), drug prescriptions ($1), and non-emergency services provided in an emergency room ($5). **These collections are in addition to the existing Medi-Cal reimbursement rate, but collection is optional**

Existing law exempts certain individuals from any copayment requirement, including any person **18 years old and under**, any women receiving perinatal care or family planning services, anyone receiving emergency services or inpatient care, and any children 21 years or under who are living in board and care homes or institutions. **These exemptions would remain intact under the Administration's proposal.**

Federal law prohibits providers from refusing to provide services due to an individual's inability to pay a copayment.

Governor's Budget Proposal (See Hand Out): The budget **proposes savings of $61.2 million ($30.6 million General Fund) by modifying the Medi-Cal recipient copayment statute. Under the proposal, the Administration would increase certain copayment amounts and reduce provider rates by the amount of the copayments.** It would be incumbent upon the providers to bill recipients and collect the money in order to make up the difference.

Medi-Cal recipients would have to pay from $1 to $5, contingent upon the health care service. For example, any physician service would require a $2 copayment, while a hospital outpatient service would require a $5 copayment. ***(Please see the Hand Out for a listing of the proposed copayment amounts.)***

The majority of the identified savings are assumed to come from four Medi-Cal service categories—prescription drugs, dental services, physician services and home health services.

Subcommittee Staff Comments: Since federal law prohibits providers from refusing to provide services due to an individual's inability to pay a copayment, the Administration's proposal in practice will serve as a provider rate reduction. As such, some providers may further limit their participation in Medi-Cal.

In addition, some recipients may defer medical treatment due to the increased copayment amount and potentially become sicker.

Budget Issue: Does the Subcommittee want to adopt or modify the proposal?

11. Proposed Provider Rate Reduction *(See Hand Outs)*

Background: Prior to 1997, rates in the Medi-Cal Program had not been increased since 1986. Since this time, through the leadership of the Senate, several targeted increases have been provided, including the following:

- Increased the rates paid for emergency room physicians (1997).
- Increased the rates paid for primary and preventive services provided by physicians to children and adults.
- Updated the relative value scale for certain procedures provided to children by physicians (1998).
- Increased the rates paid for Early Periodic Screening Diagnostic and Treatment (1998).
- Increased the rates paid for procedures conducted under the CCS Program (1999).
- Increased the rates paid for ambulance services (1998 and 1999).
- Adopted several nursing home rate adjustments (1997, 1998, 1999, 2000, 2001)
- Augmented the rates paid for tubal ligations (1999).
- Restored the 9.5 percent rate adjustment for anesthesia, surgery and radiology (1999).

In the Budget Act of 2000, most services provided under Medi-Cal received rate adjustments *(See Hand Out).* These adjustments were allocated across the CPT codes based on discussions between the DHS and various provider organizations and representatives.

Governor's Proposed Budget (See Hand Out): The budget **proposes a reduction of $155.1 million ($77.5 million General Fund) in provider rates.**

The proposed rate reduction is not derived from any across-the-board percentage amount, but instead, is driven by a dollar reduction amount the Administration wants to achieve. In essence, the dollar figure generally represents about half of the dollar increase provided via the Budget Act of 2000.

The DHS has convened several work groups to discern how to apply the reductions. **The Administration assures that no service category will have their rate reduced below their 1999-2000 Medi-Cal reimbursement level.**

The proposed rate reduction is intended to target services provided to adults, not children or services provided in long-term care facilities. To this end, the Administration is proposing uncodified trailer bill language as follows:

> "In implementing the Budget Act of 2002, if it is necessary for the Director of Health Services to reduce non-institutional provider services rates pursuant to the rate setting authority of subdivision (a) of Section 14105 of the Welfare and Institutions Code, the director shall, to the extent practicable, minimize the impact of those rate reductions on payments for services to persons under 18 years of age. Notwithstanding subdivision (a) of Section 14105 of the Welfare and Institutions Code, rate reductions applicable to Medi-Cal services and contracting related to the Budget Act of 2002 shall be effective July 1, 2002."

The service categories that would be affected include physicians, dental, psychologists, home health, non-emergency transportation, chiropractic, respiratory, shift nursing, comprehensive perinatal services, audiology, and physical, occupational and speech therapies. **Based upon the volume of services provided, physician services would be most affected.**

Constituency Group Concerns and Legislative Analyst Comment: The Subcommittee is in receipt of letters from constituency groups expressing concerns regarding their economic viability to continue to provide services to Medi-Cal patients if the rates are reduced. They note that the rates are already considerable lower than what is paid in the Medicare Program and in private practice.

The Legislative Analyst Office has also expressed concerns regarding access to care if rates are reduced.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly describe** the proposal.
- **2. Is the Administration rate reduction proposal intended to be limited-term?**
- **3. Specifically, how will the Administration ensure that childrens services (those for years 18 and under) are not affected?**
- **4.** Please provide **an update on the status and results-to-date of the work group process. What are the next steps?**

Senate Budget & Fiscal Review

Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

April 4, 2002
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA

CONSENT AGENDA

DISCUSSION AGENDA

CONSENT AGENDA

5100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Labor and Workforce Agency

The Governor's budget announced the Administration's intention to form a new California Labor and Workforce Development Agency. The budget documents provide the intention to simplify, strengthen and improve the operation and management of programs that protect and provide services to California's workers and employers. The reorganization is also intended to eliminate duplication, achieve cost efficiencies and promote accountability and program access.

The reorganization plan was submitted to the Little Hoover Commission, at the beginning of March. 30 days after submission to the Commission, the Governor may submit the plan to the Legislature. The plan then becomes effective on the 61st calendar day of continuous session of the Legislature after the date on which it is submitted, unless either house passes a resolution disapproving the reorganization plan.

The Labor and Workforce Development Agency is proposed to include:

- Agricultural Labor Relations Board
- California Workforce Investment Board
- Department of Industrial Relations
- Employment Development Department

In its initial form, the new Agency proposal did not propose to change or modify the basic structure or management charge to affected departments and boards. However, the Governor has also established a Governor's Workforce Development Review and Reform Taskforce. This Taskforce is designed to provide additional recommendations to reform the workforce development system. The Taskforce is now gathering citizen input through a web site solicitation. The solicitation invites comment on five preliminary recommendations:

- Develop a stronger and more coordinated workforce development effort across State agencies.
- Include all workforce preparation programs in the Performance Based Accountability system.
- Focus on workforce preparation for adults.
- Improve service delivery integration at the One Stop Service Delivery Centers.
- Achieve better integration of State and regional economic priorities with workforce preparation programs.

The recommendations gathered by the Taskforce will go to the Governor in May. It is already clear, however, that the Agency reform will develop the Agency first, and consider whether existing departmental configurations should be redesigned after the Agency has been operational. The Administration has further announced that they have no plans at this time to suggest moving adult education or ROP programs.

The Agency proposal does not have budget implications at this time.

Disability Program Workload
The budget proposes an increase of $182.9 million from the Unemployment Compensation Disability Fund for increased workload ($3.0 million) and benefit payments ($179.8 million). California's Disability Insurance program is a worker-funded program to provide benefits to eligible workers suffering a loss of wages when they are unable to perform their usual work because of non-occupational illness, injury or pregnancy. The increases are based on workload estimates.

No issues have been raised about this budget.

School Employees Unemployment Caseload

The budget proposes an increase of $7.0 million from the School Employees Fund for Unemployment Insurance benefits to school employees. The School Employees Fund is a joint, pooled-risk fund administered by EDD for unemployment insurance benefits for employees of public schools and community college districts.

No issues have been raised about this budget.

Unemployment Insurance Appeals Board

The budget proposes an increase of $10.3 million from the Unemployment Administration Fund and $314,000 from the Unemployment Compensation Disability Fund for increased workload at the California Unemployment Insurance Appeals Board. The Board provides administrative review for beneficiaries or employers who appeal a decision made to approve or deny unemployment and disability insurance. These increases are parallel to the increases for Unemployment Insurance benefits and workload.

No issues have been raised about this budget.

Trade Adjustment Assistance (TAA) and North American Free Trade Agreement (NAFTA) Programs

The TAA program was created at the national level in 1974 to assist workers who lost their jobs as a result of increased imports. Funds are provided by the federal Department of Labor to cooperating state agencies; EDD is the lead agency in California. The program provides workers with retraining, job search assistance, and relocation services to help them regain satisfactory employment. 47 companies were certified in 2000, affecting 6,734 workers. The department estimates that 49 companies will be certified in 2001, affecting 7,020 workers.

The budget proposes 16.2 temporary positions and $8.9 million to provide training and administrative services. All of this funding is federal TAA funding.

The NAFTA/Transitional Adjustment Assistance program was created at the national level in 1993 to assist workers in firms that are directly affected by imports from or shifts in production to Mexico or Canada; and to workers in secondary firms that supply or assemble products produced by firms that are directly affected. The program provides job search, training, and relocation assistance to person unemployed as a result of NAFTA. 30 companies were certified in 2000, affecting 3,619 workers. The department estimates that 37 companies will be certified in 2001, affecting 4,463 workers.

The budget proposes 6.9 temporary positions and $3.1 million to continue providing training and administrative services. All of this funding is federal NAFTA-TAA funding.

No issues have been raised about these budgets.

Welfare to Work Program

California received two federal Department of Labor Welfare to Work grants, a part of the federal welfare reform effort. The first was for $190.4 million and was received in 1997-98. The second was for $177.2 million and was received in 1999-2000. Each grant requires the state to provide $1 General Fund for every $2 federal funds, for a total of $183.8 million General Fund for the two grants received. The grants will expire in June, 2003 and July, 2004. The matching funds must be provided by that time.

Through the current year, $115.1 million of the required match has been appropriated. The federal share of Welfare to Work funds has been provided to local Workforce Investment Boards. The state matching funds have been provided to the Department of Social Services and distributed to county CalWORKs programs, reducing the TANF and General Funds needed to meet county Employment Services requirements. In addition, historically county CalWORKs allocations were further reduced on the assumption that a portion of the local Workforce Investment Board funds were available to them. For the current and budget years, the CalWORKs allocations are not based on Employment Services requirements, but rather historical receipt of funds.

EDD and DSS used the administrative portion of these funds to assist county CalWORKs agencies, local Workforce Investment Boards and other workforce entities at the local level to coordinate their efforts on welfare reform. The budget proposes to allocate $1.4 million in General Fund match to be used for EDD administrative resources to maintain technical assistance and support to this collaborative effort. The balance of any match payment is deferred. **This results in current year General Fund savings, and a necessity for the state to provide $68.7 million in match by June 2004.**

No questions have been raised about this budget.

Faith Based Funding
As a part of welfare reform, the federal government approved legislation permitting churches and other faith-based organizations to receive federal funds without having to remove the religious
content from their programs. California approved in 2000-01, $5 million General Fund to provide employment services for hard-to-serve individuals through faith-based organizations. An additional $4 million was approved in 2001-02. **The Governor's budget proposes an additional $4 million to continue a competitive grant program for faith based and community based organizations in the delivery of employment services.** These funds have been designed and distributed through budget language, rather than through legislation. The budget has included language that requires that eligible entities not be owned or operated as pervasively sectarian institutions, and targets entities that have been limited in their ability to provide services due to a lack or resources and a lack of experience with competitive grant making. Additional language was added in the current year specifying that eligible entities must comply with state and federal civil rights laws, including prohibitions on discrimination against beneficiaries and staff. **The Governor has used $3.6 million in additional funds from the WIA discretionary funds to provide sustained funding for first year grantees.**

The Legislature last year requested that EDD report by February 1, 2002, on the grants made under this initiative, and the extent to which the grants are geographically diverse, and meet the language and cultural requirements of Californians needing employment services. **The report provides information about persons served by first year grantees. The statistics show that participants have many barriers to employment, including limited education, poor work history, substance abuse, limited English, homelessness, and similar barriers.** The report identifies the intensive technical assistance provided to grantees. The report does not constitute an evaluation.

The General Accounting Office released a report in January 2002 summarizing research findings on the implementation of charitable choice provisions. They found that at least 19 states have implemented some form of faith-based contracting, or collaborative activities with faith based organizations to remove barriers to procurement. In addition, they found that the literature provides no information to assess the effectiveness of faith based organizations as providers of social services; the issue has not been rigorously examined by the research community.

The Legislative Analyst has extensively reviewed California's faith based initiative. They found that EDD did not develop specific standards and procedures for ensuring that funded organizations do not deliver services in a pervasively sectarian manner. They further found that 60% of the funding was allocated to groups that had previously received government funding. The Analyst recommends that the Legislature clarify how funding is to be distributed if any future funding is appropriated; and that EDD clarify how it will monitor grantees for pervasively sectarian activities, and that it improve monitoring activities.

The priority for allocation of these funds should be considered in May when further information about the budget is available. 2nd year funding has not yet been released. This issue could be put over until May.

5100 EMPLOYMENT TRAINING PANEL

The Employment Training Fund generates revenues through employer contributions equal to 0.1 percent of wages. The Fund is used to provide grants for employment training programs to foster job creation, minimize employers' unemployment costs and meet employers' needs for skilled workers. Training is provided for three purposes.

- To retrain current employees of firms facing out-of-state competition;
- To train new hires who are Unemployment Insurance recipients or who have exhausted their UI benefits within the previous 24 months;
- To train in areas of high unemployment, with an emphasis on the working poor.

Grants from the Fund are provided to firms or training agencies that design curricula, select trainers, and set standards for successful completion of training. Contracts are written for two years and cover the expense of administrative support as well as actual training costs. Employers and/or training agencies receive reimbursement once the trainee has been trained, hired or retained in the position for at least 90 days, although progress payments are made throughout the term of the agreement.

The Fund is governed by an 8-member Employment Training Panel (ETP). Seven of the Panel members, who are appointed by the Governor and the Legislature, have backgrounds in business management and employee relations. The eighth member of the Panel is the Secretary of the Trade and Commerce Agency or the Secretary's designee. EDD operates as the fiscal agent for ETP.

The Fund concentrates on high-wage, secure employment. The average hourly wage for new workers after training in 2000-01 was $9.95; the average hourly wage for incumbent workers was $20.56. More than half the contracts served employers with fewer than 50 employees.

The budget is proposed to be $76 million, unchanged from current year.

For several years, funds have been transferred from the Fund to CalWORKs, as part of the state's Maintenance of Effort for Welfare Reform. Last year, the budget appropriated $61.7 million for this purpose, doing a $30 million transfer of ongoing funds and a fund sweep of accumulated revenues to address a shortfall in the state's General Fund. **This year's budget proposes to transfer $30 million from the Fund to CalWORKs.**

For several years, the Fund has had a high rate of disencumbrance, or dedicated contract funds that are returned as not earned. Disencumbrance occurs because ETP contracts are performance based, and the complete contract is not paid until the training is complete and employment has lasted for at least 90 days. In addition, business needs can change over the 2-year life of a contract. Disencumbrance in 2000-01 fell to 25% (from a high of over 40% in the mid-nineties) due to development of an incremental encumbrance process, as well as other activities of the panel.
After a period of slow approvals due to a slow startup after reauthorization, the ETP has been fully operational for more than a year. It anticipates being unable to meet all requests in the current year, and to have its current year funds fully encumbered..

Two years ago, the Legislature requested that the ETP target $15 million to areas of high unemployment. Since that time, the ETP has continued a focus on the "working poor", and has dedicated a minimum of $15 million to contracts in such areas. These contracts typically target workers who work full time but earn wages less than necessary to support themselves. The contracts provide essential job skills to move ahead, and waivers of the Panel's typical requirements relating to training hours, literacy training and training delivery methods are allowed.

The ETP has also undertaken special projects with small businesses, and with industries affected by 9/11. It has begun discussions with other Administration partners to target the nurse workforce, in partnership with WIA funds, where appropriate.

A variety of evaluations are available considering the ETP. The Panel has information about a CSU, Northridge, evaluation that documented wage gains and job stability for new hires and retrainees served by ETP. The study also found that employers gained in payroll , and that the economy benefited approximately $6 for every $1 invested in this training. Evaluation information is also available from the report card operated by the CWIB. In the most recent report (1997-98), ETP trainees remained employed one year after training at the rate of 97%; retrainees showed earnings gains of more than $3,000 in the year after training; new hires showed earnings gains of more than $2,000 a year after training.

No issues have been raised about this budget.

5175 Department of Child Support Services

State Administration Reductions
The budget reduces state operations by $3.0 million ($1.0 million General Fund) and 13.1 positions. In order to accomplish this reduction, DCSS proposes to eliminate the Research and Demonstration Projects Section and made other reductions to operational expenses. The Department believes that it has retained the operational support to continue to meet Federal performance measures, provide oversight to interim automation systems, provide program policy direction and other requirements.

No questions have been raised about this proposal.

County Reviews
The budget requests $400,000 ($136,000 General Fund) to contract with the Department of Finance to complete the review and assessment of excess incentive funds in local Child Support agencies and to establish an ongoing audit function for administrative costs, collections, data reporting and reliability. Prior to the child support reform, any excess money accumulated by child support agencies was required to be reinvested back into the child support program. The law now requires that any excess funds that have not been expended through 1998/99 be returned to the General Fund. DCSS was also required to audit county child support funds to complete this task. The funds requested this year will complete the audit of local agencies. Based on significant dollar findings from the first 18 audits ($9.1 million), the audits are important.

No questions have been raised about this proposal.

Federal Automation Penalties
Federal law required that each state develop and implement a single statewide automated child support system by October 1, 1997. California engaged in a contract to do so from 1992-1997. The effort failed, the state terminated the contract in November 1997, and the state and the vendor are still in litigation over the failure. As a result, California has been subject to penalties since 1997. Penalties are a percentage of administrative expenditures of federal funds on child support collection activities. California is now penalized at the maximum percentage of 30%. California paid $157 million in the current year in federal penalties, based on the amount the state spent administering the program.

The Governor's budget assumes that Congress or the federal administration will provide California relief from the automation penalty (estimated to be $181 million, absent federal action).

California has created a new plan for statewide automation, including development of the California Child Support Automation System (CCSAS) project by FTB. A vendor should be selected during the current year, and the project completed by December 2005. California is operating a legacy system in the meantime. Expenditures for administration of the child support system have increased by an average of 16% each of the last three years. The federal penalties have been back-filled with state General Funds rather than passed through to the local child support agencies that operate the program. Regardless of these efforts, the penalties have increased each year, and the new investments to create a new system have been penalized at the rate of 30 cents on the dollar.

The Legislative Analyst notes that the assumption of a federal law change creates a General Fund risk. This issue will doubtless be revisited in the May Revise.

Increased Collections Revenues

The Legislative Analyst notes that the Franchise Tax Board (FTB) collects delinquent child support on behalf of most California counties. (Most child support payments are collected and distributed by DCSS). The FTB collections are distributed to families, and to the General Fund as revenues to offset some costs associated with welfare expenditures to the families.

The FTB is increasing its delinquent child support collection program, and anticipates a net increase of $17 million in child support. The Analyst estimates that $4.1 million of this amount will be recouped by the General Fund. It is not reflected in the DCSS revenues.

The subcommittee will adopt the revenue estimate, adding $4.1 million to the General Fund.

Local Child Support Costs

Basic costs of operating the child support program at the local level are paid by the federal government at the rate of 66% with 34% matching funds. These matching funds consist of federal and state incentive funds. The federal share of incentive funding is based on California's performance relative to other states. **The budget includes a reduction of $35.3 million General Fund for basic costs, based on estimates of actual local expenditures**. There was a current year reversion of $30.3 million ($10 million General Fund) for local costs that were not incurred as estimated. **The budget includes an offsetting increase of $14.4 million General Fund due to estimates of the level of federal participation in incentives**.

The budget has provided for state participation in the costs of local data conversion to federally approved automation systems. The budget anticipates that all counties will complete this data conversion in the current year. As a result, **the budget makes a reduction of $9.8 million ($3.3 million General Fund) in costs for data conversion.**

The budget is reduced by an additional $2.5 million to reflect increased Federal participation in county data system costs (since all local data systems will be federal approved by June 2002). Finally, the budget is reduced by $1.6 million ($.4 million General Fund) to eliminate county transition costs associated with the transition from district attorneys' offices to new county departments, reflecting the completion of conversion by June 2002.

The Department is providing information about their projections for local operations costs. **There are no questions about the level of local funding, pending review of the Department's projections.**

County Incentive Payments for Identifying Health Coverage

The state has historically provided a $50 administrative incentive payment to county child support agencies for each time they identify and obtain third-party health coverage or insurance of beneficiaries available through non-custodial parents' health benefit plans. The costs of the incentive payments to local agencies are 100% General Fund.

The incentive structure pre-dates the reform of the child support program. All the basic costs for the administrative activities to identify and obtain health insurance coverage are now funded within the local agency's basic administrative costs.

Cost recovered through this coverage for CalWORKs/Medi-Cal recipients are used to offset the costs of Medi-Cal benefits. Coverage for non-CalWORKs/MediCal cases results in potential cost avoidance of Medi-Cal expenditures. The savings from this activity are included in DHS estimates for Medi-Cal. Because of the new structure of financing for basic local agency costs, DCSS anticipates that suspension or elimination of this incentive program will have no effect on the rate at which local agencies identify health coverage. The new system anticipates a general, performance-based incentive program (which is also proposed for suspension for one year).

Current year expenditures for this program are $3.0 million General Fund. The budget proposes to suspend this program to save General Funds. There appears to be no reason to retain this program under the new financing arrangements. The subcommittee could adopt placeholder Trailer Bill language to eliminate this program.

Local Agency Compliance Self-Reviews

Current law provides for state support for local child support agency program compliance self-reviews. **The budget eliminates special support for this activity of $1.6 million General Fund**, but asserts that these activities will be funded through Basic Administrative claims by local agencies. These payments also pre-date the new structure for local operational cost reimbursements.

No questions have been raised about this proposal.

Foster Parent Training Fund
Current law provides that a portion of increased collections from the responsible parents of foster children by transferred to the Foster Parent Training Fund, and used to provide training to foster parents and relative caregivers through the Foster and Kinship Care and Education program. **The budget proposes a reduction in current year of $1.3 million** in the Fund, reflecting the adjustments that have been made to local administrative payments, which are the basis of the transfer. **The 2002-03 budget reflects an additional reduction of $1 million redirected to the General Fund**. **This is turn would result in the loss of an additional $1.7 million federal funds.**

Foster Parent Training Funds are used to draw down additional federal foster care funding. The resulting program reduction will amount to 23% of program funding. The program consequences of a reduction of this magnitude will not occur in the Department of Child Support Services, but rather in the amount and quality of family and kin care available in the state's foster care system.

This issue should be discussed together with DSS foster parent training initiatives, and any resulting budget actions for DCSS reflected in the May Open Issues hearing.

DISCUSSION AGENDA

5100 EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) provides services under the Job Service, Unemployment Insurance, and Disability Insurance programs. EDD handles the audit and collection of employment taxes and maintains employment records for California workers. EDD administers job training programs, and is the grantee for the federal Workforce Investment Act. **The budget is proposed to increase 3.7% in the budget year, to a total of $8.7 billion, primarily due to an increase in unemployment insurance benefits payments. General Funds are reduced by 19.3%.**

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$34,959	$28,199	($6,760)	-19.3
Benefit Audit Fund	9,662	9,303	($359)	-3.7
EDD Contingent Fund	45,893	42,397	($3,496)	-7.6
Employment Training Fund	84,111	84,047	($64)	-0.1
Welfare to Work Fund-Federal	5,720	0	($5,720)	-100.0
Disability Fund	2,893,648	2,793,772	($99,876)	-3.5
Consolidated Work Program Fund	728,971	647,694	($81,277)	-11.1
Unemployment Administration-Federal	571,739	599,666	$27,927	4.9
Unemployment Fund-Federal	3,984,799	4,466,385	$481,586	12.1
School Employees Fund	37,566	39,023	$1,457	3.9
Reimbursements	29,262	29,245	($17)	-0.1
Total	$8,426,330	$8,739,731	$313,401	3.7

TAX COLLECTION AND BENEFITS

Unemployment Insurance Benefits

The budget proposes an increase of $2 billion ($1.9 billion Unemployment Insurance Trust Fund and $39.2 million Unemployment Administration Fund) for the budget year. This is in addition to an increase of $1.4 billion in benefits and $32.6 million in administration for the current year. These increases are related to the state's increase in the unemployment rate. Last year, the Legislature approved an increase in unemployment insurance benefits for the first time in ten years. Effective January 1, 2002, the first of four incremental increases boosted the maximum weekly payment from $230 to $330. The maximum weekly benefit will rise to $450 by 2005. The scope and depth of the recession has made estimating UI expenditures difficult. EDD had seen the highest rate of sign-up historically. The changes in the benefit amount have also made clear the extent to which the tax assessment system is also out-of-date, predating changes in the minimum wage and other increases in average wages.

The federal Congress the first week in March passed an economic stimulus bill that extends unemployment insurance benefits from the normal 26 weeks, for 13 additional weeks in all cases and an additional 13 weeks for some states with a higher than average unemployment rate. Both sets of additional benefits are funded fully by the federal government. EDD anticipates that California will meet the federal trigger for a second 13 week payment this spring.

In addition, the federal act included a distribution to state unemployment trust fund accounts of Reed Act funds. These are federal unemployment tax revenues collected in California but not spent, and therefore accumulated at the federal level. The federal government has the authority to distribute these over-collections and to distribute them periodically. **California's share of the distribution will be $936.9 million.** These funds may be used for state administration of unemployment compensation laws and public employment offices; or payment of cash benefits, including regular state compensation. More specifically, these funds could be used to pay cash benefits, including those that have already been legislated or extension of benefits, such as the retroactive benefits proposed in legislation. It can also be used to strengthen and streamline California's UI system, including such items as updating the Employment Tax System, providing more on-line opportunities to interact with the system, programming the system to provide for an Alternative Base Period and improving the call center system. Many of these changes in turn can result in long term savings that result in lower UI system costs.

- **The subcommittee will determine whether to develop a framework for designating portions of the Reed Act distribution in the proposed budget.**

Employment Tax System Review
For the past two state fiscal years, the state has undertaken an Employment Tax System Review through a contract with a qualified consulting firm to review business operations and automated systems of EDD's tax programs. These programs provide the information necessary to collect State and federal tax liabilities. **The budget proposes $507,000 in one-time funding and 6.0 positions to complete the evaluation.**

The Tax Accounting System is one of the largest databases in California and houses all employer tax information in the state. The automated system is old and fragile. The Department believes that it is time to consider revamping the system. The Employment Tax System Review is poised to move in the budget year from evaluation tasks to development of a recommendation and identification of resources needed to implement the recommendation. The budget anticipates that recommendations will be available by January 1, 2003.

In recent years concerns have been raised to the Legislature about the need to improve the department's data collection methods for the purpose of understanding labor market trends in the state and evaluating the effectiveness of workforce preparation programs. Updating data collection methods as part of the employment tax system review and redesign would enable public officials and researchers to better understand patterns of job distribution, occupational progression within industrial sectors and the flow of workers through regional labor markets.

The Subcommittee will determine whether Supplemental Report language should be drafted to require EDD to report on recommendations to enhance their current data collection capacity to gather data related to the hours worked by an individual; the location of employment; the residence of the employee and whether benefits are provided to the employee. The report should also include the costs associated with gathering this data, the timeline for implementation and the current and anticipated capacity to collect this and other data.

The subcommittee could designate a portion of Reed Act funds, to assure that the resources are available to move to implementation of a recommended revision of the Tax Accounting System.

Unemployment Insurance and Disability Insurance Call Centers
In the late 1990's, California shifted from a system of local offices for the in-person delivery of Unemployment Insurance and Disability Insurance benefits, to use of centralized telephone call centers and mail delivery of benefits. The subcommittee reviewed statistics covering both unemployment and disability systems last year. That review disclosed that Disability Insurance call centers in particular had high rates of incomplete or abandoned calls; callers that reached a representative waited for nearly 4 minutes to do so. The subcommittee requested a Supplemental Report from the

Department by February 1, 2002, showing statistics concerning Disability Insurance Call Centers, including 1) calls received daily; 2) disposition of the calls received; 3) average call waiting times; and 4) steps the Department is taking to improve services in the call centers**. The Department reports that goals for call response and waiting time have been established; that customer waiting time has decreased over the past year; that the number of deflected call are now under 2% and abandoned calls only slightly above 2%; that the system now meets the service standard (calls responded to in under 240 seconds) 92% of the time**.

The State Auditor completed an audit of the use of call centers by EDD in July 2001. The Auditor found the following:

- Call centers improve customer service and increase the public's access to the Unemployment Insurance (UI) program. These improvements include the ability to file a claim over the telephone in a short time; callers can obtain information, including the status of their unemployment claim, seven days a week; bilingual and other special services are more readily available by centralizing services.
- Call centers supplement services to Disability Insurance (DI) claimants who cannot file claims over the phone. However, the call centers provide general information seven days a week.
- UI and DI caller are generally satisfied with the service they receive over the phone, when they receive it.
- Callers identified lengthy waiting times during busy periods; waiting periods increased last year. In the DI system especially, thousands of caller received busy signals or were asked to call again.
- The Department established goals for call response and waiting time.

Legislators have received a growing number of anecdotal complaints that UI call waiting times have increased over the course of the recession. The Department reports that there has been no improvement to UI call center waiting times. In addition, individuals have expressed concern that newly unemployed or disabled workers may not know about the call centers. Finally, the Department may not be meeting the requirements of AB 2779, Trailer Bill in 1998, to assure that staff is available to provide information about UI and DI in job search and One-Stop settings. The Department believes that a part of the problem with the UI Call Center system is a technology that is unable to handle the abrupt swings in access requirements caused by the recession.

The Department will:

- **Report on the status of improvements to the DI call center system;**
- **Describe what methods EDD has considered to assure that the newly unemployed or disabled know about the call centers and how to seek and receive assistance.**
- **Report on whether it is meeting requirements to have staff trained in UI at every EDD service point.**
- **Describe the technology barriers to adequate service in the UI system.**

The subcommittee could designate a portion of Reed Act funds, to assure that the resources are available to upgrade the call center system.

JOB SERVICE AND TRAINING PROGRAMS

Program Reductions: Job Agent, Intensive Services Program, Personal Income Tax Program

The Job Agent program provides employment-related services to economically disadvantaged individuals who have multiple barriers to employment, including such barriers as lack of job skills, lack of language skills, disability, limited education, poor work habits or attitude and/or legal problems. The Intensive Services Program is a case management program to provide intensive job search assistance to economically disadvantaged individuals. Priority has been given to CalWORKs recipients. The Personal Income Tax program collects tax receipts withheld by employers.

The budget proposes to eliminate the Job Agent Program ($2.7 million General Fund and 36.2 positions); to reduce the Personal income Tax program's operating expenses by $380,000 General Fund; and to reduce the Intensive Services Program by $3.6 million Contingent Fund and 50.8 personnel years. EDD believes that the elimination of the Job Agent program would result in minimal decline in services to clients, since these services are duplicative with other programs. EDD anticipates no layoffs associated with this elimination. Trailer Bill language is needed to eliminate the program (attached).

The budget continues to propose to transfer $3.6 million from CalWORKs to EDD for the Intensive Services Program, as it has for several years. The Department reports that the Intensive Services Program has placed 9,000 hard to place individuals in jobs per year. These are TANF/MOE funds, that could be used for cost-of-living adjustment or child care restoration, or any other CalWORKs purpose.

- **The subcommittee will determine whether to adopt the proposed reductions, including eliminating of the Job Agent Program, reduction to Intensive Services, reduction to the Personal Income Tax program's operating expenses**.
- **The subcommittee will determine whether to further reduce the Intensive Services program, by eliminating the $3.6 million TANF funds, pending completion of a CalWORKs budget that reflects legislative priorities.**

Workforce Investment Act (WIA)

In 1998, the federal government redesigned federal employment and training programs in the Workforce Investment Act (replacing the former Job Training Partnership Act. The redesign included funding for adults, dislocated workers, youth, Wagner-Peyser funds (used primarily for Job Services), Vocational Rehabilitation Program, and Adult

Education and Literacy. EDD administers all of these except Vocational Rehabilitation and Adult Education and Literacy.

Federal Goals for the redesign included use of the One-Stop Career Center system to promote collaboration and partnership; universal service; performance accountability, customer choice and local flexibility in service design.

California WIA allocation is estimated to be $604.2 million in 2002-03. This amount has been dropping modestly over the last three years. A chart showing allocations since 2000-01 is attached. Allocations include funding for Adults, Youth, and Dislocated Workers. 85% of the funds for Adults and Youth are distributed to local Workforce Investment Boards (WIBs) for expenditure. 15% of all three allocations are held at the state level as part of a Discretionary fund. An additional 25% of the Dislocated Worker funding is held at the state level for purposes of a Rapid Response to worker dislocation.

The subcommittee held an Oversight Hearing on WIA issues in February. One issue identified at the hearing was the possibility that the federal government would collect some of the current WIA funding as part of a rescission. The Congress acted to rescind about 14% of WIA Dislocated Workers allocations. At the time, it appeared that the precise state rescission would be based on state under-spending. At the time of our hearing, the exact amount of California's share of the reduction was not clear. It was also not clear what relative role state spending of Rapid Response funds and local spending of Dislocated Worker funds played in California's under-spending. Since the February hearing, the federal government has reconsidered the rescission. It is not clear that the rescission will occur.

The subcommittee asked that EDD provide for this hearing obligation and expenditure data for prior year for all three funding streams, broken down by local, state and Rapid Response categories. The subcommittee further asked that the Department provide by our May hearings information about a procedure to move WIA funding from a local area with under-utilization to an area that could spend the funds; and further information on the time it takes for Rapid Response funding to reach local areas. The Department has provided charts showing the expenditures. They are attached. It is clear that there was significant under-expenditure of Dislocated Worker funding at the local level, and similar under-expenditure of Rapid Response at the state level. Finally, there was considerable under-expenditure of 15% discretionary funds at the state level.

- **EDD will report on expenditure rates**
- **EDD will report the latest information on the rescission**

Youth Funding

WIA changed the funding for youth programs substantially. While total funds for youth programs increased, the amount going to local WIBs decreased. In addition, the federal law required that youth services re-focus on year-round services for young people, rather than simply summer program.

The Legislature requested that EDD report by February 1, 2002, on spending under WIA for youth programs. The report was intended to include state and local spending for the 2000-01 fiscal year; status of summer youth programs; a description of new year-long youth programs; and a discussion of capacity or training challenges identified by local WIBs. **The report has not been received.**

- **EDD will describe when we might receive the report.**

One Stop Career Centers
WIA required that One-Stop systems be established in local communities, to be supervised by local WIBs. There must be at least one physical location in each local Workforce Investment Area. One-Stops provide core job search services to employers and job-seekers. In addition they provide intensive services and training services for individuals with more barriers to job seeking. One-Stops may include CalWORKs services and other specialized services of benefit to employers and job seekers. EDD has located its job services in 140, out of 444 One-Stops statewide.

In December, 2001, EDD released a survey of One-Stops, based on information collected in the spring of 2001. The survey was in response to budget bill language requiring a survey identifying barriers to access. Among other findings, the survey found that the majority of One-Stop operators managed only one to three sites; two-thirds provide outreach to special needs populations; a majority of partners use formal Memoranda of Understanding. One Stops requested cost-sharing activities to support their infrastructure; a system for sharing effective strategies; assistance with universal access; and a standard One-Stop certification process.

- **The Department will summarize the report, and describe plans for continued development of information about the system.**
- **The Department will provide information about when a One-Stop certification process will be available.**

During the Subcommittee's hearing on WIA Oversight, we received testimony on the substantial amount of WIA funding that is being used to provide core services in One-Stops around the state. Moreover, while collaboration at the local level has permitted coordinated services, One-Stop partners have not always been able to bring resources to support the basic infrastructure.

- **The Department should respond to requests from local WIBs for partner agencies that are state-funded (CalWORKs agencies, the Department of Rehabilitation) to include in their budgets specifics about the amount of resources such entities provide to One-Stop operation.**

EDD has worked extensively with the Department of Rehabilitation on issues of universal access for persons with disabilities. Building upon the initial survey of One-Stops, the two Department have developed a small funding source (using discretionary funds) to assist One-Stops with new, expanded or enhanced program access efforts. In addition, the two Departments have provided extensive training for One-Stops in access techniques, and plan to continue these efforts. The proposed use of budget year discretionary WIA funds included continuation of these access efforts. The next step in the process is development of a self-assessment for One-Stops to determine access deficiencies and begin the process of remedying those deficiencies. A draft self-assessment has been developed.

- **The two Departments should describe the access efforts**
- **EDD should identify what is needed to assure that the access analysis is a regular, ongoing monitoring activity.**

WIA Discretionary Funds

As described above, WIA sets aside 15% of each of the three funds for use at the state level for discretionary activities. The subcommittee spent considerable time in last year's budget hearings discussing the process for scheduling and describing the use of discretionary funding. Information about current year proposals was not available at the time**. The Administration has provided schedules of its proposals for current year and budget year**.

In both years, $23.4 million is used for administration of WIA, including both EDD and CWIB expenditures. Other federally-required activities are budgeted for $24.6 million current year and $27.5 million budget year (these include technical assistance to local areas, information systems, and other specific requirements). The balance in each year is used for various programs selected by the Administration as a priority. Most of the budget year activities offset costs for programs that otherwise would be General Fund, backfill for federal reductions from other sources, or continue existing programs. Some have been developed with extensive legislative input: replacement of veterans/disabled veterans employment services after federal funds were cancelled, One-Stop Access to Services Initiative, and funding of health system worker retraining in Los Angeles to meet federal Medicaid waiver requirements, for example.

Funding in the current year includes two new projects, among others: $3.6 million "Faith Based Sustainability grants", and $39 million for Nurse Workforce Initiative programs. Current year for non-required funding is larger than budget year, due to a carryover balance of $35.9 million.

The LAO has noted that the proposal for the budget year includes $4.6 million in unbudgeted "programs under development." The LAO notes that because any excess funds in the EDD Contingent Fund can be transferred to the General Fund, the $4.6 million could be used to replace EDD costs in One-Stops, paid for with Contingent Funds, and the resulting savings in the Contingent Fund claimed as General Fund savings.

- **The LAO will describe their proposal.**
- **The Department will describe the Nurse Workforce Initiative, with a focus on plans for stakeholder input into the design of specifics.**

5120 CALIFORNIA WORKFORCE INVESTMENT BOARD

The federal Workforce Investment Act of 1998 (P.L. 105-220) (WIA) repealed the Job Training Partnership Act and changed the requirements and system design for federally supported workforce preparation and retention systems nationwide. The new WIA includes three new funding streams for job training, with basic grants to participating states in three areas:

- Adult employment and training
- Dislocated worker employment and training
- Youth activities

WIA requires a comprehensive performance accountability system for workforce development programs. For adults and dislocated workers, programs are required to measure job placement and retention, earnings, skill attainment, and customer satisfaction. Youth service providers are required to measure basic and, if appropriate, occupational skill attainment, obtainment of a high school diploma, placement and retention in education, advanced training, or employment, and customer satisfaction.

WIA also requires the state to establish a California Workforce Investment Board (CWIB) to assist the Governor in restructuring workforce development programs into an integrated workforce investment system that can respond to the employment, training and education needs of its customers. Services are required to be provided through a network of One-Stop Career Centers.

The federal act specifies that, at a minimum, the CWIB is to assist the Governor in the following activities:

- Development of a Workforce Investment Plan and preparation of annual reports to the Secretary of Labor
- Development and continuous improvement of the statewide system of workforce development activities delivered through the one-stop system including coordination among programs and activities and review of local plans
- Designation of local Workforce Investment Areas
- Development of allocation formulas for the distribution of WIA funds to local areas
- Development and continuous improvement of state performance measures to assess the effectiveness of workforce investment activities
- Development of a statewide employment statistics system that includes data, information and analysis on current and projected employment, unemployment data, and earnings data; industrial distribution of occupations, and information on state and local employment opportunities
- Development of an incentive grant application

Federal law requires that the CWIB include the Governor, 2 members of the Senate, 2 members of the Assembly, and representatives appointed by the Governor who are:

- Private sector employers representing small and large businesses (must be a majority of the board)
- Local elected officials
- Representatives of labor organizations
- Representatives of individuals and organizations with experience in youth services
- Representatives of individuals and organizations with experience in the delivery of workforce investment activities, including education and community based experience
- Representatives of state agencies with experience in workforce investment programs

The CWIB is proposed to be funded at $5.7 million, a 1.3% increase over the current year. These funds are federal WIA funds and reimbursements.

The CWIB was established by Executive Order in October 1999 as a 64-member board; the first meeting was held in January 2000. California has not passed enabling legislation for WIA, leaving the state's Job Training Partnership Act statute in place. The Administration vetoed one effort to create a state WIA statute, desiring to have any statutory changes based upon recommendations made by the CWIB..

As required by Federal law, the CWIB developed the Strategic Five-Year Plan for Title I of the WIA, which was approved by the federal Department of Labor in June 2000. That plan identified the California Health and Human Services Agency as the WIA Administrative Agency, and EDD as the WIA grant recipient. The State Plan described the status of California's development of a One Stop Service Delivery System, along with specific activities to improve workforce development for adults and youth, and performance accountability expectations.

Policy Role of the CWIB

The Legislature asked that the CWIB complete specific activities in the current year, with a report to policy and budget committee by January 1, 2002. The report should include:

- Adoption of a recommended protocol for policy development and oversight of the WIA, including clear definition of roles for the Agency, EDD, and the Board. The report should include the status of adoption of the protocol;
- A plan for distribution of the protocol among stakeholders, including information on how to seek change;
- Adoption of a recommendation about where California statutes are in conflict with the new WIA requirements, and where new law would be of assistance in redesigning California workforce development system.

The CWIB has not delivered the protocol, plan and recommendations called for in the Budget Bill Language. In the past year, the CWIB has had problems getting a quorum and has passed few action items. CWIB staff has shared a draft staff response to the Legislature's questions, but it is not clear that the staff report has received the endorsement of either the Board or the Administration.

The CWIB reports that it conducted its first annual Strategic Planning Seminar in February, 2002. They anticipate that the Seminar will result in a set of priorities and outcomes that lead to the development of a Strategic Plan for the board by the end of May. The Plan is not likely to include the specific programmatic requests made by the Legislature; rather it is likely to be a plan for the direct activities of the Board itself.

The CWIB issued an annual report for the 2000 Program Year in December 2001. The report includes the following Board initiatives.

- Established a Universal Access Workgroup to consider assessment and standards, training and technical assistance, and administration and monitoring to assure accessibility of the workforce development system to all Californians.
- Established a State Youth Council to provide policy guidance for local youth councils. The Council includes a California Youth Council Institute, intended to support local youth councils with coordinating services over the next two years.
- Formed a work group with other state level entities in an effort to integrate apprenticeship programs into the training and services offered through One-Stops.
- Established a Small Business Workgroup to assure that the One-Stop system supports small businesses.
- Worked with EDD to adopt an Incentive Policy to provide a monetary award to Local WIAs that meet exemplary performance criteria, using regional collaboration and coordination as indicators of successful development.

In addition, the Board reported at the Subcommittee's Oversight hearing in February that they have engaged in additional activities to shape workforce policy:

- Decided to establish workgroups for special populations including Farmworkers and Veterans; the groups will meet for the first time this spring
- Participated in the EDD Survey of One-Stops to provide base information about facilities, operations, information technology, universal access, partner programs and administration.
- Established a workgroup to develop guidelines for state certification of local One Stop systems and centers; a draft proposal for certification is anticipated by May 2002.
- Adopted an Eligible Training Provider List policy, to be administered by EDD.

Additionally, the CWIB has responded that it believes that the Governor's Reorganization Plan for a new Labor Agency should be considered and adopted

before a WIA protocol is completed Examples of areas where the clarification the Legislature has requested would be helpful include where should the Legislature or local entities go to discuss the apparent under-expenditure and possible reallocation of funds? Who is responsible for identifying the problem? Who is responsible for initiating a policy discussion of the state role in resolving the problem? Who recommends solutions? Who implements solutions? Or, where should the Legislature go to discuss general themes guiding distribution of discretionary WIA funds? Where should the Legislature or the public go to discuss significant variations between local areas in funding spent on core programs, intensive programs and training?

The CWIB has a budget of $5.7 million, $4.9 million of which is WIA funds (the balance reimbursements). If the Legislature were to consider reducing this budget, any funds reduced would be WIA funds, and could be used to support any other WIA-eligible activity.

- **The Subcommittee will determine whether to adopt the CWIB's full budget.**

__Performance Based Accountability System__
California developed the Performance Based Accountability System (PBA) in 1996 (SB 645, Johnston, 1995). The bill required the development of a common reporting system to measure the performance of state and federally funded education and training programs for the purpose of system, program, and instructional improvement. The CWIB manages the PBA, funded by reimbursements from participating agencies. The PBA has issued three reports: they cover the years 1995-96, 1996-97 and 1997-98. The last report was issued in August 2001. The reports provide such information as aggregate earnings by workforce development participants, by area, by job category, and the impact of the workforce development program on job retention and earnings. By the third year, the report included assessment of JTPA, Carl Perkins Vocational Education, GAIN/CalWORKs, Welfare to Work, Wagner Peyser Act, ETP, Rehabilitation, and Corrections employment programs.

The PBA reports provide information program by program. In summarizing the data, the report clarifies that there are significant differences between programs based on whether they directly provide training (community colleges, for instance) or not (JTPA and Wagner Peyser, for instance). There are also significant differences in whether trainees have prior or current work experience (ETP, for instance provides training to currently employed persons) or not (GAIN/CalWORKs serves many individuals with no experience), and whether or not the trainee workforce has a disability (Rehabilitation). In summary, the report found a surprisingly high percentage of individuals employed for some period of time in the first year after program participation, ranging from CalWORKs (57.3%) to ETP (97.3%). The report also follows program completers longitudinally. It found a slight decrease in the number of participants employed in the second and third year after program participation in all programs except GAIN, who increased slightly in subsequent years.

Federal WIA law requires the use of core performance and customer satisfaction measures, and has negotiated a list of measures with California. Federal measures are more extensive than the state measures. However, states are only required to use the WIA measures for the adult, dislocated worker and youth activities of WIA, and similar measures for programs that will receive WIA training vouchers. In contrast, the state PBA system is designed to measure all state and federally funded workforce preparation programs.

The CWIB has reported on federal WIA measures in the first year of WIA implementation. California met its negotiated rate of success on 14 of the 17 federal measures, including rates of entering employment, keeping employment, and earnings gain for adults, dislocated workers, and youth. The state had performance measurement difficulties with the level at which trainees attained credentials, in large part due to the lack of baseline data to use in negotiating levels of performance. The summary information is that 30,500 individuals were placed in jobs through WIA in the first year of operation, with 27,500 still employed six months after leaving the program.

The Budget Act required that the CWIB review the PBA and required federal WIA reporting, and consider whether additional resources are needed to assure that the system is comprehensive, timely, and available, and aligned with federal WIA reporting requirements. The language required that the report be made by September 1, 2001. A report has not been completed. However, the CWIB prepared a draft business plan for a feasibility study in August and delivered that business plan to the Legislature in March. The CWIB completed a Feasibility Study Report (FSR) based on that business plan that has been submitted to IT control agencies. **The FSR has not been evaluated by the LAO**. The FSR identifies the following problems with the PBA system:

- The system is unable to collect, store and disseminate performance information for all workforce training programs;
- The complexity of the information stored will exceed the current system's capacity by 2002-03;
- Users of the reports are unable to view and navigate the data in a flexible and useful fashion;
- Annual reports are late and costly.

The Report identifies a solution: contracting with a private vendor to develop a system that can provide regular reports and on-line access to reports; an upgraded and more extensive database; and simpler formats for collecting and compiling information. The CWIB believes that current costs included in the administrative and information technology budgets are sufficient to develop the new system, and that the new system can be implemented by June 2003.

The FSR does not include information about whether the PBA information collected is aligned with federal WIA reporting requirements. The initiation of the new Labor and Workforce Development Agency has included discussions of the role that the PBA system could play in the strengthening of California's workforce system. It may be that final conclusions about the WIA requirements and PBA will not be made by the Administration until the new Agency has been operational.

The subcommittee should determine how to gather information about the relationship between the PBA and WIA performance requirements.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

In 1999, California enacted child support legislation that required complete restructuring of child support enforcement in California. The Department of Child Support Services (DCSS) was established as of January 1, 2000, and administers the child support enforcement program operated by local child support agencies. At the local level, operation of child support enforcement activities is being transitioned from county District Attorneys to local child support agencies. The Department is also partnered with the Franchise Tax Board to establish a single automated tracking and data system. California's failure to establish such a system in prior years is responsible for a large and growing federal penalty. The department operates county automation legacy systems during the interim until the single statewide system is complete. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child and spousal support, medical support, and determining paternity, and has established performance standards for California's child support program. **The total budget for DCSS is proposed to be $994.9 million, a decrease of 17.1% over current year. General Funds constitutes $288.5 million of the proposed budget.**

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Funds	$451,279	$288,486	($162,793)	-36.1
Federal Funds	403,537	358,344		
Reimbursements	477	443	(34)	-7.1
Child Support Collection Recovery Fund	344,164	347,636	3,472	1.0
Total	$1,199,457	$994,909	($204,548)	-17.1

<u>Pre-Statewide Interim Systems Management Automated System (PRISM)</u>
Counties have been transitioning to a limited number of interim automation system. All counties are anticipated to have completed the transition by June 2002. The budget eliminates $4.4 million in contract funds for the PRISM system, saving $150,000 and redirecting $4.25 million to develop the programmatic expertise, technical and project management oversight and other project support activities for the CCSAS system.

The Legislative Analyst originally withheld recommendation on this proposal, since $3.3 million of the redirected funds are for activities the Analyst believes are similar to activities already being funded at FTB. Based on additional information provided by the Department about the difference between DCSS and FTB activities, **the LAO now recommends that the Legislature reduce the redirection by $542,000 ($180,666 General Fund), thus saving this amount.** The LAO further recommends that the budget include budget bill language requiring a plan to develop staff capacity and technical knowledge to support the new statewide system:

> The Department of Child Support Services shall prepare a plan for developing departmental staff capacity and technical knowledge to support the California Automated Child Support System. The plan shall include, but is not limited to, actions that the department will take to reduce its reliance on consulting expertise. The plan shall be submitted to the chairs of the budget committees in each house and the chair of the Joint Legislative Budget Committee by January 10, 2003.

- **The LAO will present their recommendation; DCSS will respond**
- **The subcommittee will determine whether to fund CCSAS oversight activities at CCSAS.**

Local Agency Performance Incentives

Current law provides for incentives to be paid to local child support agencies to be used for child support-related activities. The payment is an additional five percent of the state's share of the local agency's collections, to be paid to local agencies with the ten highest welfare and post-welfare collections. Trailer Bill last year changed the payment criteria to be based on the ten highest rankings of the federal performance measures.

Current year expenditures are $1 million General Fund. The budget proposes to suspend the operation of the new performance incentive program, in order to save General Funds. The budget proposes Trailer Bill Language to make the performance incentive program in future subject to appropriations.

Advocates have argued that the elimination of various smaller incentive program is appropriate, but that retention of the redesigned incentive program, which provides for an award to the ten agencies that rank highest on federal performance measures, is an important element of the program.

- **DCSS will describe the impact of the performance incentive program on operations.**
- **The subcommittee will determine whether to adopt the Trailer Bill proposal included in the budget (suspending incentives and providing them in future only as appropriated), or suspending the incentives for the budget year only, requiring a legislative action to suspend in the future.**

Program Performance

A central component of California's restructuring of child support is a focus on performance. Performance is a central requirement of the federal program as well, although the penalty program does not necessarily reward performance.

DCSS has announced that collections reached more than $2 billion in its first full fiscal year of operation (2000-01). Collections for the budget year are anticipated to

be $2.4 billion. There are various ways of measuring this enforcement: dollars collected, paternity established, child support arrearages collected, customer satisfaction, welfare costs repaid or avoided, and others.

It will be important to factor in external changes as well, in any assessment of performance. For example, over the past five years, largely due to welfare reform, the public child support system has become a mainstream non-public assistance program. 73% of cases in 2001-02 have never been on public assistance or were formerly on public assistance. By contrast, in 1996, 69% of cases were on public assistance. In addition, economic conditions affect the ability of non-custodial parents to pay. One-time events have an effect: the child support collection system had an increase last year associated with the federal tax rebate, which provided an opportunity to recapture established arrearages. And technology plays a part: development of new technologies, including capture of tax rebates, have in the past provided significant swings in collection performance.

One measure, however, is cost effectiveness (the amount of child support collected for every $1.00 expended on the program). The federal Office of Child Support Enforcement provides an annual report card of every state's performance, including a measure of cost effectiveness. California's cost effectiveness score has moved up from a low of $2.17 in 1995 to $2.78 in federal fiscal year 2000. However, the national ratio in that year was $3.95.

- **DCSS will report on its experience with federal performance measures;**
- **DCSS will describe activities it has undertaken to improve the collection of current child support obligations.**

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

April 8, 2002
1:30 P.M.
ROOM 112
(Diane Van Maren, Consultant)

Item	***Description***
4300	**Department of Developmental Services, including**

- **Developmental Centers**
- **Community-Based Issues**

PLEASE NOTE: **Please refer to the Senate Daily File for the dates and times of future Subcommittee hearings regarding the Department of Developmental Services.**

I. 4300 Department of Developmental Services

A. OVERALL BACKGROUND

Purpose and Description of the Department

The Department of Developmental Services (DDS) administers services in the community **through 21 Regional Centers and in state Developmental Centers for persons with developmental disabilities according to the provisions of the Lanterman Developmental Disabilities Services Act.**

To be eligible for services, the disability must begin before the consumer's 18th birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

Eligibility to receive both case management and community services does not depend on a financial need that is based on income level or assets. As noted by the Legislative Analyst's Office, generally, services are provided without any requirement that those benefiting from the services, and who have the ability to contribute, pay a share of cost.

The purpose of the department is to (1) ensure that individuals receive needed services; **(2)** ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; **(3)** ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; **(4)** ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; **(5)** reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and **(6)** ensure the services and supports are cost-effective for the state.

Overall Budget of the Department

The budget proposes total expenditures of almost $2.9 billion ($2.007 billion General Fund), for a *net* increase of $131.2 million ($128.2 million General Fund) over the revised 2001-02 budget, to provide services and supports to individuals with developmental disabilities living in the community or in state Developmental Centers.

Of this amount, about $2.215 billion is for services provided in the community, $624.8 million is for support of the state Developmental Centers, $28.3 million is for state headquarters administration and $496,000 is for state-mandated local programs.

Summary of Expenditures (dollars in thousands)	**2001-02**	**2002-03**	**$ Change**	**% Change**
Program Source				
Community Services Program	$2,075,520	$2,215,477	$139,957	6.7
Developmental Centers	$624,739	$624,785	($46)	
State Administration	$36,996	$28,258	($8,738)	23.6
State Mandated Local Program	$524	$496	($28)	-5.3
Total, Program Source	$2,737,779	$2,869,016	$131,237	4.8
Funding Source				
General Fund	1,879,134	2,007,363	128,229	6.8
Federal Funds	47,604	48,153	549	1.1
Other Funds	7,449	4,549	($2,900)	-38.9
Reimbursements	803,592	808,951	5,359	0.6
Total	**$2,737,779**	**$2,869,016**	**$131,237**	**4.8**

B. ITEMS RECOMMENDED FOR CONSENT (Items 1 to 3)

1. State Compensation Insurance Fund Master Agreement

Background and Governor's Proposed Budget: The budget requests an increase of $419,000 General Fund ($4,000 for Headquarters and $415,000 for the Developmental Centers) in accordance with the new three-year Master Agreement negotiated by the Department of Personnel Administration for the administration and payment of workers' compensation benefits.

The new Master Agreement includes a provision that requires each state agency to deposit an amount equal to one-eighth of the benefits provided during the preceding twelve months. This amount is to be adjusted annually and will be rolled over at the beginning of each new rating period. All state agencies covered by the Master Agreement are required to pay their fair share of service costs associated with workers' compensation administrative services provided by the State Compensation Insurance Fund (SCIF).

No issues have been raised regarding this item at this time.

2. Reduction to State Headquarters Support & Elimination of State Statute *(See Hand Out for Language references)*

Background and Governor's Proposed Budget: Due to the difficult fiscal situation the DDS has identified **33 positions, for a total of $2.7 million ($2.5 million General Fund), to be eliminated**.

The DDS states that they took a functional approach to identify what responsibilities would be eliminated or reduced as part of this effort. Among other things, areas identified for reduction include training, operating expenses and equipment, safety technical support, parental fee redeterminations, media production, conference committee planning, consumer rights complaint process, purchase of services review, regional center meetings, reduction of legislative activities, rate development and property inspection.

The DDS notes that the department is staffed over 12 percent lower than what was authorized in 1991-92 with far more responsibilities and mandates.

As part of this proposal, the DDS is proposing to eliminate or amend certain existing statutory requirements. These are as follows:

- 1. **Eliminate Section 4847** of W&I Code that requires the DDS to annually coordinate a meeting within each Regional Center catchment area to have representatives from the DHS, Regional Centers, and local health facility providers to meet. **(Analyst position at $70,000)**.

- **2. Amend Section 4646** of W&I Code to change the review of individual program plans from an annual to a biennial process. **(Analyst position at $70,000).**
- **3. Eliminate Section 4731** of W&I Code regarding the Consumer Rights Complaint process. **(Half-time Staff Counsel $29,000 annually).**

Subcommittee Staff Recommendation: It is recommended **to adopt the proposed reduction of $2.7 million ($2.5 million General Fund) and to eliminate Section 4847 of W&I Code (item 1, above).**

With respect to items 2 and 3 of the proposed language (Sections 4646 and 4731), it is suggested to discuss these two issues later in the agenda (Item 6 under the Community Based Services section) as stand alone items.

Budget Issue: Does the **Subcommittee want to adopt the staff recommendation?**

3. Life Quality Assessments—Reappropriation Language

Background: The Organization of Boards on Developmental Disabilities (Area Boards) are mandated to conduct Life Quality Assessments on people with developmental disabilities living in out-of-home placements, supported living arrangements, or independent living arrangements no less than once every three years.

As part of a three-year contract, DDS is required to provide the Area Boards with a list of individuals eligible for Life Quality Assessment. These assessments are designed to coincide with the individual's triennial development of their Individual Program Plan (IPP). **As such, in order to assure that resources are available to meet the total number of individuals eligible over the contract period, any remaining funds from the current year need reappropriation for the budget year.** In this manner, the Area Boards can assure that individuals are served appropriately.

Subcommittee Staff Recommendation: In order to assure that resources are aligned appropriately, Subcommittee staff recommends the **adoption of reappropriation language.** This same language was contained in the Budget Act of 2000. The language is as follows:

> 4300-490 Reappropriation, DDS. Notwithstanding any other provision of law, as of June 30, 2002, the balances of the appropriations provided in the following citations are reappropriated for the purposes specified and shall be available for expenditure until June 30, 2003, unless otherwise stated.
>
> (1) Item 4300-101-0001 (a) 10.10.010 and (b) 10.10.020, Budget Act of 2001 (Chapter 106, Statutes of 2001) for the Life Quality Assessment interagency agreement with the Organization of Area Boards on Developmental Disabilities.

Budget Issue: Does the Subcommittee want to adopt the recommendation?

C. ITEMS FOR DISCUSSION—DEVELOPMENTAL CENTERS (DCs)

OVERALL BACKGROUND

State Developmental Centers (DCs) are fully licensed and federally certified as Medicaid providers via the California Department of Health Services. **They provide direct services which include the care and supervision of all residents on a 24-hour basis, supplemented with appropriate medical and dental care, health maintenance activities, assistance with activities of daily living and training.** Education programs at the DCs are also the responsibility of the DDS.

The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma**. Porterville is unique in that it provides forensic services in a secure setting.**

In addition the department leases **Sierra Vista**, a 54-bed facility located in Yuba City, and **Canyon Springs**, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

OVERALL PROPOSED BUDGET

The budget proposes expenditures of **about $624.8 million ($346.3 million General Fund) to serve 3,636 residents who reside in the state developmental centers system. This reflects a caseload decrease of 50 residents** and a marginal net decrease in funds of $46,000 as compared to the revised 2001-02 budget.

State operated facilities are entitled to payment for Intermediate Care Facility (ICF) services at actual allowable costs for services for individuals with developmental disabilities. Reimbursement levels for payment of services is based on rates developed by the DDS and approved by the DHS.

These rates are specific to each DC based on an approved rate development methodology that uses census data and the actual allowable costs for provision of appropriate residential and treatment services based on standards and guidelines. **According to DDS data, the average cost per person residing at a DC is about $171,000 annually. This reflects an increase of well over 50 percent since the Budget Act of 1995.**

1. Developmental Center Adjustments for Population

Background: Each year, **the budget is adjusted to reflect direct care and non-level-of-care staffing requirements in order to meet resident needs and licensing requirements**. These staffing adjustments are based on the projected number of individuals living at the DCs and their individual program needs based on the Client Developmental Evaluation Report (CDER) process.

The DC population is based on three components—admissions, placements from the DCs and deaths.

Population Estimates: At this time, it is estimated that the average in-center population will be **3,686** residents and that a **net reduction of 50 residents** will occur during 2002-2003 for a year-end population of **3,636 residents (as of June 30, 2003). This population includes 415 individuals with a forensic designation.** Based on the CDER process, the residents continuing to reside at the DCs will require more intensive care.

The budget assumes the following population information for each facility:

Developmental Center	Estimated 2002-03 Population	Change from Current Year
Agnews	440	-33
Canyon Springs	59	1
Fairview	794	4
Lanterman	622	-10
Porterville	830	1
Sierra Vista	57	7
Sonoma	834	-20
TOTALS	**3,636**	**-50**

It should be noted that these caseload adjustments will be updated at the May Revision.

Governor's Proposed Budget: The **budget proposes a net decrease of $354,000 (increase of $273,000 General Fund and a decrease of $627,000 in reimbursements) due to a projected decrease of 50 residents at the DCs.** This funding estimate assumes **a net increase of 12 Non-Level-of-Care positions** (i.e., a decrease of 25 Level-of-Care positions and an increase of 37 Non-Level-of-Care positions). **Based on the CDER process, the residents continuing to reside at the DCs will require more intensive care.**

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions:

- **1.** Please provide a **brief summary** of the proposal.
- **2.** Please provide a **brief update regarding the forensic population.**

Budget Issue: Does the Subcommittee **want to approve the proposed adjustments pending the receipt of the May Revision?**

2. Non-Level of Care Staffing Reduction

Background and Governor's Proposed Budget: The DDS states that due to the fiscal situation, it was necessary to identify functions and operations that could be eliminated to assist in addressing the shortfall in revenues. As such, the DDS analyzed positions across the system that could be eliminated without posing significant risks to consumer health and safety, or loss of federal certification or state licensing.

The budget proposes to eliminate 22 Non-Level-of-Care positions for a reduction of $1.1 million ($747,000 General Fund). These positions include: 7 Office Technicians, 5 Facility Environment Audit Technicians, 5 Assistant Seamers, 1 Library Technician, 2 Audio Visual Equipment Technicians, and 2 Upholsters.

Subcommittee Request and Question: The Subcommittee has requested the DDS to respond to the following question:

- **1.** Is it likely that any additional excess positions will be identified at the May Revision?

3. Developmental Center and Small Facility Certification & US Department of Justice Investigations (re: Civil Rights of Institutionalized Persons Act—CRIPA)

Background-Certification: The federal CMS has final authority for approving Medicaid-funded (Medi-Cal) services in state-operated institutions. As such, the DCs must be federally certified as Intermediate Care Facilities for the Mentally Retarded (ICFs/MR) in order to receive federal matching funds under Medi-Cal. Generally, the Department of Health Services (DHS) conducts certification surveys for the federal government at their direction.

Over the past several years, the DCs have experienced considerable problems in meeting certification requirements. In order to improve the quality of care for residents and to correct deficiencies, a four-year phase-in plan to increase DC staff and address a series of related issues was initiated through the Budget Act of 1998. Specifically, this initiative was to address active treatment needs, behavioral management concerns, educational and vocational needs, ancillary medical assistance needs, and related clinical issues.

Though considerable resources and effort have been invested, the DCs continue to have issues regarding certification deficiencies. The DDS states that they are continuing a multifaceted approach to improve the conditions at all of the DCs.

Current Year Budget Problems—Certification Concerns: **General Fund support of $13.7 million is being provided in the current year due to the loss of federal funds from certification concerns.**

Specifically, Porterville's Secure Treatment Program was decertified as of September 1, 2001. This decertification results in the loss of $13.1 million in federal support for the current year. According to the DDS, it is likely to take up to *24 months* to reacquire certification of this program.

In addition, the Canyon Springs facility has not yet received certification. The DDS anticipated that this facility would obtain certification by February 1, 2002. However, the DDS notes that the department and DHS recently finalized an agreement that this particular facility is governed by Title 22 regulation and subsequently, eligible for Medicaid reimbursement on an actual cost basis. This agreement is currently under review by the Department of General Services. It is anticipated that the DDS will request a DHS certification review in July, 2002.

Background—Department of Justice Reviews To Begin in April 2002: The federal Department of Justice (DOJ) has notified the DDS that it will be reviewing **both Sonoma DC and Agnews DC in April. They have requested preliminary data regarding both facilties and will be preparing a response to the state regarding their reviews at a date which is currently unknown.** The DDS notes that the DOJ has contacted other states and will be reviewing other long-term care facilities serving individuals with developmental disabilities.

The federal DOJ initiated reviews at Agnews DC and Sonoma DC in late 1992. Based on these reviews, the DOJ noted conditions that required remediation, including issues pertaining to clinical staffing, active treatment and Habilitative specialty areas. Subsequent visits were conducted in 1995 and 1997. During these later visits the DOJ noted improvements but was still concerned about understaffing at Sonoma DC. In response to the DOJ, the DDS did enact certain reforms, including completion of clinical initiatives involving a consultant (Columbus Medical Services).

Governor's Proposed Budget: The budget **provides a total of $15.3 million (General Fund) to backfill for the lack of certification at both the Porterville Secure Treatment Facility and at Canyon Springs.**

Subcommittee Request: The Subcommittee has requested **the DDS to respond to the following questions:**

- **1. Please provide an update on the status of certification for each of the DCs**.
- **2.** What is the status of **certification at Canyon Springs? Will it be certified in the budget year?**
- **3.** Please provide **a brief update on the CRIPA review** at Sonoma DC.

Budget Issue: Does the Subcommittee want to approve or modify the budget?

4. Janitorial Health Benefits and Contracts

Background and Governor's Proposed Budget: The budget is proposing an increase of **$8.8 million ($5 million General Fund) due to increased costs associated with the janitorial contracts at the DCs.** Specifically, the health benefit costs for the janitorial contracts are estimated to be $1.9 million and the janitorial services contracts are $14.2 million for total expenditures of $16.1 million. Existing statute requires the payment of health benefits for these contract employees.

Subcommittee Request and Question: The Subcommittee has requested the DDS to respond to the following question.

- **1.** Please provide a **brief summary** of the proposal.

(This completes the discussion regarding the Developmental Centers.)

D. ITEMS FOR DISCUSSION—COMMUNITY-BASED SERVICES

Overview of the Budget for Community-Based Services

The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. **RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.**

The budget proposes expenditures of $2.215 billion ($1.6 billion General Fund) for community-based services, provided via the RCs, to serve a total of 182,230 consumers living in the community. This reflects an increase of $139.9 million (total funds), or 6.7 percent, over the revised 2001-2002 budget.

The funding level includes $393.1 million for RC operations and over $1.784 billion for local assistance, including funds for the purchase of services for consumers, program development assistance, the Early Start Program, and habilitation services provided by the Department of Rehabilitation.

Historical Funding Trends & Legislative Analyst Office Comment *(See Hand Out)*

The budget for the Regional Centers has *more than doubled* from about $908.2 million in 1995 to about $2.2 billion as proposed for 2002-03. General Fund expenditures have also more than doubled, from about $600 million in 1995 to just over $1.6 billion as proposed for 2002-03.

As noted by the Legislative Analyst's Office (LAO), these budget increases represent an average annual growth rate in total spending over 7 years of almost 14 percent. About 5 percent of this growth is attributable to caseload, 3 percent for inflation, and 6 percent represents several other factors, such as growth in the utilization of services and cost adjustments which exceeded the rate of inflation.

The LAO also notes that the rate of growth proposed for the budget year is still greater than for most other major health and social services caseload programs. Unlike most health and social services provided by the state, the amount of services provided by the Regional Centers is not limited through statewide standards.

Further, eligibility to receive both case management and **community services does not depend on a "means" test or determination of financial need that is based on income level or assets.** With a few minor exceptions, **services are provided without any requirement that those benefiting from the services, and who have the ability to contribute, pay a share of cost.**

1. Base-Line Estimate for the Regional Centers—Caseload and Utilization

Background: The purchase of services (POS) portion of the Regional Center budget accounts for about **80 percent** of total expenditures.

For budget development and allocation purposes, the **POS budget consists of four key categories—Residential Placement, Day Programs, Transportation and Other Services which includes health care, respite, support services and other miscellaneous services. The budget proposes the following for these service categories:**

• Residential Placement		$594 million
• Day Programs		$554 million
• Other services (respite, support services, health care & others)		$535 million
• Transportation		$154 million
	Subtotal	$1.836 billion
	POS Savings	- $52 million
	Proposed TOTAL	**$1.784 billion**

Governor's Proposed Budget: The ***base-line*** budget estimate for the Regional Centers contains the **following key adjustments:**

- ***Caseload and Service Utilization Adjustments:*** The budget proposes **an increase of $151.7 million ($100.7 General Fund) to provide for an increase in caseload of 9,725 consumers, as well as increased utilization of purchase of services (POS) based on consumer needs.** Of this amount, $137.9 million is for the POS and $13.8 million is for Regional Center Operations.

  With respect to the $137.9 million for POS:

  - **(1)** $54.2 million, or 39 percent of the POS increase, is for "Other Services" (health care, in-home respite, out-of-home respite, support services and miscellaneous services);
  - **(2)** $36.4 million, or 26 percent, is for Day Programs;
  - **(3)** $34.8 million, or 25 percent is for Residential Placement, primarily for Community Care Facilities; and
  - **(4)** $12.4 million, or 8 percent is for Transportation.

  The caseload figure reflects **an overall increase of almost 6 percent,** and an increase of over 12 percent for high risk infants which has been growing rapidly over the past several years.

With respect to the $13.8 million for Regional Center Operations, about $11 million is requested to fund 248 positions with the remaining amount for operating expenses.

- ***Downsizing of Large Facilities:*** The federal CMS will not provide federal reimbursement to the state under the Waiver for consumers who reside in large (16 or more beds) congregate living facilities. As such, the DDS has been working with providers and the DHS convert certain facilities to smaller ones facilities.

  The budget contains a total of **$4.5 million (total funds)** to provide funding to convert certain large facilities to smaller, more home-like four- to six- bed facilities. Generally, this proposal continues downsizing efforts initiated in the Budget Act of 2000.

- ***Special Incidence Reporting:*** The budget provides **an increase of $2 million** to fund additional staff to meet the requirements of the Special Incident Reporting system. Generally, under this system Regional Centers will be responsible for investigating, reporting and following-up on special incidents for Regional Center consumers living in the community. Total expenditures for the budget year will be $9.7 million, including $1 million for a Risk-Assessment Contractor.

- ***Pass-Through of Federal SSI Increase to Community Care Facilities:*** The state provides payment to Community Care Facilities (CCFs) through the Regional Centers. Generally, the reimbursement consists of the Supplemental Security Income/State Supplemental Payment (SSI/SSP) amount and a state supplement which pays the remaining amount. In the event of a cost-of-living adjustment for the SSI, the increased federal funds have been used to off-set General Fund costs in lieu of providing a rate increase for providers. In other words, the SSI increase was not "passed-through" to the provider. **Since the Budget Act of 1998, annual SSI/SSP increases have been passed through to CCF providers.**

  The January budget provides a **total of $5.2 million** to continue to pass through the SSI/SSP increase to Community Care Facilities (CCFs), effective January 1, 2003. According to the DDS, this estimate was based on the assumption that both the SSI and SSP portions would receive a COLA increase on January 1, 2003. **However, since the Governor's budget does not provide a COLA for the SSP portion, the DDS budget is in error. The adjustment should reflect an increase of about $1 million (for the SSI portion only).**

  About 20,800 people with developmental disabilities reside in 4,500 CCFs licensed by the Department of Social Services. As such, over 50 percent of consumers living in out-of-home placement settings reside in CCFs.

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions:

- **1. Please provide a brief summary of the baseline adjustment.**

Budget Issue: Does the Subcommittee want to adopt or make technical changes to fund service utilization and estimated caseload increases?

2. Increase for Individuals Diagnosed with Autism

Background: **Autism is a disability of uncertain etiology.** Generally, it is defined as a syndrome first appearing in the early years of life-- usually before age three-- which is characterized by extreme withdrawal, language disturbance, inability to form affective ties, frequent lack of responsiveness to other people, monotonously repetitive behaviors, inappropriate response to external stimuli and an obsessive urge for maintaining sameness.

Autism is a spectrum disorder and it is always a retrospective diagnosis. It frequently occurs in association with other symptoms, specific disorders and developmental disabilities. **While there is no known cure for Autism, improvement occurs with early diagnosis and proper intensive early intervention.**

According to the DDS, the entire population of individuals diagnosed with autism served by the RCs doubled in the four years between 1997 and 2001. It is estimated that **22,690 individuals with Autism are estimated to be requesting services in the budget year. This is a 16 percent increase in caseload over the current year. About 60 percent of the total population of nearly 18,000 persons with autism, including Pervasive Developmental Disorders) are less than 11 years old.**

The DDS believes that consumers being diagnosed with autism have been increasing significantly for the following reasons:

- The definition of autism is broader and parents are more award of autistic symptoms and therefore, more likely to refer for a diagnosis.
- Increased awareness of the diagnosis and better clinical screening on the part of medical professionals and others.
- The emphasis on Early Start screening, referral and intervention has increased the number of children requiring Regional Center services.
- Other unexplained reasons that are being researched statewide, nationally, and internationally.

Service needs differ greatly among children with autism. Each treatment must be individualized—an individual child's needs must drive the specific method of intervention. Treatment focuses on the child's developmental needs, differences in nervous-system capacities and relationships with treatment providers. The DDS states that intensive behavioral intervention programs are relatively expensive compared to traditional forms of intervention but that they are generally effective and clinically supported by scientific literature.

Findings from longitudinal studies suggest that without effective intervention, it is likely that a substantial majority of individuals with autism would require Regional Center services throughout their lives.

Budget Act of 2001—Procedures and Training: Through the omnibus health trailer bill of the Budget Act of 2001, language was crafted which required the DDS to **(1)** develop evaluation and diagnostic procedures for the diagnosis of autism disorder and other autistic spectrum disorders by April 1, 2002, and **(2)** develop a training program for Regional Center clinical staff in the utilization of these procedures by July 1, 2002.

Governor's Proposed Budget: The budget contains **an increase of $17.2 million** in **purchase of services funds to recognize increased expenditures attributable to the caseload growth of individuals diagnosed with Autism and the corresponding utilization of intensive services.** For example, intensive behavioral intervention programs and in-home respite assistance are services that are generally utilized more frequently in this population.

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions.

- **1.** Please provide an **update on the status of developing evaluation and diagnostic procedures for autism, and also on the upcoming Regional Center training.**

Budget Issue: Does the Subcommittee want to approve the proposed increase for services to individuals with autism?

3. Community Placement Plan—Revised Process & Funding Increase

Background: Existing statute requires the DDS to ensure that individuals with developmental disabilities live in the least restrictive setting which is appropriate to their needs.

The **Community Placement Plan (CPP) is designed to assist Regional Centers in providing necessary services and supports for individuals to, when appropriate, move from state Developmental Centers (DC) to community-based services. It will also provide the resources necessary to stabilize the selected community living arrangements of individuals** who have been referred to the Regional Resource Development Project (RRDP) for alternatives to admission to a DC (i.e., deflection).

From a statewide perspective, the **DDS' priorities include developing resources that facilitate community living options for:**

- Children, adolescents, and young adults, especially those with complex behavior challenges;
- Individuals who've recently moved to a Developmental Center;
- Individuals for whom the court has ordered community placement but sufficient community resources are unavailable to meet their needs;
- Groups of friends who ant to live with one another in the community, and have been referred to the RRDP

It should be noted that these priorities are not intended to prohibit any individual who wants to move from a DC from doing so.

Revised CPP Process: **Beginning in the budget year, the DDS proposes to change the way it estimates funding for the CPP.** In the past, the DDS provided funding based on estimated placements as projected by the Regional Centers. As such, there was minimal accountability under this old method.

Under the *revised* CPP process, the Regional Centers must provide the DDS with detailed plans regarding:

- The individual consumers, needed resources, services and supports who will be moved from the DCs;
- The individuals referred to RRDP due to unstable community living arrangements and what their needed resources are; and
- The individuals who will be assessed for community placement.

These plans will be updated *twice* annually to ensure continuity of services and appropriate funding levels. The DDS states that they will be working closely with the RCs, individuals and their families, each RRDP and the DCs to coordinate the involvement and support to implement the plans that will result in individuals living in community settings.

Governor's Proposed Budget: The budget contains **an increase of $20.5 million, for total funds of $50.2 million, to provide services and improve the community placement planning process.**

The $50.2 million funding level assumes that:

- 260 consumers are assessed for placement ($633,000 total funds);
- 205 consumers are placed in the community ($16 million);
- 183 consumers are continued in their placement ($18.7 million);
- 98 consumers are "deflected" (i.e., not admitted to a state Developmental Center) ($5 million);
- Start-up costs for 71 new facilities/programs and program expansions occur ($4.2 million); and
- Regional Center operations expenditures of $5.7 million for resource development, consumer assessments, case management, crisis service teams, and placement activities.

The proposed $20.5 million increase is allocated as follows: (1) $2.2 million for Regional Center operations, **(2)** $9.1 million for placement costs, **(3)** $5.6 million for continuation costs for prior year placements, **(4)** $2.9 million for facility start-up costs, and (5) $633,000 for assessment costs.

Subcommittee Request and Questions: The Subcommittee is requesting the DDS to respond to the following questions.

- **1.** Please provide a **brief overview of the revised CPP process.**
- **2.** Since this will be an **ongoing process and accountability** will be crucial to success, would it be appropriate to **codify both the CPP process**, as well as

the Regional Resource Development Program (RRDP) piece since it is a component of CPP?

Budget Issue: Does the **Subcommittee want to (1)** approve the increased funding for the revised CPP process, and **(2)** adopt placeholder trailer bill language to codify the revised CPP process, require that funds appropriated for CPP can only be used for that purpose, and codify the existing Regional Resource Development Projects (RRDP)?

4. Home and Community-Based Services Waiver (ISSUES "A" to "B")

General Background-- The Home & Community-Based Services Waiver: Under this Waiver, **California can offer "nonmedical" services to individuals who would otherwise require the level of care provided in a hospital, nursing facility, or intermediate care facility for developmental disabilities.** Use of these "waiver services", such as assistance with daily living skills and day program habilitation, **enable people to live in less restrictive environments such as in their home or at a Community Care Facility.**

California's Waiver is one of the largest in the nation, both in number of recipients and expenditures. **However, it ranks 39th in federal per capita share at $7.13, as compared to Rhode Island which ranks first at $67.71.**

The Waiver **has allowed the state to conserve General Fund dollars by shifting Medicaid eligible beneficiaries to waiver services** while granting flexibility and assisting the state in complying with the Coffelt Settlement in the mid-1990's.

Generally, there are four basic criteria required for a consumer to be enrolled on the Waiver. These are that the individual:

- **(1)** Be enrolled for full-scope Medi-Cal;
- **(2)** Meet certain level-of-care eligibility criteria;
- **(3)** Live in an eligible residential environment (i.e., not in a health facility); and
- **(4)** Choose enrollment.

Historical Perspective and Past Federal Concerns: The Waiver was first established in 1982. From 1982 through 1992, California was restricted by the federal government to having only 3,360 enrolled consumers. **From 1992 through 1997, the Waiver caseload increased up to 35,105 consumers, and the amount of federal reimbursement more than doubled.**

However, in 1997 the federal government conducted an extensive review of the Waiver and identified serious health and safety concerns, as well as significant issues pertaining to program monitoring, quality assurance, and residential care. Due to these concerns, **the DDS and Department of Health Services** (as the state's Medicaid agency) **had to implement extensive program compliance measures**

relating to consumer health and safety, and had to certify Regional Centers as meeting program "compliance" on a case by case basis.

As a consequence, the state's Waiver enrollment was frozen (or "capped") at its existing level of 35,105 consumers in December 1997. In addition, consumers coming off of the Waiver could not be replaced. As such, the caseload of the Waiver dropped by over 5, 600 consumers and cost the state about $51 million in federal funding (which was backfilled using state General Fund support).

In September 1998, the Waiver renewal request was approved for a three-year period, effective as of October 1998. **However, this approval was contingent upon the state's agreement to not expand the cap to include new consumers and to proceed with other DD system improvements.**

Through an extensive process in working with the federal CMS, Regional Centers and other involved parties, **the DDS was able to have 19 of the 21 Regional Centers certified for Waiver compliance and no longer subject to the cap on consumer enrollment as of October 2000. In addition, one Regional Center can only bill consumers already on the Waiver, and the remaining Regional Center cannot bill for anyone until certain fiscal concerns are ameliorated.**

Waiver Renewal and State Assurances (See Hand Out): The Waiver has been renewed several times, **most recently in October 2001. Under this most recent Waiver renewal, the federal CMS provided California with a 5-year operation period. In order to obtain this federal approval, the state had to provide assurances that issues identified in the 1997 federal audit had been remedied and would continue to be addressed through specific measures.**

Governor's January Proposed 2002-03 Budget: The budget assumes total **expenditures of $597.2 million** ($296.5 million General Fund and $300.7 million in reimbursements from the DHS which are federal Title XIX Medicaid funds) to **serve only 32,906 consumers as of June 30, 2003**. This reflects an increase of only $24.6 million (total funds) over the revised current-year budget.

This *January* budgeted level of funding assumes the following:

- No freeze on admissions for those 19 Regional Centers certified as being in compliance. **However, no new growth is assumed because the DDS states that Regional Centers are reporting increasing difficulty in meeting their existing mandates due to under funding in their operations budget.** As such, they contend that this will affect their ability to add and maintain consumers to the Waiver.
- South Central Los Angeles Regional Center cannot bill for any Waiver consumers until their fiscal problems are corrected. An audit and Waiver compliance review are now being conducted to determine their progress.
- Regional Center of the East Bay can only bill for those consumers already enrolled in the Waiver, but not any new individuals.

April 1 Finance Letter—Significant Changes From Budget: The Subcommittee is in receipt of a Finance Letter which proposes to significantly amend the assumptions for the Waiver for both the current year and the budget year. **These proposed changes are outlined below.**

ISSUE "4 A"—Proposed Current Year Changes for the Waiver

Finance Letter for the Current Year: The Administration is proposing **to increase the level of federal reimbursement for the Waiver by $48 million (federal funds) and to decrease state General Fund support by almost $39.6 million for total net expenditures of $8.4 million.**

This funding shift assumes the following:

- 4,233 consumers were added to the Waiver in 2001 (during August through December 2001 and will continue on). **($42.8 million in increased federal funds.)**
- 9,291 consumers will be added to the Waiver in 2002 (from April through June 2002). **($32.5 million in increased federal funds.)**
- Adjust the Waiver growth assumptions as contained in the Governor's January budget for the revised current-year estimate (technical adjustment). **($24.8 million in reduced federal funds.)**
- Provide for a **five percent adjustment** in the total amount to account for the potential of some consumers not being eligible for the Waiver. **($2.5 million in reduced federal funds.)**
- Proposes to **expend *one-time only* funds of $8.4 million** for improving CADDIS and providing increased staff to the Regional Centers for Waiver enrollment functions. **($8.4 million in reduced funds.) (These are discussed below.)**

Request to Fund the CA Developmental Disabilities Information System (CADDIS): The department's information processing system used by the Regional Centers needs to be modified to capture certain federal reimbursement information and to assure compliance with Waiver activities. According to the DDS, the new system-- the California Developmental Disabilities Information System (CADDIS)—**needs an additional $4.4 million in order to complete the acquisition.** This funding request is based upon an approved Feasibility Study Report (FSR).

Specifically, CADDIS will allow for the collection of daily attendance information, consolidation of billing information across the Regional Center system and is generally designed to reduce billing errors and the likelihood for audit exceptions. The CADDIS will also be HIPAA compliant.

<u>Request to Fund Regional Center Staff to Increase the Waiver Cap:</u> The DDS notes that adding and maintaining consumers on the Waiver requires the Regional Centers to conduct additional work. Further, they contend that past practice has shown that the Regional Centers are capable of adding consumers fairly quickly when resources are made available.

The process to add a consumer to the Waiver includes: (1) evaluating and verifying that the person meets the level of care required by the Waiver, **(2)** verifying Medi-Cal eligibility, **(3)** reviewing the consumer's file for compliance with Waiver protocol, **(4)** completing certification and choice of services forms, and **(5)** obtaining the consumer's/guardian's signature. **It is assumed that it takes about 8 hours of professional time to complete this process.**

The DDS is requesting a one-time appropriation of $4 million to provide for increased staffing at the Regional Centers to add consumers as appropriate onto the Waiver. The basis for this funding amount is that **the DDS assumes that (1) 9,291 consumers will be added to the Waiver in the current year, (2) it takes 8 hours to add a consumer to the Waiver, (3) it will cost about $57 per hour. (74,328 hours multiplied by $57 = over $4 million.)** (It should be noted that the DHS Medi-Cal billing schedule provides for a range of hourly billing rates for clinical personnel from $40 to $74 per hour.)

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the DDS to respond to the following questions:

- **1.** Please **briefly** explain the current year Waiver caseload increase.
- **2.** Please explain the **5 percent "error factor"**.
- **3. How will the Regional Center one-time funding be allocated?**

<u>Budget Issue:</u> Does the Subcommittee want **to adopt the current year proposal to increase reimbursements** (federal Title XIX funds from the DHS) **by $48 million, decrease General Fund support by $39.6 million and provide $8.4 million in one-time only funds to assist with specified Waiver activities?**

ISSUE "4 B"—Proposed Budget Year Changes for the Waiver
(3 discussion items—"4 B 1 to 4 B 3")

Proposed Finance Letter (See Hand Out): The Administration is proposing **to (1) increase federal reimbursement by $106.7 million, (2) decrease state General Fund support by $91.5 million, and (3) expend $15.2 million to fund specified items (to be discussed below).** This proposed funding level assumes the state will meet a June 30, 2003 **caseload cap of 46,447 consumers** for the Waiver.

This funding shift assumes the following:

- The 13,524 consumers added onto the Waiver in the current year (as discussed above) will continue into the budget year. **($105.6 million in increased federal funds.)**
- Regional Center of the East Bay will meet all Waiver compliance requirements and will be able to obtain Waiver reimbursement for 931 consumers. **($6.3 million in increased federal funds)**. This assumes an October 1, 2002 compliance date.
- 422 additional consumers have been identified for inclusion in the Waiver. (This excludes South Central Los Angeles and Regional Center of the East Bay.) **($340,000 in increased federal funds.)**
- Provides for a five percent adjustment in the total amount to account for the potential of some consumers not being eligible for the Waiver. **($5.6 million in reduced federal funds.)**
- **Proposes to expend $15.2 million to provide for increased state support and Regional Center Operations support. (These items are discussed below under issues "4 B 2" and "4 B 3").**

ISSUE "4 B 1"—Update on Future Options to Capture More Federal Funds

Background: The DDS has hired a **consultant who is conducting expensive research** to discern how the state may obtain increased federal financial participation in the developmental disabilities services arena. **Generally, there are three broad approaches or phases that various options may fall under. These are:**

- What can be done under the **existing Waiver**;
- What can be done with a **Waiver amendment** (such as inclusion of other services, expanding the cap for enrollment, redefining rate methodologies, and others);
- What can be **done in other venues**, such as in the long-term care area (i.e., ICF and Developmental Centers), and expanding the Targeted Case Management Program, or others.

According to the DDS, **the consultant will be producing a workbook** which will contain options and suggestions on crafting changes in order to increase federal financial participation. **It is anticipated that information will first be coming forth in early summer.**

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions:

- **1.** Please provide **a brief description of key items** that the consultant is reviewing.
- **2.** Is it **highly probably that considerably more federal funds** will be available in the 2003-04 budget cycle (i.e., budget year plus one)?

Budget Issue: Does the Subcommittee **want to adopt any uncodified trailer bill language expressing its intent** on how to utilize additional funds in the future?

ISSUE "4 B 2"—Proposed Regional Center Operations Adjustments—Budget Year

Proposed Finance Letter: The DDS is proposing to provide an ongoing increase of $15.2 million for Regional Center Operations. **This consists of two items--$1.9 million for Regional Center staff to coordinate the management of federal programs, including the Waiver, and $13.3 million to provide increased funding for rent.**

Background on Rent Request: Generally, the department allocates the Regional Center Operations funds based on the **"Core Staffing Model"**, special allocations, and prior year expenditures.

The **"Core Staffing Model"** formula used by the DDS needs to be updated. As noted in the Citygate Associates report entitled *Regional Center Core Staffing Study* (September 1999), as well as analyses conducted by the Bureau of State Audits, and the Association of Regional Center Agencies, the model is out of date. For example, it has not accounted for increases in the cost of living for many years **(such as with salary adjustments, supplies, postage, energy, leased space/rent, computers, and office commodities). This, coupled with the unallocated reductions of the early 1990's, has caused Regional Centers to hold positions vacant.**

Many RCs have expressed concerns about their ability to hire and retain qualified employees, especially with the need to maintain a caseload ratio of 62 to 1 (consumers to case manager). To recruit and retain qualified personnel, Regional Centers must often pay salaries beyond those utilized in the formula.

The DDS states that the Core Staffing Model does not provide the funding necessary for rent costs incurred either. Due to this short fall, the Regional Centers are compelled to hold positions vacant above the budgeted salary savings requirement. Specifically, Regional Centers have to keep vacant about 266 positions to compensate for the funding gap.

In addition, ARCA as well as several RCs note that the cost of doing business is higher in certain geographic areas. They contend that certain adjustments should be made to reflect the needs of some high cost areas.

The DDS is therefore proposing to provide $13.3 million in increased funding for rent. This level of funding is equivalent to the cost of what the state would pay if it were renting the space (based on square footage, location and related factors.)

Background on Federal Program Compliance: The existing Core Staffing Model does not currently recognize the additional workload associated with the overall management of federal programs (such as the Waiver, Nursing Home Reform, Targeted Case Management). **As such, the DDS believes that an increase of $1.9 million is warranted to fund one Federal Program Coordinator position at each Regional Center and a total of 5 secretarial positions system wide**.

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions:

- **1.** What is the intent of the Administration in providing increased funding for rent? Is it to reduce the salary savings level?

Budget Issue: Does the Subcommittee want to adopt **(1)** the $15.2 million increase for Regional Center Operations as specified, and **(2)** uncodified trailer bill language to clarify the intent of the appropriation?

ISSUE "4 B 3"—Proposed Headquarters Adjustments—Budget Year

Proposed Finance Letter: The DDS is proposing to provide **an ongoing increase of $2.1 million ($1.6 million General Fund)** to fund various support functions at Headquarters. Specifically, the following adjustments are proposed:

Proposal	Total Funds	General Fund	Positions
1. Federal Billing System	$250,000	$127,000	3
2. Audit Compliance	$136,000	$70,000	2
3. Risk Management--Clinical	$181,000 revised to $143,000	$92,000 revised to $73,000	1
4. Life Quality Assessment	$76,000	$39,000	1
5. Large Facility Downsizing	$76,000	$38,000	1
6. Enhance Federal Revenue	$322,000	$163,000	4
7. Reduce Salary Savings	$1,073,000	$1,073,000	19.6 personnel years (PY)
TOTALS	**$2,114,000**	**$1,602,000**	**12 positions & 19.6 PYs**

Background—Federal Billing System: In order for the state to be reimbursed by the federal government, the state must bill for all eligible services for Waiver participants. According to the DDS, billing data must match information contained in the Medi-Cal MEDS system as well as the DDS data system**. Inconsistencies between these two data sets must be resolved for the Waiver eligible costs to be submitted to the federal government. As such, data errors must be resolved or significant federal funds can be lost.**

DDS states that in reviewing prior year data, data error resolution had to be performed on about 6 percent of the Regional Center expenditures. They contend that with additional individuals being added to the Waiver, there will be an increase in workload associated with data error resolution. **They are requesting 3 positions—a Data Base Administrator, and two Associate Information System Analysts—for this purpose.**

Background—Audit Compliance: The DDS is requesting two positions **to provide oversight for the Regional Centers and ensure compliance by the DDS with certain federal Office of Management and Budget (OMB) requirements.** The DDS notes that the federal CMS has withheld funding for two Regional Centers (South Central Los Angeles and Regional Center of the East Bay) until the DDS provides assurance that various conditions are met.

Background—Risk Management/Clinical: A Medical Consultant position is being requested to (1) provide advice and technical assistance to the Waiver monitoring and quality assurance staff on health issues, (2) serve as the primary liaison with medical professionals at the Regional Centers, and (3) provide medical direction and consultation for the Early Start Program.

It should be noted that the DDS acknowledges an overstatement of cost for the Medical Consultant position. The actual cost should be $143,000 ($73,000 General Fund). As such, the budget needs to be reduced by $19,000 General Fund to correct for this miscue.

Background—Life Quality Assessment: Existing statute requires the state to conduct Life Quality Assessment activities. The life quality assessment focuses on the consumer and the effects of services and supports for each individual. Presently, the DDS contracts with the Organization of Area Boards to conduct the assessments at least once every three years for each consumer living in certain living arrangements.

The DDS is requesting a position to (1) respond to Regional Centers and the Area Boards to problem solve implementation issues and conduct dispute resolution per the interagency agreement for Life Quality Assessment functions, (2) review and revise Life Quality Assessment training materials for Regional Center vendors, and (3) conduct periodic on-site reviews of each Area Board's implementation of the Life Quality Assessment, and (4) provide training and technical assistance to Regional Centers, provider groups, and Area Boards regarding Life Quality Assessment, including reporting of alleged violations of civil and service rights.

Background—Large Facility Downsizing: The federal CMS will not provide federal reimbursement to the state under the Waiver for consumers who reside in large (16 or more beds) congregate living facilities. As such, the DDS has been working with providers and the DHS convert certain facilities to smaller ones facilities. Currently, about 1,030 consumers still reside in large facilities for which the state is receiving no federal reimbursement.

The DDS is requesting a position to conduct various functions pertaining to downsizing large facilities, including assisting Regional Centers and providers in developing and reviewing plans for conforming to Waiver requirements, and provide assistance to effect the implementation of facility plans for qualifying.

Background—Enhance Federal Revenue: **The DDS is requesting four positions**—a Staff Manager I, two Analysts, and one Staff Information Systems Analyst--to pursue new federal revenue sources and employ more effective methods for maximizing federal revenues. The DDS believes they can capture from one to five percent more in federal reimbursement, or from $3 million to $15 million, with these requested positions.

Key functions of these positions will be to research federal funding claiming methodologies, analyze other state's Waivers and methodologies, develop recommendations for changes to enhance federal financial participation, develop proposals, and craft regulation changes as necessary to implement.

Background—Reduce Salary Savings: The DDS is requesting **an increase of $1.1 million for salary savings relief.** They maintain that the department cannot fill positions without relief from the existing salary savings requirement which is 9 percent. The proposed increase in funding will reduce the salary savings requirement to about 5 percent. DDS contends that this will allow existing authorized positions currently held vacant for salary savings to be filled to continue mandated operations within the support area and to ensure that federal funding is maximized and maintained.

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions:

- **1.** Please provide a **brief overview** of the proposal.
- **2.** Please explain **why the 5 percent adjustment factor** is still assumed when positions are being added to capture more federal funds and to cleanse data?
- **3. Does the budget assume a July 1 implementation period for the positions as well as salary savings level?**

Budget Issue: In addition to the **technical adjustment needed** for the Medical Consultant position, does **the Subcommittee want to make any further adjustments in light of the fiscal situation?**

5. Administration's Proposal for Statewide Purchase of Services Standards *(See Hand Out)*

Background: The Regional Centers are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. **Regional Centers also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.**

The Governor's budget proposes to expend $1.784 billion for Regional Center's to purchase services for consumers.

As recognized in the Lanterman Act, differences (to certain degrees) may occur across communities (Regional Center catchment areas) to reflect the individual needs of the consumers, the diversity of the regions which are being served, the availability and types of services overall, access to "generic" services (i.e., services provided by other public agencies which are similar in charter to those provided through a Regional Center), and many other factors.

The DDS, in consultation with the Association of Regional Center Agencies, annually allocates POS funds through a contract process in which each RC receives a base allocation and then subsequent allocations as determined by the DDS. **The allocation of POS funds is primarily based on the previous year's contract level plus growth which may not be fully reflective of consumers needs in some areas.**

Comments from the Legislative Analyst's Office: In her Analysis, the LAO notes that the absence of statewide standards has created wide variances across Regional Centers in the delivery of services. **As identified in a Bureau of State Audits Report, Regional Center consumers with similar needs have been provided significantly different levels of financial, clinical, and social supports through the program.**

This report compelled the Legislature to request the DDS to conduct a more comprehensive analysis—Purchase of Services Study #1—which likewise found some significant disparities among the Regional Centers in both the extent and frequency of the services provided.

The LAO contends that without statewide standards on the availability of services, General Fund support has grown according to demand, not according to any predetermined policy or strategy to allocate dollars for services deemed to have the highest priority or the greatest effectiveness.

Governor's Proposed Budget): The **budget is proposing (1) a reduction of $52 million (General Fund), or less than 1 percent of the POS budget, (2)** trailer bill language to provide the DDS with the authority to promulgate emergency regulations to craft statewide standards for POS, and **(3)** trailer bill language that amends existing statute to eliminate the review of Regional Center POS policies by the DDS.

<u>Overview of Trailer Bill Language—Statewide Standards for POS (See Hand Out):</u>
The Administration proposes to **add Section 4631.5** to the Welfare and Institutions Code to develop and implement statewide standards for POS. **It should be noted that this language contains a sunset date of July 1, 2005. Generally this language:**

- Provides the DDS with **emergency regulation authority** to promulgate regulations (within 90 days of passage of the Budget Act) governing POS.
- Articulates a series of principles with respect to individual POS determinations.
- Provides a framework that would address the following:
  - Standards which are **consistent throughout the state;**
  - **Parameters for the type, amount, duration, and intensity of specified services and supports;**
  - The use of all possible alternative sources of funding before using Regional Center funds (i.e., use generic services);
  - **An exception process;**
  - Establish procedures for consistent application of the standards;
  - Mechanisms to maximize the capture of federal funds; and
  - **Not alter a consumer's eligibility for services or adversely affect consumers' health and safety.**
- Sunsets as of July 1, 2005 and is repealed as of January 1, 2006.

<u>Proposed Amendments to Existing DDS Oversight of Regional Center POS Policies:</u>
As part of the budget proposal, **the Administration is also proposing to amend Section 4434 of W&I Code to eliminate the requirement for the DDS to review and approve all new and revised Regional Center POS *policies*.**

In lieu of existing statute which requires collection and review of these materials, the newly proposed language is (1) permissive (uses the term "may" versus "shall"), and **(2)** makes reference to "operating policies and procedures", **not** service guidelines and other policies utilized by the Regional Centers when determining the service needs of the consumer as existing law requires. This permissive language is vague and does not convey the same level of oversight responsibility as existing law provides.

<u>Constituency Concerns:</u> Constituency groups are concerned with the proposal for several reasons. First, the Association of Regional Center Agencies contends that the reduction is an "unallocated reduction" and that the proposal would result in a reduction of services to consumers. Second, Protection and Advocacy Incorporated believes that the proposal would fundamentally change the Lanterman Act and that it would deprive consumers of their entitlement to services.

In addition, concerns have also been expressed about the use of emergency regulations, with no sunset date on the urgency, **as well as deletion of the oversight responsibility of the DDS to review the Regional Center's POS policies, even if statewide standards are developed.**

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions.

- **1.** Please provide **a brief overview** of the proposal.
- **2.** How was **the dollar amount derived?**
- **3. Please briefly explain the principles as contained in the legislation.**
- **4. What would be the next steps in the process if this were adopted?**

6. Other Trailer Bill Language Proposed by the Administration (See Hand Outs)

Governor's Proposed Budget: As noted in item 4 of the Consent Calendar, the Administration has proposed to amend the following sections of Welfare and Institutions Code.

- **Amend Section 4646** of W&I Code to change the review of individual program plans from an annual to a biennial process. **(Analyst position at $70,000).**
- **Eliminate Section 4731** of W&I Code regarding the Consumer Rights Complaint process. **(Half-time Staff Counsel $29,000 annually).**

With respect to Section 4646, the DDS proposes to amend the statute to go from an annual review of IPPs to a biennial process. **Specifically, the DDS proposes to include random reviews of Individual Program Plans (IPP) into the regular Waiver monitoring protocol used by the DDS and approved by the federal CMS. The DDS states that because the monitoring schedule is spread over a two year period, only half of the Regional Centers are surveyed in any given year.** Therefore in order to extend the review to all Regional Centers, the DDS conducts a desk review of a random sample of IPPs at the remaining Regional Centers.

SB 1038 (Thompson), Statutes of 1998, established the Consumer Rights Complaint process. **With respect to Section 4731 of W&I Code**, the DDS is proposing to eliminate this process. Currently a consumer or their representative (acting on their behalf) can file a complaint if they believe their rights have been violated. The initial complaint is filed with the Director of the Regional Center or Developmental Center and then if it is not resolved at this level, it is forwarded to the DDS for decision.

The DDS contends that this process is seldom used and that it is duplicative of existing regulations (Title 17, Section 50540).

Protection and Advocacy Incorporated opposes elimination of the statute. They contend the existing process is necessary, not duplicative, and in fact was approved by the Legislature to address shortcomings in Title 17 regulation. All consumers need the ability to file grievances without resorting to a full state level hearing (as directed by Title 17).

Budget Issue: Does the Subcommittee want to adopt or modify the budget request?

Subcommittee staff would recommend for the department to absorb the costs of these functions if it decides to retain existing statute. These are minor expenditures.

7. Pre-admission Screening for Non-Medi-Cal Nursing Facility Residents

Background and Proposed Finance Letter: The federal Omnibus Budget Reconciliation Act (OBRA) of 1987 included reforms pertaining to nursing homes and long-term care facilities. Among other things, it requires the state to conduct initial Preadmission Screening and Resident Review (PASRR) mental retardation screening on all nursing facility residents.

In 1993 the DHS, as the sole Medicaid state agency, submitted a State Plan Amendment which required only Medi-Cal recipients admitted to a nursing facility under go a PASRR. **However in August of 2001, the federal CMS denied this approach because it excluded non-Medi-Cal recipients.**

A Finance Letter is requesting an increase of $502,000 ($125,000 General Fund) to fund a half-time position at headquarters ($35,00 total), positions at the Regional Centers, and contract costs to conduct various activities associated with the PASRR requirements for non-Medi-recipients.

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following question.

- 1. Please provide **a brief summary** of the proposal.

Budget Issue: Does the Subcommittee **want to approve the request?**

(This completes the discussion regarding Community Services)

Senate Budget & Fiscal Review

Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

Thursday April 11, 2002
Upon Conclusion of Senate Floor Session
Room 4203

Agenda

TABLE OF CONTENTS

Department of Social Services-Child Welfare and Foster Care

CONSENT AGENDA

4140 Office of Statewide Health Planning and Development

Geographic Information System

The budget proposes $749,000 to implement an enterprise Geographic Information System to improve the effectiveness of OSPHD programs. The project has been submitted in a Feasibility Study Report (FSR) to the control agencies. OSHPD believes that the Geographic Information System can provide the mechanism for OSHPD to analyze complex information pertaining to California's health care environment, identifying need, modeling the impact of proposed policies, programs and allocation of resources, and assess outcomes. The funds for this project are special funds, from the Health Data and Planning Fund, Health Facility Construction Loan Insurance Fund and the Hospital Building Fund.

Healthcare Quality and Cost Analysis

The budget proposes a net increase of $863,000 Special Funds to implement SB 680, Figueroa, 2001, relating to reporting on health procedure outcomes. The bill revised OSHPD's current outcomes reporting requirements by adding the following:

- Publish an annual risk-adjusted coronary artery bypass graft outcomes report;
- Require OSHPD to report bypass graft outcomes by surgeon as well as by hospital by 2004;
- Require the establishment of Clinical Panels to review and approve newly developed, surgeon-level, risk-adjusted models;
- Establish an appeal process for surgeons concerning a report's conclusions;
- Establish the authority for OSHPD to produce physician-level outcomes reports for other conditions and procedures;
- Require the distribution of outcomes reports in a user-friendly format.

OSHPD proposes to accomplish these new tasks using redirected staff and contract assistance. The necessary funds can be provided within current appropriations in the California Health Data and Planning Fund, an assessment fund of hospital operating expenses.

The new tasks are in addition to requirements that OSHPD make available risk adjusted reports on hospital quality. OSHPD has proceed a series of reports on Acute Myocardial Infarction, and is developing other condition reports.

No questions have been raised about this proposal.

Administrative Costs

The budget includes $250,000 in one-time special funds to provide security training for the OSHPD Information Security Officer, and consultant services to assist the officer to conduct annual risk assessments and systems audits of OSHPD's information security infrastructure, review and update OSHPD security policies and procedures, refresh and conduct employee awareness training, and investigate security incidents. The total cost of this project is $345,000, with $95,000 coming from redirection. Funds are provided from various special funds, principally from the Health Data and Planning Fund.

No questions have been raised about this proposal.

4700 Community Services And Development Department

Federal Energy Programs

The budget provides for virtually level funding for federal low-income energy programs. The low-income funds actually available to California were augmented last year by federal emergency funds, which are expended on a calendar year basis, and will be reflected in the May revision to the budget. Preliminarily, the Department believes that the LIHEAP funds will increase nearly 22% next year, and the Department of Energy by 50.3%. A chart showing preliminary estimates of the increase for LIHEAP sub-programs is attached. These increases will be reflected in the May Revision.

No questions have been raised about this budget.

5180 Department Of Social Services—Community Care Licensing

Technical Support Program Early Intervention Staff Positions

The Legislature in the past approved 6 limited term positions to provide training and consultation to newly licensed residential care facility operators within their first 90 days of licensure. These positions expire June 2002. The Department is seeking funding and authority to extend the six positions for a two-year term.

CCL has issued a 2001 Performance Measure Study of the New Care Provider Workshops provided by these limited term positions. The analysis found that deficiencies cited for facilities that did not participate were 2.2 times greater than for those that attended. The citations for the most serious violations, that pose an immediate risk to the health and safety, were 2.6 times greater for those that did not attend. Similarly, the number of less serious violations, those that pose a potential risk, were greater, as were the total amount of civil penalty assessments issued to facilities that declined to attend the technical assistance workshop.

This budget augmentation is for $423,000, and entirely supported by the Technical Assistance Fund; the proposal includes an extension of six limited term positions. In addition, the budget anticipates a transfer of $991,000 from the fund balance of the Technical Assistance Fund to the General Fund. With these two actions, the Department expects the funds revenues to precisely meet expenditures. The Technical Assistance Fund is supported through the annual fees community care licensees must pay to obtain and retain a license. A portion of funds from ongoing collections go into the General Fund; the balance is used to support the Technical Support Program

No issues have been raised about this budget proposal.

<u>Los Angeles County Child Care Development Grant/Loan Program</u>
As part of its effort to meet CalWORKs requirements, Los Angeles County has identified by zip code areas where CalWORKs clients live and where unmet child care needs constitute a barrier to employment. LA County developed the Child Care Development Grant/Loan program to facilitate the development of family day care services in these high-need areas. LA County contracts with CCL to perform pre-licensing consultations for existing, new and prospective child care providers, to assure that applicants meet requirements and are able to complete the licensing process.

The budget proposes continued reimbursement authority for the total cost of 10.0 staff and associated expenses necessary to operate the project. Los Angeles County will provide the reimbursement to CCL. The reimbursement authority is for $845,000.

No questions have been raised about this budget item.

<u>County Licensing</u>
Currently, some counties license some community care facilities under contract with the state. **The budget proposes an increase of $85,000 ($81,000 General Fund), and 1.5 positions, to provide licensing services for Foster Family Homes and Family Day Care Homes in Siskiyou and Yolo Counties**, who have notified DSS they are transferring responsibility for licensing back to the state. There will be a corresponding decrease in DSS local assistance for county-administered community care licensing, to be made in the May Revision.

No questions have been raised about this budget item.

<u>Family Child Care Serious Incident Reporting</u>
Legislation signed in 2001 (AB 685, Wayne) requires family child care homes to report whenever a child in their care has suffered an injury or been subjected to an act of violence while under care, to the parent or guardian and to CCL. An immediate telephone or fax report is required before the end of the next working day following the occurrence, with a written report to follow within 7 days.

CCL is requesting 6 permanent positions to comply with this new law, and a .5 limited term analyst position to develop regulations, a format for reporting and a system for tracking and reporting data.

The budget proposes to add $550,000 in special funds for this purpose. The funds are from the Child Health Safety Fund, a depository for fee revenue for special interest license plates (such as "Have A Heart") and for civil penalties imposed on family day care homes.

No questions have been raised about this budget item.

Foster Family Agencies/Certified Family Home Complaints
The Budget Act of 2000 required DSS to report no later than June 30, 2001, regarding complaint investigations of Foster Family Agencies (FFAs) and the homes certified by them. From 1984 to 1998, complaints against certified family homes were investigated by the FFAs that certified them. SB 933 in 1998 required that the state investigate complaints against certified family homes.

The Department reports that during calendar year 2000, there were 12,124 certified homes. CCL received 2,546 complaints, containing 4,208 allegations against certified homes. The majority of these were less serious allegations. Approximately 9% were for priority I (sexual abuse, bodily injury, death or serious neglect); 20% were for priority II (inappropriate sexual behavior, physical abuse, or actions by the foster parent that result in felony offenses). The balance were for less serious allegations. 85% of all the allegations had been closed by the time of the report. Overall, about 36% of all allegations for which the investigation is complete were substantiated (the remainder were inconclusive or determined to be unfounded).

The Department finds that there is a higher rate of complaints for FFAs than for Foster Family Homes (15% compared to 6%). However, they also note that FFA homes are visited by the FFA more frequently than Foster Family Homes are by licensing workers. The CCL data base does not currently maintain information on the source of complaints. However, district offices indicate that the single largest source of complaints for the certified homes is from the FFAs themselves. This may account for the higher rate of complaints.

The Department found that some FFAs were not meeting their statutory and regulatory requirements regarding certified homes. As a result of investigations, CCL decertified 146 homes in 2000. An additional 143 received an 'exclusion action', where a friend or adult child of the foster parent cannot be present in the home. 61 actions resulted in a license revocation, stipulation or probation. As a result of the study, CCL has taken actions to clarify investigation protocols, coordinate with counties, and develop training for FFA and CCL staff.

This item is information only, reporting on the budget act language. The general issue of the role of FFAs in the foster care system is discussed under DSS-Children's Services.

5180 Department Of Social Services

Operations Reductions

The Department has proposed reductions in operations expenses of $4.7 million ($2.8 million General Fund). The reductions include:

- Modifying the requirements for licensing school age child care facilities (abolishing 9.5 positions, for a savings of $542,000 General Fund): requires Trailer Bill language: **Discussed under DSS-Community Care Licensing**
- Reducing annual audit requirements for foster care programs (abolishing 2.5 positions): **requires Trailer Bill language**;
- Shifting appropriate activities in the Technical Support Program from General Fund to a special Technical Assistance Fund. The Technical Support Program provides improved communication between residential care providers and the licensing activities;
- Reducing operating expenses and equipment expenditures;
- Reducing budgeted overtime;
- Reducing CalWORKs state operations.

No issues have been raised about these reductions. The subcommittee will adopt the proposed reductions, considering the school-age child care issue elsewhere, under Community Care Facilities.

Adoption Assistance Program

The Adoption Assistance Program (AAP) provides financial support to families adopting a child with special needs. These needs can include a mental, physical, medical or emotional handicap; race, color or language barriers to adoption; age of over three years; member of a sibling group; or adverse parental background, such as drug addiction or mental illness. The AAP payment shall not exceed the age-related foster family home care rate for which the child would otherwise be eligible, and the child shall have been otherwise eligible to receive aid under the Foster Care Program.

The budget provides an increase of $64.0 million total funds for grant payments ($29.9 General Funds). The estimate is that the caseload will be 54,649 in the budget year, a 13.9% increase over current year. No COLA is provided for this program. The caseload of this program has increased more than 15% each of the last three years.

No issues have been raised about this adjustment.

Kinship Guardianship Assistance Program (KinGAP)
The KinGAP program provides stable, guardian placement for children in foster care, when placed with relatives and the placements are the permanent plan for the child. With the development of the guardianship, the court dependency can be dismissed, and there is no need for continued case supervision by the court or the local social services department. The guardian receives a monthly payment at the basic foster care rate. Eligible children are those who have been living with a relative for at least twelve months. **The budget estimates an average monthly caseload of 15,309 children.** This constitutes a continual growth rate of 3% per month through the budget year. This growth represents savings in case supervision costs to the state, and improved permanency and stability for children.

The budget for the KinGAP program is estimated to grow by a total of $30.7 million all funds ($4.6 million General Fund). The growth is associated with caseload growth; no COLA is provided for this program in the budget year. The total budget is anticipated to be $99.3 million, federal, state and county funds (not including offsets for savings in CalWORKs and Foster Care).

No issues have been raised about this budget

Promoting Safe and Stable Families
The federal government provides a specific program of child welfare services, to provide community based, family centered services that focus on supporting and preserving families, protecting children and preventing child abuse and neglect.

The budget shows a modest increase of $1 million, for a total of $42 million in the budget year. The required match is provided through the existing state Family Preservation Program.

No issues have been raised about this budget.

Child Welfare Services
The Department and county welfare departments provide a system of child welfare services, the primary intervention program for abused, neglected and exploited children in California. The services are designed to prevent, remedy and help solve problems that cause the abuse, neglect or exploitation of children. In addition, they prevent the unnecessary separation of children from their families, arrange to restore children to homes from which they have been removed, and identify children who should be temporarily or permanently removed from their homes. The system includes Emergency Response, Family Maintenance, Family Reunification and Permanent Placement services.

The basic costs for these services are proposed to be $949.9 million, including federal, state and county costs ($387.8 million General Fund). **The budget fully funds caseload and provides $16.7 million ($15.1 million General Fund) for a cost-of-doing business**

adjustment for local child welfare services. The budget provides no similar cost of doing business adjustment for IHSS, Food Stamps or CalWORKs.

No questions have been raised about this budget.

Oversight of County Child Welfare Services

The state Auditor General conducted an audit in 1998, with a follow-up in 2000, of the extent to which the Department conducts compliance reviews of county Child Welfare Services (CWS). In the follow-up report, the Auditor found that the state had made progress in providing oversight, but still needed to improve its oversight. Specifically, the Auditor found:

- The department conducts compliance reviews as required, but does not always require prompt corrective action plans.
- The department has required corrective action plans for emergency response programs, but had not completed protocols for reviewing county administrative practices.
- The department was finalizing at the time of the audit a procedure to document all child deaths related to suspected maltreatment.
- The department has undertaken a pilot project to improve decision-making of child welfare workers, but has not conducted an outcome evaluation of the pilot.

In addition to the audit, the federal government has initiated a national review of child welfare practices, using outcome measures rather than historic process measures. Early reviews from other states have found that virtually every state has failed the monitoring review. The state anticipates that California will have deficiencies identified as well. The state conducted a self-review in 2001; the federal monitoring will occur in fall, 2002.

The Legislative Analyst has reviewed the federal review process, and sampled information about the likelihood that California will pass the federal review, using 1998 information. (The fall, 2002, review will use 2000 information, so that the state may perform differently). The Analyst found that the state met or exceeded the federal standard on only one of five measures, and performed close to the standard on an additional measure. Other large states performed on a par with California.

The Department has submitted a budget proposal to continue and establish as permanent 4 positions previously established as limited term, for providing statewide oversight of county CWS, and to monitor county CWS agencies and county Probation Departments (who also place young people in foster placements). **The costs will be $374,000 ($221,000 General Fund)**. The positions will provide the Department with the continued ability to conduct compliance reviews; to provide feedback to counties concerning the reviews; to monitor the completion of corrective action reports, and other monitoring and compliance activities. The activities comply with federal requirements related to child welfare funding; state statutory requirements, including specific statute requiring the monitoring of probation department placing activities; and a stipulated agreement in a lawsuit against the state for failure to monitor county child welfare agencies. The Department anticipates that results of federal and county self-assessment data will be available by summer.

No issues have been raised about the proposal to make these positions permanent. The subcommittee has requested that the Department provide a briefing of legislators and other stakeholders when the results of the fall, 2002, federal review are available.

Child Abuse Prevention, Intervention and Treatment Program (CAPIT)

The CAPIT program provides funds for contracts with community based public and private agencies to provide services to high risk children and their families, for prevention and intervention services for children at risk of abuse and neglect. Funds are provided through county allocations. In addition there is a $1 million amount for innovative services contracts issued on a competitive bid process; and a small amount for training and technical services to
support the state administration of the program and to provide for regional training on various child abuse issues. **Funding for the budget year is $13.4 million General Fund, the same as the current year.**

Historically, funds have been distributed with a fixed amount to small counties, and the balance using a formula that considers a county's share of children under the age of 18, children receiving public assistance, and child abuse reports. DSS has developed a new allocation formula, using input and comment from local agencies. The new formula will update the allocation every three years.

No questions have been raised about this budget.

4140 OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies and programs to support the development of health care delivery systems that meet the needs of Californians. OSHPD operates through four major programs: 1) health policy development and analysis, including health care demonstration projects; 2) health professions development; 3) facility/hospital development, including Cal-Mortgage Loan Insurance; and 4) health care information. **The proposed budget is $55.5 million, a reduction of $4.8 over current year funding. The reduction is primarily in the limited General Fund portion of the budget.**

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$9,476	$5,147	($4,329)	-45.7
Federal Trust Fund	1,498	1,498		
Special Funds	44,748	44,868	120	0.3
Reimbursements	4,614	4,035	(579)	-12.5
Total	$60,336	$55,548	($4,788)	-7.9

DISCUSSION AGENDA

<u>Rural Health Care</u>

The current year budget includes $3 million General Fund for **capital outlay for rural health** systems. **These funds are not continued in the budget year**. Funds for this program in the past have been used for facilities improvements, data and management information systems; patient care equipment; patient transportation; emergency services; and health personnel training and continuing education, including telemedicine equipment.

Current year budget includes $1 million Proposition 99 funds for small grants to rural health systems to pay for uncompensated health care services. Grants are typically targeted by service area (mental health treatment, dental services, treatment for diabetes, perinatal care, and similar programs) or by target group (preschoolers, non-English-speaking residents, the elderly and similar groups. **This funding is maintained in the budget year at $1 million.**

The Governor's budget as introduced also eliminated funding for rhe Rural Health Demonstration Projects funded under the Health Families Program. These programs, enacted into law in 1997, are also vital projects and have been used to develop and enhance existing health care delivery networks for special populations and to address geographic access barriers**.** For the past three fiscal years, the annual appropriation has been $6 million ($ 2 million General Fund and $4 million federal Title XXI funds), with funding equally split between the two areas—special populations, and geographic access.

Funding for the **special populations projects** is made available to projects located in rural and urban communities that have high concentrations of migrant and seasonal farm workers, and workers in the fishing and forestry industry and American Indians.

Funding for **geographic access projects** is made available to projects located in Rural Medical Services Study Areas (area with a population density of less than 250 persons per square mile and with less than 50,000 people within the area).

The subcommittee placed the Healthy Family Rural Demonstration Projects on its Priority to Fund list, requiring a restoration of $2 million General Fund and $4 million federal funds.

The Office will provide the following information:

- **Does OSHPD have information about the fiscal and programmatic stability of rural health systems?**
- **Does OSHPD have information about the potential combined impact of removing both the Rural Capital Outlay funds and Rural Demonstration Funds at the same time?**

The subcommittee will consider whether to adopt the Governor's reduction of capital outlay funding.

Healthcare Workforce Development

The current year budget included extensive language requiring a preliminary assessment of strategy for development of the capacity to analyze California's healthcare workforce. The assessment would have identified state health professions needs and legal and regulatory requirements to meeting those needs. The structure of the workforce assessment was intended to become a template for assessing wider workforce needs in California. The report was developed as a result of bipartisan discussions in this subcommittee. **The report was due September 1, 2001, and has not yet been received.**

The budget proposes to take General Fund reductions of by **reducing operating expenses and equipment for the Health Professions Career Opportunity Program (HPCOP) and Song Brown programs by $37,000**.

The HPCOP program provides recruitment and mentoring services to undergraduate health profession students from shortage area backgrounds. **The reductions to HPCOP propose to reduce the grants provided to assist academic institutions to encourage and train individuals for a career in health care by $42,000** (leaving $142,000 and reducing the grants from 14 to 8). The reductions will also **eliminate "Health Pathways", a publication for high school students and graduates, counselors and healthcare career recruiters, for a savings of $45,000**.

The Song-Brown Family Physician Training Program provides funding to institutions for training slots for family physicians, nurse practitioners, and physician assistants. **The budget proposes to reduce the Song Brown Program by $804,000**, by eliminating the special program grants. The number of training slots for family practice physicians, primary care physician assistants and nurse practitioners will not be affected by this reduction. It reduces instead the support institutions receive for discretionary items such as curriculum development, expansion of clinical training sites, and offering a fourth year rotation on Obstetrics or Psychiatry.

New legislation in 2001 (AB 548) requires OSHPD to establish a program in which funds are provided to defray costs related to the provision of care provided by specialty care providers in underserved areas. **The proposed budget requests Budget Act Language for authority to authorize expenditures for fund raising activities up to $200,000 through a non-profit corporation.** This would permit OSHPD to contract with an entity that will carry out fund-raising activities for donations placed in the Specialty Care Fund. A copy of the Budget Bill Language is attached.

The budget proposes to delete one position and decrease expenditure authority from the Health Facilities Construction Loan Insurance Fund, for a savings of $53,000 in special funds.

- **OSHPD should provide the subcommittee with information about when the September 1, 2001, report will be received.**

The subcommittee will determine whether to adopt the proposed budget reductions to healthcare workforce programs.

<u>Nursing Workforce Initiative</u>

The Governor this winter announced a three-year, $60 million project to address the nursing shortage in California. The initiative has provisions that will expand nurse training and retention and streamline the nurse licensing process. The proposal includes funding to support an evaluation of the components of the initiative, identify the most effective strategies to build the health workforce and health delivery system. A copy of an outline of the initiative is attached.

OSHPD operates a Health Professions Education Foundation. This non-profit public benefit corporation provides financial assistance to economically disadvantaged students and graduates. The Foundation administers the Registered Nurse Education Fund, funded by a surcharge assessed on Registered Nurse license renewals. The fund is used for scholarship and loan repayment funds. Base funding for the Registered Nurse Education Fund in 02-03 is $737,000. **The budget proposes to increase spending for these scholarship and loan programs by $508,000 each of the next three years, with $441,000 to fund nurse scholarships and loan repayments and $67,000 to fund administration of the program.**

The Foundation also operates the Health Professions Education Program. This program is supported entirely through philanthropic contributions from hospitals, health plans, foundations, corporations and individuals. It provides scholarship support and loan repayment programs for a wide variety of health professions. The base funding in the 2002-03 budget is $930,000. **The budget further proposes to augment the Health Professions Education Fund by $500,000 for scholarship and loan repayments and $115,000 for administration, to reflect a grant from the California Endowment of $1.8 million over the next three years.**

The subcommittee will consider whether to adopt these augmentations.

<u>Hospital Seismic Retrofitting</u>
California law requires hospitals to evaluate their facilities, develop plans to meet seismic standards, and ensure that their buildings are seismically sound by specified deadlines. The law was strengthened in 1994 after the Northridge earthquake. General acute care hospitals were required by law to evaluate and rate their hospital buildings by January 1, 2001., according to how the facility would perform in a strong earthquake.

Based on the first ranking, four in ten buildings pose a significant risk of collapse in a strong earthquake and must be retrofitted, replaced or removed from service by 2008. Nearly half the buildings in the state will need to be upgraded to meet standards required by 2030. Hospitals have claimed it will cost as much as $24 billion to make the repairs required. A summary of hospital building seismic performance ratings is attached.

OSHPD administers the regulations pertaining to this deadline. The regulations provide for a deadline extension of up to five years for hospitals that provide information showing that compliance with the 2008 deadline will result in diminished health care capacity in their area.
Advocates have raised questions about whether the public notice provision of the process of requesting and granting extensions is adequate.

OSHPD will report on how many extensions have been requested, and how many granted.

4700 COMMUNITY SERVICES AND DEVELOPMENT DEPARTMENT

The Community Services and Development Department administers programs that include (Low Income Home Energy Assistance Program (LIHEAP) and California LIHEAP; (Department of Energy Assistance Program (WAP); and (3) federal Community Services Block Grant. The department also verifies eligibility of applicants for the California Alternative Rates for Energy Program offered by utility companies, administers the Lead-Based Paint Abatement and Prevention Program, and administers a statewide Naturalization Services program administered by community based organizations. The Department also participates in the multi-department California Mentor Program to assist at-risk youths to become productive members of society by recruiting, training and placing mentors with these young people. **The budget proposed a reduction of $51 million, principally related to a proposed reduction in General Fund expenditures for the California LIHEAP program.**

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$47,326	$2,989	($44,337)	-93.7
Petroleum Violation Escrow Account	4,857	0	($4,857)	-100.0
Federal Trust Fund	121,464	121,418	($46)	0.0
Reimbursements	5,987	4,231	($1,756)	-29.3
Energy Programs	[123,363]	[72,267]		
Community Services	[54,282]	[54,282]		
Naturalization Services	[1,989]	[1,989]		
Total	$179,634	$128,638	($50,996)	-28.4

DISCUSSION AGENDA

State Energy Programs

The current year budget included $5 million in **Petroleum Violation Escrow Account** funds to provide energy assistance to low income households, by augmenting the state and federal energy programs. **These funds are not renewed**.

The state developed a California Low Income Home Energy Assistance Program (CaLIHEAP) last year, to assist low-income, elderly, and disabled households to address the energy crisis through one-time energy payments and emergency crisis intervention payments, and to assist low income families in conservation efforts through weatherization and other assistance that would allow them to conserve energy and keep energy bills reasonable. The legislation (Chapter 7, Statutes of 2001) appropriated $120 million last year.

The CaLIHEAP program serves a slightly wider range of low income households than the federal program (up to 250% of poverty). The program provided local agency flexibility to design the energy payment and crisis intervention program to actually meet the needs of local households. And finally, a greater proportion of the funds were designated for conservation, including weatherization and measures to reduce the electric base load. This last provision included refrigerator replacement, electric water heater repair or replacement, microwave oven replacement or installation, and distribution of compact fluorescent lamps.

The Governor's budget proposed to revert $53.7 million of these funds to the General Fund in the current year, to address the state's budget difficulties. The legislation that enacted current year cuts reduced this reversion, so that **a total of $23.7 was reverted in the current year**. Moreover the $30 million that was retained in the CaLIHEAP budget was directed to household payments (not conservation), and required to be spent by the end of the current year. **The budget proposes no new funding for this program in the budget year.**

CSD and community agencies acted promptly to initiate the program and deliver services during the summer period. Funds were released by June 1. By January 1, $62.7 million had been allocated and $56.4 million had been disbursed. Local agencies engaged in outreach and assistance to identify vulnerable population groups, conducted client intake and assessment, and provided all recipients of energy assistance with energy conservation education information and budget counseling, in addition to providing the three types of assistance, payments, emergency intervention and conservation.

The legislation further required that the Department provide information to the Legislature on the impact of the new program on energy demand in California. An extensive data gathering procedure was put into place in the program, and CSD estimated savings using models developed by California investor-owned utilities and the California Energy Commission. **The Department issued a report in March that analyzed the impact on energy demand for the period June through October, 2001.**

A total of 57,116 low income households were assisted. More than 18,169 dwellings have been weatherized. **From June 1-October 31, 2001, the weatherization services yielded energy savings of 3.7 million kilowatt hours, in the five-month period covered by the report.** This level of savings is sufficient to provide power to approximately 750 homes for an entire year. It is worth noting that these savings cover the start-up period for the program, and information from only 32 of the 45 community agencies funded under CaLIHEAP. All agencies ultimately submitted information. **It seems fair to assume that the CaLIHEAP program saved energy sufficient to power at least 2500 homes; and that those savings will continue in future years, since they are based on weatherization changes to homes.** The evaluation information from this project were not included in the California Energy Commission's February Report on California's conservation effort.

Of the households served, 71,081 persons were served that fell into the 'vulnerable population' category: elderly, disabled, limited English speaking, migrant or seasonable households, or children under five. **Comparing these figures to the population as a whole, it appears that the program served fewer elderly and migrant and seasonal households than the population data would indicate need the service**. On the other hand, children and the disabled were served more proportionately to their numbers. CSD has used some discretionary funds to provide special services to the migrant and seasonal population. The comparisons made in the report of data gathering did not include any impact from these special discretionary funds.

In 1996, California received a Residential Energy Assistance Challenge Option (REACH) pilot grant; funds from the LIHEAP program designed to test various approaches to help low income families reduce their energy usage and become more self-sufficient in meeting their home energy needs. THE GAO reviewed project evaluation reports for California and five other states that had completed evaluations, assessing whether participant households reduced energy costs, increased the regularity of home energy bill payments, and energy suppliers' contributions to reduce household energy burdens were increased.

The GAO found that five of the six evaluations, including California's, were insufficient to allow statistically valid conclusions about the project goals. In fact, California's evaluation that that there was no statistically significant reduction in the use or cost of energy among the test groups. Data were insufficient to determine whether the project increased the regularity of utility bill payments. Participant knowledge of energy conservation measures increased slightly. The GAO found that data collection was irregular, and did not include some elements (such as the regularity of the payment of utility bills). The energy use data was not adjusted for changes in the weather. Finally, there was no control group. The evaluation flaws were addressed in the design of the CaLIHEAP report.

The subcommittee will consider whether to request that the Energy Commission include this program in their reporting.

Naturalization Services

The Naturalization Program provides services to assist legal permanent residents to obtain citizenship. Services provided include Outreach, Skills Assessment, Citizenship Preparation and Assistance, and Advocacy/Follow-Up services.

The initial funding for this General Fund program was provided in the 1998-99 Budget Act in the amount of $2 million. The program grew to $7 million in 2000-01. The current year budget was originally $6.5 million (reduced from $7 million by a Governor's veto). The Governor's budget proposed a reversion of $4.5 million in January; the final action restored $2.9 million of this in one-time funds. **The budget for 2002-03 is proposed to be $2 million.** A chart showing funding amounts and clients served is attached.

The Department of Education has, in addition, federal funding for English as a Second Language (ESL) and ESL-Citizenship programs. Historically, the Department of Education has not been able to fully expend the funding for ESL-Citizenship; frequently the funding for ESL-Citizenship has been redirected to basic Adult Education ESL programs.

- **The Department will report on the cost per individual served, and the outcomes from this program.**

<u>**Community Services Block Grant**</u>

The Community Services Block Grant Program (CSBG) provides funding to assist low-income families with the following tasks:

- To obtain education and job training
- To secure employment and housing
- To solve problems that prevent stable family living and economic independence
- To better manage available income
- To meet nutritional and health care needs
- To raise healthy children
- To achieve greater participation in community affairs.

The program is entirely federally funded, although most of the public and private agencies (Community Action Agencies) which provide CSBG services also provide LIHEAP, Head Start, Food and Nutrition, Adult Education, Foster Grandparent and other Aging Services, Community Development Block Grant, and other services designed to meet the need of low income families.

California's expenditure of CSBG funds is driven by federal requirements and state law. Funds are distributed according to the following formula:

Discretionary funds	5%
Migrant and seasonal farm workers	10%
Native American Indian programs	3.9%
Community action agencies and rural community services	76.1%

Local agencies may spend up to 12% of total funds for administrative expenditures. And, since 1987, the community action agency funding has been funded according to a statutory formula that guarantees that each agencies receives a minimum of $160,000, with the balance of the funding being distributed according to the low income population in the service area.

The budget proposes that California will receive $50.5 million in federal CSBG funds, the same as the current year. The federal budget for the current year includes increased funds for CSBG, that will result in an augmentation for California in the current year of $4.5 million, an increase of 8.47%.

Last year's joint Assembly/Senate policy committee hearing on the State CSBG Plan California is required to provide annually heard considerable testimony concerning the effect on small and rural agencies of no increase in funds for more than 15 years, despite increases in the general level of funding for CSBG. The co-chairs of that policy committee hearing directed the community action community to discuss a potential solution with broad based support to equitably resolve the dispute over allocations, and avoid lawsuits or other contentious actions.

In December, the Committee was notified that the state association of community action agencies has developed a proposed solution, with support from a substantial majority of the affected community action agencies. The solution would provide for an increase for the smallest agencies from their current share of .004% of total funds to .006% of total funds, as long as the increase could be accomplished with no reduction in absolute funds, by using new funds and phasing in over three years, if required. Because of the new federal funding amount, it appears that the minimum could be raised consistent with the association's proposal, in a single action, with no effect on other agencies' current level of funding.

The Department informed the State Plan hearing last year that trailer bill would be required to accomplish any change in the current distribution of funds. The federal government has required that all eligible entities currently in good standing participate in the increase in federal funds this year. Accordingly, it appears that trailer bill language would be needed to distribute the new funds, if all eligible entities are to participate.

- **Should the subcommittee adopt a short term or long term formula for distribution of the new federal funds?**
- **Should the subcommittee consider the formula proposed by the association? Or, should the subcommittee consider a proportional distribution which gives every agency an 8.4% adjustment?**

5180 DEPARTMENT OF SOCIAL SERVICES—COMMUNITY CARE LICENSING

The Department of Social Services Community Care Licensing (CCL) establishes standards for, and oversees, eighteen types of community facilities that provide care and supervision to Californians. These facilities include adoption agencies, foster care homes and agencies, child care homes and centers and residential care for disabled and elderly adults. In addition, 43 counties license foster homes under contract with DSS and 9 counties license family child care homes under similar contracts. The state monitors approximately 84,000 homes and facilities, with a capacity to serve 1.35 million individuals.

CCL delivers provider orientation; applicant screening; health and safety, staffing and financial regulations; and pre-licensing facility visits to applicants and potential applicants for community care licenses. CCL visits licensed facilities regularly, responds to complaints, and exercises a variety of enforcement actions, including consultation, fines and penalties, and license suspension or revocation. In recent years, the Legislature has added a TrustLine system, which conducts background checks on child care providers and babysitters that are not required to be licensed, to inform parents or other payers about criminal records or prior allegations of child abuse. In addition, the Division provides various information, training, and other capacity building services to provide more quality child care; provides training and technical support to small residential providers such as foster parents; provides financial oversight of residential communities that provide long-term continuing care contracts to residents; and supervises a certification program for administrators of residential care facilities.

The budget proposes $104.9 million ($44.9 million General Fund) for this function in the budget year, a reduction of 1.3%.

DISCUSSION AGENDA

Caseload Growth

The budget proposes to augment CCL by 33.5 positions for district and regional offices and support bureaus. These include 16.0 new, full time positions, converting to permanent 17 expiring limited term positions, and adding 0.5 limited term staff counsel.

CCL provides estimates of growth in licensed facilities to support the request. These include such budget year changes as a 3.2% increase in family day care centers, 2.9% increase in child care centers, declines in foster family homes and group homes and increases in foster family agencies, and small increases in adult residential and day facilities.

The cost of this proposal is $2.6 million ($2.4 million General Fund). This augmentation is $600,000 less than originally proposed in the January budget, reflecting correction of an error in computing justified position costs, identified by the LAO. None of the augmentation is associated with the Governor's child care reform.

- **The Department will provide summarize trends in increases and decreases that lead to this request.**

School Age Child Care Licensing
Current law requires that some school-age child care centers be licensed. Those facilities that are operated on school sites, by school staff, and primarily serve children who attend the school are exempted from licensure. The budget proposes to exempt all school-age child care facilities from licensure, but continue to require that such facilities be subject to a criminal record clearance and child abuse registry check.. The Department will also continue to visit school-age child care centers, once every three years rather than annually. The proposal does not change the existing status of family day care homes.

The budget, as proposed in January and modified by a Spring Finance Letter, proposes to reduce the budget by $542,000 General Fund, and eliminate 9.5 positions; and to adopt Trailer Bill Language to accomplish the reduction. The budget retains sufficient positions to increase criminal background checks, to increase serious incident reporting, and to assure that staff can pursue the site visits.

- **The Department will review the provisions of its proposal**

The subcommittee will determine whether to adopt the Governor's budget.

5180 DEPARTMENT OF SOCIAL SERVICES-Child Welfare And Foster Care

DISCUSSION AGENDA

Adoptions and Guardianship Services

Adoptions Initiative
Legislation passed in 1996 created a three-year program to maximize adoption opportunities for children in public foster care and reduce the foster care population. Counties were funded through performance agreements that increased the number of adoption social workers in an effort to double the number of statewide adoptive placements. As a result of the Adoptions Initiative, the annual number of foster children who were placed in an adoptive home increased from 3,000 to 7,500. In the final report of the Initiative in May, 2001, the Department reported that the Initiative had improved

by 77% the chances that foster children who cannot return home are placed for adoption; and resulted in additional performance above the baseline adoptions activity: freed 16,200 children for adoption; placed 14,300 children for adoption, and completed 10,500 adoptions. Social worker efficiency (adoptive placements per social worker) was improved, and adoption practice has shifted to a focus on concurrent services planning, kin adoption, and the use of more uniform and comprehensive assessments of applicant families

Once the goals of the Initiative were reached, funding for adoptions are now included in the General Adoptions Program budget. Counties are funded based on anticipated adoptions, and funds sufficient to sustain the increased level of adoptions are provided in the budget. However, performance contracts are no longer required.

The budget required that the Department compile a supplemental report, making available through the budget process county-by-county information on the number of final adoption placements, and the number of guardianships, from 1997-98 through 2000-01. The information should include whether the adoption case backlog addressed in the 2000-01 budget year has recurred. In addition, the report should enable the subcommittee to determine whether the goals of the Adoptions Initiative have been sustained.

The budget proposes a reduction of $12.8 million ($7.3 million General Fund) due to a redirection of federal adoption incentives to programs currently supported by the General Fund. This is a direct reduction in adoption services of $5.5 million.

- **The Department will report on adoption placements, to determine whether the rate of final adoption placements, including guardianships, has been sustained, and will continue to be sustained if the funds are cut.**

The subcommittee will determine whether to adopt the Governor's reduction.

<u>Child Welfare Services</u>

Reexamination of the Role of Group Care

Legislation in 1998 (SB 933, Chapter 311, Thompson) required that the Department reexamine the role of out-of-home placement currently available for children served by the child welfare system. The bill required that the department collaborate with public and private organizations to examine this question. The department issued the final report of this process in July, 2001.

The report found that the group care system in California must be largely redesigned. The report identified recommendations that included such items as the following:

- Development of specific categories of group homes, program models and essential service elements, and preparing for a transition process to the new models;

- Development of a statewide independent accreditation process for group care providers, including the establishment of benchmarks as indicators to measure quality;
- Address zoning issues at the local level;
- Consider linking funding and licensing to outcomes;
- Develop criteria for determining when group care is appropriate for children;
- Identify a single contact person for child and family;
- Develop specific parameters for improving educational services to foster children.

Most of the recommendations are restatements of the problem statement that led to the legislative mandate to create a workgroup. The workgroup is not close to developing a new categorization of group homes, an accreditation process, or a new rate structure.

This item is primarily informational. The Department will be available for questions as to why no progress has been made.

Child Welfare Services Stakeholders
In 2000, the Administration established the Child Welfare Stakeholders Group. The charge to this group is to examine California's child welfare services programs, processes and outcomes, recommending changes necessary to achieve goals. The department issued a progress report in June, 2001, outlining the activities of the Stakeholders Group. This Group found that new service approaches are needed, in the context of dramatic and pervasive change to the system. The report identifies the values of a redesigned system, and practice concepts that will support change to the system. These include such proposals as emphasizing investments in prevention and early intervention, varying responses to meet the needs of the child and family, coordinating the responses of public and private agencies, and using available funds flexibly.

The Department anticipates a final set of recommendations by August, 2002. Development of specific plans for implementation will take another year.

This item is primarily informational.

<u>Foster Care</u>

Transitional Housing and Emancipation
Legislation in 2001 created two new programs for emancipating foster youth up to age 21 who are participating in work or training for independent living. Legislation created the Transitional Housing Program (AB 427, chapter 125, Hertzberg) and provided $10 million for a three-year period to support supervised independent living arrangements that prepare young people in foster care to live on their own. The legislation expanded an existing program that provided support for foster youth 17-18 years; the program now can serve young people from 16 to 21 years. The additional funding allowed additional counties to participate in the program, by raising the rate of support to 75% of the

average group home rate in the counties. Funds include federal, state and county funds. The budget recaptured $4.8 million of those funds, based on estimates of what can actually be spent in the current and budget years. The budget presumes that the remaining $4.8 million will be budgeted in 2003-04.

The Supportive Transitional Emancipation Program (STEP - AB 427) provides cash assistance to eligible former foster youth. The budget proposes $3.7 million ($1.5 General Fund) for the program in the current year; and **$33.5 million ($13.4 million General Fund) in the budget year**. Total funds include county funds at the 60% county, 40% state ratio of foster care. County participation is voluntary.

The LAO has reviewed the budget estimates for the STEP based on the timeline of state and county program startup and a more conservative estimate of participation by eligible foster youth leaving foster care at 18 who will choose to participate in the STEP program. **The LAO estimates that $1.1 million General Fund is over-budgeted in the current year, and $4.6 million over-budgeted in the budget year.** DSS confirms that no county has formally implemented STEP at this point. Seven counties have indicated a plan to implement in the current year. Three additional counties are considering the possibility, but have funding problems meeting the match.

- **The LAO will review their recommendation.**
- **The subcommittee will determine whether to capture the over-budgeted amounts.**

Caseload and Cost of Living
The Foster Care program provides support payments for children placed in out-of-home care. The program is administered by counties according to regulations, standards and procedures set by the state. **The caseload for the budget year is projected to be 77,134, a decrease of 0.2% over current year.** The caseload declined substantially in the last three year, largely due to a shift of some cases to the Kin-GAP program. This decline has been largely in foster homes; the Foster Family Agency and group home caseloads have remains relatively flat over the past three years.

State law provides for a COLA for foster care providers, subject to the availability of funds. **The budget proposes no COLA for foster family homes, Foster Family Agencies, or group homes.**

Providers have maintained that the state's rate structure has not kept pace with the cost of care. As indicated above, this assertion was part of the incentive to turn to a work group focused on the role of group care in the child welfare system; that work group is not likely to produce a proposed revision in the immediate future. The California Alliance of Child and Family Services have provided information documenting that reported costs continue to be 10-15% above paid rates. Failure to pay a COLA will only exacerbate this gap. The Alliance has suggested that if a COLA is not provided, the rate setting system could be made more flexible to allow group homes to attract and retain qualified staff.

They have developed a specific proposal to adjust the 'points' in the rate setting system awarded for education, experience and training of direct care staff. Their proposal also includes adding new staff into the point system to reflect the services that are required in today's child welfare system, specifically staff with training and experience treating young people with substance abuse problems, and workers with training and experience in treating young people with criminal justice backgrounds.

- **Providers will answer questions about their proposal for flexibility;**
- **The Department will discuss whether the flexibility is appropriate and warranted;**
- **The subcommittee will determine whether to provide a COLA.**
- **The subcommittee will determine whether to require more flexibility in using current rate setting mechanisms.**

Foster Family Agencies
Foster care placement can occur in any of three settings: a foster family home, a Foster Family Agency (FFA) home, or a group home. Foster Family Agencies are nonprofit agencies that recruit foster parents, certify homes for participation, and provide the homes with training and support services. Rates paid the three types of placements are variable, designed initially to meet the needs of children. Foster family homes are paid $425 to $597/month; Foster Family Agencies are paid $1589 to $1844/month; group homes are paid $1454 to $6371/month. This last amount includes both the amount paid to the family and a sum for treatment and administration paid to the agency.

Foster Family Agencies have grown substantially as a proportion of children placed: from 2% in 1988 to 36% in 2000. The Legislative Analyst has expressed some concerns about the role that FFAs play in the out-of-home care system. These include the fact that the length of stay is longer in FFAs than in non-relative foster homes. Children in FFAs are no more likely to have psychological and abuse-related problem, and less likely to have physical and medical challenges. Family backgrounds of FFA children are more stable and law abiding, compared to family backgrounds of children placed in foster homes. Finally, children in foster homes are more likely to reunify with their families or achieving other long term stability.

The Analyst has provided three options for reducing FFA placements and costs: holding the FFA funding constant at current year levels ($1.1 million General Fund savings); decrease the number of FFA treatment placements ($4 million General Fund savings); and adjust the FFA treatment rate over time to encourage timely exit of children from FFA ($5 million General Fund savings).

Counties and FFAs have argued that FFAs are reimbursed at the true cost of care, unlike either group homes or foster family homes. Moreover, FFAs have been able to deliver diverse services for foster children with specific needs, by supporting foster parents with training and supportive services.

- **The Analyst will review their findings and recommendation.**
- **The subcommittee will determine whether to adopt one of the options.**

Foster and Kinship Care Education Program

Since 1984, the Chancellor's Office of the California Community Colleges has operated a training program for foster parents. In 1996, the voluntary program was expanded, and all foster parents were required to obtain education/training at the pre-service and ongoing service levels. Also in the late 1990's, training was expanded to include kinship care providers.

67 Community colleges provide the Foster and Kinship Care Education program. In 2000-01 over 21,600 hours of education and training were provided to over 23,100 participants. The program is funded with child support collections, Proposition 98, and federal Title IVE funds.

Current year funding is as follows:

Foster Children and Parent Training Fund (child support funds)	2,967,000
Community College Local Assistance	1,866,000
Federal Reimbursement	6,912,000

Current year funds total $11.8 million. **The Governor's budget proposes to reduce the Foster Children and Parent Training Fund in the Department of Child Support Services by $1 million, redirecting those funds to the General Fund.. This in turn would reduce federal reimbursements by about $1.5 million. The total budget year allocation is proposed to be $9.2 million, a reduction of 21.3%**

- **The Department will respond to why the number of foster care homes to be licensed is expected to go down in the next year.**
- **The Department will provide any estimate as to whether the drop in training will make it harder to attract and retain foster parents?**
- **The Department will provide any estimate as to whether a drop in foster homes will result in increased costs in group home care?**

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

April 22, 2002
1:30 P.M.
ROOM 112

(Diane Van Maren, Consultant)

Item	***Description***
2400	**Department of Managed Care—Selected Issues**
0530	**Health and Human Services Agency—Selected Issues**
4120	**Emergency Medical Services Authority—Selected Issues**
4260	**Department of Health Services-Selected Issues**

PLEASE NOTE: **Please refer to the Senate Daily File for the dates and times of future Subcommittee hearings, including May Revision, regarding these departments.**

I. 2400 Department of Managed Care & Office of Patient Advocate

A. BACKGROUND

Purpose and Description of the Department

The purpose of the Department of Managed Health Care (DMHC) is to protect the public through administration and enforcement of laws regulating health care plans. The administration of these laws involves a variety of activities including licensing, examination, and responding to public inquiries and complaints. The program enforces its laws through administrative and civil action. Specifically, the DMHC licenses health care plans, conducts routine financial and medical surveys, and operates a consumer services toll-free complaint line.

The DMHC has three advisory boards--the Advisory Committee on Managed Care, the Clinical Advisory Board, and the Financial Standards Solvency Board. **In addition, the Office of the Patient Advocate located within the DMC will help ensure that the needs of managed care consumers are heard and met.**

Overall Budget of the Department

The budget proposes **total expenditures of $32.4 million (Managed Care Fund)** and 333 personnel-years for the DMHC, which includes $1.5 million for the Office of Patient Advocate. This reflects a net increase of $44,000 (Managed Care Fund) over the Budget Act of 2001.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
Managed Care Fund	$32,407	$32,451	($44)	--
Total, Health Plan Program	$32,407	$32,451	($44)	--

B. ITEMS RECOMMENDED FOR CONSENT—Department of Managed Health Care

1. HMO Call/Help Center

Background: Through the HMO reform legislation, the DMHC was directed to develop a framework for the expedited resolution of grievances not resolved by the health plans and/or filed by consumers due to their dissatisfaction with their plan's response. As such, the HMO Call Center was restructured to meet legislative mandates and protect consumers through the resolution of their HMO grievances.

The HMO Help Center receives, reviews and researches complaints on behalf of enrollees. Many of these issues are complex and involve the expertise of legal counsel, health analysts, and medical professionals to reach resolution. Most offices within the DMHC access regulatory compliance and take action based on information gathered in the HMO Help Center. The HMO Help Center also assists in handling Independent Medical Reviews (IMR).

During the 2000-01 fiscal year, the HMO Help Center staff resolved over 4,600 written complaints and over 900 consumer concerns through the quick resolution process (i.e., does not require a written complaint). In addition, they addressed over 700 IMR requests. The HMO Help Center publishes an annual report which details the number and types of complaints they receive and resolve.

Governor's Proposed Budget: The budget **requests an increase of $850,000 (Managed Care Fund) to convert 14 limited-term positions to permanent and maintain existing staffing capacity for the HMO Call Center.** The DMHC states that establishing the 14 positions as permanent is essential to maintaining the current level of service for call, written complaint, and IMR volumes.

The DMHC has provided the Subcommittee with considerable data regarding justification of the positions, including workload data. As such, Subcommittee staff has raised no issues.

2. Office of Enforcement-- Caseload

Background: The Office of Enforcement within the DMHC is responsible for ensuring that the provisions of the Knox-Keene Act of 1975 are fully and regularly enforced. This responsibility includes all investigations and enforcement actions against health care service plans and others who violate the statute or regulatory provisions.

The Office of Enforcement receives complaints regarding health care service plan problems from the HMO Help Center, Licensing & Compliance, Medical Surveys, Financial Examination and Consumer Services sections, as well as the health care industry and media. **Upon receiving these cases, the Office of Enforcement conducts an extensive investigation. Based on this investigation, the Office of Enforcement determines whether to proceed to an enforcement action.**

A variety of enforcement actions may be pursued, including a Cease and Desist Order, an accusation seeking license revocation or imposition of an administrative penalty. A plan served with an administrative action may request an administrative hearing, which is comparable to a judicial bench trial. Other legal remedies are also available.

<u>Governor's Proposed Budget:</u> The **budget provides $447,000 (Managed Care Fund) to convert 7 limited-term positions to permanent in the Office of Enforcement in order to maintain existing capacity to resolve cases.**

These positions were provided in the Budget Act of 2000 on a limited-term basis to address a backlog of cases. However, the DMHC maintains that these positions are necessary in order to continue to address existing workload and additional cases. They contend that effective regulation requires effective, timely and fair enforcement actions, and as such, the need to maintain existing staffing levels.

Subcommittee staff was provided with detailed workload information and as such, has raised no issues.

C. ITEMS FOR DISCUSSION—Department of Managed Health Care

1. Expansion of the HMO Quality Report Card (Office of Patient Advocate)

Background—Office of Patient Advocate: The **Office of Patient Advocate (OPA) is an independent office** which is responsible for protecting patient rights. **Generally, the OPA is directed to:**

- **Assist patients who have complaints against their HMOs** or who need help in using the new Independent Review process;
- Develop educational guides for consumers on their health care rights and **to do public outreach and education**;
- Issue an annual HMO quality of care **report card**;
- Provide **recommendations to the DMC on enforcement actions to protect patients;**
- Identify ways to **improve services for consumers**; and
- Attend health fairs and other appropriate public gatherings to provide information.

Background—HMO Report Card: The report card is designed to inform HMO enrollees about quality of care, and is intended to assist in selecting a health care service plan. **The report card "grades" HMOs in five summary categories—**(1) staying healthy (prevention), (2) getting better, (3) living with illness, (4) doctor communication and service, and (5) health plan service. **The report card also provides health care service plans with comparative performance data to assist them in their quality improvement activities.**

The OPA has solicited views of interested parties, including a cultural and linguistic work group, on the critical issues that should be addressed in the report card. In addition, the Department of Managed Health Care's Advisory Committee on Managed Health Care is required to advise on the development of the annual report card and has provided numerous recommendations on expanding the scope of the report card.

Governor's Budget Request: The budget proposes **an increase of $500,000 (Managed Care Fund) in order to fully integrate medical group reporting, improve the reporting of quality indicators, add data on complaints and availability of linguistic services, print more copies of the report card and other related items.** This request would double the amount presently expended.

With respect to medical group reporting, the OPA intends to expand the capacity of the report card for comparing the performance of medical groups at the same level of detail as is possible with the health plans. Costs for this include the development of a final scoring methodology, development of the website display, and consumer testing.

The quality indicators will be more comprehensively evaluated (over 50 individual indicators) **and the criteria may be modified to include other data sets** in addition to clinical data (i.e., HEDIS) and patient satisfaction data (i.e., CAHPS) that are currently used. Data regarding provider turnover rates, medical surveys and enforcement action and credentialing information will be evaluated along with other information.

The report card will be expanded to include information on cultural and linguistic data as well. Data will include information on whether the plan provides telephone interpretation services, access to face-to-face interpreters, lists of bilingual providers, written materials in different languages and other items. Designing an interactive website location for these data including translation of the site into Spanish, Chinese, Korean, and Tagalog is to be included.

Subcommittee Request and Question: The Subcommittee has requested the Office of Patient Advocate to respond to the following questions:

- **1.** Please provide a **brief overview** of the request.
- **2.** How have **consumers benefited** from the report card? What feedback has been obtained?

Budget Issue: Does the **Subcommittee want to approve the request?**

2. Financial Examinations of Specialized Plans

Background: The Knox-Keene Health Care Service Plan Act (the Act) requires that both health care plans ***and*** specialized health care service plans **(i.e., dental, vision, psychological, chiropractic, pharmacy)** regulated by the DMC must undergo a financial examination **as often as deemed necessary to protect the interest of enrollees, but at least once every five years.**

This is an important examination because the early detection of potential financial solvency issues results in the avoidance of disruption to the enrollees. Further, a plan with cash flow problems may not pay its providers in a timely manner which can jeopardize the cohesion of the provider network**. In addition, a financially weak plan may allow its health care decisions, such as referrals to specialists, to be influenced by the fiscal interests of the plan.**

Currently, there are **59 licensed specialized health plans** for which financial examinations are performed once every five years. **According to the DMHC based on a review of financial statements (March 31, 2001), twenty-seven of these plans were determined to be financially weak. They note that it is likely for many of these specialized health care service plans to continue to have financial viability problems.**

In the Budget Act of 2001, the DMHC was provided funding to conduct examinations once every three years for health care plans.

Governor's Proposed Budget: The budget **proposes an increase of $234,000 (Managed Care Fund) to fund 4 additional financial examiner positions which were**

being held vacant due to salary savings. These positions will be used to increase the frequency of financial examinations of specialized health plans from **once every five years to once every three years for those specialized health plans which *exhibit financial concerns.***

Subcommittee Request and Question: The Subcommittee has requested the DMHC to respond to the following questions:

- **1.** How will the DMHC **identify those plans** to be reviewed every three years?
- **2.** Specifically, **what follow up is done by the DMHC** when a plan exhibits fiscal problems?

Budget Issue: Does the Subcommittee want to approve or modify the request?

3. Specialized Health Plans—Clarification for Authority to Collect Assessments *(See Hand Out)*

Background: Existing statute **allows the DMHC to require plans to pay an annual assessment, *plus* a special assessment in any fiscal year from 2000-01 to 2002-03 to fund any portion of its budget not provided by the annual plan assessment.**

The annual assessment process funds about 60 percent of the department's budget. To provide the balance of funding for the budget, **the special assessment provision was added in 2000 to assist in funding new activities associated with the implementation of the new DMHC and the historic HMO reform legislation.** Further, it was deemed necessary to collect this special assessment for at least three fiscal years since many functions and activities were being phased-in and it was not fully known what volume of activity and work product would be required.

Finance Letter (Hand Out): The DMHC states that existing statute needs to be clarified with respect to the **special assessment process.**

Specifically, they contend that clarification is needed **regarding the Legislature's intent in establishing the process for the three-year special assessment and the notification to the plans that is required.** Currently the existing language at issue states that:

> **"**The director by notice to all licensed plans on or before **September 15, 2000** may require health care service plans to pay an additional assessment to provide the department with sufficient revenues to support costs and expenses as set forth in this section and subdivision (b) of Section 1341.4 for the 2000-01, 2001-02 and 20002-03 fiscal years.**"**

The DMHC wants to modify the statute to (1) clarify that the plans would be notified each year, and not by 2000, and **(2)** require plans who have not paid their special assessment to do so. **According to the DMHC, one plan has not paid their special assessment for 2001-02 or 2002-03 and owes the state over $912,000.**

The DMHC notes that the amount to be assessed each year can only be determined after the final budget is adopted. **Therefore, they are maintain that the intent of the Legislature was to provide the authority to the department to notify plans by September 15 of each year (i.e., 2000, 2001, and 2002).**

Budget Issue: Does the **Subcommittee want to adopt the proposed trailer bill language to clarify the statute regarding the notification of the special assessment and the payment of the assessment?**

4. Financial Solvency Standards Board

Background: SB 260 (Speier), Statutes of 1999, created the Financial Solvency Standards Board (Board). Generally, the Board is to develop and recommend financial solvency requirements and standards relating to plan operations and transactions, plan-provider contractual relationships and provider-affiliate operations and transactions. In addition, the Board advises the Director of the DMHC on matters of financial solvency that affect the delivery of health care services.

The Board is required to meet monthly during its first two years and then quarterly thereafter. Since August 2000, the 8-member Board has convened on a monthly basis, with all meetings being open to the public.

Summary of Court Ruling Regarding SB 260: The California Medical Association (CMA) filed suit to enjoin the DMHC from implementing certain regulatory provisions crafted in response to SB 260 which provided for the public disclosure of specific financial information. **In February 2002, a Superior Court ruling found**, among other things, that certain sections of Health and Safety Code were invalid and consequently, issued an injunction prohibiting the DMHC from collecting financial data regarding risk-bearing organizations, such as medical groups and independent practice associations (IPAs). In response to this ruling, the DMHC has stopped collecting this information and has disabled a web site which was used for this purpose.

It should be noted that the balance of SB 260's regulations remain in effect. For example, health plans are still required to submit basic information to the DMHC, and health plans are still required to provide enrollment and utilization information to their contracting risk-bearing provider organizations.

Governor's Proposed Budget: The department **requests an increase of $210,000 (Managed Care Fund) to convert 3 limited-term positions to permanent** to support the Financial Solvency Standards Board. The positions are: Corporate Counsel, Associate Governmental Program Analyst and Senior Typist.

The DMHC states that these positions are needed to continue program development (i.e., review/ grading and corrective plan process) and monitor and analyze reported data. For example, there have been a number of medical groups that have either filed bankruptcy or ceased their business operations, plus a number of other disruptive situations related to the financial stress of a provider group. The department also fields calls from physicians and other providers regarding non-payment or related financial concerns. **As such, the Board's staff needs to be responsive to these provider solvency issues as they have a direct affect on patient care.**

Subcommittee Request and Questions: The Subcommittee has requested the DMHC to respond to the following questions:

- **1. Are other changes anticipated given the Superior Court ruling?**
- **2.** Please provide a brief description of the budget request.

Budget Issue: Does the Subcommittee want to approve or modify the request?

II. Health and Human Services Agency

A. BACKGROUND

Purpose and Description of the Department

The California Health and Human Services Agency (CHHS) administers the state's health, social services, rehabilitative and employment programs. The Secretary of the CHHS advises the Governor on major policy and program matters and oversees the operation of the agency departments. The purview of the CHHS includes the departments of Aging, Alcohol and Drugs, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, Social Services, and Employment Development, the Health and Human Services Data Center, the Office of Statewide Health Planning and Development, and the Managed Risk Medical Insurance Board, and the Emergency Medical Services Authority.

Through the Budget Act of 2001 and SB 456 (Speier), Statutes of 2001, the Office of Health Insurance Portability & Accountability Act (HIPAA) Implementation was created. This office resides within the CHHS.

The Office of HIPAA Implementation has statewide responsibility for the implementation of the federal HIPAA. The portion of HIPAA dealing with administrative simplification requires all billing and other electronic data transmissions to be standardized, as well as establishing new standards for the confidentially and security of this information. The office was established to direct and monitor this process.

Overall Budget of the Department

The budget proposes expenditures of **almost $5.2 million ($3.5 million General Fund) and 33 positions for the entire agency. Of this amount, $2.6 million and 11 positions are for the Office of HIPAA Implementation.**

B. ITEMS RECOMMENDED FOR CONSENT--Health and Human Services Agency

1. 15 Percent General Fund Reduction

Background and Governor's Proposed Budget: Due to the fiscal situation, the Agency was directed to reduce their General Fund budget by 15 percent, or $180,000. **To this end, the budget proposes elimination of two positions—Assistant Secretary and Staff Services Manager I—and $180,000.**

Subcommittee staff has raised no issues.

C. ISSUES FOR DISCUSSION—Health and Human Services Agency

1. Status Update on the Long Term Care Planning Council

Background—The Long Term Care Planning Council: AB 452 (Mazonni), Statutes of 1999, created the Long Term Care Planning Council (Council) within the Health and Human Services Agency to:

- Promote coordinated planning and policy development;
- Develop strategies to improve the quality and accessibility of consumer information;
- Review and make recommendations on ***all*** **LTC care budget changes being proposed by departments participating in the Council**;
- Design strategies to better monitor consumer responsiveness of services;
- **Develop strategies to streamline the regulation process** for LTC programs and services;
- Establish priorities and timelines for carrying out the Council's duties; and
- **Report annually**, beginning as of January 2001, to the Legislature on the Council's progress to date. (The **January 2002 report was just released** on Wednesday, April 17, 2002.)

The Council has been assigned the "central role" by the Health and Human Services Agency for Olmstead planning and implementation in California.

Background—Council's Workgroup Activities and Structure (Hand Out): In 2000, the Council **established five workgroups which are designed to be responsive to the Councils' key goals. These workgroups include the following:**

- Consumer Information;
- Long-Term Care Data
- Coordinating Community Long-Term Care Services;
- Nursing Facility Assessment and Transition Pilot;
- Facility and Services Licensure

The CHHS Agency states that these workgroups included not only interdepartmental staff but **a broader group of stakeholders**, ranging from providers to consumer and advocacy group members as well.

In its January 31, 2002 meeting, the Council approved recommendations for workgroup activities and structure. (These are contained in the Subcommittee's Hand Out package.)

Background—Olmstead Decision: In the Olmstead decision the United States Supreme Court, among other things, ruled that **an individual with a disability has a right to live in a community setting so long as three conditions are met: (1)** the individual's treating physician determines that community placement is appropriate, **(2)** the individual does not oppose such placement, and **(3)** the placement can be reasonably accommodated, taking into account the resources available to the state and the needs of others that are receiving state-supported disability services.

The Supreme Court indicated that **states could establish compliance** with Title II of the American with Disabilities Act (ADA) **if it demonstrates that it has: (1)** a comprehensive**, effective working plan** for placing qualified persons with disabilities in less restrictive settings, and **(2) a waiting list that moves at a reasonable pace** not controlled by the state's endeavors to keep its institutions fully populated.

The federal Department of Health and Human Services sent letters to each Governor urging states to create Olmstead implementation plans. In addition, the federal CMS and federal Office of Civil Rights also sent a joint letter to state Medicaid (Medi-Cal) Directors providing guidance in the creation of such a plan.

<u>Constituency Concerns—Olmstead planning:</u> Several constituency groups are concerned with the states' planning process for implementing Olmstead. They note it has been three years since the decision was issued, yet **California has no plan** for Olmstead implementation. **As such, they are urging the state to develop a comprehensive plan which takes into consideration <u>at a minimum</u>, the following key elements:**

- Participation of key **stakeholders** in the development of a plan;
- **Development of a needs assessment** process so that there are goals for conducting individual assessments (including individuals in institutions as well as those at risk of institutionalization) to determine how community living would be possible/maintained;
- **Development of an infrastructure for new community services and supports** to ensure the availability of community integrated services;
- Outline of transition services to prepare individuals for a change in placement;
- **Framework for quality assurance and quality enhancement** of services;
- Comprehensive data collection which is individualized and tied to consumer outcomes;
- **Measurable goals** to be accomplished by certain dates; and
- **Proposals regarding the development of funding resources.**

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the Agency to respond to the following questions regarding the Council and its activities:

- 1. **What specific progress has been made** by the Council regarding the key elements of the enabling legislation?
- 2. What are the **Council's key items to be accomplished in the budget year?**
- **3. Please provide an update on the Council's activities related to the Olmstead decision. What is planning for the budget year?**

2. Health Insurance Portability & Accountability Act (HIPPA) *(See Hand Outs)*

Background--HIPAA: In 1996, President Clinton signed the HIPAA (Kennedy and Kassenbaum). HIPAA is designed to improve the availability of health insurance to working families and their children. **It also requires (1) administrative simplification, (2) revised security procedures, and (3) fraud control.**

In essence, all health-related organizations/providers/clearinghouses that electronically maintains or transmits health information pertaining to an individual are **required to comply with the HIPAA standards within two years of their adoption.**

Among these standards are:

- **Security and privacy standards** for health information.
- **Code sets and classification system** for the data elements of the transactions identified, including **all clinical diagnostic services**, procedures and treatments.
- **Electronic transactions and data elements for health claims** and equivalent encounter information, claims attachments, health care payment and remittance advice, health plan eligibility, enrollment and disenrollment, referral certification and authorization, and coordination of benefits.
- **Unique identifiers for individuals, employers, health plans, and health care providers** for use in the health care system.

Federal Rulemaking (Hand Out): The **federal Department of Health and Human Services (DHHS) is responsible for implementing the "administrative simplification" requirements through notice and comment rulemaking procedures**. Congress has 60-days after DHHS publishes a final rule to make any changes. After that, the health care industry, including all state health care programs, will have **two years to comply** with the final rules. **Failure to comply with HIPAA standards can result in significant monetary penalties.**

Note about "Local Codes": California uses about **6,000 local codes. The following is a list of some key ones:** alcohol and drug abuse treatment, case management, day treatment, community service program, crisis intervention, dialysis, durable medical equipment, EPSDT services, home health, FQHC and Rural Health Center clinic services, hospital services, lab services, nursing services, vaccines and immunizations, Waiver programs , many dental services, Family PACT, mental health services, nursing home services, transportation, personal care and respiratory care services, hospice, and physical, occupational and speech therapy.

Specific medical and payment policy will need to be extensively reviewed to determine the impact of consolidating and standardizing these local codes. As noted by the DHS, there are extensive issues here regarding medical and payment policy implications, rate of payment and special programs scope-of-service definitions.

It should be noted that President Bush signed recent legislation which provides for a one-year extension *(to October 16, 2003)* of the HIPAA compliance deadline for Transactions and Codes sets.

Background—Office of HIPAA Implementation (OHI): SB 456, Statutes of 2001, created a statutory framework for implementation of HIPAA, including the establishment of OHI within the Health and Human Services Agency. **OHI will serve as the lead entity for that state's activities, including policy formulation, direction, oversight, and coordination.** Additionally, OHI will work with county and city organizations to ensure coordination, although it does not have oversight responsibilities for these entities.

OHI has identified five phases that comprise HIPAA compliance. These phases include (1) project initiation, (2) initial assessment, (3) project plan, (4) detailed assessment, and (5) remediation. Each phase consists of several projects.

Governor's Revised 2001-02 Budget: The Budget Act of 2001 and SB 445 (Speier), Statutes of 2001, combined to appropriate $92.3 million ($24.3 million General Fund) to six state entities for HIPAA compliance activities. However, due to the state's fiscal constraints, SB 1xxx (Peace), Statutes of 2002, reduced this funding level. Specifically, General Fund support **was reduced by $19 million**, **for total current year expenditures of $18.2 million ($5.3 million General Fund).**

Governor's Proposed Budget for 2002-03: The **budget includes the *restoration* of all HIPAA funding in 2002-03 to the 2001-02 appropriation levels**, as shown below:

Department	Positions	Revised 2001-02	Proposed 2002-03	Proposed General Fund Increase
Office of HIPAA Implementation	12	$2 million **($1.6 million GF)**	$2.6 million **($2.1 million GF)**	**$469,000**
Health Services	22	$15.1 million **($3.2 million GF)**	$78.6 million **($16.8 million GF)**	**$13.5 million**
Mental Health	9	$171,000 **($56,000 GF)**	$2.4 million **($1.2 million GF)**	**$1.2 million**
Developmental Services	3	$118,000 **($59,000 GF)**	$2.5 million **($1.3 million GF)**	**$1.2 million**
Alcohol & Drug	5	$714,000 **($347,000 GF)**	$6 million **($3 million GF)**	**$2.7 million**
OSHDP	1	$99,000 (no GF)	$99,000 (no GF)	---
TOTALS	**52**	**$18.2 million ($5.3 million GF)**	**$92.3 million ($24.3 million GF)**	**$19 million Increase**

(Note: The Subcommittee will review each of these departments individually, as needed.)

Subcommittee Request and Questions:

- **1.** Please provide a **brief update** as to the status of HIPAA implementation for the state.
- **2.** What are the **key products to be produced in the budget year?**
- **3.** Please provide **a brief overview of the Agency's Office of HIPPA Implementation budget.**

Budget Issue: Does the Subcommittee **want to approve the budget for the Office of HIPAA Implementation (i.e., $2.6 million), pending receipt of the May Revision?**

3. Update on SB 480 Process—the "Health Care Options Project" *(Informational Only) (See Hand Outs)*

Background: SB 480 (Solis), Statutes of 1999, requires the Secretary of the CHHS Agency **to report to the Legislature concerning options for achieving universal health care coverage and establishing a process to develop these options.** SB 480 also calls on the Secretary to examine **and utilize research results from the study performed by the University of California (i.e., Universal Health Care Technical Advisory Committee-- UHCTAC)** conducted pursuant to the criteria in Senate Concurrent Resolution 100 of the 1997-98 Session of the Legislature.

Budget Acts of 2000 and 2001: Through the leadership of the Senate, an increase of $200,000 (General Fund) was sustained by the Governor in the Budget Act of 2000 to begin to meet the requirements of SB 480. In February 2001, the state was **awarded a HRSA grant of $1.2 million (federal funds) to continue development.** These moneys are currently being used to complete the project activities.

Overview of HCOP: The Health Care Options Project (HCOP) has **four main components as follows:**

- ***Existing Data and Research:*** A comprehensive summary of existing data and research has been completed and has been made available for analytic efforts. In total, six background papers on health care in California were prepared.
- ***Development of Nine Coverage Options:*** The CHHS Agency used a competitive process to solicit proposals for a broad range of coverage options. A total of nine coverage options papers by health care policy experts were selected for development**. The final options papers are to be available on the HCOP website by May 1, 2002. An extensive public meeting was held on April 12th in the Capitol to thoroughly discuss the options.**
- ***Quantitative and Qualitative Analyses (See Hand Out):*** The Lewin Group was selected to analyze and compare the quantitative aspects of the nine options papers. They used a micro-simulation model to measure the impact each option would have

on health care coverage and costs to the government, employers, individuals, and other affected entities.

In addition, **AZA Consulting** will be conducting a "cross-options paper" analysis to measure other factors, such as issues pertaining to quality, access and safety net impacts.

- ***Statewide Symposia:*** At the request of the CHHS Agency, the California Research Bureau convened four statewide symposia to seek public input on the nine options papers. These were held in Fresno, Sacramento, Oakland and Manhattan Beach.

Subcommittee Request and Questions:

- **1. Please provide a brief description of the process used for the project.**
- **2. Please provide an update** on the nine coverage options and the quantitative and qualitative analyses conducted for each.
- **3.** What **key objectives for the project overall still need to be completed?**
- **4. Please provide an update on the timeline for the project, including when the final reports to the Legislature and HRSA will be available.**

III. 4120 Emergency Medical Services Authority

A. BACKGROUND

Purpose and Description of the Department

The overall responsibilities and goals of the Emergency Medical Services Authority (EMSA) are to (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; **(2)** review and approve local emergency medical service plans; **(3)** coordinate medical and hospital disaster preparedness and response; **(4)** establish standards for the education, training and licensing of specified emergency medical care personnel; **(5)** establish standards for designating and monitoring poison control centers; **(6)** license paramedics and conduct disciplinary investigations as necessary; **(7)** develop standards for pediatric first aid and CPR training programs for child care providers; and **(8)** develop standards for emergency medical dispatcher training for the "911" emergency telephone system.

The budget proposes expenditures of $14.4 million ($8.7 million General Fund) which reflects a reduction of $26 million as compared to the revised current-year appropriation.

Overall Budget of the Department

The budget proposes expenditures of $14.4 million ($8.7 million General Fund) which reflects a reduction of $26 million as compared to the revised current-year appropriation.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$33,987	$8,739	($25,248)	(74.3)
Federal Funds	$3,615	$3,306	($309)	(8.5)
Other Funds	$2,850	$2,390	($460)	(16.1)

B. ITEMS RECOMMENDED FOR CONSENT-Emergency Medical Services Authority

1. First There, First Care—Bystander Care for the Injured

Background and Finance Letter: The federal National Highway Traffic Safety Administration and the Health Resources and Services Administration developed the "First There, First Care—Bystander Care for the Injured Training Program for implementation in each state. The purpose of the program is to give motorists the information, training and confidence they need to provide life-saving bystander care at the scene of a crash, increasing the chances of survival for crash victims.

The EMSA was awarded a grant in the amount of $180,926 to conduct a 27-month (September 1, 2001 to December 31, 2003) project in high schools. **Under the proposal,**

the EMSA contracts with a paramedic to provide training at about 54 schools in 11 rural counties for young drivers 16 to 18 year olds. An evaluation will be conducted after the sessions end to determine if students used their training, and if they believe the training facilitated them in being safer drivers.

The EMSA is requesting **an increase of $82,000** (Reimbursements from the Office of Traffic Safety) **to fund 80 percent of a Health Program Specialist I position to serve as project coordinator for the extent of the grant period.** The responsibilities for this position will include all areas of school recruitment and scheduling, media coordination, training, purchasing, assembling and distributing first aid kits and materials, course monitoring and evaluations, and required federal reports and conference presentations.

Subcommittee staff raised no issues.

2. Consolidated Reduction—Fund Shift and General Fund Reduction

Background and Governor's Proposed Budget: The EMSA is requesting a series of adjustments due to the difficult fiscal situation.

First, they are proposing a reduction of $107,000 and one position by eliminating the Planning and Development unit as a separate function within the department. Second, it is proposed to spread over all department funds certain administrative costs that had originally been solely borne by the General Fund.

These adjustments will reduce General Fund support by $248,000, and increase expenditures from two special funds—EMS Training Program Approval Fund ($48,000 increase) and EMS Personnel Fund ($93,000) for net savings of $107,000 (total funds).

Subcommittee staff has raised no issues.

C. ITEMS FOR DISCUSSION—Emergency Medical Services Authority

1. Statewide EMS Evaluation & Planning Project

Background: There are **32 local Emergency Medical Services (EMS) agencies** within the state with many diverse problems. The delivery of emergency health care requires the participation of numerous independent individuals and organizations, including public safety agencies, ambulance services, physicians, and hospitals.

The state's Emergency Medical Services Administration (EMSA) contends that these multiple, autonomous organizations have high degrees of functional interdependence as they work to provide care, sometimes simultaneously, to individual patients. As such, managing this interdependence requires planning, standardization, and mutual adjustment. **The EMSA states that the lack of a statewide plan frequently results in conflicts among providers, inefficiencies, and a lower level of care to the patient.**

Through a public process, the EMSA developed goals, contained in their **"Vision for the Future of EMS in California",** for achieving a statewide plan. **One particular recommendation that came forth was the need to develop a process for the periodic review and assessment of local EMS systems. This assessment has been completed and recommendations from it have been assigned to different committees for the development of implementation strategies.**

Finance Letter: The EMSA **is requesting an increase of $171,000 (Reimbursements from the state Office of Traffic Safety which received a federal grant) and 2 positions—Associate Health Program Advisor and Office Assistant--** to continue work on the state's development of California's first statewide EMS Plan, the revision of California's EMS System Standards and Guidelines, and to provide assistance to several committees who are crafting implementation strategies as contained in the local EMS systems assessment.

They contend that the ultimate goal of the plan is to improve the overall quality of care for the EMS patient, and that state oversight and enforcement will become more effective as local EMS agencies will be required to meet statewide standards.

2. California Emergency Medical Services Information System (CEMSIS)

Background: Through the federal National Highway Traffic Safety Administration, an assessment of EMS in California was completed. **One of the conclusions of this assessment was that an automated EMS information system should be implemented**.

Funding was obtained from the Office of Traffic Safety to begin to create the statewide database. A Feasibility Study Report (FSR) was approved and a Request for Application (RFP) was issued. Initiated in January 2000, the project is scheduled to be **completed in December 2002**.

Specifically, the database will contain EMS-based patient information, quality improvement data, and related items. **The intent of this effort is to coordinate and match data from several different sources, including OSHPD, CDFF and the CHP, to assist state and local EMS administrators in program decision-making, including making changes to patient care, dispatch and transport, and EMS training.** Currently, data related to prehospital care is being gathered and used at the local level, but there is only limited ability to associate the eventual patient outcome with the care that is given by field EMS personnel.

Finance Letter: The EMSA is requesting **an increase of $206,000 (Reimbursements from the Office of Traffic Safety) to fund half of an Associate Information Systems Analyst position (one limited-term position for 6 months) and several small contracts, including $133,000 for** software development, to implement a statewide data system.

Subcommittee Request and Questions: The Subcommittee has requested the EMSA to respond to the following questions:

- **1.** Please provide **a brief summary** of the request and how the data system will function.
- **2. How will patient medical privacy, security and confidentiality requirements be maintained?**

Budget Issue: Does the Subcommittee want to approve or modify the proposal?

3. Emergency Medical Services to Children (EMSC)—Constituency Request

Background: Historically, EMS systems have primarily focused on the assessment, care and treatment of adults and have **not addressed the special needs of children.** Even though considerable work has been conducted over the past few years, the EMSA notes that **there is still not consistent application of standardized care in California for emergency medical services to children.** Children have unique problems and needs associated with acute injury and illness, and suffer from different types of injuries and illnesses than adults. **As a result, children require different types of diagnostic procedures, medication, and support techniques.**

Legislative History: Through a small federal grant the EMSA began to develop an **Emergency Medical Services for Children (EMSC) Model.** From the beginning, the major goal of the project has been development and implementation of EMSC within local or regional EMS agencies. EMSC represents a linked "continuum of care", intended to integrate community pediatric emergency and critical care delivered in many various settings by many different care providers.

The continuum includes both clinical and operational components. The clinical components are: prevention, prehospital personnel education, pediatric basic life support and advanced life support equipment, prehospital treatment protocols, emergency department organization and equipment, pediatrics within general trauma centers, interfacility consultation and transfer, pediatric critical care centers, pediatric trauma centers, and pediatric rehabilitation. **The operational components are:** system planing, implementation and management, and information management.

The EMSA organized 14 different multidisciplinary subcommittees to address and describe, through guidelines or recommendations, each of the different EMSC clinical and operational components.

The federal grant funds expired in 1996. In 1996, SB 1664 (Thompson), was introduced to expand on the EMSC Model. (This bill was subsequently subsumed in AB 3483, the omnibus health trailer bill for 1996).

AB 3483, Statutes of 1996, required the EMS Authority to:

- Provide advice and technical assistance to local EMS agencies on the integration of emergency medical services to children into their EMS system;
- Monitor the implementation of the system at the local level;
- Establish a Technical Advisory Committee; and
- Work with the DHS and other agencies to craft standards and policies for the delivery of emergency and critical care services to children.

Funding History: **The Budget Acts of 1996, 1998, and 2000 all provided 1.5 positions (limited-term) to conduct activities associated with the EMSC. However, in the Budget Act of 2001, two half-time positions were funded with federal Health Resources and Services Administration (HRSA) funding. The Governor's proposed budget for 2002-03 assumes no funding or positions for the program since federal funds are not available and there are General Fund fiscal constraints.**

Report to the Legislature on EMS for Children (August 2000): As required by the enabling legislation, the EMSA published a comprehensive report on the status of EMS for children activities. **Key products included:**

- Established an **EMSC Technical Advisory Committee** comprised of pediatric experts;
- Developed **a 5-year plan for California** which outlines specific EMSC needs along with action steps necessary to achieve the goals;
- Developed an **EMSC Model** that assisted in the development of standards and key products that make up the Model;
- Provided technical assistance and consultation visits to local EMS agencies for help in implementing the EMSC Model into their EMS system; and
- Convened three EMSC conferences to promote the implementation of EMSC.

According to the EMSA, twelve EMS agencies, consisting of eighteen counties still need to integrate part, or all of the EMSC Model in their EMS systems. Other critical needs, as recommended in the 5-year plan for California, also need to be addressed throughout the state.

Governor's Proposed Budget: **The Governor's proposed budget assumes no funding or positions for the program since federal funds are not available and there are General Fund fiscal constraints.**

Current Needs and Constituency Request: Several pediatric specialty groups, as well as other health care organizations, have expressed concern that there is now no EMSC coordinator at the state level. They content that the EMSC Technical Advisory Committee, consisting of 15 members that represent a broad constituency of EMSC constituency organizations, collectively donates over 1,3000 hours annually to improving EMSC, yet the state will not even provide staff assistance to facilitate enactment of recommendations and to accomplish goals as identified in the 5-year plan for California.

They believe the EMSC coordinator position was invaluable for it assisted counties with implementing EMSC, evaluated EMSC at the local level, updated EMSC guidelines, conducted activities associated with the 5-year plan, and provided staff support to the Technical Advisory Committee.

Budget Issue: Does the **Subcommittee want to provide a position and funding for this purpose?**

If so, Subcommittee staff would recommend **to provide an Associate Governmental Program Analyst position and funding of $70,000.** Further, Subcommittee staff is presently investigating the potential to utilize federal Maternal and Child Health block grant moneys for this purpose. This information will be available at the time of the May Revision.

IV. 4260 Department of Health Services—Selected Issues

ITEMS RECOMMENDED FOR CONSENT

1. Federal Funds for Long-Term Care Rate Study (AB 1731 & AB 1075)

Background and Proposed Finance Letter: The DHS is requesting an increase of $500,000 (federal funds) in order to fund a long-term care rate study as required by AB 1731, Statutes of 2000, and as amended by AB 1075, Statutes of 2001.

Total funding for the long-term care rate study will be $2 million. Of this amount, **(1)** $1 million (total funds) has been proposed for expenditure through the Governor's proposed budget, and was approved by the Subcommittee in its April 1 meeting, and **(2)** $500,000 (General Fund) was appropriated through the enabling legislation. The enabling legislation also provided for a federal match, if available. The DHS has now confirmed that such a match is available.

The Finance Letter is requesting an increase of $500,000 in federal funds to continue with the rate study.

Subcommittee staff has raised no issues with this request. Further, the Subcommittee discussed implementation activities related to AB 1075 in its April 1 hearing and did not raise any concerns with respect to the rate study.

2. State Fire Marshal Contract—Shift to DHS Licensing & Certification

Background and Finance Letter: Under an existing Memorandum Of Understanding (MOU) with the DHS, the State Fire Marshal conducts Fire and Life Safety Code surveys of health facilities as part of the process for certifying health facilities for participation in Medi-Cal and Medicare (in order to obtain federal matching funds). However, effective June 30, 2002, the State Fire Marshal is terminating this arrangement.

The Finance Letter is requesting to redirect 17 positions as currently established in the State Fire Marshal's budget to the DHS in order to continue to conduct Fire and Life Safety Code surveys of health facilities as required by federal law in order to obtain federal financial participation under Medi-Cal and Medicare. The same level of funding would be provided; as such, no fiscal change is necessary (i.e., the DHS was previously funding the MOU).

Subcommittee staff has raised no issues with this request.

3. Medical Waste Management Program—Special Fund Issue

Background and Finance Letter: The DHS' Environmental Management Branch is requesting **an increase of $100,000 (Medical Waste Management Program)** in order to conduct enforcement activities regarding medical waste. These funds are being expended from existing reserves of $1.5 million. There is no effect on the General Fund.

Under this program, the DHS permits and inspects all medical waste off-site treatment facilities; medical waste transfer stations; approves all alternative treatment technologies and responds to emergency incidents. Additionally, the program serves as the local enforcement agency in 27 local health jurisdictions that elected to have the state implement the large quantity generator inspection program within their jurisdiction.

Subcommittee staff has raised no issues regarding this request.

4. Lead-Related Construction Program—Technical Adjustment

Background and Finance Letter: The Lead-Related Construction Program, established in 1993, **covers lead-related construction issues, such as accreditation of training providers and certification of individuals involved in lead-related construction. It assists California in meeting federal requirements to be eligible for receiving grant funds for lead hazard control** from the federal Housing and Urban Renewal Department (HUD) and the federal Environmental Protection Agency (EPA). Since inception of the Lead-Related Construction Program, state and local governments have received over $106 million from HUD.

The purpose of the program is to (1) nurture a private sector infrastructure to identify and eliminate environmental lead hazards, (2) develop a professional capacity within local health and environmental departments so that they can identify and eliminate environmental lead hazards, and (3) qualify eligible state and local agencies in California to receive grants from federal entities.

Finance Letter: During the development of the Governor's January budget, a technical error occurred and the DHS inadvertently charged certain baseline expenditures to a special fund in lieu of the General Fund. As such, a Finance Letter has been received to correct for this snafu. **The Finance Letter is requesting an increase of $853,000 (General Fund) and a reduction of $853,000 (Childhood Lead Poisoning Prevention Fund).**

Subcommittee staff has raised no issues with this request.

ITEMS FOR DISCUSSION

1. Status Update on Pending DHS Report—Other Gynecological Cancers

Background (See Hand Out): The Subcommittee crafted budget trailer bill legislation, as contained in AB 430, Statutes of 2001 (the omnibus health trailer), to address concerns regarding **noncervical gynecological cancers**, **including uterine and ovarian cancers**.

The language was crafted in response to the state's establishment of the federal Medicaid (Medi-Cal) option to provide breast and gynecological cancer treatment. Under this new state treatment program enacted as part of the Budget Act of 2001, **noncervical gynecological cancers were not included since the federal option did not recognize these diagnoses for federal financial participation.** During the 2001-02 budget deliberations, the DHS estimated that annualized costs of almost $19 million (General Fund) would be incurred if noncervical gynecological cancers were included. However, these figures were deemed to be preliminary and a more definitive analysis was determined to be needed.

In order to obtain more comprehensive information regarding the potential inclusion of these cancers under the program, language was crafted to require the DHS to report back to the Legislature **by March 31, 2002**. **Specifically the report was to address the following key items:**

- The extent to which low-income uninsured women with noncervical gynecological cancers are currently receiving medical treatment;
- Mechanisms by which access to treatment could be expanded under existing DHS programs, as well as programs administered by the MRMIB; and
- A comprehensive fiscal analysis by the DHS for expansion of treatment services to this group under the CA Breast and Gynecological Cancer Treatment Program.

Further, the language provided that **the Director of the DHS could consult with various representatives, including health care consumers, providers, insurers, health care workers, advocates, counties, and all other interested parties.**

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1. Specifically, what has or will be done to ensure that constituency groups have been consulted** regarding the development and contents of the analyses and report?
- **2.** Can the analyses/report will shared in a draft format for discussion purposes with the constituency groups?
- **3.** Since the timeframe has already passed and more work needs to be conducted, **what revised timeframes are we looking at?**

Budget Issue: What **is being done to complete the requested analyses/report as directed by the Legislature?**

2. CA Birth Defects Monitoring Program—Proposed Reduction of $1.6 million

Background: In California, **one out of every 33 babies is born with a birth defect.** Birth defects are the leading cause of infant mortality. Birth defects can strike any family regardless of income, race or level of education. **They can occur even if there is no family history of birth defects, when the mother has good prenatal care or if the mother does not imbibe in alcohol or drugs.**

Research is vital to stopping birth defects before they occur and state surveillance programs have been a key component in the effort. The economic cost of birth defects is estimated to be over $1 billion annually.

The California Birth Defects Monitoring Program (CBDMP) was established in 1982. It is **jointly operated with the March of Dimes** and is a national and international leader in birth defects epidemiology. **The CBDMP is designated as one of eight national Centers of Excellence for Birth Defects Research and Prevention and is part of a nationwide effort to discover the causes of birth defects.**

The following lists recent highlights:

- Finding the first evidence associating urban air pollution with heart defects (2001);
- Identifying that women who take folic acid before becoming pregnant reduce the chance of having a baby born with spinal defects by up to 70 percent;
- Showing a link between obesity and increased spinal defects;
- Linking home pesticide use to several common birth defects (1999);
- Discovering stressful life events may increase the risk for birth defects (2000);
- Demonstrating gene-environment interaction showing babies with a particular gene are eight times more likely to have oral clefts if their mothers smoke (1998);
- Ruling out high voltage power lines as increases birth defects.

For the past 20 years, the CBDMP's contributions to the discovery of new risk factors and protective factors guide future clinical care and public health strategies for the prevention of birth defects.

Current Year Funding: Existing funding for **the DHS program is about $4.4 million ($4.1 million General Fund and $250,000 federal Maternal & Child Health block grant funds).** In addition, the **March of Dimes has successfully obtained** two federal grants which have a combined total of $2 million. Of this federal amount, $900,000 is set to expire in one year. Clearly, the CBDMP has leveraged the baseline state funding to obtain additional grant funds.

Governor's Proposed Budget: The budget proposes **a reduction of almost $1.6 million (General Fund) from the program. This proposal represents a 45 percent reduction of state funding.**

According to the DHS, in order to effectuate this reduction, they would need to make several programmatic adjustments. First, they would limit the CBDMP to

monitoring the four largest classes of birth defects (i.e., nervous system, clefts, heart and Downs Syndrome) occurring in Los Angeles, San Francisco, Santa Clara, and San Diego counties. Second, other overall activities would be scaled back significantly, including the following:

- **Fewer investigations into potential environmental causes of birth defects would be conducted;**
- **Less capacity to do research and clinical analysis;**
- **The birth defects registry will obtain less data; and**
- **They would be less competitive in attracting federal and other additional grant funds.**

Further, the DHS states that mental retardation data shall continue to be collected in San Diego County and in the Central Valley, but not in other areas of the state.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1. Is the CBDMP a successful program that has shown results and achieved national status for its accomplishments?**
- **2. Please provide a *full description* of how the reduction will be implemented.**
- **3. Is the program being reduced solely due to the fiscal situation?**

Budget Issue: Are funds **available for the Subcommittee to restore all or a portion of this proposed reduction?**

3. Childhood Lead Poisoning Prevention (CLPP) Program

Background: According to a recent DHS report on Childhood Lead, **California is riddled with environmental lead contamination.** With 2.2 million pre-1950 housing units, California is third in the nation for number of old dwellings likely to contain lead based paint.

Children enrolled in the Medi-Cal, CHDP and Healthy Families Program (HFP) account for about 80 percent of the lead poisonings and constitute the high-risk group.

The negative effects of lead on children's health are well documented. **Lead poisoning can cause learning disabilities, behavioral problems and at very high levels, seizures, coma, and even death. In addition to nervous system effects, recent research has linked lead exposure to tooth decay in young children and to high blood pressure and kidney disease in adults.**

According to the DHS, **there are about 128,000 California children aged one to five years who have elevated blood lead levels, among them about 38,000 need comprehensive public and environmental health services.** Poor and disadvantaged children are at especially high risk.

For about the last eleven years, the DHS has been gradually building a comprehensive statewide public health effort to mitigate childhood lead poisoning. **However, constraints on program funding have hampered the ability of the DHS to put into place all program elements required to effectively and efficiently eliminate this disease.**

Background--Bureau of State Audits Reports: **In comprehensive audits conducted in 1999 and 2001 by the Bureau of State Audits (BSA), serious gaps in the DHS program were found.** For example, the report showed that despite a longstanding requirement to perform blood lead screening on all young enrollees, **it was found that only 10 percent of California children needing lead-related medical care and case management were being identified.**

Among many other things, the audits recommended for the DHS to:

- Adopt regulations requiring labs to report all blood-level test results.
- Adopt standard-of-care regulations as previously directed by the Legislature.
- Ensure that homeowners and property owners properly eliminate or reduce lead hazards.
- Take immediate action to identify and educate those providers participating in the Medi-Cal and CHDP Programs.
- Ensure local programs submit to the DHS all case management information outlining the services provided to lead-poisoned children.
- Monitor local program's activities to ensure lead-poisoned children receive appropriate care. (This should entail a high-level review of all follow-up reports to ensure their completeness and a more detailed assessment of the care given for a representative sample of cases.)
- Complete the training curriculum for eliminating or reducing lead hazards in California's school and day care facilities so that children do not remain at risk for lead poisoning.

Need for More Revenues and DHS Response to Audits (See Hand Outs): The DHS has documented that substantial changes have been made by the CLPP Program to correct deficiencies identified through the audits. **However, many key items still need to be addressed in order to fully correct the deficiencies noted. The DHS notes that correction of these deficiencies will require increased resources.**

Although the enabling legislation which established the CLPP Fund **specified a maximum collection of $16 million annually, *adjusted* for CPI and caseload**, fee collection was capped by the Administration at $12 million annually.

The Governor's proposed budget now assumes that the full fee collection will occur. As such, it is assumed that a total of $22 million will be collected (beginning as of January 1, 2002). Specifically, this assumes a baseline figure of $16 million multiplied by the adjustment factor. The adjustment factor is the compounded changes due to the CPI (since 1992), plus an adjustment for caseload compared to the base year, plus an adjustment for the changes in workload compared to the base year.

A portion of these additional resources are proposed to be used in the budget to proceed with additional corrective actions needed to meet both state and federal law with respect to childhood lead mitigation.

Governor's Proposed Budget: The budget proposes **an increase of $7.2 million (Childhood Lead Poisoning Prevention Fund)** to provide for a more comprehensive program and respond to concerns expressed by the Legislature and Bureau of State Audits. **Key items include funds to (1)** support the reporting and processing of increased blood lead test reports, **(2)** develop local and state enforcement of clean-up orders and site mitigation activities, and **(3)** conduct a field-test to study the prevalence of lead poisoning in California.

Specifically, the DHS is proposing to expend these requested funds as follows:

- **Use a total of $2.3 million to** (1) permanently establish 8 positions which are slated to expire as of June 30, 2002 ($500,000) and (2) provide for contract funds ($1.8 million) which are to be used for consultant staff. These staff resources will be used to conduct **a wide array of activities**, including analyzing technical data, meeting program mandates, implementing regulations, conducting various reporting and enforcement activities, and performing monitoring activities.
- **Provide $1.1 million for contracts** to support the reporting and processing of increased **blood lead test reports** that will result from new medical provider regulations for lead screening (as adopted in November 2001).
- **Dedicate $3 million** to support the development of local ($2.5 million) and state ($500,000) enforcement of clean up orders to assure lead-safe environments, including removal of lead hazards associated with lead poisoned children, as well as hazards that put children at risk for lead poisoning.
- **Provide $200,000** on a one-time only basis **to design and field-test a study of the prevalence of lead poisoning in California.**
- **Appropriate $400,000** on a one-time only basis to design and filed-test a study to evaluate the cost effectiveness of outreach by community-based organizations and of neighborhood based screening to increase case finding in difficult to reach communities.
- **Provide $200,000** for various operating expenses and equipment associated with the permanent positions and various activities.

The Administration is also proceeding with policy legislation which, among other things, will **(1)** require laboratories to report all lead values, **(2)** require electronic reporting of lead values by laboratories by January 1, 2005, **(3)** provide state and local agencies with the authority to enforce clean-up orders, **(4)** provide these same agencies authority to enforce work practice standards during the conduct of clean-up activities, and **(5)** provides for enforcement of standards for training and certification of individuals conducting clean-up orders.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please describe **the key corrective actions that will be completed** and/or implemented in the budget year.
- **2.** How and when will the **local funds be allocated** by the DHS?
- **3.** How will **program outcome indicators and accountability** be measured and assured?

Budget Issue: Does the Subcommittee want to approve or modify the request?

4. California Children Services Program—Update on the CMS Net Project

Background--CCS: The California Children's Services (CCS) Program provides medical diagnosis, case management, treatment and therapy to financially eligible children **with specific medical conditions**, **including birth defects, chronic illness, genetic diseases and injuries due to accidents or violence**. It is the oldest managed health care program in the state and the only one focused specifically on children with special health care needs. **By law, CCS services are provided as a separate and distinct medical treatment (i.e., carved-out service).**

CCS is joint operated by the counties and the state. As such, County Realignment funds, state General Fund support, and federal funds (when applicable) are used to support the program.

Background—EDS Billing and Commencement of the Initial CMS Net Project: Chapter 1210, **Statutes of 1994** (AB 2793, B. Friedman) required the DHS to establish a centralized CCS Program billing system and required that ***all*** counties submit claims for reimbursement of CCS to the **state fiscal intermediary—Electronic Data Systems (EDS)—by no later than January 1999.** The statute further states that **(1)** the DHS shall work with the counties to develop a schedule for the counties to begin submitting claims to the state, and **(2)** if a DHS review of the system determines that as **of January 1, 2000**, any county has incurred increased costs as a result of submitting claims through EDS, **then that county is exempt from the statute's requirement.**

This legislation lead to an overall project—the Children's Medical Services (CMS) Net Project. Since this time, the project has undergone several phases. The intent of the project has always been to craft a centralized billing system for the CCS and then later, Genetically Handicapped Persons Program (GHPP) to **(1)** improve efficiencies and economies of scale in processing claims, **(2)** ensure a consistent application of state CCS policies for coverage of services and provider reimbursements, and **(3)** capture federal funding opportunities (via Medi-Cal and Healthy Families) and third party billing opportunities.

<u>Overview and Purpose of CMS Net/Enhancement Project:</u> CMS Net is an automated case management system for CCS currently used by 49 counties and three CMS Branch regional offices. **Nine other counties use other automated or manual systems. Several of these counties, including Los Angeles, which has *over one third of the state CCS caseload*, plan to convert to the state's CMS Net System.**

The CMS Net Project **links with other statewide databases**, including the Medi-Cal Eligibility Data System and the Statewide Client Index and merges client eligibility and claims processing automation with those established with EDS**. This linkage between databases creates the ability to better identify and serve clients, particularly those enrolled in multiple programs, and providers.**

The project has several phases ("enhancements") including the following:

- CCS Eligibility Phases I and II
- CCS Service Authorizations
- Provider Enrollment
- GHPP Eligibility
- GHPP Service Authorizations
- CMS Net Reporting
- CMS Net Full Screen Conversion

According to the DHS, it is expected that the CMS Net Project, including all "enhancements", will result in savings of $22.3 million annually at full implementation.. These savings are to be achieved by eliminating inefficiencies in the current manual claims review and cost recovery processes and by redirecting staff responsible for claims review to eligibility management and inpatient nurse case management activities.

In addition, the CMS Net Project will make it possible to obtain General Fund savings by maximizing federal Medicaid (Medi-Cal) and S-CHIP (Healthy Families Program) participation in the CCS Program. Further, the system will greatly improve the state's ability to identify other third party health insurance that can be billed prior to billing the CCS Program.

<u>Checkered History of CMS Net Enhancement Project:</u> The CMS Net Enhancement Project was funded effective January 1, 1998 **and was originally planned for completion in September 2001. However, due to delays within the Administration, proposed project changes and the resignation of the original development contractor, the project has been delayed.**

Unfortunately, it has an entwined history of reports, **as well as starts and stops as noted below:**

- The Feasibility Study Report (FSR) for CMS Net was completed in **December 1995** and approved in January 1997;
- A Special Project Report (SPR) was submitted September 1997 and approved by the Department of Information Technology (DOIT) and the Technology Investment Review Unit (TIRU) in December 1997.
- A second SPR was submitted in April 1998 and approved in September 1998.
- A third SPR was submitted October 1999 and approved in April 2000; **and**
- **A fourth SPR was submitted December 2001.**

In a June 2001 report, the Bureau of State Audits identified considerable project management deficiencies with the CMS Net project. As such, the DHS has contracted for a full-time project manager to oversee activities related to cost, schedule, risk, communication, resources and procurement.

Constituency Concerns: The **CCS provider community is demanding that the DHS improve the efficiency of CCS claims processing.** Many have threatened to leave the CCS Program and others already refuse to see additional CCS clients because of claims adjudication inefficiencies and delays. Without qualified providers, the effectiveness of the CCS program is in jeopardy. CCS clients will be at risk of not receiving necessary medical services.

County Conversions: **Conversion of a county to CMS Net requires extensive work,** including the following: **(1)** establishing connectivity between the CCS county office and the state's Health and Human Services Data Center, **(2)** planning for the change in CCS operations associated with use of CMS Net; **(3)** configuring and testing the county CCS data files so they can be process through the CMS net data conversion files; **(4)** training county CCS staff in the use of CMS Net; and **(5)** scheduling a date when conversion takes place.

Experience has shown that county readiness to convert is critical to the pace at which it occurs.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to provide **a detailed update as the progress of implementing the CMS Net/Enhancement and EDS billing**, and to respond to the following questions:

- **1. Using the CMS Net progress chart (Hand Out),** please provide **a brief overview of the key milestones to be completed in the budget year, including any Request for Applications/Proposals to be sent out**.
- **2.** What are the **estimated completion dates for the following phases** of the CMS Net Project?
  - **A.** Electronic transmittal of the CCS authorization of services to the state fiscal intermediary (i.e., EDS);
  - **B.** Sending provider **claims directly to the fiscal intermediary** rather than sending them first to the CCS office that authorized the service (This

part of the system when implemented will save considerable time and eliminate confusion on the status and location of the claim.);

- **3.** When will **the following counties be automated with CMS Net** and what is the **DHS doing to ensure these counties convert?** (Los Angeles, Sonoma, Sacramento, Alameda, Contra Costa, Orange, San Diego, San Francisco, and San Mateo)

5. Genetically Handicapped Persons Program (GHPP)—Baseline Budget Adjustments & LAO Option

Background: The GHPP **provides diagnostic evaluations, treatment services, and medical case management services for adults with certain genetic diseases**, including cystic fibrosis, hemophilia, sickle cell disease, Huntington's disease, and certain neurological metabolic diseases.

Background—Hemophilia and Its Treatment: Generally, patients with hemophilia refers to a group of bleeding disorders, most commonly "factor 8" and "factor 9" deficiencies but also include von Willebrands Disease and other "factors". Patients with these disorders are classified based on their level of procoagulant that is deficient. Disease management through comprehensive hemophilia treatment centers is often recommended.

Individuals with these disorders require treatment **with factor concentrates for bleeding episodes. These factor concentrates are medications that are either made through purification of plasma proteins or through a process of genetic engineering. These products are clinically complex and cannot be considered interchangeable. Prescriptions are usually written as brand name prescriptions after discussion of the particular product between patient and caregiver.**

Governor's Proposed Budget: **The budget proposes expenditures of $35.9 million ($35.7 million General Fund, and $150,000 enrollment fees)** to provide treatment assistance to **about 892 average annual participants (an average annual cost of $40,233 per case)**. This reflects an increase of $1.5 million (General Fund) over the revised current year budget. **The proposal is consistent with existing policies, and reflects modest adjustments for caseload and utilization.**

Based on information provided by the DHS, the following displays proposed expenditures by GHPP eligibility/diagnosis:

- Hemophilia $29.9 million
- Cystic Fibrosis $4.8 million
- Sickle Cell $688,000
- Huntington's $400,000
- Metabolic $77,000

Legislative Analyst's Office "Option": In an effort to provide the Legislation with "options" for curtailing and reducing General Fund expenditures due to the current fiscal situation, the LAO has crafted an "Options Report" which contains various proposals to reduce General Fund expenditures.

One of the proposed options would be to have GHPP contract out for blood products. **The LAO contends that the state may be able to purchase products at a lower cost by establishing a competitive bidding process** instead of the individual client based purchasing procedure that is currently used.

The LAO also states that GHPP may not be identifying all cases in which program costs could be reimbursed by third-party private insurance and may not be assessing collecting the maximum amount of revenue it can from client contributions.

No exact dollar savings were identified by the LAO, though they say there is potentially several million dollars in annual General Fund savings.

Subcommittee Request and Questions: The Subcommittee has requested the DHS and the LAO to respond to the following questions:

- **1. DHS, Generally, what has been the recent fiscal history of the program?**
- **2. DHS,** Does **GHPP currently obtain rebates for the various blood products and medications it supplies under the program** in the same manner and level as the Medi-Cal Program? May it be possible to obtain additional rebates (i.e., above the current GHPP level) for the program in the budget year?
- **3. LAO**, Please explain **your proposed "option"** for contracting.
- **4. DHS**, Do you have **any comments regarding the LAO "option"?**

Budget Issue: Does the **Subcommittee want to (1) adopt or modify the proposed budget, and (2) request any additional follow-up?**

6. Information Technology—Request for Staff

Background: The DHS states that they have been directed by the DOF, Department of Information Technology (DOIT), Technology Information Research Unit (TIRU), and the Bureau of State Audits to improve project and contract management practices with respect to information technology oversight, services and functions.

Governor's Budget Request: The budget is **requesting an increase of about $2 million ($790,000 General Fund,** $790,000 matching federal funds, and $395,000 in various special funds) to hire 8 contract staff to deploy critical information technology project management and oversight services and functions. These include:

- Implement the practices and policies needed to ensure successful IT project management;
- Meet the directives of DOIT and TIRU to build a DHS project management organization;
- Implement department-wide IT strategic planning that address business strategies;
- Provide IT project and acquisition oversight; and
- Provide project management methodologies, practices, processes and procedures.

The DHS states that the addition of contracted staff will reduce the risks to IT project initiation and deployment and help ensure IT projects are selected based on DHS business strategies, deployed using industry accepted best practices, correctly estimated, and managed within scope, budget, and schedule.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** How many staff does the DHS presently have who are responsible for Information Technology projects?
- **2.** Does the DHS currently operate a Project Management Office? How is this presently funded?
- **3.** Please provide **a brief summary of the budget request.**

Budget Issue: Are there sufficient General Fund resources to provide funding for this request?

(LAST PAGE OF AGENDA)

Senate Budget & Fiscal Review
Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

Thursday, April 25, 2002
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA
Revised, 4/25/02

CONSENT AGENDA

DISCUSSION AGENDA

5180 Department of Social Services: CalWORKs

CONSENT AGENDA

5180 DEPARTMENT OF SOCIAL SERVICES and
4130 HEALTH AND HUMAN SERVICES DATA CENTER

Case Management Information and Payrolling System (CMIPS)

The CMIPS system provides case management information and payrolling services for providers of In Home Supportive Services. The subcommittee adopted the CMIPS budget at our March 14 hearing, with a consent reduction of $376,000 as recommended by the LAO**. The Administration has put forward a spring finance letter with an additional technical correction to remove $180,000 ($113,000 General Fund)** to reduce fraud prevention activities in 2002-03. A one-time augmentation was provided in 2001-02 for this purpose; the January budget inadvertently reduced the budget by $20,000, rather than the full amount.

No issues have been raised about this reduction.

The CMIPS budget included an increase in spending authority for HHSDC to extend 6 limited term positions and associated operating expenses to extend the planning phase of a contract to replace the current system. The subcommittee adopted a reduction of $376,000 to the spending authority for HHSDC, based on the LAO finding that the funds for the limited term positions in the current year were not removed from the baseline expenditures, and hence new funds are not required. **The spring finance letter reduces the DSS budget by $175,000 ($120,000 General Fund) to reflect undoing a similar technical double-budgeting for the operating expenses associated with the positions.**

No issues have been raised about this reduction.

Data Project Administrative Overhead

The Data Center establishes annually an overhead rate for providing overall support to the five projects it manages for the Department of Social Services. In 2000-01, the rate was 19.45%. Effective 2001-02, the Data Center reduced that overhead rate to 14.47%. The appropriate change was made to some projects but not the others.

The Statewide Fingerprint Imaging System (SFIS) gathers a fingerprint and photo image for applicants for and recipients of CalWORKs. The subcommittee adopted the SFIS budget at our March 14 hearing, with a reduction of $560,000, based on the analyst's review of the budget. **The spring finance letter reduces the SFIS budget by $35,000 General Fund to implement the reduction in Data Center overhead rate.**

The Child Welfare Services/Case Management System (CWS/CMS) provides automated case management support to child welfare workers, including adoptions workers. The subcommittee adopted the CWS/CMS budget at our March 14 hearing. **The spring finance letter reduces the CWS/CMS budget by $118,000 ($59,000 General Fund) to implement the reduction in Data Center overhead rate.**

In addition, the spring finance letter reduces current year funding by $146,000 ($83,000 General Fund) to implement the reduction in Data Center overhead rate, for both SFIS and CWS/CMS.

No issues have been raised about these reductions.

Data Center Operations Component
The Data Center provides departments and agencies within the Health and Human Services Agency support to use electronic data processing resources effectively, efficiently and economically. The Data Center is supported entirely by reimbursements from departments that contract with the data center for services. The operations part of the Data Center provides computer services, telecommunications support, information systems, and training support for departments. Annually, the Data Center submits a BCP that consolidates infrastructure equipment requests. Annually, the Data Center also submits a technical adjustment to their budget that reflects the actual expenditures in prior years. Typically, this has resulted in a reduction of expenditure authority.

The January budget included a $2.2 million increase in spending authority for equipment to meet consumer needs in the operations part of the Data Center. The LAO withheld a recommendation, pending submission of the spring finance letter adjusting expenditure authority based on actual costs for equipment previously approved. The subcommittee did not act on the spending increase, pending receipt of the spring letter. **The spring finance letter reduces spending authority by $2.8 million, based on actual previous-year costs.**

There are no issues now with the two requests, resulting in a net reduction of Data Center spending authority by $600,000

Statewide Automated Welfare System (SAWS)
SAWS is a multi-program automated system that provides support to eligibility determination, benefit computation, benefit delivery, case management and management information for CalWORKs, Food Stamps, Medi-Cal, Foster Care, Refugee Assistance and the County Medical Services program. The system is delivered through a multiple county consortium system that includes four consortia.

The Data Center provides oversight for the four consortia, including review of project documents and budgets, deliverables and risk management. The Data Center assures that state and federal control agency approvals are completed in a timely fashion. The budget includes a total of $7.1 million for such oversight, no change over the current year. The oversight expenditures include $2.3 million for consulting services.

The LAO originally recommended that the Data Center budget be reduced by $2.3 million, as there was no information as to the specific activities and tasks that would require consulting services. The Data Center has since provided detail on the makeup of consultant activities and costs. The LAO now recommends reducing the Data Center budget by $807,000. This would provide $1.3 million for oversight consulting activities, including review of project deliverables on consortium projects; review of county implementation activities on CalWIN/Welfare Case Data System, and technical assessments of LEADER.

- **The Department and Data Center agree to the LAO reduction, providing that the departments have the flexibility to address the most significant risks in utilization of the remaining consulting funds.**

SAWS: Welfare Data Tracking Implementation Project (WDTIP)
The WDTIP project provides counties with the automation required to conform to statewide tracking of time-on-aid requirements mandated by federal and state welfare reform. This tracking allows the state to manage the federal and state time limits in CalWORKs/TANF. Statewide conversion was scheduled to complete by December 31, 2001. County conversion activities are now expected to complete by December 31, 2002. Eight counties are expected to convert by June 30, 2001; the last two (Los Angeles and Stanislaus) will convert before December, 2001. All counties are tracking time on aid, in non-automated form in counties that have not converted to WDTIP.

The spring finance letter reduces costs in DSS by $2.4 million federal funds in the current year, and increases costs in the budget year by $1.2 million federal funds, reflecting the delay in county conversion and updated cost estimates for converting data.

The resulting impact on Data Center spending authority is a decrease in the current year of $3.3 million in spending authority, and a decrease of $4.8 million in the budget year.

No issues have been raised about this reduction.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

California Automated Child Support System (CCSAS)
The Department of Child Support Services is partnered with the Franchise Tax Board to establish a single automated tracking and data system for the child support system, called the California Automated Child Support System (CCSAS). California's failure to establish such a system in prior years is responsible for a large and growing federal penalty against federal support for child support collections. While the new data system is under development, counties have transitioned to a limited number of interim, federally approved automation systems, called the Pre-Statewide Interim Systems Management Automated System (PRISM).

The January budget eliminated $4.4 million from PRISM, reflecting completion of county transitions to the PRISM system. The budget redirect most of these funds for the purpose of developing the programmatic expertise, technical and project management oversight and other project support activities for the CCSAS system.

The subcommittee on April 4 adopted the January budget, modified by an LAO recommendation to reduce the consulting budget by $542,000, (for a total redirection of $3.7 million) and approving two positions, to develop in-house capacity to develop the CCSAS system.. The subcommittee also adopted budget bill language requiring the Department to provide a plan for developing staff capacity and technical knowledge to support the new statewide system.

The spring finance letter requests a redirection of $130,000 ($44,000 General Fund) and a transfer of one position from the Franchise Tax Board to the Department to establish a CCSAS Project Leader to provide overall leadership for the high risk and complex project. There are no net new costs and no net new positions in this proposal.

No issues have been raised about this proposal. It is consistent with the actions the subcommittee took April 4.

DISCUSSION AGENDA

5180 DEPARTMENT OF SOCIAL SERVICES: CalWORKs

The California Work Opportunity and Responsibility to Kids (CalWORKs) program, California's welfare program, faces a seminal year in its development in the 2002-03 budget year. **The structure of CalWORKs is based on the offering of services to families to facilitate employment, the imposition of time limits for adults to a fixed lifetime eligibility for benefits, and the assurance that the state will provide a safety net for children if their families reach the time limit**.

The CalWORKs program implements the federal Temporary Assistance for Needy Families (TANF) program in California. CalWORKs (and TANF) replaced the Aid to Families with Dependent Children program, and was implemented in California on January 1, 1998. The program provides cash grants and welfare-to-work services to families whose incomes are not sufficient to meet basic needs for food, clothing, and shelter.

Characteristics of CalWORKs include time limits on the period a family can receive welfare-to-work services and time limits on the period a family can receive cash grants (generally, a 60 month lifetime limit on the receipt of cash aid). Families are required to meet requirements for participation in preparation for work, and work, in order to continue to receive assistance. Families are also generally required to prove that children are in school, and other requirements. CalWORKs was designed to be county-administered, with counties permitted to develop employment preparation and family support programs that reflect local conditions, including labor market information and the availability of other services to meet CalWORKs family needs.

Federal TANF law will expire in 2002, and Congress must act to reauthorize the program. Congress could potentially reduce the amount of TANF block grant funds available to states, based on caseload reductions in the program. However, there are strong arguments from the states that the national recession requires that the federal government continue to make available at least the current level of TANF funding. Increased work requirements and special programs to encourage family building are also a possibility in reauthorization.

CalWORKs is funded through a federal TANF block grant amount of $3.7 billion. This amount must be matched with a state share (MOE) of $2.7 billion. The state share is based on historic spending on welfare in 1994, with downward adjustments if certain work participation goals are achieved.

Attached find a chart showing current year expenditures and proposed expenditures to meet the TANF and MOE requirements. Budgets in recent years have spent funds above the TANF and MOE total, as the state spent down a substantial accumulated unexpended balance. By the budget year, the unexpended balance is gone, and some of the elements of California's plan have exceeded expectations. Some of the related programs funded through CalWORKs, like KinGAP, have grown significantly since CalWORKs began. In other cases, the success of CalWORKs has created new expectations. For example, California's rate of employment for recipients and recent recipients has exceeded the national expectation. As a result, child care costs have grown significantly each year.

Caseload

Caseloads for AFDC, the predecessor of CalWORKs, grew, in some years substantially, through 1993-94. At that time, caseload began to fall, at a peak drop of 13.1% in 1997-98. Caseload declines have continued through the current year, with a drop of 2.6% forecast for the current year. **The caseload is estimated to grow by 1.6% in the budget year. Estimated caseload for the budget year would be 523,375**. Most of the caseload (470,737) is comprised of All Other Families (one-parent and child-only cases); the balance are two-parent families. Included within the category All Other Families are Child Only cases. This category has grown under CalWORKs: it includes cases with undocumented immigrant adults; with non-needy caretaker relatives; with disabled parents aided through SSI/SSP; with adults who are removed from aid as a sanction for failure to participate; and cases where the adult has reached the time limit.

California has approximately the same proportion of cases composed only of children (34%) as the rest of the nation (33%). A greater proportion in California include citizen children with ineligible non-citizen parents. A great proportion (16%) consist of one or more sanctioned adults (7% nationwide).

The Department and the California Budget Project have both done studies of welfare leavers.

- **The Department and the Budget Project will do brief summaries of their findings concerning individuals who have left welfare.**
- **The May Revision will update caseload projections.**

Cost of Living Adjustments

Current law requires that a cost-of-living adjustment be made to the CalWORKs aid payment, based on the change in the California Necessities Index each year. Beginning in 2000-01, the change based on the COLA is made October 1 of each year. The budget therefore reflects paying the current year COLA at 5.31% for a full year. **The budget proposes to make no COLA adjustment for 2002-03.**

The CNI for the budget year will be 3.74%. **The cost of providing a Cost of Living adjustment for CalWORKs recipients would be $112 million from TANF/MOE funds.**

A family of three currently receives $679/month in the high-cost regions of the state, and $647/month in low cost regions. The COLA would provide each family an increase of $25/month in the high cost regions, and $24/month in the low cost regions.

- **Should the subcommittee adopt the proposal to eliminate a COLA for CalWORKs participants in the budget year?**

Time Limits

TANF established a lifetime limit on federal assistance of 60 months. Some households, with an individual who has received a cumulative total of 60 months of assistance beginning in December 1996, are reaching the federal limit in the current year. California began CalWORKs 13 months after the start of TANF. As a result, all families who have reached the federal time limit will continue to receive CalWORKs assistance payments until they reach the state's 60 month limit. The payments to these households are paid with state-only funds, but the payments are counted as part of the state's Maintenance of Effort requirements.

The federal limit only affects payments to single parents in California. Two-parent families have already been shifted to a state-only program in order to assure that California meets federal performance measures for the TANF program. Up to 20% of the CalWORKs caseload can be exempted from the TANF time limit because of a hardship, such as being determined unable to work.

When a family reaches the California time limit, the adult is removed from the family cash grant, and the grant is correspondingly reduced. However, the children remain eligible for assistance, provided with state-only funds. These payments are also MOE eligible.

The budget estimates that approximately 72,000 ~~persons on average per month~~ *cases* had reached the 60-month federal time limit in the current year; that number will drop to 67,000 in the budget year. The cost shift from federal funds to state funds within the CalWORKs program for grants and services for federal time limited cases are approximately $788 million, including grants, services, administration and child care in the budget year. The budget further estimates that approximately 98,000 ~~persons~~ *cases* will reach the state time limit in the budget year. This results in savings of approximately $223 million in the budget year, including grants, services, administration and child care.

The Department was required in the current year budget to report by 2/1/02 on the characteristics of families reaching the federal time limit and the state time limit. The report has not been received, but the Department is prepared to summarize the findings in the report.

- **The Department will report on families reaching federal and state time limits.**

The LAO has indicated that two issues in current law governing time limits are unclear. They include (1) how counties should apply exemptions from the time limit; and (2) the circumstances under which services may be provided after an individual reaches the time limit.

- **The LAO will present their analysis and proposals**
- **The subcommittee will determine whether these issues should be addressed in the budget.**

<u>**Child Care**</u>
The CalWORKs program provides child care to participants that are working or engaged in employment preparation programs. The CalWORKs child care system includes three stages:

- Stage 1, provides care when a participant enters CalWORKs, and the funds are administered by county welfare departments;
- Stage 2, provides care to participants once the participant's situation is stable, as defined by the county welfare department, and as long as two years after the participant leaves cash aid; the funds are administered by the Department of Education.
- Stage 3, provides care to former CalWORKs recipients, as part of the larger General Child Care system. This system is also administered by the Department of Education.

Beginning in 1997, the Legislature created a set-aside in General Child Care in Stage 3, to assure that former CalWORKs recipients receive care as long as they are working or in school and remain income and otherwise eligible for child care.

Child care expenditures for CalWORKs recipients have grown substantially, as CalWORKs succeeds in getting adults to work and keeping them there. The Governor proposed in the January budget to make significant reforms to child care, including the child care provided under CalWORKs, that have the combined effect of significantly reducing the amount of funds needed. As initially proposed, the reforms would reduce income eligibility limits, reduce reimbursement rates for provides, implement fees for virtually all recipients of child care, implement increased fees for those currently paying fees, and eliminate eligibility for 13-year-old children. The child care reforms would have resulted in savings of approximately $400 million. The January budget proposed to use these funds to create new subsidized child care that would be available for all low income families.

The specific CalWORKs impact of the proposed reform was to reduce anticipated expenditures for child care under CalWORKs by a total of $183 million ($50 million of Stage 1 and $133 million of Stage 2). The savings were principally from higher family fees, lower provider reimbursement rates, and approximately 6,000 of Stage 2 families losing eligibility. In addition, the proposal would have eliminated the Stage 3 set-aside by March of 2003, eliminating the guarantee that former CalWORKs participants would receive assistance as long as they remained income eligible.

The Administration has withdrawn the specific child care reform proposal contained in the January budget. The Administration has commissioned a stakeholders group, and has begun efforts to develop a revised proposal for the May Revise.

The primary discussion of reform proposals that will effect child care will take place in Subcommittee #1, as part of the broader child care budget. That subcommittee, in addition to the challenges of the reform, will consider **whether to continue to provide a Stage 3 set-aside, and how to fund that set-aside. The estimate now is that the cost of a continued Stage 3 set-aside would be $110 million in the budget year.**

The challenge to the CalWORKs budget, however is two-fold. On the one hand, since the Governor proposed to transfer savings from the child care reforms to general child care, **the budget continues to include $400 million of child care funds, including $183 million from savings in the CalWORKs system.** The continued proposed use of those funds in child care would permit the Legislature to postpone consideration of the child care reforms to a policy setting, putting the 'savings' back into child care programs currently operating. On the other hand, CalWORKs is currently funded at the TANF/MOE level. If the reforms are not adopted, it will be necessary to find a way to fully fund Stage 1 and 2 child care within CalWORKs.

The Assembly Budget Subcommittee has taken action to restore the child care budget to reflect a continuation of the current year's child care policy. They further have directed staff to identify a way to find savings for a continuation of Stage 3 in the budget year, and requested that all recommendations be completed by May 8.

- **Should the subcommittee restore $183 million to Stages 1 and 2 child care in CalWORKs?**

Community Colleges

The budget, as one of several actions to bring CalWORKs expenditures within the federal minimum funding amount, has eliminated $50 million of General Fund/Proposition 98 and $8 million match to TANF funds, provided in past years to provide community college services to CalWORKs recipients. The budget retains $15 million for child care expenditures for CalWORKs recipients enrolled in community college, and continues to pass through $8 million in TANF funds to the community colleges.

These funds have been used by the community college system to fund fixed, variable and onetime costs for providing support services and instruction for CalWORKs students, including job placement and coordination; curriculum development and redesign; child care and work study; and instruction. The community college system has produced an annual report, since 1997-98, on the conduct of its CalWORKs program. Their most recent report found that the community college system served 108,000 students in 1999-00. At the same time, the specific CalWORKs programs on all 108 college campuses served 47,000 students annually with direct services. This represents an increase of 73% since the beginning of welfare reform. The majority of the students served in programs were self-referred (27,600). The largest share of the community college CalWORKs funds are used for work study (paying up to 75% of the wage) and child care. By 2000-01, none was spent on instruction; a small amount was spent on curriculum develop to provide instruction that meets the educational and timeline needs of CalWORKs recipients. Some was spent on coordination with other agencies serving CalWORKs participants.

The Community College Chancellor's office has recently completed a study of outcomes for CalWORKs recipients. They have found that CalWORKs students increase their earnings substantially after exiting and increase their steady employment after exiting.

- **Should the subcommittee adopt the proposed reduction in community college funding?**

Adult Education and ROC/P

The budget, as one of several actions to bring CalWORKs expenditures within the federal minimum funding amount, has eliminated $36 million of General Fund/Proposition 98 funds, provided for several years for Adult Education and Regional Occupational Collaborative Program (ROCP) services for CalWORKs recipients. $10 million in TANF pass-through funds are retained in the Adult Education/ROCP budget. These $46 million in funds have been used by the Department of Education to provide both instructional services above the Adult Education cap, and support services for students in adult education programs both over and under the cap. ROCP programs serve CalWORKs students where space is available after services to students under 18. Funding is prioritized at the local level by a joint planning process including Adult Education, ROCP and welfare departments

The Department of Education reports that in 2000-01, the program served 18,500 average daily attendance served with these funds. This ADA count translates to a larger number of actual students: a total of 53,000 were served by the system and reported to the Performance Based Accountability system (these are students served who are willing to consent to reporting their data). The average student has 10 years prior education; 58% don't function at a high school level academically. Most have a long history of failing in school. A large number of these students are receiving basic literacy and English as a Second Language services.

The Department of Education has identified funds from previous years that could be used to partially restore this program for the budget year. The unexpended funds include funds from the basic adult education budget, and funds from previous year's CalWORKs Adult Education/ROCP budgets. Senate Budget Subcommittee #1 is considering a proposal to partially restore funds for the Adult Education and ROCP portions of the program. The proposal would include funds for Adult Education instructional services above the cap, support services for participants, and ROCP program funding where space is available. The proposal assumes that the $10 million in TANF pass-through funding would continue to be provided. Subcommittee #1 suggests that our subcommittee is the appropriate place to discuss whether their restoration creates a CalWORKs MOE problem.

- **Should the subcommittee adopt the reduction in Adult Education services for CalWORKs participants?**

Corrections and EDD Reductions

The CalWORKs budget has since 1997-98 included a TANF transfer to EDD and a matching amount of EDD funds, for use in EDD's Intensive Services Program. This program provides case management, and more intensive support to hard to serve individuals seeking work. CalWORKs participants are automatically eligible, and EDD case managers have a goal of serving 80% CalWORKs recipients. The balance of their services go to other job seekers with multiple barriers to employment. In the current year, $3.6 million was provided from TANF funds; EDD provided a $3.6 million match from EDD funds.

EDD projects that it will serve 32,000 individuals with the Intensive Services program. Based on a study completed in 99/00, EDD estimates that 50% of the individuals served will still be employed one year after receiving services.

The proposed budget eliminates the $3.6 million match from EDD. The subcommittee adopted this reduction in the EDD budget. In addition, the subcommittee eliminated the $3.6 million in TANF funds from the EDD budget, intending to use these funds for higher priority purposes within the CalWORKs budget.

The CalWORKs budget has for several years used expenditures in the California Department of Corrections for two women's program as MOE expenditures. These include the Female Offenders Treatment and Employment Program , that provides residential treatment for women offenders and their children after release from prison. And they include the Family Foundation Program, which provides 12-month residential treatment and then a 12-month intensive aftercare program rather than going into prison. This program is for women who are pregnant or have children under six years of age.

The budget eliminates $2.5 million in expenditures for CalWORKs-eligible families by the Department of Corrections from MOE. The programs continue to be funded with Governor's discretionary WIA funding.

- **Should the subcommittee adopt the reductions proposed in the Governor's budget for EDD and Corrections?**
- **Should the subcommittee remove an additional $3.6 million in TANF funds from EDD?**

Maintenance of Effort Pressures

As indicated above, the federal government requires, as a condition of receiving TANF funds, that California provide a minimum level of General Fund support for program serving CalWORKs participants and other low income households potentially eligible for CalWORKs. California's MOE is $2.7 billion per year, as long as the state meets federal performance measures. The CalWORKs program expectations have grown substantially: in part because all counties are now operating fully; in part because successful placement of CalWORKs participants in employment has increased the demand for child care; in part because programs funded with TANF money in the early years have grown in caseload and cost.

The CalWORKs program can be provided only with great difficulty within the TANF MOE limits in the budget year. The Governor's proposed budget was able to remain within the limit only by withholding a COLA for participants, by removing $100 million in funds for other departments from CalWORKs (community college, adult education, EDD and corrections funding), and by making substantial reductions in child care for CalWORKs participants.

If the Legislature intends to change any of these proposals (restore a COLA, for instance, or provide full funding for child care), it will need to find the funds to do so, and to create space within the TANF/MOE limit, or spend funds above the MOE limit.

One possibility for constructing a CalWORKs program within the TANF/MOE framework would be to move programs that are not directly connected to CalWORKs outside the CalWORKs framework. For example, the state has funded Emergency Assistance/Foster Care programs with TANF funds, avoiding expenditures that would otherwise be General Fund. The proposed budget spends $45.5 million for this purpose. The state has funded KinGAP with TANF funds, thereby creating other General Fund savings. The proposed budget spends $68.9 million in TANF funds for this purpose. The state has funded Child Welfare Services with $202.6 million in TANF funds, avoiding expenditures that would otherwise be General Fund. Any of these programs could be moved outside the CalWORKs framework. Or, all these programs could be capped at current year levels, which would have the effect of not making the problem worse.

- **Should the subcommittee consider moving any of these programs outside the CalWORKs framework? Or capping their use of TANF funds?**

County Program Grant

Currently, the state provides counties a "Single Allocation", that includes funding for Stage 1 Child Care, CalWORKs Employment Services, and CalWORKs program administrative costs. Counties can currently shift funds between these three different activities, as long as they remain within the overall amount of their Single Allocation. Moreover, in years past, the state has recaptured unspent Single Allocation funds and redistributed them to counties that have spent more than provided.

The budget this year proposes to suspend the Proposed County Administrative Budget (PCAB) process that determines an adequate level of administrative and employment services funding needs under CalWORKs. The budget proposes to compensate for the shift from a needs-based budgeting methodology to a capped distribution based on historical spending, by expanding county flexibility by providing counties with a "County Program Grant" that includes the funds currently in the Single Allocation, plus the allocations currently provided through the CalWORKs Mental Health, CalWORKs Substance Abuse and the Juvenile Assessment/Treatment Facilities and Probation Camps funding. Counties would be provided with authority to shift funds within these allocations to meet local needs. **The LAO has proposed that the County Program Grant could be expanded with an additional $44 million by including funding from EDD, teen pregnancy prevention, and community college services provided through TANF funds.**

The budget includes $109.2 million of employment services funds to support treatment for CalWORKs participants with mental health and alcohol and other drug problems. Funds have been set aside within the Employment Services budget annually for such purposes under CalWORKs. County welfare departments are required to work with county mental health and alcohol and drug programs to design and implement effective ways to provide the services needed to assure that CalWORKs participants are able to get and keep employment. County welfare departments are also required to provide domestic violence treatment services where needed. No set-aside of funds is provided for domestic violence.

The mental health and alcohol and drug programs have developed slowly, and now are anticipated to fully spend the set-aside amounts. **The budget proposes that the set-aside for mental health and alcohol and drug services be included in the larger County Program Grant**, and that county welfare departments be given authority to transfer funding to higher priorities.

When California's CalWORKs program was developed, it was anticipated that the mental health portion of these funds, at least, would be used to draw down federal Medicaid matching funds, where appropriate. Federal regulations that prohibit the use of funds that match Medicaid being used to match TANF funds stopped this proposal. California does not have a difficulty today meeting its MOE requirement. In fact, in some counties the need for mental health services has exceeded the capacity of the set-aside, and counties have used Single Allocation funds to supplement the set-aside. The Legislature could consider allowing counties the flexibility to maximize federal Medicaid match, where appropriate. Counties have argued that retaining some non-Medicaid set-aside is important. Funds have been used to provide non-Medi-Cal reimbursable services. For example, outreach to CalWORKs participants and parenting education are not Medi-Cal services, but have been important to some participants. In addition, services that are provided more extensively than the medical necessity criteria under Medi-Cal would normally permit have been used to assure that participants are work-ready.

Drug Medi-Cal provides a much more restricted benefit, geographically and in terms of treatment services provided. It seems less likely that Drug Medi-Cal could be used to claim federal matching funds for services to CalWORKs participants.

The CalWORKs budget has also included $201.4 million for County Probation Facilities. These funds were initially 'earned' by the state from AFDC funds used for services to probation youth. **The budget proposes that the Probation Facilities set-aside be included in the larger County Program Grant**, and that county welfare departments be given authority to transfer funding to higher priorities.

- **Should the subcommittee adopt the County Program Grant?**
- **Should the County Program Grant be expanded to include other TANF-funded elements?**
- **Should the subcommittee consider setting aside a portion of the Mental Health set-aside outside the CalWORKs framework to be used to claim federal funds?**

<u>Mental Health/Alcohol and Other Drug Allocation</u>

The current year budget required a report on the amount of funding provided for participants who have suffered from domestic violence. **The report has been completed and is under review; the Department anticipates that the report will be released by May.**

The budget has historically included budget bill language requiring that the Department provide semi-annual reports on the amount spent by counties on substance abuse and mental health treatment services for CalWORKs recipients, and the number of recipients receiving these services. This language was removed in the proposed budget.

The county associations involved with delivering these services (County Welfare Directors Association, California Mental Health Directors Association, County Alcohol and Drug Program Administrators Association of California), have established a working group to develop research and best practice guidelines for counties providing mental health, substance abuse and domestic violence services. The three associations are concerned that the state has no outcome measures specific to these services. They are seeking permission to utilize $100,000 of the allocation for 2 or 3 counties to develop an outcome system that could be replicated in all counties.

- **Should the subcommittee restore the reporting language for mental health and substance abuse funds?**
- **Should the subcommittee support the outcome proposal?**
- **The subcommittee will anticipate receiving the domestic violence report by the May Open Issues hearing.**

County Program Grant 5% Holdback

The CalWORKs program has traditionally had a reserve, large in the initial years, of unspent federal TANF funds. These reserves were largely related to the fact that the improving economy began a reduction in caseload before the state and counties initiated the services required by CalWORKs. The CalWORKs budget is now fully at the federal minimum levels, and no reserve is contemplated. Instead, the Budget Bill includes language that would hold back 5% of the County Single Allocation/Program Grant. These funds would be used to protect the state's risk of unexpected costs from caseload increases in CalWORKs and KinGAP, and other unanticipated costs. In other words, the state proposes to hold back services funds in order to create a reserve for aid payments.

The LAO notes that a hold back provision would result in a lower level of services at the county level, since county planning efforts will of necessity be focused on the mount of funds actually available. This could result in a reduction of up to $95 million in services funds.

- **The LAO will testify on the program impact of the hold back provision**.
- **Should the subcommittee adopt the 5% holdback provision in the budget?**

County Incentives

CalWORKs statute provided that savings resulting from exits due to employment, increasing earnings, and diverting potential recipients, would be paid to counties as performance incentives. In 2000, the law was changed to make performance incentives subject to annual budget act appropriations. By 99-00, counties had earned $1.2 billion in performance incentives, and had been paid $1.1 billion. In 2001-02, the Legislature provided $20 million as payment towards the unpaid obligation.

Counties have spent a small proportion of their incentives: the budget estimates that counties will have $600 million in unspent incentive funds available in the budget year. The federal government requires that the state consider these funds as obligated only if they will be spent in the budget year. Many counties, however, have made extensive community plans for use of incentive funds for such things as post-employment services, and support services to divert low income families from needing assistance.

The budget proposes to redirect the $20 million from the current year, and to recapture $169 additional payments owed to counties from past incentives to be used for other purposes in the budget year. The budget proposes then to reallocate the remaining incentive funds, or $431 million, to counties as performance incentive funds. This would increase the obligation to counties for prior year incentives to $266 million.

The counties have proposed to use some of these incentive funds to address funding needs under Employment Services (see next section).

- **Should the subcommittee adopt the budget proposal to recapture incentive funds?**

<u>**Employment Services**</u>
The Department has suspended the procedure for estimating county needs for the Single Allocation this year, making it difficult to estimate the extent to which holding counties at prior year levels affects their capacity to meet the requirements of CalWORKs. Prior to this year's budget process, however, **the LAO estimated that county Employment Services was at least $125 million short of full funding in 2001-02 to provide needed administration, assessment, and employment services to CalWORKs participants**, using a conservative assessment based on actual county experience. As a result, many counties will not receive funds sufficient to meet their obligations. Counties that were slow to initiate full CalWORKs programs are especially hard hit by this limitation on funding.

In the current year, the Legislature required that the Department identify all unspent CalWORKs funds available at the end of last year, and reallocate to 'under-equity' counties in proportion to their need. $39 million was identified (from unspent funds from the Single Allocation) and allocated to six counties. The budget proposes no similar readjustment. **Counties have proposed a method for reallocation of funds that would provide $145 million to add to the Single Allocation/County Program Grant (see attachment).**

The budget has for several years transferred funds from the Employment Training Fund to CalWORKs to offset the cost of providing employment services. These funds have offset the TANF funds, and provided a MOE amount to CalWORKs. Last year, the budget included $30 million of ongoing funds, and an additional $31 million 'fund sweep' in accumulated reserves from the Employment Training Fund. **This year, the budget proposes to transfer $30 million in ongoing funds from the Employment Training Fund to CalWORKs.**

TANF is in the process of being reauthorized at the federal level. This reauthorization will potentially include significant changes to the program. One issue that has raised concern among most states is a proposal by the Bush administration to significantly increase expectations for the percentage of recipients who are working, and the amount of work hours each adult is required to perform. Among other impacts, an increase in work hours has the potential to increase child care costs, and to require more intensive services for households with significant barriers.

California's one-parent families now participate in TANF requirements (32 hours/week) at the rate of 27.50%. 2-parent families participate at the rate of 47.70%. An additional 14.10% of one-parent families participate but do not meet the full hourly requirement. An additional 28.00% of 2-parent families participate but do not meet the hourly requirement.

Proposals for meeting potential federal challenges include increasing the extent to which families can meet work requirements through education or training activities; or acknowledging the partial meeting of requirements. In general, proposals for restructuring CalWORKs in a significant way will receive further review next year when the terms of the federal reauthorization are clear.

The LAO has generally expressed concern about the pressures facing the CalWORKs budget. For future years, the Legislature should establish its priorities regarding the level of General Fund support for CalWORKs, the relative importance of income maintenance versus employment services, and inequities in funding employment services.

- **The LAO should present a summary of the state's participation requirements.**
- **Should the subcommittee adopt the CWDA proposal to reallocate Employment Services funds?**
- **Should the subcommittee adopt the transfer from the Employment Training Fund?**
- **Should the subcommittee establish a process for reviewing the policy issues in CalWORKs?**

Good Cause, Compliance and Sanction Processes

Budget Act language in 2000-01 required the Department to report on the rates of good cause establishment and curing of sanctions in the CalWORKs program. The language also required the Department to include recommendations for improving these current processes.

Federal law provides considerable flexibility to states to define what constitutes non-compliance, the severity of the sanction, and the appeals process to restore benefits. California levies an adult-only sanction, where the adult portion of the grant is removed when the adult is not compliant, but children continue to receive assistance. CalWORKs adult recipient, unless exempt, must participate in welfare to work activities, and meet program requirements. In most cases, this translates to working at least 32 hours per week for one-parent households; 35 hours per week for two-parent families. Adults may be exempted for 'good cause', such as the unavailability of child care, or a temporary illness.

The study found that most reasons for good cause exemptions included illness of self or family member; or lack of transportation. Approximately 3% of the caseload fell into this category. 75% of counties and all legal advocates who participated in the system believe that changes must be made to the methods currently used to establish good cause. The study found that all counties have a procedure in place to encourage participation by non-compliant individuals. Again, most counties and all legal advocates believe that the compliance services could be improved. Some counties were unable to provide complete data on the number of sanctions imposed or the number of sanctions cured. Virtually all the study participants believe that greater clarification is needed concerning procedures for curing sanctions.

The Department recommended that a work group be convened to develop improvements to the good cause, compliance and sanction procedures. In addition, the Department intended to issue an All County Letter to reiterate sanction procedures.

- **The Department will report on the status of implementing the recommendations in the report.**

Inter-County Transfers

The budget of 2000 required that the Department prepare and submit a report to the legislature containing findings and recommendations concerning the CalWORKs Inter-County Transfer process for recipients.

The Department found in its study that approximately 2.4% of the CalWORKs caseload moved to another county one or more times in 1999. Welfare departments believe that the transfer process is cumbersome and inefficient: transfer of records is slow and inefficient, and transferring the case is sometimes delayed. Advocates believe that counties sometimes treat transfers unfairly, and that the responsibility for a smooth continuation should be placed on counties.

The report recommended that current regulations should be strengthened to assure eligibility determinations are appropriate; an abbreviated application form should be developed; and proper transfer procedures should be reiterated to all counties.

- **The Department will report on the status of implementing the recommendations in the report.**

Youth Development Service Project

Beginning in 2001, the Department provided $1.5 million in TANF funds to local community based organizations, primarily Boys' and Girls' Clubs, for direct prevention services to youth. These services, including training and recreation activities, are aimed at reducing the rate of teen pregnancy.

The Department reports that over 4,800 young people have been served through this funding. The funding helps the Clubs provide drug, alcohol and pregnancy prevention services to young people aged 6-15. In addition, a portion of these funds helped the clubs form a statewide alliance of Boys' and Girls' clubs.

- **Given the difficulties within the CalWORKs budget, is this funding still a priority?**

Fraud Incentives

The budget eliminates $5.1 million in general Fund incentive payments for fraud detection by counties. Counties would continue to receive $5.1 million in federal TANF funds for fraud detection incentive payments. The funds are provided to counties based on the percentage of the total overpayments in the state that the county recouped through fraud activities. The fraud incentive effort was responsible for $59.4 million in overpayment collections last year. The Department does not believe that the reduction in incentives will alter county administration of fraud detection law. The Assembly took the federal $5.1 million as well as adopting the proposed reduction of state funds.

Should the subcommittee adopt the reduction in fraud detection incentives?

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

April 29, 2002
1:30 P.M.
ROOM 113
(Diane Van Maren, Consultant)

Item	***Description***
4260	**Department of Health Services, selected issues for:**

- **Public Health**
- **Medi-Cal Program**

PLEASE NOTE: **Issues pertaining to the DHS will also be heard on May 6th and at the time of the May Revision. Please refer to the Senate Daily File for the room assignments and to confirm dates and times of future Subcommittee hearings.**

A. ISSUE FOR CONSENT

1. Health-e-App-- Request

Background: The California HealthCare Foundation (CHCF) created an automated, electronic, **internet-based application processing system call Health-e-App.** The CHCF conducted a pilot in San Diego County to demonstrate the benefits of the application to the state. **As discussed in the Subcommittee's hearing of March 11th, the state is now expanding the Health-e-App to other counties.**

First, the state will enroll those enrollment entities (EEs) with the highest volume of claims in groups of 20. These EEs will get trained on Healthy-e-App primarily through an on-line connection and with the assistance of the EDS Help Desk. The state has also developed a web site at www.dhs.ca.gov/health-e-app to provide both EEs and the counties with information to assist in implementing the Health-e-App. In addition, the state is developing a promotion plan to help ensure that EEs and Certified Application Assistors use Health-e-App.

Second, the state will then contact all EEs in selected counties. Counties will be selected based on their progress in developing the "back-end" or county interface part of the system. According to the CHHS Agency, counties have the option to install the Health-e-App county interface, but will likely have to dedicate funds for this function. As such, a critical component for success with the counties will be their ability and willingness to develop the "back-end" interface.

With this "back-end" programming, the application information sent from the Single Point of Entry will automatically update a county's case data system. If the county does not have the interface, the application will be printed out (at the Single Point of Entry) and forwarded to the county as a paper application. Currently, San Diego is the only county that has the "back-end" interface.

The CHHS Agency provided the Subcommittee with a schedule (See March 11 agenda) for implementation and noted in the hearing that additional resources would be needed to proceed with these above referenced efforts.

Finance Letter Request: The DHS is **requesting an increase of $124,000 ($62,000 General Fund) to fund a Data Processing Manager III to serve as the Health-e-App Project Manager and continue development of its application.**

Subcommittee staff recommends approval of this position given the important need to accomplish full implementation and maintain the progress in working with the counties.

B. ISSUES FOR DISCUSSION

1. Section Letters—Current Year Adjustments for Federal Bioterrorism Funds *(See Hand Outs)*

Background—Overall Summary: The Emergency Supplemental Appropriations for Recovery & Response to Terrorist Attacks on the US Act (Public Law 107-117 of 2002), among many other things, will **provide California with about $100 million** in increased federal support to address both local and state concerns regarding the threat of bioterrorism.

Specifically, this level of funding includes the following:

- **$60.8 million from the federal Centers for Disease Control** (CDC) to the DHS;
- $24.6 million from the CDC to Los Angeles County (including Long Beach City and Pasadena City). These funds are to be directly provided to the county upon approval by the federal government of the county's application.
- **$10 million from the federal Health Resources and Services Administration** (HRSA) to the DHS;
- $3.7 million from HRSA to Los Angeles County (directly); and
- $2.2 million from the federal Department of Health and Human Services provided directly from DHHS to certain metropolitan areas.

To obtain the federal CDC and HRSA funds, California submitted two comprehensive applications (with the Governor's endorsement) on April 15, 2002. Both of these applications required considerable effort on the part of the DHS, as well as local public health agencies and personnel, including representatives from the California Conference of Local Health Officers (CCLHO), the County Health Executives Association of California (CHEAC), various affiliate entities and hospital industry representatives.

The **federal CDC funds** are to be expended to upgrade California's state and local public health jurisdictions' **preparedness for, and response to, bioterrorism in 7 areas** as designated by the federal government. **These seven areas and the federal government's suggested proportions of funding to be allocated to each includes the following:**

(1) Planning and Readiness Assessment (20 percent);
(2) Surveillance and Epidemiology Capacity 20 percent);
(3) Biologic Laboratory Capacity (13 percent);
(4) Chemical Laboratory Capacity (none);
(5) Communications and Information Technology (12 percent);
(6) Health Risk Communications and Information Dissemination (5 percent); and
(7) Education and Training (10 percent).

The federal HRSA funds are to be expended to develop and implement regional plans to improve the capacity of hospitals, their emergency departments, outpatient centers, emergency medical service systems and other collaborating healthcare entities for responding to situations requiring mass immunization, treatment, isolation and quarantine in the event of infectious disease outbreaks or bioterrorism.

<u>Expenditure of the State's Allocation from the CDC & HRSA:</u> With respect to the **$60.8 million in federal CDC** funds, **twenty percent or almost $12.2 million is available now for expenditure. Of this $12.2 million amount, 50 percent is to be used for planning with the remaining half for implementation.**

The remaining $48.7 million (remaining 80 percent) will be available after the federal government has approved the state's application (work plan). **The Administration will be providing the Legislature with a Finance Letter regarding these remaining funds as part of the Governor's May Revision.**

With respect to the **$10 million in federal HRSA funds**—"Bioterrorism Hospital Preparedness Program" grant--, the Administration **is proposing to expend $375,000** in **the current year** and will be proposing additional expenditures through the Governor's May Revision.

<u>Two Section 28 Letters—Proposed Current Year Adjustments:</u> The Administration has submitted two section letters requesting adjustments to the DHS current year budget to increase the receipt of federal funds regarding the state's planning and preparedness for bioterrorism. **Each of these is discussed below.**

The first proposal pertains to $12 million in federal CDC funds. The DHS is proposing the following distribution:

- Subvene **$7.5 million to the local health jurisdictions** (excluding LA, Long Beach city and Pasadena City) to support their efforts ***(See Hand Out).*** These funds will be allocated as a **separate contract using a formula that includes a $100,000 per entity base amount plus an allocation provided on a per capita basis (using the 2000 census population data).** As contained in the state's application, all local assistance allocations will be tied to quantifiable accountability measures and progress reports.

- **Use $1.5 million for various state activities** to fund planning activities, critical disease surveillance and laboratory equipment needs.

- **Use $3 million to backfill** for a portion of the $5 million in General Fund support that was provided by the Legislature and Governor to counties in the fall of 2001 to assist with their expenses in the wake of September 11th.

With respect to the $1.5 million for state activities, the DHS proposes the following expenditures:

- **$678,000** to **(1)** address laboratory security and safety at the Microbial Diseases Laboratory; **(2)** purchase equipment and make modifications to the Richmond Laboratory complex to be able to triage unknown but likely dangerous samples; and

(3) convert the Berkeley Laboratory accessioning system from a paper-based system to an automated tracking system.

- **$300,000** to expand the state's planning process and to develop Feasibility Study Reports to further develop the **National Electronic Data Surveillance System (NEDSS).** Generally, NEDSS is a sophisticated system which will be able to receive and evaluate statewide urgent disease requests on a 24 hour a day basis. The federal CDC is requiring this capacity of every state. This planning activity is to build upon previous NEDSS develop activities that were underway as part of the state's previous federal grant initiated in 1999.

- **$315,000** for further development of the **Rapid Health Electronic Alert, Communication & Training System (RHEACTS),** including contractor costs for continued system development, equipment, licenses, and connectivity. RHEACTS is the state's version of the federal CDC required health alert network and meets their requirements. These activities also build upon previous activities which were already underway.

- **$100,000** for a one-time only contract to conduct and prepare a Feasibility Study Report for further development of the CA Electronic Laboratory Disease Alert and Reporting **(CELDAR) System.** Currently this system is in a pilot stage and needs to transition to a full production system for the electronic reporting of laboratory information. The DHS states that this system is being developed in partnership with RHEACTS and is consistent with efforts at the national level.

- **$107,000 one-time only for equipment.** This includes $52,000 for the Viral and Rickettsial Diseases Laboratory for rapid diagnostic testing of agents of bioterrorism (like smallpox), and $55,000 for the Microbial Disease Laboratory for rapid assay equipment.

The second proposal pertains to the HRSA funds for hospitals. Though the DHS will be receiving these funds directly from HRSA, they intend to have the Emergency Medical Services Authority (EMSA) utilize the funds for further developing and implementing emergency medical systems (as is the EMSA's responsibility).

According to the EMSA, there are **three "critical benchmarks"** that are contained in the state's HRSA grant application. **These include: (1)** staffing and medical direction for the program; **(2)** creation of a Hospital Bioterrorism Preparedness Planning Committee, (3) coordination among the three grant programs (i.e., CDC, HRSA and federal DHHS) to standardize protocols and minimize redundancy.

Specifically, the Administration is requesting to use $375,000 of the $10 million in federal HRSA funds to (1) administer the grant, **(2)** serve as staff to the Hospital Bioterrorism Planning Committee, **(3)** produce progress reports and a final report as required by the contract provisions, and **(4)** develop, conduct and analyze the statewide hospital bioterrorism needs assessment. **The proposed current expenditures are as follows:**

- **$99,000 for four state positions** and operating expenses. (This includes Health Program Manager I, Associate Health Program Analyst, Associate

Government Program Analyst, and an Office Technician). These costs will increase in the budget year to reflect full-year funding. This information will be forthcoming at the May Revision.

- **$250,000** for a contract to conduct a statewide hospital bioterrorism needs assessment.
- **$26,000** to contract with a medical director.

Constituency Comments: The Subcommittee is in receipt of several letters expressing support for the Section 28 letters regarding the expenditures.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide a brief summary of the Section 28 proposal to expend the $12 million in federal CDC funds.
- **2.** Please explain why the DHS temporarily redirected staff (See Hand Out) for this important effort.
- **3.** Exactly what is the timeframe for allocating the $7.5 million to the local health jurisdictions?
- **4.** Please provide a brief summary of the Section 28 proposal to expend the $375,000 in federal HRSA funds.

Budget Issue: Does **the Subcommittee want to recommend approval of the Administration's Section Letters to the Joint Legislative Budget Committee, chaired by Senator Peace?**

2. Low-Level Radioactive Waste Program—Continued Concerns

Background—DHS Regulation: In **November 2001**, a new regulation took effect that provided guidelines for the cleanup and decertification of a nuclear reactor, or any other facility licensed by the DHS. Specifically, this new regulation provides for a standard of less than an average of 25 millirems per year of radiation exposure (up to 100 or 500 millirems per year under certain circumstances) as the exposure level for cleanup and decertification (i.e., does not have radioactive material warranting licensure and regulatory oversight) by DHS.

DHS has stated that prior to the adoption of this regulation, the standard was 100 millirems and as such, this new regulation was therefore more "stringent". DHS has also stated that it promulgated the regulation because it relies on federal Nuclear Regulatory Commission (NRC) standards. **Further, they contended the adoption of the regulation was exempt from CA Environmental Quality Act (CEQA) requirements.**

The Senate Environmental Quality Committee, chaired by Senator Sher, notes that there are conflicting federal cleanup standards. The NRC and US Department of Energy (DOE) appear to rely on public health and safety standards that are significantly lower than the standards used by the US Environmental Protection Agency (EPA). For example, the EPA's Superfund standards prohibit contamination above one-in-a-million (10-6) basic risk level for cleanup. This equates to about 0.5 millirems per year instead of the 25 millirems per year allowed by the NRC and DOE. **However, the Committee also notes that since California is an "agreement state" and has been delegated authority over low-level radioactive materials and wastes by the NRC, the state has the ability to use a standard other than one developed by the NRC.**

Select Committee on Urban Landfills: **On March 19, 2002 the Senate Select Committee on Urban Landfills, chaired by Senator Romero,** convened an oversight hearing on the DHS regulations and their affect on disposal of radioactive waste in landfills.

Through extensive testimony from opponents, including the Sierra Club, Committee to Bridget the Gap, the Southern California Federation of Scientists, and the Los Angeles Chapter of Physicians for Responsibility, **it was articulated that the regulation allows for the disposal of low-level radioactive waste in unlicensed sites, such as municipal solid waste landfills and that it presents an extreme public health hazard.** The opponents also asserted that the level of exposure suggested in the regulations is the equivalent of having to endure 300 chest x-rays over one's lifetime. **This level of exposure could result in an additional cancer death for one in every 10,000 people exposed.**

Among many items, the Select Committee noted that the DHS regulation represented the first time in California's history where the state has adopted a policy which effectively deregulates the handling and disposal of radioactive waste.

Superior Court Ruling—Nullifies Regulation (Committee to Bridge The Gap, et. al v Diana Bonta'): On April 10, 2002, Judge Ohanesian of Sacramento Superior Court **concurred with petitioners that there is a reasonable possibility the adoption of the DHS regulation will have a significant adverse environmental effect.** She states that the DHS argument of the regulation imposing a more stringent standard was not persuasive because there is no standard in effect at present for the decommissioning of a licensed radioactive site. (The 100 millirem standard is for sites in operation and not decommissioned sites.) Moreover, she notes that in practice decommissioned sites have been required to meet a more stringent standard than 100 millirems.

The Court concluded that the DHS (1) failed to comply with the CA Administrative Procedures Act and CEQA in promulgating the regulation, and **(2)** had the authority to pursue more protective standards for radioactive waste disposal but failed to consider that option.

Other Recent Concerns: The DHS has had a somewhat dubious history in managing low-level radioactive wastes. In 2001, the US DOE shipped contaminated soils with residual radioactivity to the Buttonwillow Class I hazardous waste landfill for disposal.

The contaminated soils were generated from cleanup activities at the Santa Susana Field Laboratory, a nuclear facility operated for the DOE by Boeing-Rocketdyne in Ventura County. In addition, wastes with radioactive contamination had been transferred from the Santa Susana Field Laboratory to the Bradley municipal landfill, a metal recycler in San Pedro and a ranch in Ventura County. Furthermore, former Manhattan Project nuclear wastes from New York State were also apparently shipped to Buttonwillow in 1999.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please specifically describe **what communication transpired with the California Integrated Waste Management Board during the development of the new regulation.** Were they made aware of what potential affect this new regulation could have on municipal waste facilities?
- **2.** Does the **DHS intend to appeal the Superior Court ruling?**
- **3.** Does the **DHS intend to establish a policy in keeping with the stricter US EPA guidelines** for cleanup and bar radioactively contaminated waste from going to unlicensed sites?
- **4. What standard is the DHS currently using** given the Superior Court ruling?
- **5. How will the Administration keep the Legislature informed** as to how it intends to proceed in this arena?

Budget Issue: Should the radiologic health functions be transferred to another entity within state government in order to improve program operations?

3. Ryan White CARE Act Federal Funds

Background: Due to continuing concerns regarding the spread of HIV/AIDS in racial and ethnic minority populations, as well as in certain geographic areas, the federal government authorized supplemental federal funds to states.

First, the **Minority AIDS Initiative for Outreach** was created to include funding to support educational and outreach grants to minority community-based organizations to increase the number of minorities participating in the ADAP and obtaining access to HIV/AIDS primary health care..

Second, funds for "emerging communities" were provided. An emerging community is a metropolitan area that (1) has a cumulative total of between 500 and 1,999 cases of AIDS for the most recent period of 5 calendar years and (2) is not eligible for Ryan White CARE Act Title I funding (which are provided to large metropolitan areas). **The Fairfield-Vallejo-Napa metropolitan statistical area meets this definition in California.**

Governor's Proposed Budget: The budget proposes **an increase of $795,000 in federal funds to the Office of AIDS.** Of this amount, $663,000 will be for the Minority AIDS Initiative for Outreach and $132,000 is for the emerging communities focus.

The DHS states that the **Minority AIDS Initiative for Outreach** will allow expansion of ADAP by providing outreach services targeted to African Americans, Latinos, Native Americans, Asian Americans, Native Hawaiians, and Pacific Islanders. Specifically, the DHS will be contracting with minority-based organizations to get individuals into care at an earlier stage of illness, ensure access to treatments and ADAP, and receive related support services that help them remain in care.

With respect to the $132,000 for emerging communities, the DHS will contract with Napa and Solano counties to supplement existing program services, including the development of an Early Intervention Program (EIP) that will enhance and improve existing primary care services for individuals with HIV infection.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1. Has the level of federal funding changed since release of the Governor's January budget? If so, please explain.**
- **2.** Please provide a brief summary of the projects.

Budget Issue: Does the **Subcommittee want to approve the request or make an adjustment for the actual receipt of federal funds?**

4. The AIDS Drug Assistance Program (ADAP)

Background--ADAP: The AIDS Drug Assistance Program (ADAP), established in 1987, is a subsidy program for low and moderate income persons with HIV/AIDS who have no health insurance coverage for prescription drugs and are **not eligible** for the Medi-Cal Program. **There are about 25,500 clients enrolled in ADAP.**

Under the program eligible individuals receive drug therapies through participating local pharmacies under subcontract with the statewide contractor. The state provides reimbursement for drug therapies listed on the ADAP formulary (**about 146 drugs currently**). The formulary includes anti-retrovirals, hypolipidemics, anti-depressants, vaccines, analgesics, and oral generic antibiotics.

ADAP is cost-beneficial to the state. Without ADAP assistance to obtain HIV/AIDS drugs, **infected individuals would be forced to (1)** postpone treatment until disabled and Medi-Cal eligible or **(2)** spend down their assets to qualify for Medi-Cal. About 50 percent of Medi-Cal costs are borne by the state, as compared to only 30 percent of ADAP costs.

Since the AIDS virus can quickly mutate in response to a single drug, medical protocol now calls for **Highly Active Antiretroviral Treatment (HAART)** which minimally includes three different anti-viral drugs. As such, expenditures in ADAP have increased.

Pharmacy Benefit Manager: In 1997, the DHS contracted with a pharmacy benefit manager to centralize the purchase and distribution of drugs under ADAP. According to the DHS, Ramsell Corporation successfully completed a prior three-year contract with ADAP, and has also been awarded the most recent five-year contract (currently in the second year of this contract). Presently are 238 ADAP enrollment sites and about 3,100 pharmacies available to clients located throughout the state.

Background—HIV Viral Load Testing and Resistance Testing: This testing provides physicians with an objective tool to measure the efficacy of a particular course of treatment. It ensures that ADAP drugs are prescribed to maximize the benefits of drug therapy treatment, resulting in cost savings to the state. Funding for viral load testing was first provided in 1997.

Manufacturers Drug Rebate: Currently, drug manufacturers of brand name drugs pay 15.1 percent of Average Manufacturer Price (AMP), ***or*** AMP minus best price (another federally established price), whichever is greater, for each unit of drug purchased under ADAP.

The Administration is sponsoring legislation—**AB 2744, Chan**—which would increase the drug manufacturers' mandatory rebate obligation. The proposed amended language of the bill would increase the rebate obligation by an additional amount to be negotiated with each manufacturer of brand name products on the ADAP formulary. **However, this bill has been removed by the author from consideration in the Assembly Health Committee.**

There is a strong potential that the Administration may propose language similar to AB 2744 (Chan) as part of the Governor's May Revision package (i.e., trailer bill language).

Governor's Proposed Budget: The budget proposes **an increase of $22.4 million** ($20.4 million General Fund and $2 million in drug rebates) **to address increased drug prices** and caseload. **Of the total increase, $20.4 million is for local assistance and $2 million is specifically for the diagnostic assay program.** The $20.4 million in local assistance **includes $1 million in administrative support for local health jurisdictions** to provide ADAP eligibility screening and enrollment services.

It should be noted that antiretroviral drug prices have generally increased an average of 8 to 9 percent. Since antiretrovirals represent about 84 percent of the ADAP expenditures, the baseline program had to be increased. According to the DHS, there are 19 antiretrovirals on the ADAP formulary.

According to the DHS, ADAP utilization trends are based on the most recent ADAP expenditures and client counts. The expenditure data used to develop the January budget is based on actual expenditures through June 10, 2001. **As such the Governor's May Revision will provide a revised estimate based on updated caseload.**

Total ADAP funding is proposed to be $191.4 million ($84.1 million General Fund, $89.5 million federal Ryan White CARE Act Title II funds and $17.8 million in mandatory drug rebates from the manufacturers), **including $8.1 million for the diagnostic assay program.**

It should be noted that partial funding of ADAP would require that the state restrict participation in the program, either through waiting lists, caps on per-client drug costs, and/or formulary restrictions.

Subcommittee Request and Questions: The Subcommittee is requesting the DHS to respond to the following questions:

- **1.** Please **briefly** describe the request.
- **2.** Could additional manufacturer rebates be obtained for ADAP?
- **3.** Will California be receiving **additional Ryan White CARE Act federal funds?** Can these funds be used in ADAP?
- **4.** Is it likely that the **new antiviral drug** Pentafuside (T-20) will need to be **added to the ADAP formulary during the budget year?**

Budget Issue: Does the Subcommittee **want to adopt the proposal pending receipt of May Revision or make other changes?**

5. Proposition 99 Funded Programs— *(See Hand Outs)*

Overall Background—General : Proposition 99, the Tobacco Tax and Health Protection Act of 1988, established a surtax of 25 cents per package on cigarettes and other tobacco products, and provided a major new funding source for health education, indigent health care services, and resources programs.

Under the provisions of Proposition 99, **revenues are allocated across six accounts based on specified percentages. These are**: **(1)** Health Education Account—20 percent, **(2)** Hospital Services Account—35 percent, **(3)** Physician Services Account—10 percent, **(4)** Research Account—5 percent, **(5)** Unallocated Account—25 percent, and **(6)** Public Resources Account—5 percent (discussed in Subcommittee No. 2). **These accounts are then allocated to fund specified programs as operated by the Department of Health Services, Managed Risk Medical Insurance Board, and the University of California (research).**

Overall Expenditures and Unrestricted Reserve: The Department of Finance estimates that expenditures of **$408.5** million (Proposition 99-Funds) are proposed in the budget for health-related programs. The budget also assumes a 2 percent reserve for all of the accounts which has been the standard level of reserve for these accounts for the past several years. **However, contingent upon the May Revision revenues, this two percent reserve may diminish.**

It should also be noted that the Governor's January budget reflects an "unrestricted reserve" (reserve funds available from prior litigation) of $10.1 million ($8.6 million Health Education Account and $1.5 million Research Account). Contingent on the Governor's May Revision proposal, a portion of "unrestricted reserve" may be used to continue/expand existing Proposition 99-funded programs.

Key Program Changes as Proposed by the Governor (See Hand Out): The principal adjustments for 2002-03 are as follows:

- Increases the DHS state support budget by $115,000 due to various adjustments.
- **Continues the $24.8 million rate increase for emergency room physicians and specialists** participating in the California Healthcare for Indigent Persons (CHIP) Program as contained in SB 2132, Statutes of 2000 (Dunn).
- **Augments by almost $3.5 million (Unallocated Account) the Breast Cancer Early Detection Program (BCEDP)** to backfill for reduced revenues in the Breast Cancer Control Account services. Total expenditures are almost $20.9 million for the BCEDP.
- Increases the Access for Infants and Mothers (AIM) Program administered by the Managed Risk Medical Insurance **Board by $8.4 million to reflect increased caseload and related cost adjustments.**

***Background--AIM*:** The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Eligible women select coverage from one of the participating health plans. Subscribers pay premiums equal to 2 percent of the family's annual income plus $100 for the infant's second year of coverage.

Governor's Proposed Budget--AIM: The budget proposes expenditures of $79.6 million ($74.8 million Perinatal Insurance Fund—**as transferred from Proposition 99 Funds**, $1.7 million Tobacco Settlement Fund, and $3.1 million in Title XXI federal funds) in local assistance to serve an average of 616 new uninsured pregnant women per month. **This funding level reflects an increase of $8.5 million, or about 12 percent, over the revised 2001-02 budget.** In order to capture General Fund savings of $1.2 million, the Administration shifted some program expenditures to the Tobacco Settlement Fund.

Subcommittee Request and Questions: The Subcommittee is requesting the Administration to respond to the following questions:

- **1. DHS, Please briefly describe** the adjustments proposed for **(a)** DHS staff, **(b)** the emergency physician rate adjustment, and **(c)** the BCEDP.
- **2. MRMIB,** Please briefly describe the adjustments requested for AIM.
- **3. MRMIB**, when will the revised negotiations for the health plan contracts for AIM be completed for the budget year? Why have these negotiations been difficult?

Budget Issue: Does the Subcommittee **want to approve the proposed budget pending receipt of the May Revision?**

6. Youth Anti-Tobacco Program.

General Background: The DHS Tobacco Control Program has demonstrated that the investment in prevention and tobacco cessation programs results in cost savings. Specifically, for every dollar spent on tobacco control in California, **there has been a total savings in smoking-attributable direct medical costs of approximately $3 and a savings of approximately $8 in indirect and direct costs.**

Background—Concern with Youth Smoking: Mitigating tobacco use by youth continues to be a high priority because the uptake of tobacco is almost exclusively an act of adolescence. According health care experts, youth uptake progresses over several years from the youth being a committed non-smoker to being susceptible, to puffing on cigarettes, to serious experimentation until the youth becomes an established smoker.

Of particular concern is that while smoking significantly decreased among California youth age 12 to 17 years old, **it rose significantly among slightly older youth, aged 18 to 24 years**. **The smoking prevalence for this age group is 27.2 percent which is considerably higher than the overall smoking prevalence rate of 18 percent for adults.** This group is particularly important, because younger youth aspire to emulate this age group. **As such, the DHS contends that this group has become a prime target of the tobacco companies.**

Governor's Proposed Budget: The budget proposes an **increase of $15.1 million (Tobacco Settlement Fund) for youth smoking prevention programs. Total expenditures by strategy are proposed as follows:**

- **$4.2 million is for enforcing tobacco control laws;**
- **$8 million is slated for interventions targeted at 18-24 year olds;**
- **$900,000 is for advancing youth advocacy coalitions;**
- **$7 million is for projects for special populations;**
- **$3.5 million is for evaluation and surveillance;**
- **$3 million is for direct cessation services; and**
- **$8.5 million is for technical assistance consultants.**

It should be noted that in some instances the DHS is still in the process of allocating current year funds, and as such, may combine a portion of current year funding with proposed budget year funding in its release of Requests for Applications/Proposals (RFA or RFP) for the various strategies as discussed below.

- ***Local Enforcement of Tobacco Laws:*** Under this strategy, funds would be provided to local law enforcement agencies and nonprofit organizations to enhance enforcement activities, particularly laws aimed at eliminating tobacco sales to minors. This proposal requires the grantees to provide a match to qualify for the grants.

- ***Activities Targeting 18 to 24 Year Olds:*** This strategy would provide grants to local agencies to conduct programs that target this population. Activities would include expanding efforts to (1) protect nonsmokers from exposure to secondhand smoke, and (2) counter the tobacco industry's presence on college campuses and in entertainment venues frequented by this group, such as movies, music, concerts, and sporting events.

- ***Youth Advocacy Coalitions:*** Under this strategy, college mentors are joined with high school students to form coalitions which undertake various activities aimed at reducing smoking in their communities. According to the DHS, six counties currently administer a youth advocacy coalition program using Proposition 99 Funds. The budget proposes to provide grants to expand existing programs as well as to increase the number of youth coalitions.

- ***Special Populations:*** Under this strategy, tobacco control efforts would be focused on special populations including various racial and ethnic groups, gays and lesbians, military families, blue-collar workers, and new immigrants. These populations have been targeted due to their high tobacco use and health disparities. According to the DHS, an RFA is to be released **in late June 2002 for this purpose. The DHS states that they intend to allocate $10 million ($3 million from 2001-02 and $7 million from 2002-03 for this purpose).**

- ***Evaluation and Surveillance:*** Proposed projects include an evaluation of tobacco use changes among special populations, and a survey of attitudes toward tobacco control among law enforcement. **In April 2002**, the DHS identified five agencies to study six high priority populations to determine statewide prevalence, attitude and behavior for Asian, American Indian, Indian, Korean, Chinese, military, and Gay and Lesbian, Bisexual, and Transgender populations.

- ***Direct Cessation Activities:*** The DHS would conduct a competitive Request for Application among Local Lead Agencies to deliver direct cessation services. In addition, there may also be increases for the California Smokers' Helpline to evaluate these contracts. **According to the DHS, an RFA is planned to be released in July/August 2002** to provide direct cessation services for priority populations.

- ***Technical Assistance:*** In addition to these strategies, **the budget would provide $8.5 million for technical assistance and consultation related to each of the strategies outlined above. The DHS states that at least $6 million will be used to fund ten agencies to address youth coalitions, law enforcement contractors, Asian Pacific Islander and Hispanic/Latino populations, telephone cessation counseling, 18-24 year old projects, smoke free public and private environments, retail environments, and tobacco industry monitoring activities.**

LAO Recommendation: In her Analysis, the LAO states that the Youth Tobacco Program proposal is flawed because the effectiveness of the proposed new programs has not been fully demonstrated. As such, she is recommending a reduction of $20.9 million (Tobacco Settlement Funds).

Subcommittee Request and Questions: The Subcommittee has requested the Administration and LAO to respond to the following questions.

- **1. DHS**, Please provide a **brief description** of **each of the strategies.**
- **2. LAO, Please summarize your concerns.**
- **3. DOF, If the Administration's proposal to securitize the Tobacco Settlement Funds increases from the presently proposed $2.4 billion to the full $4 billion, what may that mean for this program overall?**

Budget Issue: Does the **Subcommittee want to adopt or modify the proposal pending receipt of the May Revision?**

7. Reappropriation for Assisted Living Pilot Program

Background: Home and Community Based Waivers enable states to provide long-term health and supportive services in the community to those who would otherwise reside in institutional care or nursing homes. **These waivers must demonstrate cost neutrality within the Medicaid (Medi-Cal) Program in order for the federal CMS to approve them.**

"Assisted Living" is a service package defined by HCFA which generally means: Personal care and services, homemaker, chore, attendant care, companion services, medication oversight, therapeutic social and recreational programming, provided in a home-like environment in a licensed community care facility, in conjunction with residing in a facility.

AB 499 (Aroner), Statutes of 2000, requires the DHS to develop a Medicaid (Medi-Cal) Assisted Living Waiver Pilot Project for recipients who are nursing home eligible but could safely be cared for in a residential care facility for the elderly or in a congregate housing setting. **The legislation requires a thorough fiscal analysis in order to ensure that the Waiver, once approved by the federal CMS, can be implemented in California with no additional cost to the General Fund.**

The DHS states notes that this Waiver is essential for the state to have a full range of less restrictive options to nursing homes and that there are Medi-Cal recipients residing in nursing homes who could be cared for in a residential care setting. However, the current SSI/SSP reimbursement does not financially encourage residential care providers to admit or retain individuals with higher care needs. Further, a licensee of a community care facility does not have to accept an SSI/SSP recipient, and my choose to take only private pay clients. As such, this Waiver could provide an enticement for RCFE providers and allow a subset of individuals to live in a more home-like environment.

The Budget Act of 2001 provided about $1 million ($500,000 General Fund) for contracted services for the DHS to develop and evaluate a Pilot Waiver program per AB 499.

Currently, the DHS is conducting the required fiscal analysis and an analysis of services which may be included as an alternative to nursing home placement. Prior to this analysis, the DHS convened four work group sessions to gather input from potential providers and consumer advocates. Researchers from UCSF provided technical assistance to the work group. **As such, about $56,000 ($28,000 General Fund) of the current year funds are to be spent.**

Governor's Proposed Budget: The DHS is **requesting to reappropriate $960,000 ($480,000 General Fund),** which is the unexpended amount from the current year, to enable them to contract with health care researchers and others regarding the Waiver and assisted living issues.

Specifically, the contractor would do the following:

- Survey and report to the DHS the strengths and weaknesses of other states' Assisted Living Waivers;
- Develop a California prototype which specifies appropriate waiver design, provider standards, cost effectiveness/budget neutrality and rate structures;
- Develop programmatic and fiscal monitoring and quality assurance measures and issue resolution;
- Make recommendations for appropriate service delivery process, utilization review and control;
- Identify necessary licensure requirements; and
- Identify the need for regulatory change.

Subcommittee Staff Comment: In addition to the reappropriation, Subcommittee staff would recommend a technical change to **Section 14132.26 of the Welfare and Institutions Code (the enabling legislation)**. This change is recommended in order to be consistent with how existing Medicaid (Medi-Cal) Waivers operate. **The suggested language is as follows:**

> (i) The department shall not implement the waiver program specified in subdivision (a) if ~~it~~ the benefits provided pursuant to the waiver program will result in additional costs in the ~~state~~ Medi-Cal Program.
>
> (j) The waiver program shall be developed and implemented only to the extent that funds are appropriated or otherwise available for that purpose.

Subcommittee Request and Questions: The Subcommittee is requesting the DHS to respond to the following questions:

- **1.** Please provide a brief summary of the work to date.
- **2.** How may this Waiver assist with the Olmstead decision?

Budget Issue: Does the **Subcommittee want to approve the reappropriation and the suggested trailer bill language as noted?**

8. Pilot Projects to Expand Community Options for Long-Term Care

Background and Finance Letter: Californians continue to live in institutions, including nursing homes (about 75,000 Medi-Cal recipients live in nursing homes), when a community-based placement may be more appropriate.

To that end, the DHS is proposing to appropriate about $1.2 million ($578,000 General Fund) for the next three fiscal years to (1) fund a contract for services to develop and implement a pilot program to expand the availability of community based options, and (2) hire two limited-term positions to develop the contract and ensure ongoing clinical coordination. Of the $1.2 million, $1 million is for the contractor and $156,000 is for the staff.

Specifically, the contractor would develop and implement a new assessment process, a community placement process and ongoing case management for individuals residing in, or at risk of placement in, Medi-Cal funded nursing homes.

Additionally, the contractor would develop and pilot test a model process for arranging the services and supports needed to move nursing home residents to community homes, when appropriate. The contractor would also provide for an evaluation of their efforts to place individuals out of institutions. The DHS states that the pilot would involve three sites and run for three years.

Budget Act of 2001—Governor's Veto: The Budget Bill of 2001 provided $800,000 ($400,000 General Fund); however, the Governor opted to veto his own proposal. As such, no funds were appropriated. **The veto message said that he was deleting the $500,000 that was included in his proposed budget for these pilot projects due to the softening of the economy.**

Preadmission Screening: Federal regulations require the state to conduct "Preadmission Screening and Resident Reviews" (PASRR) for individuals ***being admitted*** to a nursing facility, including the frail and elderly, individuals with severe mental illness and individuals with developmental disabilities.

Subcommittee Request and Questions: The Subcommittee is requesting the DHS to respond to the following questions:

- **1.** Please **provide an overview** of the project.
- **2. How does this particular project pertain to the Olmstead decision?**
- **3. How will this project interface with the pilot project for Institutes for Mental Disease (IMD) approved in the Budget Act of 2001 and which are to be finally allocated in September 2002?**
- **4. How will the three pilot projects be selected?**
- **5. May any of the selected projects include ICF-DD-N or H facilities? If not, why not?**
- **6. Please explain the need for additional staff.**

Budget Issue: Does the Subcommittee **want to adopt or modify the request?**

9. Constituency Request to Expand the Program for All-Inclusive Care (PACE)

General Background: The DHS operates several Medi-Cal Waiver programs, including the Program for All-Inclusive Care (PACE), which have been established **to test the effectiveness of home and community based managed care programs in providing high quality care and reducing acute and institutional long-term care expenditures in the Medi-Cal Program.**

The purpose of PACE is to allow frail, low-income elderly individuals to receive the coordinated medical services they require to stay in their homes rather than move into a nursing home. The inception of the PACE model occurred in 1983 when On Lok Senior Health Services (Bay Area) began as a demonstration project testing whether comprehensive community-based services could be **provided to frail elders at a cost no greater than nursing home care.**

The success of PACE was recently recognized in the federal Balanced Budget Act of 1997 which established PACE as a permanent provider under Medicare and as a state option under Medicaid (Medi-Cal). HCFA has also promulgated regulations for PACE and has developed guidelines for the state Medicaid directors to use.

The California Experience: According to the DHS, there are currently **four providers** operating PACE in the state; this includes On Lok (Bay Area), Center for Elders Independence (in Oakland), Sutter SeniorCare (in Sacramento), and AltaMed Senior BuenaCare (in Los Angeles). **Through these four providers, there are 14 sites in operation that serve about 1,550 individuals. (This is about 500 more individuals than the revised NF Waiver serves).**

PACE has been shown to generate Medi-Cal cost savings. The program relies on comprehensive manage care for nursing home certifiable elderly recipients provided in a day care setting. **As such, the DHS estimates that each PACE program generates about $1.130 million (General Fund) in Medi-Cal savings per program annually** while permitting the recipient to remain in his or her own home.

Existing state statute authorizes the Director of the DHS to contract for up to 10 demonstration projects, and at this point there is only 4.

Waiting List of Providers to Participate: The following California sites have either completed their PACE application, or have express a strong interest in participating in PACE and have contacted the DHS regarding the program:

- St Paul's Senior Housing Services (San Diego)
- San Bernardino County Medical Center
- Casa Colina (Pomona)
- O'Connor Hospital (San Jose)
- Community Eldercare of San Diego
- Casa Colina (Pomona)
- Huntington Memorial (Pasadena)
- Alexian Brothers Hospital (San Jose)

In addition, all four of the existing programs have expressed interest in expanding to approximately 10 new sites.

Constituency Letters: The Subcommittee has received numerous letters from throughout the state requesting expansion of the program. **These letters, among other things, note the following:**

- How expansion would **facilitate the state in addressing issues raised by the Supreme Court's ruling in Olmstead;**
- **The model builds upon community-based resources;**
- **The model integrates a full range of services for a higher quality of care;**
- **Saves Medi-Cal dollars.**

Additional Resources Needed To Address Future Applications: In discussion with Subcommittee staff, the DHS noted that a significant amount of technical assistance needs to be provided in order to get new PACE projects up and running, and to enable them to expand to other sites. **As such, the DHS states that it lacks the staff needed to bring up and provide the on-going monitoring needed for additional PACE projects. Currently, the DHS has three positions within the Office Long-Term Care for this purpose.**

Governor's Proposed Budget: No expansion of the PACE model is assumed in the budget.

Subcommittee Staff Comment: The PACE model has proven to be not only cost-beneficial, but also consumer friendly. It provides quality services, offers consumer choice, and delivers services in a less restrictive setting than nursing home care. Further, there are numerous organizations who are interested in implementing the model. **Consequently, it only makes sense to expand the model and develop additional service sites.** The funding involved is minor compared to the health delivery services offered and the savings that are achieved in the Medi-Cal Program.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please briefly describe the benefits of PACE.
- **2.** Please briefly describe the State Plan Amendment recently submitted regarding PACE.
- **3.** Please briefly describe the DHS calculation that shows PACE saves $1.1 million per project.

Budget Issue: Does the Subcommittee **want to (1) provide an increase of $200,000 ($100,000 General Fund and $100,000 federal Title XIX funds) to the DHS Support item (4260-001-0001 and 0890) to fund existing vacant positions to be used to process PACE applications, (2) delete $2.2 million (General Fund) from the Medi-Cal local assistance budget to reflect budget year savings from PACE expansion, and (3) adopt Budget Bill Language as shown below?**

Subcommittee staff recommends adoption of the following **Budget Bill Language** to reflect the intent of the Subcommittee's action:

> Item 4260-001
> "Of the amount appropriated in this schedule, $200,000 shall be used to fund positions to expand the Program for All-Inclusive Care (PACE). The Legislature's intent for expanding this program is to increase community-based services and to address state concerns pertaining to the U.S. Supreme Court's ruling in the ***Olmstead v. L.C. and E.W.,*** 119 S.Ct. 2176 (1999). Further, the General Fund savings generated from this expansion will be used to assist the state in mitigating future Medi-Cal expenditures attributable to placement in nursing homes."

10. Intermediate Care Facility for the Developmentally Disabled-Continuous Nursing (ICF/DD-CN) Pilot Project

Background: AB 359, Statutes of 1999, required the DHS to establish a pilot program (under a Medi-Cal Waiver) to provide continuous skilled nursing care (4 to 6 beds) to individuals with developmental disabilities in the least restrictive setting as feasible. The legislation allowed for the creation of up to 10 sites (health facilities). The purpose of the pilot program is to explore more flexible models of health facility licensure in order to provide intensive medical care for these individuals in a community-based facility and in a cost effective manner.

Update on the Pilots: According to the DHS, **18 provider applicants were screened and ten candidates plus two alternates were selected** for participation in the pilot. **Most of the applicants had to purchase new facilities for this purpose and other applicants were making significant improvements on their existing properties in order to comply with the Waiver requirements for this pilot.**

The participating health facilities and their Regional Center catchment area are as follows:

• Baird House	North Bay RC
• Astoria House Valley Village	(North LA RC)
• Allen-Sprees Family Home III	(Central Valley RC)
• Family Homes, Inc	(Golden Gate RC)
• Genesis Developmental Services	(Tri-Counties RC)
• Loop Home Foundation	(Westside RC in LA)
• Solution Care	(Westside RC in LA)
• The Jack Surnow House	(Inland RC)
• Tupaz Home #8	(San Andreas RC)
• 4Js Home	(Golden Gate RC)

These provider candidates were notified by **the DHS that they could request their initial licensing visit as of January 1, 2002 and that they have until June 30, 2002 to pass their initial licensing visit.**

Federal Waiver Period: The federal Waiver for the pilots was approved as of August 17, 2001 and expires as of August 16, 2003. **The Waiver is renewable.**

Sunset of Legislation (Section 14495.10 of W&I Code): The pilot projects are **slated to sunset as of January 1, 2003**—at least **8 months *prior* to the Waiver renewal period.** Further, they will only be fully operational (i.e., pass their initial licensing visit) for about 6 months before the sunset in statute expires. **Also as noted above, these pilots have taken considerable resources and time to develop. To not continue them now would be a travesty.**

DHS Concern with Continuation of Pilots: The DHS states that there are **6 positions**—two in Licensing and Certification and four in the Medi-Cal branch—that are currently dedicated to this pilot effort. According to the DHS, all of these positions are scheduled to **sunset as of January 1, 2003 and there is no plan on the part of the Administration as yet to continue these positions. The cost of these positions are $402,000 ($160,000 General Fund) and include two Nurse positions, one Staff Services Manager I, and two Health Facility positions.**

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1. Please describe how the pilots are proceeding**—what are the DHS' initial thoughts of their operation?
- **2.** Wouldn't **these pilot projects facilitate the state's ability to address issues pertaining to the U.S. Supreme Court's Olmstead decision?**
- **3. Please describe exactly what each of these positions do in relation to the pilots.**

Budget Issue: Does the Subcommittee want to **extend or eliminate the sunset for the pilot projects?**

11. Treatment Authorization Workload, and Appeals and Litigation Backlog

Background—Treatment Authorization Request (TAR) Processing: Existing statute provides the DHS with authority for operating utilization controls that may be applied to services provided under the Medi-Cal Program. **Through the seven Medi-Cal field offices and two pharmacy sections,** the DHS attempts to ensure timely access and the provision of health care services by reviewing and processing treatment authorization requests (TARS).

Providers submit TARS for services to the field offices for approval. **The Medi-Cal field offices have a statutory mandate (Section 14133.9 (d) of W&I Code) to approve, modify, defer, or deny the requested service within an average of 5 working days of receipt.**

In 1997 with the fuller implementation of Medi-Cal Managed Care, 60 positions were cut from the DHS operational budget to reflect the estimated reduction in TAR volume due to this implementation. However, the DHS maintains that the fee-for-service TAR volume cannot be met with existing staff.

Background on Appeals: Medi-Cal providers have the regulatory right to a first and second-level appeal of any TAR that is modified or denied. The field offices are responsible for first-level appeals. The DHS Administrative Law Unit is responsible for second-level appeals and TAR litigation functions.

According to the DHS Legal Office, the DHS must respond to each appeal it receives and provide the basis for its decision.

Background—Budget Act of 2001: The DHS received approval to convert 22 existing limited-term positions (10 Pharmaceutical Consultants and 12 Nurse Evaluators) to permanent status and to hire up to **58 additional Pharmaceutical Consultants** through the fiscal intermediary contract (i.e., EDS). Funds of **$1.8 million (450,000 General Fund and $1.3 million federal Title XIX funds) were provided for this purpose.**

Governor's Proposed Budget (See Hand Out): The **budget is requesting (1)** an increase of **$185,000 ($46,000 General Fund) to fund 2.5 Nurse Evaluator positions**, and **(2)** trailer bill language to enable the department to either contract directly or through the fiscal intermediary for staff to accomplish the TAR reviews, including appeals to the extent allowed, and to be exempt from competitive bidding for the contract.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please explain why the exiting contract positions have not been fully utilized if there is a workload issue?
- **2.** Please explain the need for the 2.5 positions.
- **3.** Please explain why the language is needed if contracting is presently being done.

Budget Issue: Does the Subcommittee **want to adopt or modify the proposal given the present fiscal situation?**

12. Claims Processing Systems Oversight—Workload and Staffing

Background: The Medi-Cal Management Information System (MMIS) is a complex claims processing system. According to the DHS, the MMIS is operated through a $130 million a year contract with the fiscal intermediary (EDS) which processes about $12 billion in Medi-Cal and public health fee-for-service payments.

New and ongoing MMIS modifications and maintenance are required to support the numerous programs. MMIS is altered for each program it supports in order to accommodate special audits and edits required for correct payments to providers. Support activities for these various programs include maintenance for new policies, modifying or creating tables and files, and monitoring and reporting needs.

The DHS states that staff are actively working on dozens of projects to modify the processing system. These include managing system modifications, changing program policies, correcting claims processing system errors, and initiating the recoupment or repayment of claims processed in error. Delays in implementing the changes, or identifying and correcting errors have the potential to cause millions of dollars in program losses.

Governor's Budget Request: The DHS is requesting **an increase of $647,000 ($162,000 General Fund) to continue eight limited-term positions for another three years (to June 30, 2005) to continue to perform a wide range of functions**

These eight positions were originally approved in the Budget Act of 2000 on a two-year limited term basis. As such, they expire as of June 30, 2002.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide a brief summary of the proposal.

Budget Issue: Does the **Subcommittee want to adopt or modify the proposal given the present fiscal climate?**

13. SB 231 (Ortiz), Statutes of 2001--Local Education Agency Services

Background: The legislation requires the DHS to amend the State Medicaid (Medi-Cal) Plan **to accomplish various goals aimed at enhancing Medi-Cal services provided on school sites and to increase student access to these services.** It provides authority for the DHS to **contract** for positions to implement numerous activities, including the following:

- Regularly consult with the SDE, County Offices of Education, and local education agencies;
- Amend the State Medicaid Plan to ensure that schools are reimbursed for all eligible services that they provide that are not precluded by federal requirements;
- Examine methodologies for increasing school participation in the Medi-Cal Billing Option so that schools can meet the health care needs of students;
- Simplify the claiming process for local education agency billing;
- Implement recommendations from the local education agency rate study;
- Ensure local education agencies are retroactively reimbursed for the maximum period allowed by the federal government for any department change that results in an increase in reimbursements to local education agency providers;
- Develop and update written guidelines and regulations to the local education agencies;
- Establish and maintain an interactive web site; and
- Prepare a report for the Legislature.

SB 231 also **established a Local Education Agency Medi-Cal Recovery Account** to be funded by proportionately reducing the federal payments to the local education agencies for the provision of benefits funded by Medi-Cal under the billing option for services by the local education agencies. **DHS' allotment of these funds are not to exceed $1.5 million annually.**

Budget Trailer Legislation in 2001: The omnibus health trailer legislation for the Budget Act of 2001 required the DHS to conduct an LEA reimbursement rate study.

Budget Request: The DHS is proposing to use $1.5 million (Local Education Agency Medi-Cal Recovery Account) to hire contractors to develop regulations, formulate policies, write State Plan Amendments, provide guidance to the local education agencies, develop and implement an annual survey of school-based Medi-Cal system in each state and territory, implement recommendations from the rate study, streamline the claiming process, and other items as required.

Subcommittee Request and Questions: The Subcommittee is requesting the DHS to respond to the following questions:

- **1.** Is the full $1.5 million going to be available for expenditure?
- **2.** What is the status of the rate study?
- **3.** What are the **general timeframes for completing key milestones?**

Budget Issue: Does the Subcommittee **want to approve the budget proposal?**

LAST Page of Agenda

Senate Budget & Fiscal Review
Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

Thursday, May 2, 2002
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA

DISCUSSION AGENDA

CONSENT AGENDA

5160 Department of Rehabilitation

Spring Letter Concerning Full Funding for Positions
The Department has completed a review of personnel funding within the Department. They have found that positions cost more than budgeted, and that positions must be kept open in order to remain within budget. The Department believes that recent efforts to aggressively reduce vacancies has resulted in a higher level of filled positions than prior years. In addition, the Department has had to recruit employees above the bottom step of position levels in order to fill positions.

The Department has submitted a spring finance level proposing to allocate federal funds in the amount of $2.7 million to fund 50.3 vacant positions, allowing the Department to fill these positions without going over budget. The Department proposes to use federal funds paid when the Department removes an individual from SSI or SSDI, or reduces the benefits paid. The Department has been more successful than anticipated in receiving these federal bonus funds, and thus finds that these funds are available and can be used to support program staff.

No issues have been raised about this proposal.

5170 California Department of Aging

Foster Grandparent and Senior Companion Programs
The state operates the Foster Grandparent program, that provides senior volunteers to support children with special and exceptional needs in child care programs and other congregate settings. The Senior Companion program provides senior volunteers to assist other seniors who are at risk of placement in a nursing facility with tasks of daily living.

Federal policies require that the portion of the Foster Grandparent and Senior Companion programs that are General Fund provided, receive a stipend equal to the level paid by the federal rules. Volunteers were paid $2.55 per hour tax free up until April 1, 2002. On April 1, the federal rate was increased to $2.65 an hour. **A spring finance letter proposes to augment the budget by $83,000 to pay the non-federal share of the increase in 2002-03. These funds are $62,000 from one-time federal funds, and $21,000 General Funds**. In future years, the cost of the stipend increase will be paid from General Funds.

No issues have been raised about this proposal.

CDA Office of Planning, Policy and Program Development

The Budget Act of 2000 created within the Department an Office of Planning, Policy and Program Development. The Budget Act required that an annual report be provided on the outcomes, activities, budget proposals and administrative changes associated with the Office.

The Department submitted a report to the Legislature in April concerning the operations of the Office. The Office has supported the Long-Term Care Innovation Grants program, the Senior Housing Information and Support Center and the Policy Unit. The Long-Term Innovation Grants will be completed in June, 2002, and the evaluation report for the Grants is discussed below.

The Senior Housing Information and Support Center provides consumer information and training on housing and home modifications to support people with age or disability related needs for those modifications. Legislation in 2000 established the Center as a permanent program within the Department.

The Policy Unit has tracked emerging aging and long-term public policy issues for the department, and has been the focus of coordination efforts with interdepartmental and interagency work groups on aging issues.

The Office was established with two-year, limited term positions. The positions are not renewed in the budget. The Department concludes that the relationships and skills established by the Office will continue to be utilized within the Department.

No action is required on this report.

DISCUSSION AGENDA

5160 Department of Rehabilitation

Vocational Rehabilitation Services: Ticket to Work Act

In December, 1999, the federal Ticket to Work and Work Incentives Improvement Act became law, designed to increase the number of persons receiving Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) that obtain employment and thereby reduce or eliminate their benefit payments. The federal act provided that claimants could choose their own employment service provider, and that providers would only be paid when the claimant obtained work. The act also provided that claimants could maintain Medi-Cal or Medicare coverage while working.

The current budget includes Supplemental Report Language requiring DR to report by January 1, 2002, on prospective and ongoing efforts to implement the Ticket to Work Act, including (1) a timetable for implementation, including release of federal regulations; (2) the impact of the act on Californians, including on DR caseloads; (3) the status of any negotiations with providers for services; and (4) any changes in law or regulation necessary to achieve compliance.

The federal government has been slow in initiating Ticket to Work authority to states. The current schedule is for California to begin its program in August 2003. The report has just been released.

- **The Department will summarize the findings of the report, including any problems the state is likely to have implementing the Ticket to Work Act.**

4170 California Department of Aging

Innovation Grants

The budget in 2000-01 provided $14.3 million for one-time grants to private and non-profit agencies to initiate or expand innovative delivery strategies and alternatives to nursing home placement. Funds were awarded in three categories: (1) 16 grants in community-based partnership building and planning; (2) 6 grants in innovative coordination and collaboration; (3) 6 grants for access to appropriate community-based services for special populations. Grants ranged from $61,000 to $2.3 million. All were intended to address the needs of seniors and/or their caregivers, with targeted information, skills training, in-home services, and service delivery in the languages, cultural settings, and living centers where California's seniors live. Grantees will operate through June 2002.

A legislative report was requested for spring of this year. The report has been released by the Department, and includes findings from an evaluation performed by a consultant, including site visits during the first half of the grant period. The summary of the evaluation is as follows:

- All grants have helped adults with functional impairments and older adults remain in their own homes with a good quality of life.
- The majority of grants provide greater accessibility of services to the consumer on long-term care options.
- The majority of grants solicit new and/or additional sources of information on the needs of consumers.
- All the grants at a minimum indirectly demonstrate long-term care alternatives and all the grants are replicable.
- It is too soon in the grant funding cycle to demonstrate and quantify results of the use of general fund dollars.
- The majority of grants have not focused on sustainability.

The Department will respond to the following:

- **What policy conclusion does the Department draw from the Innovation Grant process?**
- **Will the specific information from these innovative programs be utilized by the Long Term Care Planning Council, and what process is contemplated for this process?**
- **Will the Department update the evaluation after the grant period is complete?**

4200 DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

The Department of Alcohol and Drug Programs receives and disburses federal and state alcohol and drug funds to plan, develop, implement and evaluate a statewide system for alcohol and other drug intervention, prevention, detoxification, treatment and recovery services. The system serves 360,000 persons annually and licenses, certifies and monitors more than 1500 alcohol and other drug programs, including monitoring a statewide network of services administered or provided by county governments and private entities. **The proposed budget provides $544.2 million for these purposes, a reduction of $47.2 million or 8% from the current year.** The reduction in funding reflects in part the end of one-time funding and a caseload decrease in Drug Medi-Cal.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$256,881	$223,182	($33,699)	-13.1
Sale of Tobacco to Minor Control Acct.	-2,000	-2,000	0	0.0
Driving-Under-the-Influence Program Licensing Fund	1,752	1,781	29	1.7
Narcotic Treatment Program Licensing Fund	1,110	1,127	17	1.5
Audit Repayment Trust Fund	67	67	0	0.0
Federal Trust Fund	253,553	250,271	(3,282)	-1.3
Resident Run Housing Revolving Fund	39	39	0	0.0
Reimbursements	80,023	69,754	(10,269)	-12.8
Substance Abuse Treatment Trust Fund (non-add)	[120,000]	[120,000]		
Total	$591,425	$544,221	($47,204)	-8.0

<u>Departmental Administration</u>

The budget proposes to restore seven positions that were abolished effective July 1, 2001, since they had been unfilled for six consecutive months. Among the positions are 4 CEA positions, 2 Analyst positions and one Office Assistant. A portion of the Department's problem was vacant appointed Director and Chief Deputy Director positions for an extended period, with a resulting lack of authority to initiate CEA examinations. **The budget provides $536,000 ($48,000 General Fund) for this purpose.**

Last year's budget appropriated funds for a system to automate the licensing and certification process and for additional automation system support, pending approval of an FSR. The FSR is still in process, but the Department anticipates accomplishing the spending in this current year.

The budget includes a new item to schedule funds for compliance activities related to the federal Health Insurance Portability and Accountability Act (HIPAA). The funds were originally scheduled in current year in a Control Section combined with other departments; the funds were removed in the January one-time reduction. This item schedules the same amount for the budget year ($6.0 million, half General Fund, for this Department alone). The Department says that the funds will primarily be used for contractor assessment, process development, privacy and security assessment, and risk management activities. An FSR has been approved for the work; the Department anticipates that HIPAA compliance will be modified as the Health and Human Services Agency Office of HIPAA Implementation begins its operations. The subcommittee has asked that the LAO review the plans for expenditure of these funds to assure that all automation review activities have been observed.

- **The LAO will report on their review of Department HIPAA activities.**
- **The subcommittee will determine whether to adopt the Department's BCP on positions.**
- **The subcommittee will determine whether to adopt the Department's HIPAA budget.**

Proposition 36

California voters approved Proposition 36, the Substance Abuse and Crime Prevention Act, in November 2000. The proposition changed sentencing laws, effective July 1, 2001, to require adult offenders convicted of nonviolent drug possession to be sentenced to probation and drug treatment instead of prison, jail or probation without treatment. Certain offenders, those who refuse treatment or who are found by the courts to be "unamenable to treatment", are excluded from the provisions of the Act. The Act further requires that state prison parolees with no history of violent convictions who commit a non-violent drug offense or violate a drug-related condition of parole be required to complete drug treatment in the community, rather than being returned to state prison.

The measure requires that the state provide $120 million annually through 2005-06, to be deposited to a new Substance Abuse Treatment Trust Fund, and distributed to counties to pay for the costs of treatment and related programs. Funds may be used for substance abuse assessment, treatment, vocational training, family counseling, literacy training, probation supervision and court monitoring of offenders.

Report on allocation of funds: Informational Item Only

Budget Language in the current year required a report on the allocation of Proposition 36 funds to counties, including the method used in 2001-02, the impact of that method on counties, suggested alternative methodologies, if any, and the benefits and detriments of each methodology in the report.

The Department reports that the method used for the start-up funds in 2000-01 and the first year of implementation, 2001-02, was as follows:

- distributed 50% based on a minimum allocation with the balance based on population (population being an indicator of need);
- distributed 25% based on adult felony and misdemeanor drug arrest data (arrest data being an indicator of demand);
- distributed 25% based on treatment caseload (caseload being an indicator of treatment capacity and supply).

Although there have been questions and issues raised with this methodology, no comments on the methodology were received during the public comment period for the permanent adoption of program regulations. Overall, the Department believes that it is too soon to evaluate the impact of the methodology. The Department will continue to work with stakeholders in the Statewide Advisory Group, when sufficient data and experience have been gained.

State parolees: Informational Item Only
The procedure for providing Proposition 36 services to state prison parolees was complicated, and required considerable development of guidelines and coordinating relationships. There were problems coordinating parole holds with the referral of parolees to Proposition 36 services. The Department and the Youth and Adult Correctional Agency have formed a joint committee to work out ongoing coordination issues.

The number of parolees served has been lower than anticipated**. According to legislative information, 3,252 parolees were offered Proposition 36 treatment and 2,159 parolees accepted the offers**. Parole had a slow start up because of a complete infrastructure change at the Board. It is anticipated by the Board that this year's referrals will fall 15-10% below the original 7,181 projection. There are only about 800 parolee referrals in the Department's automated information system, compared to the estimate of 7,181. The joint committee is now working on procedures to see that the count of parolees in the system is accurate.

The Board initially had a bumpy referral process, because of inadequate staff to manage the referral process, and too many moving parts. **The Board of Prison Terms and Parole and Community Services Division have redesigned the infrastructure of the proposition 36 screening and referral process. The process has been approved by decision makers and new policies and procedures should be in place within 30 days**. The new procedures should resolve most of the referral and communication problems that existed under the old system.

Drug Testing
Proposition 36 specifically prohibits the use of funds from the Substance Abuse Treatment Trust Fund for the cost of drug testing. Regardless, mandatory and random drug testing is viewed by most alcohol and other drug treatment professionals as an important and integral component of successful treatment.

The Legislature approved legislation in 2001 (SB 223, Burton, Chapter 721) that allows drug testing for clients treated under the Proposition 36 program. The bill requires that funding be used to supplement existing testing programs; provides that federal funds can be used for drug testing where consistent with federal law; requires that drug testing not be given greater weight than other aspects of the treatment program where treatment is a condition of probation or parole; and requires that in order to receive funds for testing, a county must have a Department-approved plan.

The General Fund portion of funding in the bill was vetoed. In the current year, testing was funded by a direction of federal Substance Abuse Prevention and Treatment Block Grant funds ($8.4 million) for this purpose. **The budget proposes to continue to fund the drug abuse testing program by specifying the use of federal block grant funds in the amount of $8.6 million**.

It is likely too early to assess whether the funds for this purpose are adequate. Some counties have reduced the number of drug tests they would normally administer to a participant during the course of treatment to fit their county allocation of drug testing funds. The original estimated need for drug testing was $18 million, and the analytical basis for that estimate has not changed.

- **The Department will report on implementation of SB 223.**

Report on Proposition 36 Implementation
The subcommittee requested last year in budget language that the Department prepare a written summary of the status of implementation of the Proposition for budget hearings this year. The budget bill language was vetoed, at least in part because the Administration believed that this year's budget hearings were too soon for meaningful reporting.

A September report was released, prepared by Health Systems Research for the Department and the federal Substance Abuse and Mental Health Services Administration, analyzing plans from the 58 counties to implement Proposition 36. The information in the report is from the first year plans, and do not include implementation information. The report includes the following findings:

- Nearly 90% of referrals are expected to come from the court/probation system; 10% from the state parole authority.
- 51 of 58 counties will require drug testing of Proposition 36 clients (using non-Proposition 36 funds)
- 53 counties selected behavioral health professionals to provide assessment and placement services.
- The average percentage of budgeted funds to be spent on services is 79.1%, with the range from 51.5% to 100%.
- The average percentage of budgeted funds to be spent on criminal justice activities is 20.9%, with the range from 0 to 48.5%.
- 55 counties projected an increase in total capacity of services in 2001-02.

The Department will report on the status of its evaluation planning, and on what available information suggests about implementation:

- How many persons do you anticipate will be served in the current year, compared to projected expenditures? Have the low numbers reduced spending?
- Have counties had sufficient treatment resources available? Have the resources been the right kind?
- Do you have information about no-shows among those referred?

Drug Court

The state currently provides funding for two programs to support drug courts. The Drug Court Partnership program, established as a four-year demonstration project, is scheduled to expire at the end of the budget year. 34 counties operate drug courts under this program. The courts provide post-plea services only, and only to adults. The funds are administered by the Department, under program design and implementation guidelines developed with the concurrence of the Judicial Council. Funds are allocated as a grant amount for small/medium programs and large programs, depending on county size. The legislation creating the program required an evaluation, provided this spring. Funding for this program at the end of last year was $7.6 million. **The Drug Court Partnership Program is scheduled to sunset at the end of the budget year.**

The second program is the Comprehensive Drug Court Implementation Program. The program provides grants to 47 counties, based on a population-based allocation methodology. Funds can be used for pre- or post-plea services, to adult, juveniles, and dependents. This program also has a mandated evaluation to be completed by the Department, in collaboration with the Judicial Council. Funding for this program at the end of last year was $9.5 million.

The Governor vetoed $3 million from the combined drug court funding in the current year. The Department, after stakeholder consultation, allowed courts to determine how the reduction would be taken between the Partnership and Comprehensive Drug Courts.

The evaluation findings include the following:

- Participants had long histories of drug use and multiple incarcerations, as well as other social difficulties, including homelessness, unemployment, and limited education.
- Participants who completed the program improved substantially in all areas, showing decreased drug use and re-arrest, as well as improvement in employment and education, acquisition of stable housing, and increased family involvement.
- The arrest rate for program completers is 85% less during the two years after admission than the arrest rate for those entering the programs during the two years prior to entry.

- The conviction rate for completers is 77% less during the two years after admission; the incarceration rate for completers is 83% less during the two years after admission.
- 95% of all babies born while their mothers participated in drug court were drug-free.
- Jail and prison days avoided, averted costs of approximately $42 million, compared to a cost of $14 million in Drug Court Partnership funds during the period of the evaluation.

The Department has provided more detailed information, that indicates the arrest rate for Drug Court completers drops even more sharply for those with a felony charge. The conviction rate for completers drops more sharply for those with a felony charge. The incarceration rate for completers in a greater drop in jail time (83%) than in prison time (50%). **Two charts are attached showing avoided jail costs by county, and prison costs avoided, due to Drug Court Partnership Program completion, using data from the evaluation.**

The budget proposes to eliminate all funding for the Drug Court Partnership. $4 million were reduced because the program is sunsetting, and half the programs received their final payment from current year funds; an additional $4 million is removed to expedite the end of the program. Finally, the $3 million current year reduction is continued. Because the Drug Court Partnership program is allows to sunset, the entire $3 million will come from the Comprehensive Drug Court program. The Department has provided information to show that the average number of participants in the Drug Court Partnership has dropped 38% since the passage of Proposition 36. The Assembly restored the funding for the Drug Court Partnership from federal block grant funds, extended the sunset one-year, and committed to trailer bill language that requires the use of federal funds for federally allowable purposes only.

- **The Honorable Stephen Manley, Co-Chair of the Executive Steering Committee to the Drug Court Partnership, will summarize the evaluation findings.**
- **The Department will discuss the impact this reduction might have on Proposition 36 implementation.**
- **The LAO will summarize their recommendation concerning this reduction.**
- **The subcommittee will determine whether to adopt the Governor's reduction.**

Community Treatment Reductions

The Legislature in 2000 expanded non-Drug Medi-Cal programs at the community level with $7.7 million for adult treatment programs, and $5.7 million for treatment programs for adolescents**. Both these expansion amounts were eliminated in the current year budget**.

The budget proposes an unallocated additional reduction of non-Drug Medi-Cal services of $7.5 million General Fund. The Department will distribute this reduction according to their standard methodology.

The current year budget required that the Department report in budget hearings an analysis of county allocations that examines the total funds available per resident, the Drug Medi-Cal funds available per resident, the federal block grant funds available per resident, and discretionary funds available per resident. The analysis should identify whether variations in funds are likely to affect access to the availability of a full continuum of care in communities. The Department has provided baseline information regarding the distribution of all funds, Drug Medi-Cal, federal funds, and discretionary funds per resident. **At the time of the subcommittee's pre-hearing meeting on the budget, the Department had not prepared an analysis of how the fund distribution might affect access to a full continuum of care**.

Generally, the distribution of funds is equitable within a fairly narrow range (from $8-$10 per resident for most small, medium and large counties for all funds). The very smallest counties are outliers, due to their small population size. A few of the larger counties have more, up to $19/resident. Some of the anomalies might be explained by the presence of unique programs, such as the perinatal funding associated with programs that originally received federal funds. The exception to this relatively narrow range is Drug Medi-Cal, discussed below.

For the past two years, the budget included $850,000 for contracts to provide Technical Assistance Contracts. These funds were an expansion two years ago to provide specific training for targeted populations. These funds are now deleted, leaving a base training amount equal to funds provided in 1999-2000, or about half the funds available in the current year.

- **The Department will provide the requested analysis of county allocations**.
- **The Department will report on the specific activities of the expanded technical assistance contracts.**

<u>Drug Medi-Cal</u>
The current year budget required that the Department report in budget hearings on the status of its plan to improve access to Drug Medi-Cal, especially for children and young people, including any proposal to change the rates, the scope of benefits, and the treatment approval procedures so that the program serves Medi-Cal beneficiaries appropriately. **At the time of the subcommittee's pre-hearing meetings on the budget, the Department had not prepared a report.**

The Legislature in 2000 planned a significant expansion of Drug Medi-Cal in budget trailer bill language. The legislation authorized the Department to add Day Care Rehabilitative services and Case Management/Relapse Prevention services to the types of treatment eligible for Medi-Cal. The federal government has since approved the Day Care Rehabilitative proposal; the Case Management/Relapse Prevention proposal is still pending. The current year budget postponed the expansion under both proposals for the current year.

The budget proposes to further delay the addition of Day Care Rehabilitative services, and to continue to postpone the Case Management/Relapse Prevention service type. **In addition, the budget estimates a decrease of $3.7 million General Fund (plus $3.9 million reimbursements) in the current year and $3.7 million General Fund (plus $5.9 million reimbursements) in the budget year.** The Department believes that the decrease represents a technical error, corrected in both the current and budget-year estimates. The failure of this program to show any increase remains disquieting, given the growth in other Medi-Cal programs. The Department estimates that approximately $2.9 million will be used to fund Drug Medi-Cal under Proposition 36 in the current year; that number will increase to $5.4 million in the budget year. (These are the General Fund costs: they should be roughly doubled to estimate the size of the Medi-Cal service.) Clearly, federal funds will play only a minor role in California's implementation of Proposition 36.

The budget language in the current year was prepared in part because of concerns about the adequacy of Drug Medi-Cal benefit. For example, California services to children and youth are significantly below estimates of the incidence of substance abuse in the population. The Department has provided data to show that Medi-Cal served 6700 young people under the age of 21 in 1995-96; by 2000-01 the number was 6,972. The Supplemental Report language was a substitute for an initial subcommittee proposal to require the Department to develop a proposal to eliminate the Treatment Authorization Request system for EPSDT services and to make other proposals for changes to the rates and scope of benefits so that children and youth can be adequately served. More generally, Drug Medi-Cal services are not available in approximately 20 counties, presumably because rates are too low to interest providers or because the array of services are too limited to provide care, or both. The Department suggests that the administrative costs of Medi-Cal billing, or a lack of eligible providers are factors in the lack of providers in some areas of the state.

- **The Department will address the question of whether it plans to pursue development of improved access to Drug Medi-Cal, and whether it intends to pursue the Drug Medi-Cal expansion already approved by the Legislature.**
- **The Department will report on whether it is pursuing Drug Medi-Cal as a way to assure that Proposition 36 resources are adequate.**
- **The Department will report on whether it believes that the Drug Medi-Cal meets federal EPSDT requirements to provide all services necessary to resolve or ameliorate conditions found in children's assessments.**

Perinatal Programs

California provides $6.9 million to a network of Perinatal Treatment Programs initially operated through federal Center for Substance Abuse Treatment grants, but whose federal grants have expired. These nine treatment programs provide a system of comprehensive services to pregnant and parenting women. Programs provide addiction treatment, health care, parenting services, vocational and education services. Each grantee monitors for health status, child welfare status, criminal justice involvement and emergency room use. Many clients have concurrent health or mental health disorders, are homeless, HIV positive, or have learning disabilities.

The department has also licensed or certified an additional 250 perinatal inpatient and outpatient treatment programs, funded with Drug Medi-Cal, State general Fund, and federal block grant funds. Few of the non-federal programs have comprehensive services; in particular, few are able to provide collateral services to other members of the family. Drug Medi-Cal rules provide that women may be served while they are pregnant and post-partum for sixty days. Federal regulators have resisted extending medical necessity beyond this point. CalWORKs has provided funding for many women in this target population; some programs receive Proposition 10 funding as well.

The nine federal network programs have testified that national evaluation data demonstrates that the full-service residential program have demonstrably better outcomes than other perinatal programs. Examples include: clean and sober 12 months post treatment (75% vs. 47%); percentage employed, in job training or in school post treatment (65% vs. 41%); and reunified with their children (75% vs. 21%). On the other hand, some county administrators believe that outcomes from out-patient perinatal program can result in excellent outcomes. One county provided outcomes from out-patient perinatal programs that include: clean and sober 6 months post treatment (80%); percent of those unemployed at entry who were subsequently employed at completion (95%); and percent who complete the 18-month program (75%). Although these programs claim significant success at reunifying women with their children, there is not a specific link between foster care treatment programs and these perinatal programs.

The budget proposes a reduction of $2.5 million from perinatal programs in the budget year. The Department has also proposed to remove budget language that currently protects the Perinatal Treatment Program network programs that originally received federal funds.

The departmental funding available to perinatal programs, after the reduction is applied, is as follows:

Non-Drug-Medi-Cal General Fund	$23.5 million
(includes the $6.9 million for the Perinatal Treatment Network, although counties could apply the reduction to these funds)	
Drug Medi-Cal Perinatal General Fund	$2.7 million
Drug Medi-Cal Perinatal Federal Fund	$2.8
Federal Block Grant funds	$15.6 million

Total	**$44.5 million**

The perinatal residential programs admitted 4,339 women in 2000-01; the perinatal outpatient program admitted 9,976 women in 2000-01.

- **The subcommittee will determine whether to adopt the Governor's reduction of $2.5 million.**
- **The subcommittee will determine whether to eliminate the budget bill language.**
- **The subcommittee will determine whether to designate the cut between programs, or permit that decision to be made locally.**

Federal Block Grant Funds

The federal government provides $235.2 million in Substance Abuse Prevention and Treatment (SAPT) block grant funds in the current year. These funds are provided on the condition that states main a specific ongoing Maintenance of Effort (MOE) in state support for their drug and alcohol programs. The federal sanction for failure to meet the MOE is a $1 reduction for every $1 by which the state is found to be below the MOE.

The Department believes that the General Fund reductions sustained last year by the Department, and proposed for the current year, create some risk that the state will be found to violate the MOE requirements. Initially, the Department submitted information to the federal government counting the $120 million annual appropriation for Proposition 36 as part of the state's MOE. In that circumstance, the state would be below the MOE by approximately $3 million, in 2003-04, potentially leading to federal sanctions of that amount in the 2004-05 fiscal year. The Department believes that it could seek relief from the federal action on the basis that it is "within material compliance" of federal requirements.

However, if the $120 million is counted, the state would be in the position of needing to continue the Proposition 36 appropriations after the five year period required by the initiative**. The administration has decided to exclude the $120 million from the federal calculation, in order to maintain maximum flexibility in the future. This, however, would create a potential MOE problem in the budget year of $14 million**. Any reduction in MOE would occur in 2003-04; any cure to the problem must occur in the budget year if a reduction is to be avoided.

The Department submitted a Section 28 letter scheduling $16.2 in ongoing funds from the SAPT block grant, that reflect $2.8 million from prior years and $13.4 million from block grant funds received in the current year. The Department proposes the following allocation:

- $3.0 million for federally required prevention and HIV services for previous increases;

- $3.8 million for federally required prevention and HIV services for the current year increase;
- $9.3 million to counties for community services;
- $0.2 million for one-time state support costs.
- (-$0.1) million technical adjustment to the base

The Department has submitted a spring finance letter augmenting the federal block grant appropriation by $15.2 million in ongoing funds, for a new total of $250.6 million in ongoing funds. **The spring finance letter augments the budget by a $20.2 million increase, including $15.3 million from the ongoing increase; $1.9 million remaining from the current-year award; and $3 million from last year's block grant award increase that was inadvertently removed from the Department's base in constructing the 2002-03 budget.**

The Department proposes the following allocation:

- $2.4 million for the federally required prevention set-aside for last year's increase;
- $0.6 million for the required HIV set-aside for last year's increase;
- $1.9 million from last year's award for ongoing automation expenditures;
- $15.1 million for county services, including $3.1 million for the prevention set-aside and $0.8 million for the required HIV set-aside;
- $150,000 million for maintenance of the California Outcomes Measurement System
- $120,000 for contracts with the American Indian Training Institute and the Disability Technical Assistance contract

The spring letter indicates that counties will be strongly encouraged to use the total of $11.3 million in discretionary funds not specified for a set-aside, for perinatal and youth treatment services proposed for reduction. In addition, the spring letter proposes that the $2.1 million in automation funds include budget bill language that the funds cannot be spent without the approval of the required planning documents by DOIT and TIRU.

The LAO withholds a recommendation on the proposal to allocate funds for the California Outcomes Measurement System, because no FSR has been released yet. The LAO has no objection to the other expenditure proposals for these new funds, but notes that some of the funds could be used to offset reductions made elsewhere in this Department's budget.

The subcommittee will determine whether to adopt the proposed allocation of new federal funds.

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

May 6, 2002
1:30 P.M.
ROOM 112

(Diane Van Maren, Consultant)

Item	***Description—Open Issues***
4300	**Department of Developmental Services (consent item only)**
4440	**Department of Mental Health**
0530	**California Health & Human Services Agency**
4260	**Department of Health Services—Public Health and Medi-Cal**

PLEASE NOTE: The May Revision Hearing for all issues pertaining to health, human services, developmental services, and mental health will be on Sunday, May 19th beginning at 4:00 PM in Room 4203. The Subcommittee will be closing down at this time.

I. 4300 Department of Developmental Services

ITEM RECOMMENDED FOR CONSENT

1. Technical Correction—Trailer Bill for Regional Center Contracting

Background and Proposed Action: In last year's omnibus health trailer bill—AB 430 (Cardenas) Statutes of 2001—language was included in Section 4640.6 which required Regional Centers to make all employment contracts available for public review.

SB 1191 (Speier), Statutes of 2001 which was a code clean-up bill, inadvertently chaptered out the trailer bill language. As such, the Chair of the Subcommittee is requesting to rectify this problem by placing the language back into trailer bill legislation.

The proposed language is as follows:

Add Section 4640.6 to Welfare and Institutions Code:

> (k) (1) Any contract between the department and a regional center entered into on and after January 1, 2002, shall require that all employment contracts entered into with regional center staff or contractors be available to the public for review, upon request. For purposes of this subdivision, no employment contract or portion thereof, may be deemed confidential or unavailable for public review.
>
> (2) Notwithstanding paragraph (1), no social security number of the contracting party may be disclosed.
>
> (3) The term of the employment contract between the regional center and an employee or contractor shall not exceed the term of the state's contract with the regional center.

II. 4440—Department of Mental Health

ISSUE FOR DISCUSSION

1. AB 3632 Mental Health Services to Special Education Pupils—Retrospective Aspect

Background—Mental Health Services to Special Education Pupils: Federal law (PL 94-142 of 1975-- the Education for All Handicapped Children Act—and the later Individuals with Disabilities Education Act (IDEA)) mandates states to provide services to children enrolled in special education, **including all related services as required to benefit from a free and appropriate education. Related services include mental health services**, occupational and physical therapy and residential placement.

In California, **prior to 1984 School Districts were also responsible for providing the related services to children enrolled in special education. However now,** School Districts are only responsible for identifying children in need of special education services and for providing the instruction. This is because **AB 3632** (W. Brown), Statutes of 1984, **shifted responsibility for providing related services from School Districts and transferred these responsibilities to other state and county agencies.**

Generally, AB 3632 requires County Mental Health Departments to provide mental health services to special education pupils who need the services to benefit from their education (as identified in the student's Individualized Education Plan—IEP).

Mental health services include assessments, and all or a combination of individual therapy, family therapy, group therapy, day treatment, medication monitoring and prescribing, case management, and residential treatment. **Services to be provided, including initiation of service, duration and frequency of service, are included on the student's IEP and must be provided as indicated.** Services can only be discontinued on the recommendation of mental health and the approval of the IEP team, or by parental decision.

Emergency regulations to enact the provisions of AB 3632 were adopted in 1986 and remained in effect until 1997 when they were replaced with permanent program regulations enacted to conform with AB 2726, Statutes of 1996**. One of the reasons emergency regulations were in affect for 11 years was because of the complexity of the program, including a multitude of issues regarding funding.**

It is interesting to note that proponents of the enabling legislation characterized it as requiring coordination of existing services rather than an expansion of services. As such, they maintained that the bill would have minimal, if any costs associated with it. This perspective has been the source of amusement and frustration as considerable costs have been incurred by all parties over the years. However, the increased services to children needing mental health services has been invaluable.

Funding for AB 3632: For the past decade, counties have paid for the cost of the program through **(1)** categorical funding provided by the DMH as appropriated through the state budget process, **(2)** mandate reimbursement claims as obtained via the State Commission on State Mandates process, **(3)** Realignment funds, and **(4)** third-party health insurance when applicable. **It is estimated that about $100 million in total funds is expended annually.**

Generally, counties submit claims for the program to the Commission on State Mandates (Commission). It is recognized that these county claims have varied considerably, contingent upon the number of children served, duration and type of services deemed necessary to provide based on the IEP, and related factors. In addition, some counties have claimed up to 100 percent of the treatment costs for the program, while others have claimed other varying levels, including only 10 percent. **It should be noted that the State Controller's Office has "desk audited" these county claims for the past decade without significant exception for years.**

The categorical funding historically appropriated through the annual Budget Act is used as an offset in calculating the amount counties may claim as mandate reimbursements. This categorical funding began in 1986 and has stayed fairly constant since 1987-88. **However, it is widely recognized that program costs have exceeded the categorical appropriation right from the start, with county mandate claims funding the rest. The categorical appropriation (about $12.3 million in 2001-02) funds only about 20 percent of the costs.**

Background--State Mandate Issue: In 1987, counties submitted a claim to the Commission on State Mandates (Commission), seeking reimbursement of costs in excess of the amount they had received from the state, beginning in 1986-87 for this program.

The Commission ruled in 1990 that counties were entitled to reimbursement of 100 percent of excess costs for assessment, case management, and participation in the IEP process, *and 10 percent of excess costs for treatment*.

It should be noted that the above percentages were derived from sharing ratios contained in the state's Short-Doyle Act, and were applied based on the Commission's conclusion that because the treatment portion of the program was required to be included in county Short-Doyle plans, *it was subject to Short-Doyle funding arrangements*. In 1991, the Commission adopted claiming "Parameters and Guidelines" (Guidelines) for the program *after* Realignment legislation passed which effectively eliminated Short-Doyle funding.

However, the California Mental Health Directors Association (CMHDA) contends that the Guidelines are flawed for several reasons, including the fact that **county realignment** legislation was enacted in 1991 (transferring most of the responsibility for the provision of public mental health services to the counties) and **that AB 3632 was not contained**

within the parameters of realignment. Thus although the Short-Doyle Act was repealed, the state was not relieved from providing 100 percent of the costs of AB 3632 services.

Background-- State Controller Audits: The State Controller's Office is responsible for, among other things, conducting audits of state mandate claims. **Over the past two years, auditors from the State Controller's Office have been conducting AB 3632 state mandate claim reviews (three years of data from 1997 to 2000) in a few counties, including the County of Orange.**

The auditors are using the Guidelines established by the Commission, and as such, may likely contend that tens of millions of dollars are owed by the counties to the state. At this time, none of the audits have been released for public comment.

In discussions with State Controller staff, **it was stated that all additional AB 3632 audits have been placed on hold pending clarification with the Commission.**

Constituency Concerns and Subcommittee Staff Comment: Generally, many counties have been requesting funding under the state mandate claim process **for the full cost of treatment services, not just the 10 percent as contained in the Parameters and Guidelines developed by Commission**. **These claims have been budgeted every year in the state budget and no one has previously questioned or contested this claiming process.**

The CMHDA contends that the Guidelines presently in use need to be updated to reflect the true operation of the program. Therefore, to audit based on the Short-Doyle payment standard is not applicable. **As such, the counties have placed the issue before the Commission seeking a revision to the Guidelines. There has been significant controversy regarding the facts of the case, as well as the options available for achieving a workable solution for all involved parties. In essence, the counties want to generally maintain the existing program and receive a reasonable reimbursement for its operation, including appropriate treatment services.**

From these discussions it is evident that absent corrective action, the counties may not only lose funding prospectively, but could also be forced to refund the equivalent of the last three year's worth of claims as submitted to the Commission. According to the CMHDA, this would take possibly hundreds of millions of dollars out of the public mental health system and would effectively, decimate many children's programs.

Further, it is the understanding of Subcommittee staff that Assembly Member Steinberg will be amending a bill to address the prospective aspect of the AB 3632 issue since the Commission is not presently poised to do so.

Proposed Uncodified "Hold Harmless" Trailer Bill Language: Based on discussions with the California Mental Health Director's Association (CMHDA), Subcommittee staff recommends to adopt the following uncodified trailer bill language in order to hold the counties harmless for prior years.

The proposed language is as follows:

> "Notwithstanding any other provision of law, with respect to the Handicapped and Disabled Students state-mandated local program, **county reimbursement claims submitted to the State Controller for reimbursement for services associated with providing eligible mental health treatment services to Special Education Program pupils in years up to and including the 2000-01 fiscal year are deemed correct and shall not be subject to dispute by the State Controller's Office.** No county may amend a previously submitted reimbursement claim for the 2000-01 fiscal year or prior for eligible mental health treatment services to Special Education Program pupils."

Governor's Proposed Budget: The budget proposes **a reduction of $12.3 million** (General Fund) to reflect a one-year deferral in advanced payments to counties for mental health services to special education pupils. **The DMH states that these costs are expected to be recovered by the counties through the local mandates process.**

Budget Issue: Does the **Subcommittee want to (1)** adopt the Governor's proposed reduction of $12.3 million (General Fund) to reflect a one-year deferral in advanced payments (expected to be recovered via the Commission), **and (2)** adopt the proposed trailer bill language?

III. California Health and Human Services Agency (CHHS)

ITEM FOR DISCUSSION

1. CA Health & Human Services Agency—Olmstead Trailer Bill Language

Background—Olmstead Decision: In the Olmstead decision the United States Supreme Court, among other things, ruled that **an individual with a disability has a right to live in a community setting so long as three conditions are met: (1)** the individual's treating physician determines that community placement is appropriate, **(2)** the individual does not oppose such placement, and **(3)** the placement can be reasonably accommodated, taking into account the resources available to the state and the needs of others that are receiving state-supported disability services.

The Supreme Court indicated that **states could establish compliance** with Title II of the American with Disabilities Act (ADA) **if it demonstrates that it has: (1)** a comprehensive**, effective working plan** for placing qualified persons with disabilities in less restrictive settings, and **(2) a waiting list that moves at a reasonable pace** not controlled by the state's endeavors to keep its institutions fully populated.

The federal Department of Health and Human Services sent letters to each Governor urging states to create Olmstead implementation plans. In addition, the federal CMS and federal Office of Civil Rights also sent a joint letter to state Medicaid (Medi-Cal) Directors providing guidance in the creation of such a plan.

Prior Subcommittee Action: In the April 22 hearing, the Subcommittee adopted placeholder trailer bill language (uncodified) to require the CHHS Agency to craft an Olmstead plan. Since this time, language has been crafted that meets the approval of the CHHS Agency. **The proposed language is as follows:**

> "The California Health and Human Services Agency (CHHS Agency) **shall develop a comprehensive plan describing the actions which California can take** to improve its long term care system so that its residents have available an array of community care options that allow them to avoid unnecessary institutionalization. The plan shall respond to the decision of the United State Supreme Court in Olmstead v. L.C., 527 U.S. 581 (1999) and shall embody the six principles for an "Olmstead Plan" as articulated by the federal Center for Medicaid and Medicare Services (the Health Care Financing Administration at the time the principles were first articulated).
>
> **These principles include (1)** a comprehensive, effectively working plan; **(2)** a plan development and implementation process that provides for the **involvement of consumers** and other stakeholders; **(3)** the development of assessment procedures and practices that prevent or correct current and future unjustified institutionalization of persons with disabilities; **(4)** an assessment of the current availability of community-integrated services, the identification of gaps in service availability, and the evaluation of changes that could be made to enable consumers to be served in the most integrated setting possible; **(5)** inclusion in the plan of practices by which consumers are afforded the opportunity to make informed choices among the services available to them; and **(6)** elements in the plan that provide for oversight of the assessment and placement process in order to help ensure that services are provided in the most integrated setting appropriate, and to help ensure that the quality of the services meets the needs of the consumers. The plan is due to the Legislature by **no later than April 1, 2003**."

Budget Issue: Does the Subcommittee **want to adopt or modify the above trailer bill language?**

IV. 4260 Department of Health Services—Public Health and Medi-Cal

ITEM FOR CONSENT

1. Medi-Cal County Administration—Reallocation Language (rescind action)

Background and Prior Subcommittee Action: Counties are responsible for **conducting** Medi-Cal eligibility processing and enrollment functions. The state provides funding (General Fund and federal funds) for this purpose based on four general components: (1) recent caseload data, (2) estimated policy changes that affect eligibility processing or related functions, (3) staff training and development, and (4) cost-of-doing business adjustments.

In the April 1 Subcommittee hearing, the County Welfare Directors Association (CWDA) had requested trailer bill language to provide the DHS with the authority to re-allocate unspent Medi-Cal administrative funds to counties that overspend their allocations. The Subcommittee adopted said language.

However since that time, the DHS and CWDA have had several constructive meetings regarding many administrative issues pertaining to the operation of the Medi-Cal Program. As such, both parties are requesting the Subcommittee to rescind its April 1 action and allow the conversations to continue as part of a global discussion.

Subcommittee Staff Recommendation: Subcommittee staff therefore recommends that the Subcommittee rescind its action on this language.

ITEMS FOR DISCUSSION

1. Request to Fund Outside Counsel for ADA Related Litigation

Background: The DHS, as the single state entity in charge of the Medi-Cal Program, is seeking continued assistance with litigation defense pertaining to **two cases involving the Americans with Disabilities Act (ADA) and the Rehabilitation Act.**

Generally, the *Davis v. Secretary Grantland Johnson* litigation challenges the state's policies and practices which allegedly result in plaintiffs' and class members' **unnecessary isolation and segregation in nursing homes in violation of their rights**. According to the DHS, plaintiffs seek the availability and the access to a full range of home and community based services in lieu of the services available in nursing facilities. ***Davis v. Johnson*** almost exclusively involves services that the plaintiffs argue are, or should be, available through the Medi-Cal Program.

Sanchez v. Secretary Grantland Johnson is a class action lawsuit for declaratory and injunctive relief in which **plaintiffs contend that the payments (i.e. rates) the state provides for community-based services for individuals with developmental disabilities violate the plaintiffs' rights under the ADA, the Rehabilitation Act, and the Medicaid Act.** According to the DHS, plaintiffs allege that the state's failure to provide sufficient rates for community-based services **results in unnecessary isolation and segregation in the state Developmental Centers.** Plaintiffs seek rate parity for the services supplied by community-based providers with the services supplied by institutional providers (such as the DCs).

The DHS states that "preliminary estimates suggest that meeting all of the plaintiffs demands could require the creation of new community homes and services for tens of thousands of nursing home and other institutional residents at an annual cost of hundreds of millions and possibly billions of dollars.**"**

Budget Act of 2001 and Current Year Expenditures: The Budget Act contained an increase of **$2 million ($1.250 million General Fund) to fund a contract for this purpose.** These funds were provided as part of an overall budget negotiation conducted through the Budget Conference Committee process.

Finance Letter Request: The **Finance Letter is requesting (1)** a reappropriation of $200,000 from the Budget Act of 2001 which is currently unexpended (and therefore could be applied towards the state's deficiency), and **(2)** an increase of $2.8 million ($1.8 million General Fund) to continue existing contracts with external financial consultants and external attorneys who are assisting the state with the two lawsuits.

Based on information provided to the Subcommittee, **the requested $3 million in funding is to be used as follows:**

- **$1.250 million** to continue a contract with Shartsis, Friese & Ginsburg LLP to litigate the Davis v. Johnson lawsuit;
- **$750,000** to continue the contract with Erickson, Beasley, Hewitt & Wilson to litigate the Sanchez v. Johnson lawsuit; and
- **$1.1 million** for Tucker Alan Incorporated to provide economic and financial analysis of the plaintiffs' demands. Work is to include numerous tasks such as developing statistical data on the relevant populations, conducting analyses of residential and non-residential provider groups, and performing a wide variety of other functions including assistance with testimony, depositions, and general discovery. Of the total amount, about $450,000 is assumed to be attributable to the Davis case and $605,000 is for the Sanchez case.

Assembly Subcommittee No. 1 Action: In its April 29th hearing, the Subcommittee rejected the Administration's proposal.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please **provide a brief status update on each of the lawsuits in question. When will they be going to trial?**
- **2.** Specifically, why is outside counsel needed?

Budget Issue: Does the **Subcommittee want to deny or adopt the proposal given the present fiscal situation?**

2. Child Health Disability Prevention (CHDP) Program—Discussion Pending May Revision *(Informational) (See Hand Outs)*

Historical Background--CHDP: The Child Health Disability Prevention (CHDP) Program provides pediatric preventive health care services to (1) infants, children and adolescents up to age 19 who have family incomes at or below 200 percent of poverty, and (2) children and adolescents who are eligible for Medi-Cal services up to age 21 (EPSDT).

The benefit package provided under CHDP is limited to providing a physical examination, lab tests and immunizations. About 1.1 million children receive services under the program.

Local health jurisdictions work directly with CHDP providers (private and public) to conduct planning, education and outreach activities, as well as to monitor client referrals and ensure treatment follow-up.

With respect to funding, services for children *not* eligible for Medi-Cal or HFP are primarily funded with General Fund support.

Outline of Governor's Revised Proposal (See Hand Outs): At the direction of the Governor, the DHS convened a series of constituency work group meetings to solicit options and comment on restructuring the CHDP Program to maximize enrollment in Medi-Cal and Healthy Families (more comprehensive care).

Through this process, ideas were garnered for crafting a "CHDP Gateway". As such, the Governor has reformulated his original January budget proposal to eliminate the CHDP Program and instead, **will be presenting a revised proposal at the time of the May Revision.**

Though specific details regarding financing, necessary statutory changes, caseload changes and related information are not yet know, a general framework of the proposal has been presented to constituency groups *(April 30th meeting)*.

The *key* components of the proposal are as follows *(See Hand Outs)*:

- The CHDP Program is to continue (not be eliminated) and will operate as it currently exists.
- **The CHDP "Gateway", to be implemented effective April 1, 2003,** will build upon existing technology used under the Family PACT Program, and Breast and Cervical Cancer Treatment Program. **In essence, this technology allows providers to complete application forms using an internet-based process or a "point of service" device (swipe card for those without internet access) to transmit an application for program eligibility.**
- The CHDP application, with some relatively minor changes, will serve as the enrollment process for CHDP, and as a ***"pre-enrollment application"*** for Medi-Cal and the Healthy Families Program (HFP) (if the parent elects to have the application forwarded for this purpose).
- The Fiscal Intermediary (EDS) would process the pre-enrollment application and cross-checks this application against the Medi-Cal data file (known as MEDS).
- MEDS identifies the child as having had pre-enrollment within the CHDP periodicity. **At this juncture, the child can then either: (1)** proceed to enrollment into full-scope Medi-Cal, **(2)** proceed to enrollment into HFP, or **(3)** be CHDP-only.
- **If a child is CHDP-only, they can receive CHDP services only if the child is accessing services according to the periodicity schedule (See Hand Out). If the CHDP-only child has already received their periodicity visit, and comes again seeking medical assistance, the provider will not be able to obtain payment under the CHDP for the services provided. This is because, the Administration wants to "gateway" the child, when feasible, into comprehensive care (i.e., Medi-Cal or HFP).**
- If MEDS identifies the child as currently receiving full-scope Medi-Cal or HFP, then the family would be told to take the child to the Medi-Cal or HFP provider, as applicable. No CHDP service would be reimbursable.
- It should be noted that children completing pre-enrollment applications for Medi-Cal or the HFP **would still then need to complete full program applications for these programs. The pre-enrollment period would provide for up to a *maximum* of 60 days (two months) worth of program services in order to provide access during the time that the Medi-Cal/HFP application is being processed and finalized. Supplemental applications for Medi-Cal and HFP are to be sent to families.**

<u>General Constituency Responses:</u> Since the full detail of the Governor's revised proposal is not yet available, it is difficult to fully discern what modifications may be desirable. Further, interest groups are still analyzing the information just recently provided to them in the April 30th meeting. However generally, it appears that the CHDP Gateway approach has merit for increasing enrollment in comprehensive health care programs.

American Academy of Pediatrics Periodicity Schedule (See Hand Out): When implemented in 1974, the CHDP Program conformed to the recommendations of the American Academy of Pediatrics (AAP) for preventive health care.

Since this time, the AAP has frequently updated their standards of care, as the provision of medical care has evolved. However, the CHDP Program has not updated its health assessment schedule to meet the AAP standards in *over ten years.* Yet, children enrolled in Medi-Cal Managed Care do receive the recommended AAP health assessments because it is required in the DHS contracts with the health care plans.

The revised periodicity schedule would provide up to five additional screens for ages 0 to 12, and up to six additional screens for ages 13 to 20 years.

Subcommittee Request and Questions:

- **1. Using the Hand Out information, please comprehensively describe the "CHDP Gateway" approach.**
- **2. Please describe the services a CHDP-only child (not eligible for Medi-Cal or HFP) would receive, including frequency.**
- **3. Please describe how the pre-enrollment process will work.**
- **4. May the DHS consider updating the periodicity schedule?**
- **5. How may the DHS modify the Medi-Cal/HFP Outreach activities to compliment the CHDP Gateway approach?**
- **6. May the DHS consider making modifications to existing Medi-Cal forms and application processing in order to facilitate enrollment into the comprehensive care?**

3. Express Lane Eligibility—Trailer Bill Language

Background: AB 59 (Cedillo), Statutes of 2001, established a statewide pilot, **effective July 1, 2002,** to provide Express Lane Eligibility to children qualified to receive free meals through the National School Lunch Program (children under 133 percent of poverty receive free meals, and children between 134 percent and 185 percent receive reduced price meals). **Children under the age of 6 shall be deemed income eligible for Medi-Cal and children who are younger than 6 years must be determined income eligible for Medi-Cal.**

This legislation also created a process to authorize consent for the release of information on applications for free lunches to County DSS and authorizes them to quickly enroll children in Medi-Cal upon receipt of such information from school districts.

Under the program, parents will be offered the option of using the National School Lunch Program application as an initial application for Medi-Cal (for no share-of-cost). With their consent, the school would then do an income screen and make a determination about Express Lane enrollment into Medi-Cal. The information would then be sent to the County DSS who would (1) issue a temporary Medi-Cal benefits card for full-scope benefits, and **(2)** obtain additional documentation to determine ongoing Medi-Cal eligibility. Children would continue to receive full-scope Medi-Cal until the County DSS completes its determination.

The only exception to this is for children who are income eligible and already enrolled in emergency-only benefits. These children will continue in Medi-Cal with those limitations unless additional immigration information is obtained.

Prior Subcommittee Action: In the March 11 hearing, the Subcommittee approved funding for the program but **held "open" technical clean-up language requested by the DHS in order to appropriately implement the program.**

Subcommittee Staff Recommendation (See Hand Out): Since the March 11 hearing, the Administration has been working with legislative staff to develop a compromise on the language. This compromise was adopted by Subcommittee #1 of the Assembly Budget Committee on April 27th.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly describe** the compromise language.

Budget Issue: Does the Subcommittee **want to adopt the proposed language?**

4. Women, Infant and Children Supplemental Food Program—Fraud Unit

Background: WIC provides supplemental foods, nutrition education, and referrals to health and social services for low-income women, infants and children who are at nutritional risk. **WIC serves about 1.25 million participants monthly through about 80 local agencies which operate over 650 sites statewide.**

WIC currently authorizes about 4,000 grocers to participate in the program, including chain stores, independent stores, commissaries, and "WIC-only" stores (these stores sell only WIC foods to WIC participants). Participants receive a WIC coupon package and use the coupons to redeem specified food products at authorized grocery stores throughout the state.

AB 313, Statutes of 2001, and Governor's Signing Message (See Hand Out): Generally, this legislation directs the DHS to implement a system which allows WIC participants to grocery shop **at any authorized grocery (AAG) store** (versus a WIC "authorized" store).

The DHS intends to implement AAG **through a new contract with a banking entity that will be able to reimburse grocers under an AAG system and also provide the DHS with information needed to flag suspicious food voucher redemption patterns. No issue has been raised with this approach.**

The Governor's signing message, among many other things, directs the DHS to establish a WIC Fraud Unit. Further, the Governor states that implementing the new fraud detection provisions as part of the AAG system will mean that the DHS will not meet the bill's implementation deadline of July 1, 1002. According to WIC, implementation will now not occur until at least January 1, 2004 (per SB 801, Statutes of 2002).

WIC Branch (See Hand Outs): The WIC Branch is substantial and consists of seven distinct sections, **including a Food Management and Integrity Section which consists of four units (See Hand Out), whose function is to** assist with maintaining the program's overall integrity—from retail management, grocer compliance, and food delivery.

Governor's Budget Request: The budget proposes to utilize $769,000 in existing federal WIC grant funds to **support 9.5 new positions** to establish a WIC Fraud Unit in response to the Governor's signing message for AB 313. Though the $769,000 identified within the federal grant is technically "administrative" funds, **all or any portion of these funds can be redirected to provide for "food" benefits or could be provided to local WIC agencies for their administrative expenses.**

The DHS proposes to allocate these positions as follows:

- ***Four to the WIC Branch:*** These staff are to be used to implement fraud prevention and detection monitoring procedures to target high-risk grocers and will establish a process for conducting background checks to more rigorously evaluate grocer applications.
- ***4.5 to the DHS Audits and Investigations Branch:*** These staff are proposed to follow-up on cases referred from WIC and to work with WIC staff to conduct investigations, background checks and other related activities needed to assess fraud and abuse.
- ***A half-time position to the Office of Administrative Hearings and Appeals, and another half-time position for the Office of Legal Services:*** The DHS states that these half-time positions will conduct required hearings for disqualified grocers who appeal the action and provide consultation on investigative activities and cases being prepared for prosecution.

Legislative Analyst Office (LAO) Recommendation: At the request of the Subcommittee, the LAO extensively reviewed this proposal and recommends a reduction to it based on work load determinations. **Specifically, the LAO is recommending a reduction of 3.5 positions—one from the WIC branch (fraud prevention specialist), and 2.5 positions from the Audits and Investigations unit for identified savings of $309,500.**

Under the LAO proposal a total of 6 positions would still be provided. Further, if the DHS needs more positions in the out years for this purpose, they can request them through the annual budget process.

Subcommittee Request and Questions: The Subcommittee has requested the DHS and LAO to respond to the following questions:

- **1.** DHS **briefly describe** the request.
- **2.** DHS, how may the delay in program implementation affect this budget request?
- **3.** LAO, please **briefly describe why the requested positions to not match the work load level.**

Budget Issue: Does the **Subcommittee want to adopt the LAO recommendation and direct the DHS to utilize the unexpended funds for local assistance—either local infrastructure or food, as deemed appropriate?**

5. California Children Services Language –Follow Up from Prior Hearing

Background--CCS: The California Children's Services (CCS) Program provides medical diagnosis, case management, treatment and therapy to financially eligible children with specific medical conditions, including birth defects, chronic illness, genetic diseases and injuries due to accidents or violence. It is the oldest managed health care program in the state and the only one focused specifically on children with special health care needs. By law, CCS services are provided as a separate and distinct medical treatment (i.e., carved-out service).

CCS is joint operated by the counties and the state. As such, County Realignment funds, state General Fund support, and federal funds (when applicable) are used to support the program.

Overview and Purpose of CMS Net/Enhancement Project: CMS Net is an automated case management system for CCS currently used by 49 counties and three CMS Branch regional offices. Nine other counties use other automated or manual systems. Several of these counties, including Los Angeles, which has *over one third of the state CCS caseload*, plan to convert to the state's CMS Net System.

The CMS Net Project **links with other statewide databases**, including the Medi-Cal Eligibility Data System and the Statewide Client Index and merges client eligibility and claims processing automation with those established with EDS**. This linkage between databases creates the ability to better identify and serve clients, particularly those enrolled in multiple programs, and providers.**

The project has several phases ("enhancements") including the following:

- CCS Eligibility Phases I and II
- CCS Service Authorizations
- Provider Enrollment
- GHPP Eligibility
- GHPP Service Authorizations
- CMS Net Reporting
- CMS Net Full Screen Conversion

According to the DHS, it is expected that the CMS Net Project, including all "enhancements", will result in savings of $22.3 million annually at full implementation. These savings are to be achieved by eliminating inefficiencies in the current manual claims review and cost recovery processes and by redirecting staff responsible for claims review to eligibility management and inpatient nurse case management activities.

Prior Subcommittee Action: In the Subcommittee's April 22nd hearing, placeholder trailer bill language was adopted to require the DHS to complete the major aspects of project in a timely manner. Since this time, compromise language has been crafted as shown below:

> "The Department of Health Services shall complete the design and implementation of the Children's Medical Services Network (CMS Net) Enhancement 47 project to ensure that all system enhancements for CMS Net, the California Medicaid Management Information System (CA-MMIS), and the California Dental Management Information System (CD-MMIS) that are required to enable providers in the California Children's Services (CCS) provider network to submit electronic claims for reimbursement for services provided to CCS eligible children are operational by August 1, 2004.
>
> The DHS shall also work in cooperation with county CCS programs that are not yet participating in CMS Net to take all necessary action within available resources to expedite the transition of these county programs to CMS Net for the provision of automated case management and service authorization for all CCS eligible children in their county caseload."

Budget Issue: Does the Subcommittee **want to adopt the compromise language?**

6. Genetic Disease Testing Program —Two Issues "A" and "B"

Overall Background: The Genetic Disease Branch is responsible for the management and operation of **two screening programs—the Newborn Screening Program and the Prenatal Screening Program** (i.e., the Expanded AFP Screening Program). **Both of these programs provide clinical analyses to prevent the occurrence, or ameliorate the effects, of certain disorders.**

The Newborn Screening Program screens **about 500,000 infants, or 99 percent of the annual births, in about 325 maternity hospitals.** The Prenatal Screening Program **screens over 380,000 pregnancies annually and serves about 7,000 prenatal care providers.**

ISSUE "A"—Program Deficiency and Need for Remediation *(See Hand Out)*

Background—Fee Adjustments: The Genetic Disease Testing Fund is the principal funding mechanism for the Newborn Screening Program and the Prenatal Screening Program**. Fees are collected for the tests that are provided under these programs.** The fees are paid by individuals (no insurance), and through Medi-Cal and private health insurance organizations.

As of January 1, 2002 the fee charged under the Newborn Screening Program was increased by $14 (from $42 to $56, including a $1 charge for specimen record forms). The DHS increased this fee through its emergency regulation authority and stated that the fee adjustment was necessary to assure that **(1)** this program continues to be fully supported from fees, and **(2)**the program is consistent with medical standards and the mandates of the Hereditary Disorders Act (the enabling program legislation).

As discussed below, under ISSUE "B"—Screening Information System—the DHS is also intending to proceed **with an additional fee increase of $4 (i.e., a $60 fee level with this increase), effective as of July 1, 2002, for the Newborn Screening Program to specifically fund this information technology project.**

It should be noted that whenever the fees are increased, there is a General Fund effect because the Medi-Cal Program must fund its share as appropriate (i.e., for Medi-Cal recipients).

Program Deficiency for Budget Year (See Hand Out): Through discussions with the DHS and DOF regarding the availability of funds within the overall Genetic Disease Testing Fund, it became apparent that the technical "fund condition statement" as contained in the Governor's January budget needed to be updated.

Based on a revised fund condition statement (received on May 1), the Genetic Disease Testing Fund is now reflecting a budget year deficiency of $8.1 million. As shown in the fund condition statement, program expenditures are estimated to be

$71.7 million (Genetic Disease Testing Fund). ***Therefore, the $8.1 million deficiency reflects about an 11 percent shortfall in the program.***

This revelation has caught folks by surprise and options are presently being considered for remediation. It should be noted that options are few and include the following:

- **(1) Raise fees yet again (though a fee increase of $22 would be required to address the full $8.1 million);**
- **(2) Reduce discretionary aspects of the program (though discretionary aspects are few and of small dollar value);**
- **(3) Reduce state staff where feasible (though program is clinically labor intensive);**
- **(4) Provide a General Fund loan;**
- **(5) Increase fee collection capabilities (current rate of collection is only 70 to 80 percent); or**
- **(6) Combinations of all of these.**

The DHS and DOF note that some time will be needed to develop options and craft a workable solution for the Legislature to consider. As such, a remedy will <u>not</u> be forthcoming in the Governor's proposed May Revision.

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please **briefly describe how program revenue collections will be monitored more closely in the future.**
- **2.** What **can be done to increase the fee collection rate?**
- **3. When will the DHS and DOF have a suggested remediation plan to the Legislature for consideration?**

<u>Budget Issue:</u> Does the Subcommittee **want to adopt Budget Bill Language to require the DHS and DOF to provide the Budget Conference Committee with its recommended remediation plan?**

In order to send this issue to the Budget Conference Committee, Subcommittee staff is recommending the following Budget Bill Language:

> **The Department of Health Services, with the approval of the Department of Finance, shall provide the Budget Conference Committee with a comprehensive proposal to remedy the deficiency in the Genetic Disease Testing Fund and maintain the integrity of the Newborn Screening Program and the Prenatal Screening Program.**

The purpose of this language is to serve as a "placeholder" until the DHS and DOF provide the Legislature with a remediation plan to review and act upon. This

language will in essence send the issue to the Budget Conference Committee for discussion and decision.

<u>ISSUE "B"—Screening Information System (SIS)</u>

<u>Background:</u> **The DHS states that the existing information technology system for the Branch is significantly obsolete, overloaded and in danger of major failure.** They contend the existing hardware is beyond regular maintenance and the manufacturers are reluctant to provide service and parts. The Branch notes that one of the microcomputers used to handle billing crashed last year and it took a week to restore it.

In addition, the existing system cannot support additional data bases resulting in the inability to expand the Newborn Screening Program to cover additional disorders such as congenital adrenal, hyperplasia and cystic fibrosis. DHS states that screening for these and other conditions cannot be added until there is a new information technology support system.

<u>Feasibility Study Report and Estimated Cost (See Hand Out—Display 1):</u> In **1997**, the DHS received the Administration's approval of a Feasibility Study Report (FSR) to re-engineer the Branch's information technology processing. This FSR authorized a Request for Application process to replace the existing system. However, due to a contract protest by an unsuccessful vendor, a bid for the project was not developed until May 2000. This bid reflected additional costs due to increased detail and complexity of the program operations and costs for development, including an 18-month delivery date (was 24-months originally).

As such, the original estimate of $9 million for this product escalated to a total cost of $17.5 million in order to meet all of the DHS specifications.

The DHS intends to fund this project using the "G-Smart Loan" process, redirected program funds, and a $4 fee increase (to be effective as of July 1, 2002 via emergency regulations). This fee increase would raise the cost to $60 per participant.

<u>G-Smart Loan:</u> In order to ***partially fund*** this proposed project, **the DHS is seeking a "G-Smart Loan". The G-Smart Loan is a program administered by the Department of General Services (DGS).** Generally, under this program the DGS obtains a lender who agrees to certain conditions and standards for purposes of the loan. **The DHS states that the entire loan amount would be placed into a Genetic Disease Branch account and payments to the vendor/contractor would be made when authorized by the Branch.**

According to the DHS, **a loan of $10.2 million** will be needed under the G-Smart Loan. Based on the loan conditions, **about $2.1 million in interest** will need to be paid over a seven year period. **Therefore, a total of $12.3 million will be required for the loan, including principal and interest.**

With the G-Smart loan providing $12.3 million, additional funds are needed, along with a revenue source to support the proposed loan. Therefore, the DHS is proposing a $4 fee increase, effective July 1, 2002, to offset the G-Smart Loan costs. In addition, **an increase of $400,000 (General Fund) is needed in the Medi-Cal Program to fund that program's share of the fee increase. The DHS states that even with this fee increase (total of $60 per test), the public would receive greater value than comparable private charges.**

Governor's Proposed Budget: The budget is requesting **(1) an increase of about $1.8 million (Genetic Disease Testing Fund) for 2002-03, and ongoing for the next 6 years, (2) approval to proceed with installation of the "Screening Information Systems" (SIS) Project, (3) approval of ongoing fee increases to support the project, and (4) an increase of $1.6 million (General Fund) to fund the fee increase under the Medi-Cal Program.**

Legislative Analyst Office Concerns (See Hand Out): The LAO reviewed the proposal and expressed significant concerns regarding the project. Key concerns included the following:

- The proposed information systems contract has not had a legal review.
- The proposed financing solution (i.e., the G-Smart Loan) may not be the most cost beneficial.
- The DHS has not completed a project plan or schedule.
- The roles and responsibilities for the optical scanning process are unclear.
- It is unclear if the proposed solution will meet requirements of HIPAA.

These LAO concerns have been extensively discussed with the DHS and DOF, including their information systems specialists. **Based on these conversations the LAO recommends the following actions, with the agreement of the Administration:**

- Authorize the DHS to use current year funds to **hire a project manager**.
- **Adopt Budget Bill Language *(See Hand Out)*** which directs the DHS to (1) have a legal review conducted of the contract, and (2) have an extensive independent evaluation of the contract, including an evaluation of the proposed optical scanning process and HIPAA compliance.
- **Adopt Supplemental Report Language *(See Hand Out)*** to require the DHS to report to the fiscal committees of the Legislature on a quarterly basis, beginning October 1, 2003, on the progress of the project.

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please provide **a brief description of the need for the project**, and the **key deliverables to be provided.**
- **2.** Please provide **a brief overview of how the project implementation** will be monitored.
- **3. LAO**, please briefly discuss your concerns with the project and the proposed recommendations.

<u>Budget Issue:</u> Does the Subcommittee want to adopt the LAO recommendations and approve the budget proposal?

<u>7. Toxic Mold—Proposed Trailer Bill Language for Special Fund</u>

<u>Background:</u> Inhalation of mold causes human toxic effects, exacerbates immunologic reactions and causes infections. Toxic effects include a variety of symptoms such as chronic fatigue, respiratory distress, nausea and non-specific symptoms. Currently, **there are no federal or state laws, guidelines or regulations regarding mold identification, exposure, or remediation.**

The lack of standards combined with the toxic health effects of mold and its broad exposure have generated thousands of lawsuits in California. Some authorities have estimated that molds will generate more litigation than asbestos. Though there is no official estimate on the number of individuals made ill by molds, the total exceeds 10,000 people.

Molds are increasingly associated with new construction which is built air tight to conserve energy and can result in reduced ventilation, excessive moisture, and accumulation of moisture behind insulation. Mold commonly grows on walls, carpets, ceilings, and in heating, ventilation and air conditioning systems. Mold may be present in a building and result in health effects without being visible.

<u>Senate Bill 732 (Ortiz), Statutes of 2001:</u> This legislation **enacted the Toxic Mold Protection Act**, which **among many other things**, requires the DHS to:

- **1.** Consider the feasibility of adopting permissible exposure limits to mold in indoor environments and to adopt such standards if feasible;
- **2.** Adopt practical guidelines to assess the health threat posed by the presence of mold in an indoor environment and determine whether the presence of mold constitutes mold infestation.

The legislation also states that implementation of the statute is dependent on the availability of funding for this purpose.

Based on discussions with interested parties, it appears that there are some organizations who may be interested in contributing to a special fund on a strictly voluntary basis in order for the DHS to accomplish the tasks as outlined in the legislation. However, the DHS would need the legal authority and a mechanism to capture these contributions.

Subcommittee Staff Proposed Trailer Bill Language: In working with the DHS from a technical assistance basis, the following language is proposed:

> **Add Section xxx to Health and Safety Code as follows:**
>
> The department **may receive voluntary contributions** to support the department's activities in providing guidance, developing standards and permissible exposure limits, and adopting regulations relating to indoor mold hazards, **including but not limited to duties included in the Toxic Mold Protection Act of 2001.** The contributions shall be deposited in the **Public Health Protection from Indoor Mold Hazards Fund**, which is hereby created in the State Treasury. Notwithstanding section 13340 of the Government Code, moneys in the fund shall be continuously appropriated to the department and shall be used to support the department's activities in providing guidance, developing standards and permissible exposure limits, and adopting regulations relating to indoor mold hazards, **including but not limited to duties included in the Toxic Mold Protection Act of 2001 (Health & Safety Code Sections 26100 through 26156) to the extent that funding is available.**

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions:

- **1.** Please **provide a brief update** on what the DHS is currently doing to implement provisions of SB 732, as well as other actions taken to mitigate the public health concerns pertaining to toxic molds.
- **2.** From a technical assistance basis, is the above language workable?

Budget Issue: Does the Subcommittee **want to adopt the proposed trailer bill language?**

8. Special Fund Adjustments—Trailer Bill Language

Background: There are **two special funds**—Lupus Foundation of American, California Chapters Fund and the California Lung Disease and Asthma Research Fund—which are used to provide small amounts of funding for education and research related to Lupus, and for research related to certain types of lung diseases, including asthma and TB.

Proposed Trailer Bill Language (See Hand Out): Technical changes are being proposed in order to facilitate the distribution of the funds for direct allocation to the eligible parties—namely the Lupus Foundation of America and the American Lung Association of California. Specifically, the language utilizes the State Controller to allocation the funds in lieu of the DHS. This will expedite allocation and will simplify the administrative process.

Budget Issue: Does the Subcommittee **want to adopt the proposed changes?**

9. Cancer Research Program and Proposed Trailer Bill Language

Background—AB 1554: Chapters 755 and 756, Statutes of 1997 (AB 1554, Ortiz and SB 273, Burton), created the Cancer Research Act of 1997. **Among other things, this act:**

- Created the Cancer Research Fund (General Fund moneys transferred to the fund);
- Established research priorities for funding **which were to emphasize gender-specific cancers based on magnitude of incidence and mortality, that have not previously received state funding**;
- **Requires that the research priorities complement, rather than duplicate, the research funded by the federal government and other entities;**
- Required the DHS to provide for the systematic dissemination of research results;
- Required the DHS to provide for periodic program evaluation to ensure that research funded is consistent with program goals;
- Required the **DHS to provide the Legislature with a report on grants made**, grants in progress, program accomplishments, and future program directions by December 31, 1998 and annually thereafter; and
- Created the Cancer Research Council.

The annual Budget Act has provided $25 million for this program since 1998.

Over the years, the Cancer Research Program has proven to be invaluable. Highlights from existing program research include:

- Approval of a new form of delivery of radiation therapy for treatment of cancer;

- Investigation of the role that infectious agents play in the development of certain forms of cancer;
- Evaluation of the quality of care for patients diagnosed with cancer; and
- Increasing knowledge of the financial costs associated with cancer and its control.

Governor's Proposed Budget: In the current year (2001-02), the Governor proposed to reduce the program by $4.5 million; however, the Legislature restored this cut by identifying General Fund savings in another area.

The Governor's budget for 2002-03 proposes to eliminate the entire $25 million (General Fund) for the program. It should be noted that though the Governor's eliminates funding for the budget year, it does not propose to eliminate the statutory framework of the program.

Further, **trailer bill legislation is proposed which would enable existing funds to be carried forward for multi-year contracting to occur. This language is as follows:**

> "The balance of the appropriations in Item 4260-001-0589 of Chapter 50 of the Statutes of **1999**, Item 4260-001-0589 of Chapter 52 of the Statutes of **2000**, and Item 4260-001-0589 Chapter 106 of the Statutes of **2001** is hereby reappropriated and shall be available **for encumbrance and expenditure until *July 30, 2005*.**

Assembly Subcommittee Action: The **Assembly Subcommittee #1** on Health and Human Services placed **(1)** $25 million on a Suspense File, ***and (*2)** adopted placeholder trailer bill language to cap the allowable **federal indirect overhead rate at 25 percent.**

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **provide a status update** on the activities of the Cancer Research Program.
- **2.** Is the Administration' elimination of the program solely due to the fiscal situation?
- **3.** When may the report to the Legislature be provided?
- **4.** Please **describe the indirect overhead**, and should it be capped at a specific percentage?

Budget Issue: Does the Subcommittee **want to restore all or a portion of the funding for this valuable program, and adopt trailer bill language to allow for multi-year contracting and to cap the allowable federal indirect overhead rate at 25 percent?**

10. Medi-Cal Personal Care Option—Elimination of the Sunset

Background and Governor's Budget Proposal: In 1993, California implemented the **Personal Care Services Program** option under Medicaid (Medi-Cal). **Under this option, the state can collect federal financial participation for medically necessary services provided to In Home Supportive Services (IHSS) clients who are Medi-Cal eligible.**

The budget proposes **to eliminate the sunset date**, as contained in Section 14132.95 of the Welfare and Institutions Code, in order to continue the existing program.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following question:

- **1.** Please briefly describe why the elimination of the sunset is desired.

Budget Issue: Does the Subcommittee want to adopt the language to eliminate the sunset?

LAST PAGE OF AGENDA

Senate Budget & Fiscal Review
Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

Thursday May 9, 2002
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA

DISCUSSION AGENDA

CONSENT/VOTE-ONLY AGENDA

4140 Office of Statewide Health Planning and Development (OSHPD)

Healthcare Workforce Development

The current year budget included extensive language requiring a preliminary assessment of strategy for development of the capacity to analyze California's healthcare workforce. The assessment was intended to identify state health professions needs and legal and regulatory requirements to meeting those needs. The structure of the assessment was intended to become a template for assessing wider workforce needs in California. The report was received at the subcommittee's hearing on OSHPD on April 11.

The report found that in the Departments of Corrections, Developmental Services, Health Services and Mental Health had a 16% vacancy rate in registered nurse positions. The same departments had an 11% vacancy rate for psychiatric technicians, and a 23% vacancy rate for social workers. The report also included a summary of training resources. **The report found that departments do not have information on position turnover or specific mechanisms for projecting need by workforce category. OSHPD was unable to find data relevant to shortages of healthcare professionals with diverse language and cultural skills.**

OSHPD concludes that it will make efforts to develop the capacity to contribute to an ongoing assessment of healthcare workforce needs, and has reorganized the Office to include a Healthcare Workforce and Community Development Division. OSHPD will reallocate resources within the new Division to enhance the capacity of the workforce data unit to collect relevant workforce information for training entities. OSHPD will maintain and strengthen relationships with entities that train healthcare workforce participants. OSHPD will continue to build the capacity to analyze workforce data by geographic area, and to incorporate linguistic, cultural and other demographic information.

The budget in January proposed to take some General Fund reductions in the area of Healthcare Workforce Development. The subcommittee did not act to adopt these reductions. The subcommittee did adopt a spring Finance letter that increased expenditures for the Nursing Workforce Initiative. The reductions include:

- **Reducing operating expenses and equipment for the Health Professions Career Opportunity Program and Song Brown programs by $37,000.**
- **Reducing the Health Professions Career Opportunity Program by reducing grants to academic institutions to encourage and train individuals for a career in health care by $42,000, and eliminating "Health Pathways", a publication for students, counselors and recruiters, for a savings of $45,000.**
- **Reducing the Song Brown Family Physician Training Program by eliminating special program grants, for a savings of $804,000.**

- **Adopting Budget Act language for authority to authorize expenditures of up to $200,000 for fund raising activities related to the provision of care provided by specialty care providers in underserved areas, through a contract that will carry out fund-raising.**
- **Deleting one position and decreasing expenditure authority for the Health Facilities Construction Loan Insurance Fund, for a savings of $53,000 in special funds.**

The subcommittee could adopt the reductions, including the budget bill language authorizing fund raising for specialty care.

Rural Health Care

The subcommittee in April considered the elimination from the budget of $3 million in Rural Capital Outlay for Rural Health Systems, a grant-based program that has been included in several recent budgets. The subcommittee adopted the reduction, but directed staff and OSHPD to develop Supplemental Report Language that will provide the legislature with information about the fiscal and programmatic stability of rural health systems. **The Supplemental Report Language is attached.**

The subcommittee could adopt the Supplemental Report Language.

Hospital Seismic Retrofitting

The subcommittee in April considered the status of OSHPD implementation of California law requiring hospitals to evaluate their facilities, develop plans to meet seismic standards, and ensure that their buildings are seismically sound by specified deadlines. OSHPD has the authority to permit extensions of the deadlines for hospitals that provide information showing that compliance will result in diminished health care capacity in their area.

SEIU provided to the Committee Trailer Bill Language that delineates additional information needed in a request for a delay, and public notice requirements for such requests. The subcommittee asked hospitals, OSHPD and SEIU to meet and come to agreement on such language. They have done so. The proposed Trailer Bill Language is attached.

The subcommittee could adopt the Trailer Bill Proposal.

4130 Health and Human Services Data Center
5180 Department of Social Services

Child Welfare Services/Case Management System Internet Pilot Program: Assembly Action

Last year's budget trailer bill included authorization for a pilot program to create a foster care internet passport system (AB 427, Hertzberg). The pilot system is intended to store school and medical records of foster youth moving through the foster care system. The

Data Center is in the initial stages of implementation of the project, to be tested in Los Angeles. Federal approval is required to test this system, since it would ultimately be a part of the Child Welfare Services/Case Management System, that operates under both federal and state guidelines, and that uses federal funding for part of its support. A copy of the Trailer Bill Language is attached.

The Data Center, DSS and Los Angeles County request a one-year extension of the deadline (from January 1, 2003 to January 1, 2004) for federal approval of the pilot program, to accommodate delays and federal time schedules. The Assembly has adopted the trailer bill language extending the deadline.

No issues have been raised about this proposal.

5180 Department of Social Services: Community Care Licensing

School-Age Child Care Center Licensing

Current law requires that some school-age child care centers be licensed. Those facilities that are operated on school sites, by school staff, and primarily serve children who attend the school are exempted from licensure. The budget proposes to streamline the licensing of school-age child care facilities, by changing the required visits to once every three years rather than once a year, eliminating case management activities, and implementing Serious Incident Reporting procedures. The law will continue to require that such facilities be subject to a criminal record clearance and child abuse registry check; visits will be made pursuant to complaints consistent with current practice. The proposal does not change the existing status of family day care homes.

The budget, as proposed in January and modified by a Spring Finance Letter, proposes to reduce the budget by $542,000 General Fund, and eliminate 9.5 positions; and to adopt Trailer Bill Language to change licensing statutes and accomplish the reductions.

No additional opposition to this proposal has been received. The subcommittee could adopt the Reduction, eliminate the positions, and adopt Trailer Bill Language to accomplish the reduction, as proposed in the budget and Spring Finance Letter.

5180 Department of Social Services: Adult Programs

In-Home Supportive Services Residual Program

The In-Home Supportive Services (IHSS) program provides services to eligible persons who are unable to remain safely in their homes without those services. County welfare departments coordinate the programs. Services are provided to low income elderly, blind or disabled individuals. Services include domestic services, personal care services, assistance while traveling to medical appointments or other supportive services, protective supervision, teaching and demonstration directed at reducing the need for services, and certain paramedical services ordered by a physician.

Most IHSS services are implemented under the Personal Care Services Option under the federal Medicaid program. Under this option, the state can collect federal financial participation for medically necessary services provided to IHSS clients who are Medi-Cal eligible. There are additional residual services not matched with federal funds: cases where the only services required are domestic chores; protective supervision services; services to persons who are not Medicaid eligible; services in cases where the recipient is severely disabled and receives payment in advance of service delivery; and services provided by relatives, including spouses and parents.

The subcommittee considered an option presented by the LAO to eliminate the residual services in the case of advance payment cases, and services provided by relatives. The subcommittee did not adopt the option, but asked the Department to explore whether some residual services can be revised so that they are federally eligible, without changing the general scope of the program. The department is actively pursuing federal participation, especially when the services are for protective supervision, and in the case of advance pay. They are less optimistic about the willingness of federal Medicaid decision-makers to recognize California's decision to use relatives when they can provide the most appropriate care. It is possible that some of these efforts will result in budget year changes, but not at all certain.

The subcommittee could request that the Department report in budget hearings next year on the status of their activities with respect to residual IHSS cases.

> The Department shall make available at budget hearings in 2003, information about the state's efforts to identify groups of services under the IHSS residual program that could be adapted to assure Medicaid reimbursement, including advance payment cases, services intended to provide protective supervision, and any other services where federal reimbursement is possible.

There are no issues with this Supplemental Report request.

5180 Department of Social Services—CalWORKs

Corrections and EDD Reductions

The CalWORKs budget has in the past had two programs in the California Department of Corrections for women, including the Female Offenders Treatment and Employment Program, and the Family Foundation Program. **The budget removes the entire funding of $2.5 million CalWORKs funding from these programs, and instead provides funding through the Workforce Investment Act**.

The CalWORKs budget has for several year included $3.6 million in TANF funds and $3.6 million in EDD funds for Intensive Services provided through EDD. The services include case management and more intensive support to hard to serve individuals seeking work. **The January budget removed the $3.6 million match from EDD** and continues to provide $3.6 million in TANF funds into the program. **The subcommittee eliminated the $3.6 million in TANF funds from the EDD budget.** The Governor's reduction of $2.5 million CalWORKs funding from Corrections for women's programs, and $3.6 million from EDD for Intensive Services is important to a CalWORKs budget.

- **The subcommittee can adopt the Governor's reductions from Corrections and EDD and removal of an additional $3.6 million in TANF funds from the EDD budget.**

County Incentives

CalWORKs statute provided that savings from exits due to employment, increasing earnings, and diverting potential recipients, would be paid to counties as performance incentives. In 2000, the law was changed to make performance incentives subject to annual budget act appropriations. By 99-00, counties had earned $1.2 billion in incentives, and had been paid $1.1 billion. The 00-01 budget included $20 million in payment against the unpaid amount.

The budget estimates that counties will have $600 million in unspent incentive funds available in the budget year. The federal government requires that the state consider these funds as obligated only if they will be spent in the budget year; the budget, therefore, proposes to recapture all incentive funds not planned for spending in the budget year. **The budget further proposes to redirect the $20 million from the current year, and to recapture $169 million from amounts owed to counties to use as part of the CalWORKs budget in the budget year. The budget then proposes to reallocate the remaining incentive funds ($431 million) to counties as performance incentive funds.** This would leave an obligation from the state to counties for unpaid incentives at $266 million.

Counties are faced with substantial discrepancies in per-participant funding for employment services. The total amount of employment services is substantially short of full funding, according to the LAO. In addition, counties vary substantially, depending at least in part on when the county fully implemented the program.

The County Welfare Directors Association has proposed to reallocate performance incentive funds to those counties that are 'under-equity' in employment services. This proposal was adopted at our April 25 hearing. The CalWORKs budget requires the Administration's recapture of $169 in performance incentives.

- **The subcommittee could adopt the Administration's use of incentives.**

Employment Services

The budget has historically transferred funds from the Employment Training Fund to CalWORKs. The budget proposes to transfer $30 million in ongoing funds from the Employment Training Fund to CalWORKs.

- **There are no issues with the transfer of Employment Training Funds as proposed in January. The action includes Trailer Bill to transfer the funds.**

Fraud Incentives

The budget eliminates $5.1 million in General Fund incentive payments for fraud detection by counties. Counties would continue to receive $5.1 million in federal TANF funds for fraud detection incentive payments. The funds are provided to counties based on the percentage of the total overpayments in the state that the county recouped through fraud activities. The Assembly took the federal $5.1 million as well as adopting the proposed reduction of state funds.

- **The subcommittee will adopt the January reduction of $5.1 million and the Trailer Bill Language to accomplish the reduction.**

5100 Employment Development Department

Enhance Data Collection Capacity at EDD

Various stakeholders have raised with the Legislature the need to improve the Department's data collection methods for the purpose of understanding labor market trends in the state and evaluating the effectiveness of workforce preparation programs. Some have expressed special interest that any plans for additional data collection elements be considered in a timely fashion so that they might inform redesign of the Employment Tax System.

The Department has convened a meeting to develop a plan to enhance their current data collection capacity. **The resulting Supplemental Report Language is attached; it requires a consultative process by the Department by December 31, 2002 to determine the feasibility of collecting additional data**.

- **There are no issues with the Supplemental Report Language.**

Capital Outlay Funds

The budget includes language that would transfer any unencumbered balances in the Employment Development Department Building Fund to the Federal Unemployment Fund. Funds in the building fund are used for the acquisition, construction, or renovation of department facilities. This language assures that funds remain available for Employment Development purposes.

- **There are no issues with this language.**

One-Stop Costs

The federal Workforce Investment Act required that One Stop systems be established in local communities, to be supervised by local Workforce Investment Boards. There must be at least one physical location in each local Workforce Investment Area. One Stops provide core job search services to employers and job seekers. In addition, they provide intensive services and training services for individuals with more barriers to job seeking.

During the subcommittee's hearing on WIA Oversight in February, 2002, we received testimony on the substantial amount of WIA funding that is being used to provide core services in One-Stop centers around the state. While collaboration at the local level has permitted coordinated services, One Stop partners have not always been able to bring resources to support the basic infrastructure.

Attached find Budget Bill language that requires EDD to develop a format for reporting costs of participating in One-Stop centers by its own staff, and a format for other departments to participate. **The language should also be included in the Department of Rehabilitation's budget, and possibly the budget of the Department of Social Services.**

- **There are no issues with the proposed Budget Bill language**

Workforce Investment Act Funding: Transfers and Re-Allotments

The subcommittee requested, at its oversight hearing in February, that the Department review the procedure for transfers of WIA funds between local areas, and the potential for reallocation of WIA funds, to ensure their expenditure. The question was driven in part by the federal action to rescind a portion of Rapid Response funds, based in part on the state's performance.

EDD has provided a written response to our request, and the report is included in the Attachments for this hearing. The report spells out the procedure for recapture of under-utilized funds, and reallocation of those funds to areas that can spend them. EDD has issued a directive to local WIA boards spelling out these requirements.

- **No action required**

Workforce Investment Act Funding: How Rapid is Rapid Response?

The subcommittee requested information from the Department concerning the state's expenditure of Rapid Response WIA funds (25% of the Dislocated Worker funds allocated to the state. The request was based in part on the possibility that slow spending of these funds were significant in creating an analysis by the federal government that led to the rescission.

The Department has provided a description of the process, a timeline for Rapid Response requests, and a chart showing the length of time each request has taken to release of the funds. The time period has ranged from same day to 261 days. The Department reports that the timing of the response is highly variable, and depends on the complexity of the project, the extent to which the request is clear and supported with data, and the amount of funds requested.

- **No action required.**

Workforce Investment Act Youth Services

The Budget Act required a report on state and local spending for youth services under WIA. The guidelines for WIA have change youth services to a focus on longer-term youth development principles and strategies.

The report was provided on April 30. The report provides the number of youth enrolled at the local level in 2000-01 and the first quarter of the current year. The report also shows the steep drop in young people provided summer-related services (8,900 young people of a total 29.314 served). Finally, the report shows that 2000-01 program spending was 87% of the allocation; 97.5% of the funds were obligated. Finally, the report includes information from the California Workforce Investment Board, which has initiated a Youth Council Institute. The Institute has had an initial meeting, and the challenges identified by representatives of local WIA board youth councils are summarized.

- **No action required.**

DISCUSSION AGENDA

4130 Health and Human Services Data Center
5180 Department of Social Services Automation Issues

Statewide Automated Welfare System Consortium IV

Consortium IV is one of four consortia that make up the Statewide Automated Welfare System (SAWS). SAWS is a multi-program automated system that provides support to eligibility determination, benefit computation, benefit delivery, case management and management information for CalWORKs, Food Stamps, Medi-Cal, Foster Care, Refugee Assistance and the County Medical Services program.

The Consortium IV system is under development, and is designed to meet the needs of four counties (San Bernardino, Riverside, Stanislaus, Merced). The counties that form another consortium, Interim Statewide Automated Welfare Systems or ISAWS, have voted to end their consortium. The subcommittee adopted language requiring DSS and the Data Center to work with the ISAWS consortium to determine the steps necessary to ensure that ISAWS counties migrate expeditiously to one of the remaining SAWS consortia.

The LAO provided, as one of their options for meeting the budget deficit, an option to cancel the Consortium IV system. The savings from a cancellation, according to the LAO, would be $16.3 million General Fund and $52.4 million TANF funds. Advocates are concerned that there would be a legal challenge to a cancellation of the contract, and that the movement of all counties to remaining consortia would make the entire SAWS system vulnerable.

The Consortium IV vendor has proposed that the project (budgeted for $75.5 in 2002-03, $16.3 million of which is General Fund) could be reduced in the budget year by $9.0 million ($2.0 million General Fund) without imposing serious risk to the project's success. The vendor believes that the final system implementation end date of August 2004 will not be affected by the reduction.

The Data Center and DSS are reviewing the proposed reduction with the vendor and the Consortium IV users' group.

- **The Data Center and DSS will provide comment on the proposed reduction.**
- **The LAO will provide comment on the proposed reduction.**
- **The subcommittee will determine whether to accept the reduction.**

5180 Department of Social Services: Children's Programs

Adoptions

The January budget proposes a reduction of $12.8 million ($7.3 million General Fund) for adoption services. The $7.3 million General Fund is backfilled by redirecting federal adoption incentives to adoption programs currently supported by the General Fund. The federal match generated by using General Funds is lost, resulting in **a reduction of adoption services of $5.5 million.**

The subcommittee requested that the LAO examine the impact of this reduction on the rate of final adoptions, to determine whether there would be an impact on the General Fund of increased foster care costs associated with a delay or reduction in adoptions. The LAO has completed the analysis, finding that approximately 900 children will have their adoption delayed; and that the impact on the General Fund is negligible, due to the interaction of sharing ratios.

The Department provided information at our previous hearing on adoption performance, responding to Supplemental Report Language adopted last year. The subcommittee should consider adopting the same language, to assure that the legislature measures adoption performance regularly:

> The Department shall make available through the budget process, county-by-county information on the number of final adoption placements, and the number of guardianships, from 1997-98 to the most recent information available. The information shall include whether the adoption case backlog addressed in the 2000-01 budget has recurred.

- **The LAO will report on their findings.**
- **The subcommittee will determine whether to adopt the Supplemental Report Language**
- **The subcommittee will determine whether to adopt the reduction.**

Group Home Rate Structure

The January budget provides no COLA for foster family homes, or group homes for the budget year. The subcommittee received a request from the California Alliance of Child and Family Services, asserting that the state's rate structure has not kept pace with the cost of care. They proposed a limited adjustment to the rate system that would permit them to retain experienced staff, without exposing the state to higher costs.

At the April 11 hearing, the subcommittee also received a report from the working group on the Reexamination of the Role of Group Care. The final report of this group recommended that the group care reimbursement system be significantly redesigned. However, final recommendations for such a redesign will not be available until at least August, 2002, as they have been included in a large Child Welfare Stakeholders process.

And any August recommendations will take at least an additional year to develop specific plans for implementation.

The subcommittee requested that the Alliance and the Department bring us a proposal in May that provides flexibility for providers to live within a capped payment with no COLA, that is revenue neutral in the budget year; and where the tradeoffs of experience and retention in staff protects service levels and children's safety.

- **The Department and the Alliance will provide the results of their discussion**
- **The subcommittee will determine whether to adopt a change to group home rate setting.**

5180 Department of Social Services: Community Care Licensing

Continuing Care Communities

The Department of Social Services, Community Care Licensing branch, has oversight responsibility for residential communities that promise to provide long-term (usually lifetime) resident contracts to provide care. This oversight includes 80 communities statewide with approximately 20,000 residents. Each community must be licensed as a Residential Care Facility for the Elderly; some have a Skilled Nursing Facility on the premises. The Department's oversight focuses primarily on monitoring for financial solvency.

The subcommittee last year heard concerns that the Department did not have sufficient actuarial expertise and legal representation to provide sufficient oversight. The budget in the current year increased the cap on CCL indirect administrative expenditures for this program from 5% to 20%. The department's efforts to upgrade the positions have been slow, and unsuccessful. At the request of stakeholders, the Department has developed Budget Bill language to assist their efforts.

- **Should the subcommittee adopt the proposed language indicating the important and complex nature of the work of this oversight?**

5180 Department of Social Services—CalWORKs

Cost of Living Adjustments

Current law requires that a cost-of-living adjustment be made to the CalWORKs aid payment, based on the change in the California Necessities Index each year. The change is made in October 1 of each year. The budget proposes to make no COLA adjustment for 2002-03.

The CNI for the budget year will be 3.74%. Extreme threats to the General Fund may prevent the Legislature's capacity to provide a full cost of living. **The cost of proving a Cost of Living Adjustment for CalWORKs recipient for the budget year would be approximately $112 million.**

- **The subcommittee will determine whether there is enough information about the budget to provide a COLA at this time.**

Child Care

The CalWORKs program provides child care to participants that are working or engaged in employment preparation programs. The CalWORKs budget includes funding for the first two of three stages: Stage 1, that provides care when a participant enters CalWORKs, administered by county welfare departments; and Stage 2, that provides care to participants once the participant's situation is stable, and as long as two years after the participant leaves cash aid, administered by the Department of Education.

The January budget assumed enactment of a reform that collectively would have resulted in savings of approximately $400 million, including reduced income eligibility limits, reduced reimbursement rates for providers, and increased fees for most recipients. In the January budget the reforms would have been used to create new subsidized child care programs. The specific reform proposals have been dropped. There may be an alternate reform proposal included in the May Revision. As a result of the January proposal, however, the CalWORKs child care budget is short by a total of $183 million ($50 million for Stage 1 and $133 for Stage 2).

Current practice in at least one large county, provides payment in arrears for Stage 1 child care expenses made by CalWORKs participants who incurred the expenses while working or in employment preparation but prior to adoption of a formal plan for that activity. This may have been an appropriate approval when counties were still ramping up to develop the capacity to develop plans for all CalWORKs recipients. It is less appropriate today. The estimated current year costs of these payments in arrears are a minimum of $34 million.

- **The subcommittee will determine whether to adopt placeholder Trailer Bill language eliminating the payment of child care expenses in arrears, and reducing the estimated costs of Stage 1 child care in the budget year by $34 million.**
- **The subcommittee will determine whether to restore funding for the balance of unfunded Stage 1 obligations ($16 million) and Stage 2 obligations ($133 million).**
- **The subcommittee will determine whether to restore child care funding with federal Child Care and Development Block Grant funds, in the amount of $149 million; and a transfer of $16 million General Fund from Stage 2 to Stage 1 budgets. This action must be taken in concert with subcommittee #1, Education.**

Community Colleges
The budget has eliminated $58 million in funding from the budget of the Community Colleges, funding that has been used in past years to provide community college services to CalWORKs recipients. The budget retains $15 million for child care expenditures for CalWORKs recipients enrolled in community college, and continues to pass through $8 million in TANF funds to the community colleges.

The funds have been used to provide support services and instruction for CalWORKs students, including job placement and coordination; curriculum development and redesign; child care and work study; and instruction. The program has received national recognition as an effective means to provide support and time-limited training and instruction to new workers, or workers with barriers to participation in the workforce.

Extreme pressures on the General Fund, and on limited CalWORKs funds, may limit the subcommittee's capacity to restore these funds. In that event, the subcommittee may want to encourage subcommittee #1 to retain within community colleges a program with the capacity to provide time-limited services to persons with barriers to participation in the workforce.

- **The subcommittee will determine whether to adopt the reduction in community college funding.**
- **The subcommittee will determine whether to encourage subcommittee #1 to retain a specialized program for workforce entrants with barriers.**

Adult Education
The budget has eliminated $36 million in funds for the Adult Education and Regional Occupational Collaborative Program (ROCP). $10 million in TANF pass-through funds are retained in the Adult Education/ROCP budget.

These funds have been used to provide instructional services above the Adult Education cap, and support services for students both over and under the cap; funds are also used to provide ROCP services to CalWORKs students when space is available. A large number of students enrolled in this program receive basic literacy and English as a Second Language services.

Senate Budget Subcommittee #1 has identified funds from previous years that can be used to partially restore this program for the budget year ($23 million).

Extreme pressure inside the CalWORKs budget may preclude the subcommittee from assuming that the Adult Education/ROCP program continues as a CalWORKs program.

- **The subcommittee will consider whether to recommend that the Adult Education/ROCP program be restructured to target new entrants and entrants with barriers to participation in the workforce.**

Scope of the CalWORKs Program

The federal government requires, as a condition of receiving TANF funds, that California provide a minimum level of General Fund support for programs serving CalWORKs participants and other low income households potentially eligible for CalWORKs. California's Maintenance of Effort is $2.7 billion per year, as long as the state meets federal performance measures. The CalWORKs program expectations have grown substantially; in part because all counties are now operating fully; in part because successful employment of participants has increased the need for child care; in part because programs funded with TANF money in the early years have grown in caseload and cost.

If California is to fully fund child care for participants that are working, and provide a partial cost-of-living adjustment to participants in CalWORKs, some changes must be made to the array of programs funded within the CalWORKs MOE. The January budget took significant steps by removing some educational, employment development and corrections programs from CalWORKs. The Legislature can take additional steps as follows:

- **Adopt the LAO proposal to move federally eligible Emergency Assistance activities outside CalWORKs and use them to claim federal funds. This would reduce expenditures within CalWORKs by about $70 million, and reduce General Fund needed by half that amount;**
- **Cap the expenditures within the Kin-GAP program and remaining non-federally eligible Emergency Assistance activities at current year levels. This will free up approximately $30 million in TANF room.**

The effect of these proposals are included in the attached chart. If adopted by the subcommittee, staff can bring back specific language for the May Revision hearing.

County Program Grant

Currently, the state provides counties a Single Allocation that includes funding for Stage 1 Child Care, CalWORKs Employment Services, and CalWORKs program administrative costs. Counties can shift funds between these three different activities, as long as they remain within the overall amount of their Single Allocation.

The budget this year proposed to suspend the Proposed County Administrative Budget (PCAB) process that determines an adequate level of administrative and employment services funding needs under CalWORKs. The budget (consistent with actions taken in the current year) proposes to shift from a need-based budgeting methodology to a capped distribution based on historical spending. The budget proposes to compensate for this shift by providing counties with an expanded County Program Grant that includes funds currently in the Single Allocation, plus the CalWORKs Mental Health, CalWORKs Substance Abuse and the Juvenile Assessment/Treatment Facilities and Probation Camps funding. The LAO has proposed also adding the funding from EDD, teen pregnancy prevention, and community college services provided through TANF funds. Counties would have the authority to shift funds within these allocations to meet local needs.

- **The subcommittee will determine whether to adopt the County Program Grant.**

Mental Health and Substance Abuse Services to CalWORKs Participants

The budget includes $109.2 million of employment services funds to support treatment for CalWORKs participants with mental health and alcohol or other drug problems. County welfare departments are required to work with county mental health and alcohol and drug programs to design and implement effective ways to provide the services needed to assure that CalWORKs participants are able to get and keep employment.

The county associations involved with delivering these services (County Welfare Directors Association, California Mental Health Directors Association, County Alcohol and Drug Program Administrators Association of California), have established a working group to develop research and best practice guidelines for counties providing mental health, substance abuse and domestic violence services. The three associations believe that the next step in assuring that scarce resources are used appropriately is to develop outcome measures specific to these services. They seek budget direction to utilize $100,000 from the allocation currently budgeted for mental health and alcohol and drug treatment services, through a county willing to accept the funds, to develop an outcome system that could be replicated in all counties.

When CalWORKs was developed, it was anticipated that the mental health portion of these funds at least would be used to draw down federal Medicaid matching funds, where appropriate. Because federal regulations prohibit the use of funds that match Medicaid also being used to match TANF funds, the CalWORKs mental health program does not participate in Medicaid. California does not have a difficulty today meeting its MOE requirement. And, some counties have exceeded the capacity of the set-aside, and have used scarce employment services funds to provide this treatment. Counties seek the authority to set aside a portion of the mental health funds to claim Medicaid, on a county-by-county basis. Such authority would permit counties to retain funds to provide services not eligible for Medi-Cal (such as parenting education or outreach) or for a long period that the medical necessity criteria under Medi-Cal would permit, in order to assure that participants are work ready.

- **The subcommittee will determine whether to direct $100,000 from the Mental Health/Substance Abuse CalWORKs allocation, to a willing county, to be directed by the three-associations to develop a replicable outcome system for mental health and substance abuse treatment in CalWORKs.**

- **The subcommittee will determine whether to adopt placeholder trailer bill language permitting counties once annually, in sufficient time for appropriate budgeting, to set aside a specified amount of mental health funding to match Medicaid. This trailer bill language should include a report to the legislature in two years, to permit a determination of whether to continue the authority.**

County Program Grant 5% Holdback

The Governor's budget proposes to hold back 5% of the County Single Allocation/Program Grant to protect the state's risk of unexpected costs from caseload increases in CalWORKs and KinGAP and other unanticipated costs. The LAO notes that a hold back provision would result in a lower level of services at the county level, resulting in a reduction of up to $95 million in services funds.

- **The subcommittee will determine whether to adopt the 5% holdback.**

5120 California Workforce Investment Board

Performance Based Accountability System

The Performance Based Accountability System (PBA) is a common reporting system to measure the performance of state and federally funded education and training programs for the purpose of system, program, and instructional improvement. The Board manages the PBA, funded by reimbursements from participating agencies. The most recent report, issued in August 2001, includes data from fiscal year 1997-98.

The Board has completed a Feasibility Study Report that identifies various problems with the PBA. The system is unable to collect, store and disseminate performance information for all workforce training programs. The complexity of the information will exceed the capacity of the system by the budget year. Users of the reports are unable to view and navigate the data in a flexible and useful fashion. Annual reports are late and costly.

The FSR proposes to contract with a private vendor to develop a system that can provide regular reports and on-line access to reports; an upgraded and more extensive database; and simpler formats for collecting and compiling information. The subcommittee at its April 4 hearing asked the LAO to review the FSR.

The LAO has completed review of the FSR. They are concerned about the lack of a full time project manager for the project. The Board proposal is to have the program manager and the chief information officer act as the state project management. In addition, the Board intends to rely heavily on the prime contractor for project manager. The LAO is concerned that IT projects can fail because of (1) lack of dedicated project management and (2) over-reliance on the prime contractor to act as the state's project manager.

The LAO recommends the following Budget Bill Language:

> **It is the intent of the Legislature that the California Workforce Investment Board provide a full time project manager for the development of the redesigned Performance Based Accountability System. The project manager shall be independent of the project's prime contractor.**

- **The subcommittee will determine whether to adopt the proposed Budget Bill Language.**

5100 Employment Development Department

<u>**SB 40 Clean-Up**</u>
Legislative staff has identified, and EDD has confirmed, three technical issues in SB 40, 2001, which increases Unemployment Insurance benefits, in a phased set of increases through January 1, 2005. The changes include the following:

- Corrects an error in the title of the WARN Act;
- Deletes a cross-reference which is no longer relevant;
- Re-inserts language deleted in the final version of the bill, that permits a student to restrict working hours to protect school attendance, as long as a substantial full-time labor market remains.

- **The subcommittee will consider whether to adopt this clean-up as Trailer Bill additions.**

<u>**Reed Act**</u>
The federal Congress the first week in March passed an economic stimulus bill that provided extended unemployment insurance benefits. In addition, the federal act included a distribution to state unemployment trust fund accounts of Reed Act funds. These are federal unemployment tax revenues collected in California but not spent, and therefore accumulated at the federal level. **California's share of the distribution is $936.9 million.** The funds may be used for the state administration of unemployment compensation laws and public employment offices; or payment of cash benefits, including regular state compensation. In other words, the funds could be used to pay cash benefits, including those that have already been legislated or extension of benefits, such as the retroactive benefits proposed by legislation. It can also be used to strengthen and streamline California's Unemployment Insurance system, including such items as updating the Employment Tax System, providing on-line opportunities to interact with the Unemployment Insurance system, and improving the call center system. Some of these changes in turn can result in long term savings that result in lower system costs.

The subcommittee directed staff to meet with stakeholders in the system to discuss Reed Act funds and how these one-time funds can be used to protect employers and workers and improve system operation. Staff met briefly with employer representatives, who were interested only in retaining the Reed Act funds on deposit to delay any changes in tax amounts associated with increasing claimants or benefit levels. Staff also met with labor, local workforce investment representatives, and policy analysts on unemployment issues.

Attached is a proposed distribution of $167 million in Reed Act Expenditures. Expenditures would leave approximately the same amount on deposit, in addition to the $600 million set aside for retroactive benefits associated with 9/11. Moreover, most of the expenditures would not occur before employer tax levels are established for the budget year; some would not occur in the budget year. The expenditures were selected with the following goals in mind:

- Reed Act funds are one-time; outside of benefit payments, expenditures should primarily be used to support one-time costs;
- The Unemployment Insurance tax information system is old, fragile, and may be subject to catastrophic failure. Changes, including the adaptation of the extended benefits required by federal law, take extensive time and personnel costs, because of limitations in the system. Setting aside the funds to redesign the system will protect employers and employees over the long term.
- The current increase in unemployment has exposed significant problems in the call center system. This system also should be upgraded; and changes made to enable claimants to certify promptly by phone and on the internet.
- The administrative costs to create an alternative trigger mechanism for extended benefits, and to create an alternate base period, would permit the utilization of the most recent labor force attachment to develop benefits, and would serve unemployed Californians better.

- **The subcommittee will determine whether to adopt the proposed expenditures for Reed Act funds.**

Naturalization Services for Airport Workers

About 2500 airport workers will be laid off as a result of a federal law that requires US Citizenship in order to work at the security details at airports in California.

Advocates for these workers have pointed out that legal permanent residents of the United States meet every obligation placed on a US citizen, including the duty to be subject to the draft, and paying taxes. However, because of the new law, airport security workers will not only be subject to rigorous security clearance requirements, but will be required to be citizens.

California has developed, through the Department of Community Services and Development, a naturalization assistance program through community based organizations. That network of community organizations could be quickly utilized to provide the citizenship assistance needed to assure that those persons already working, and interested in retaining their jobs, are allowed to do so. The existing naturalization program costs $350/person, and is based on a performance contract that requires the submission of naturalization applications. The cost for providing services, using the CSD network, would be $962,500, assuming that all individuals accept the assistance and that CSD receives an administrative overhead of 10%.

Because this problem results in 2500 persons potentially losing their job, due to action outside their own control, it seems an appropriate project for the WIA Rapid Response funds.

The subcommittee could determine whether to schedule $962,500 of WIA Rapid Response funds for use in a contract with CSD to provide immediate naturalization/citizenship services to affected airport workers in California.

Senate Budget & Fiscal Review
Senator Steve Peace, Chair

REVISED

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

AGENDA – Part 1

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Saturday, May 18, 2002
4:00 PM
Room 4203

559 LABOR AND WORKFORCE DEVELOPMENT AGENCY

The Administration would create a new labor agency pursuant to Reorganization Plan No. 1 of 2002.

The Governor proposes to include in the agency the Employment Development Department (EDD), the California Workforce Investment Board (CWIB), the Agriculture Labor Relations Board and the Department of Industrial Relations (DIR). The Administration proposes a $1.8 million appropriation. Of this amount, $348,000 would be offset by reductions in the budgets of EDD, CWIB and DIR.

The Administration proposes transferring 17 positions from EDD and DIR to staff the agency. Three positions would be transferred from the Department of Industrial Relations and the balance would be transferred from the Employment Development Department.

The agency would have the following staff: Secretary, Under Secretary, ten other CEA or exempt positions (*e.g*., Deputy, Assistant, or Associate Secretaries), two professional staff, and three support staff. The Administration proposes establishing the positions and agency on July 1, 2002.

Analyst Concerned that the Labor Agency Is Overstaffed. The Analyst writes that the proposed staffing configuration "would oversee just two departments and two boards. As a point of comparison, the Health and Human Services Agency currently oversees 14 departments, with a total of 12 CEA and exempt positions (excluding the Secretary and Under Secretary)." The Analyst recommends rejecting three Assistant Secretary positions and a Deputy Secretary position.

Legislation Pending. Senator Alarcon has introduced a bill, SB 1236, to establish the agency and enumerate its powers. The bill is on the Senate Suspense file. The agency cannot be established in statute until January 1, 2003.

Staff recommend approval of the agency's budget, effective January 1, 2003, contingent on enactment of Senator Alarcon's bill.

8350 DEPARTMENT OF INDUSTRIAL RELATIONS

The mission of the Department of Industrial Relations (DIR) is to promote, protect and improve the health, safety and economic well being of workers. The department has three major programs: the adjudication of workers' compensation disputes, the prevention of industrial injuries and deaths, and the enforcement of laws relating to wages, hours and working conditions.

CONSENT AGENDA

January 10 Budget

The department proposes to reduce by $284,000 the budget of the Occupational Safety and Health Standards Board. The board is charged with adopting reasonable and enforceable workplace standards at least as effective as those adopted by federal OSHA. Of the $284,000:

- $75,000 is associated with an interagency agreement between the board and the California Building Standards Commission. Under the agreement and statutory law, the commission must review and approve standards adopted by the board. To achieve the $75,000 in savings, statutory requirements must be repealed.

  The staff of the Senate Industrial Relations Committee have reviewed the draft language, contained in RN 201047. They raise no policy or technical concerns with the language.

- $209,000 is primarily associated with salaries and benefits of two positions, which the board proposes to eliminate.

Staff recommend approval of the reduction, elimination of the positions, and approval of the trailer bill language.

Finance Letters

The department proposes the following changes as part of the May Revision:

- ***Loans for New Programs***. Effective January 1, 2000, statutory law mandates two new enforcement programs, the amusement ride safety and garment manufacturers regulation programs. The programs are to be funded with industry fees, imposed only after the department promulgates regulations. In order to expedite the programs' start up, the Legislature authorized a General Fund loan to provide cash until the fees were collected. The loans were to be repaid when the fees were collected in the current year. The Finance Letter notifies the Legislature that the fees will not be imposed until the budget year. It requests that the loan repayment be rescheduled from June 30, 2002 to June 30, 2003.

- ***Payment for Mandates Deferred.*** The May Revision proposes deferring payments on two local mandates which are funded in the department's budget. Specifically, the Firefighters' Cancer Presumption (Chapter 1568, Statutes of 1982) and the Peace Officers' Cancer Presumption (Chapter 1171, Statutes of 1989). The deferral reduces the state's payment for the costs of these two local mandates, for a budget-year savings of nearly $1.5 million. This deferral neither eliminates the state's obligation to pay for the mandate nor does it remove the local obligation to meet statutory requirements.

- ***Redirection***. The May Revision proposes reducing DIR's budget by $212,000 (General Fund) and $54,000 (Federal Trust Funds), as the positions associated with this funding will be transferred to the new Labor Agency**.**

- ***Workers' Compensation Studies.*** The May Revision deletes funding for the studies, for a savings of $1.2 million.

Staff recommend approval of these proposals (the action on the redirection should be consistent with the action on the Labor Agency's budget).

BUDGET ISSUES

1. Implementation of AB 749 (Calderon)

What is AB 749? On February 15, 2002, the Governor signed AB 749 (Calderon). The bill makes various changes in the workers compensation law intended to reduce program costs and increase benefits.

The May Revision addresses some of the changes contained in the bill. Specifically:

- *Commission on Health and Safety in Workers' Compensation (CHSWC).* The commission, created in 1993, oversees the health and safety of workers' compensation systems. AB 749 earmarks revenues from the Workers Compensation Administration Revolving Fund for the commission.

  The May Revision proposes to increase the commission's funding from the Workers Compensation Administration Revolving Fund. These appropriations are offset by reduced appropriations from the Workers Health and Safety Revolving Fund.

- *Loss Control Certification Program.* AB 749 eliminated the certification program (effective January 1, 2003). The May Revision proposes to eliminate the program in the budget year, and reduces the department's budget by $404,000. It proposes to eliminate nine positions.

Additional Issues Associated with the Implementation of AB 749

The May Revision does not address all the changes contained in the bill, however. Important areas that need to be addressed include:

- *Workers' Compensation Fraud Investigations and Prevention.* AB 749 requires the department to increase investigations in employer and insurer fraud.
- *Staffing at the Division of Workers' Compensation*. To be successful, the reforms contained in AB 749 must be implemented. Staff estimate that the division will need about 62 new positions to meet the requirements of AB 749.
- *Studies by the CHSWC.* AB 749 requires the commission to complete three studies of cost-saving measures contained in the bill. Staff estimate that the studies would cost about $1.3 million to complete over a two-year timeframe. Of this amount, the budget-year costs would be about $670,000.
- *Training Grants in High-Hazard Areas.* The department is to provide health and safety training grants in hazardous industries.

Staff Recommendations

1. *Adopt the May Revision*.
2. *Appropriate $1 million (General Fund) for increased fraud prevention activities*.
3. *Appropriate $670,000 (General Fund) to begin the studies mandated by AB 749*. A similar appropriation will be necessary in 2003-04.
4. *Appropriate $4.6 million (General Fund) to staff the Division of Workers' Compensation*. The positions to be established should include: 1-Supervising Workers' Compensation Compliance Officer, 4-Senior Workers' Compensation Compliance Officers, 9-Workers' Compensation Compliance Officers, 4-Workers' Compensation Consultants, 5-Workers Compensation Rehabilitation Consultant, 2-Program Technicians II, 1-Public Health Medial Administrator, 1-Presiding Workers' Compensation Judge, 2-Executive Secretaries, 1-Chief Hearing Reporter, 8-Workers' Compensation Judges, 8-Senior Legal Typist, 8-Office Technician, 5-Hearing Reporters, 1-Industrial Relations Counsel IV, 2-Industrial Relations Counsel II.
5. *Appropriate $588,000 (General Fund) for training grants.* Of this amount, $163,000 would be for staffing and $425,000 would be for contracts in 2002-03. The staff needed would be 1-Staff Services Manager II, 1-Staff Services Manger I, 1-Associate Governmental Program Analyst, and 1-Office Technician.

2. Industrial Welfare Commission (IWC)

According to the department, the IWC's primary responsibility is to set the minimum wage. In addition, DIR says that the commission:

- Is the only entity devoted to the specific mission of ascertaining "the hours, and conditions of labor and employment in the various occupations, trades and industries in which employees are employed in the state, and to investigate the health, safety and welfare of those employees."
- Provides interested parties a simple venue to petition for changes, exemptions, amendments, and/or deletions to regulations under the jurisdiction of the IWC. A petition is a letter to the commission and must be acted upon by the Commission within 120 days.

The IWC has jurisdiction over 17 wage orders. These orders regulate conditions for approximately 1.2 million employers in California.

The commission may adopt an order adjusting the minimum wage.

Performance Since the IWC Was Reconstituted. During the prior administration, the IWC suspended activities. Since the commission was reconstituted in 1999, it has convened wage boards, amended all existing wage orders and created a new wage order. It reviewed and increased the minimum wage in California during 2000. Under that order, the hourly minimum wage increased from $5.75 to $6.25 (effective January 1, 2001) and $6.75 (effective January 1, 2002). The next wage order is not likely to become effective until January 1, 2004.

Staff recommendation. According to the Department of Finance, continued weakness in the stock market and the economy have caused state revenues to be below forecast. The revenue reduction, combined with various expenditure adjustments, necessitate the elimination of programs. Accordingly, staff recommend: (a) Adopting trailer bill language to adjust the minimum wage annually, and (b) Eliminating the commission, its appropriation and its authorized positions.

By requiring the annual adjustment of the minimum wage, the IWC's primary responsibility is made redundant. The commission's other underlying responsibilities can be assumed by the department itself.

<u>Proposed Trailer Bill Language</u>

Section 1182.10 is added to the Labor Code, to read:

(a) The minimum wage is automatically adjusted on January 1 of each year.

(b) The automatically adjusted minimum wage is calculated by multiplying the minimum wage in effect on December 31 by the percentage of inflation that occurred during the previous year, and rounding off the sum to the nearest five cents ($0.05). The Department of Industrial Relations shall publicize the automatically adjusted minimum wage.

(c) For purposes of this calculation, the following terms have the following meanings:

(1) ''Percentage of inflation'' means the percentage of inflation specified in the federal Consumer Price Index for urban wage earners and clerical workers, as published by the United States Department of Labor, or its successor index.

(2) ''Previous year'' means the 12-month period that ends September 1 of the calendar year prior to the adjustment.

(d) The first automatic adjustment to the minimum wage shall occur on January 1, 2003.

3. Division of Occupational Safety and Health (DOSH)

The division enforces health and safety standards, investigates the causes of occupational deaths and injuries, and assists employers to maintain safe and healthy work environments.

The Administration estimates that DOSH will spend $74.1 million in the current year. Of this, the General Fund supports about 35 percent ($24.8 million). The January budget proposes to reduce General Fund support of DOSH by $5.2 million in the budget year. The reduction would be offset by an increase from the Cal/OSHA Inspection and Consultation Fund. Even after the fund shift the Cal/OSHA Inspection and Consultation Fund will have an ending balance of $7.5 million.

A. Redirection of Enforcement Staff

DOSH intends to redirect positions to enforcement and consultation activities, specifically targeting employers in high hazard industries.

The department does not detail which positions will be redirected or what they will be redirected to do. What are the positions currently doing for the department? How will the existing workload be accommodated? On what basis will the department make its determination to redirect specific positions?

Staff recommend: (a) Approval of the fund shift as proposed, and (b) Adoption of supplemental language detailing the nature of the redirections.

Proposed Supplemental Report Language

The department shall report the following to the chairs of the fiscal committees no later than January 10, 2003:

(a) Which DOSH positions will be redirected to high hazard industries.

(b) The basis on what the positions were redirected.

(c) The work from which the positions were redirected.

The report shall provide sufficient information to sustain a thorough analysis.

B. Elevator Inspections

The Elevator Safety program is funded with special fund and General Fund revenues. The special fund source, the Elevator Inspection Special Fund, will end the budget year with a reserve of nearly $4 million.

The May Revision proposes reducing General Fund support for the program by $1 million, offset by an appropriation from the Elevator Inspection Special Fund.

Advocates for the program say that there is a backlog of inspections. The backlog exceeds 20,000 elevators. They request seven new inspectors at a cost of $500,000.

***Staff recommend*:** (a) Adopt the May Revision proposal and (b) Appropriate an additional $500,000 from the Elevator Inspection Special Fund to add seven inspectors to begin addressing the backlog.

C. Proposed Transfers

The May Revision proposes transferring to the General Fund $805,000 from the Workers' Compensation Administration Revolving Fund. To make this transfer, the Administration requires statutory changes to the revolving fund's authorizing statute.

The proposed trailer bill language will increase revenue deposited into the General Fund. It would broaden the use of the money deposited in the revolving fund for each year beginning in 2002-03.

Staff recommend limiting the amendment so that it applies only to the year beginning July 1, 2002. The Administration has not demonstrated why the statute should be broadened beyond the close of the budget year.

3. Division of Labor Standards Enforcement (DLSE)

DLSE monitors, investigates and adjudicates violations of the labor law which cover employer-employee relationships. Specifically, its:

- Bureau of Field Enforcement investigates complaints involving non-wage issues, such as complaints about child labor, workers compensation insurance, meal and rest periods, record keeping. It enforces the prevailing wage laws. It also investigates and resolves employee complaints of discrimination.
- Licensing and registration unit registers garment manufacturers and contractors. The unit also licenses farm labor contractors, talent agents, supervisors and managers of minors n door-to-door sales, and industrial homework firms.

- Legal section present civil cases, primarily involving issues of unpaid wages, prevailing wage laws, and discrimination.

Case Management. According to the department, "the division has never had an effective case management system." Specifically:

- Management is unable to generate sufficient and timely information to accurately track enforcement actions. The division cannot adequately track all significant events within a case.
- Enforcement staff are unable to share information among the 19 field offices
- There is no system for identifying and tracking claims owed the state.
- There is no way for the public to access the system to monitor cases or track progress on enforcement actions.

Budget Proposal. The budget, as modified by the May Revision, proposes the purchase and installation of a case management system which is estimated to cost $5 million over three years. Of this amount, about $1 million would be financed with redirected baseline allocations. There would be on-going new annual costs of about $300,000 associated with the system.

It is not clear if the Governor's proposal contemplates allowing the public to access the system so it can monitor the progress of cases. If the subcommittee approves the proposed augmentation, the pro Tempore's office requests that the system provide sufficient access to the public.

Staff recommend adoption of trailer bill and supplemental report language. As the system is going to take three years to implement, the subcommittee may wish to require the department to make progress reports on its implementation.

Proposed Trailer Bill Language

The Case Management System adopted in budget item 8350-001-0001 will be made accessible as follows: The Department shall procure a Case Management System that will have the capability to ultimately provide the public with free, web-based access to a searchable database containing information on the status of all complaints, citations and administrative proceedings, including the name of the investigator and/or attorney assigned to the matter and the final disposition of the matter; provided that the Department shall take appropriate steps to ensure that legal requirements are followed regarding the privacy rights of employees and witnesses. The intent of the Legislature is that when the database is operational, it will provide the public with similar information to the information offered by the federal courts through their PACER system, https://pacer.uspci.uscourts.gov/index.html and offered by the Establishment

Search of the Occupational Safety and Health Administration at http://155.103.6.10/cgi-bin/est/est1.

Proposed Supplemental Report Language

(a) On or before January 10, 2003, the department shall report to the fiscal committees on the progress of acquiring, installing and implementing the case management system. The report shall detail a timeline for installing the system and when the public will have access to the database. The report shall provide a revised estimate of system costs, by fiscal year, for the three years beginning with 2004-2005.

(b) On or before January 10, 2004, the department shall report to the fiscal committees the following information on its progress in implementing the case management system'

1. Relative to the timeline assumed in Budget Change Proposal 1 (revised 1/2/02), has the department met its schedule for acquiring and installing the system? Is the training schedule on schedule?
2. Does the department anticipate any delays in completing the implementation of the system by June 30, 2005?
3. When the system is installed, on what measurable bases will the department be able to determine whether the system has addressed all the issues listed under "Justification" on pages 4 through 6 in Budget Change Proposal 1 (revised 1/2/02)?
4. When will the system be available to the public in a manner similar to the one offered by the federal courts through their PACER system? When will the information provided to the public be similar to the information provided by the PACER system?

4. Division of Apprenticeship Standards (DAS)

Apprenticeship Training Grants. Under the training grants program, DIR allocates training funds. The grants are financed with allocations from the Apprenticeship Training Contribution Fund and the General Fund. The Governor proposes appropriating $1.3 million for the grants program from the special fund and $2.4 million from the General Fund in the budget year

The May Revision proposes to reduce the grants program by $3.2 million. Of the amount reduced, the General Fund would save $2 million and the Apprenticeship Training Contribution Fund would save $1.2 million.

The Administration proposes to shift the balance in the Apprenticeship Training Contribution Fund to the General Fund for an increase to the General Fund reserve of $1.4 million.

To reduce the appropriation and make the special fund transfer, the Administration seeks trailer bill language to: (1) authorize the deposit of the funds in the General Fund, and (2) broaden the use of the Apprenticeship Training Fund revenues.

Analysis. Given the subcommittee's tight timeframe, the Administration has provided very little information about this transaction. Of particular concern are two questions:

1. *Why not take all the training fund money?* The sweep leaves about $105,000 (special fund) and $201,000 (General Fund) allocated to the board. Why not take all the funds?

2. *Does the budget require broadening the authorizing statute?* The Administration seeks two changes to statute. The first would authorize the training fund money to be swept into the General Fund. It is not clear why the sweep also requires that the authorizing statute needs to be broadened so that the fund's revenues can be allocated for all activities of the Division of Apprenticeship Standards.

Staff recommend: (a) accepting the reduction, (b) authorizing the special fund transfer, and (c) adopting only the budget bill language necessary to make the transfer.

8450 WORKERS' COMPENSATION BENEFIT PROGRAM

This program provides benefits for permanent disabilities which arise from industrial injury to an employee who has suffered from a previous permanent disability. The program spent $7.4 million and $8.6 million (estimated) in 2000-01 and 2001-02 respectively. In January, the Governor proposed appropriating $8.6 million for 2002-03, the same as the current year. Of the $8.6 million, $5.4 million would be from the General Fund.

The May Revision proposes a General Fund reduction of $1 million, with an offsetting increase of $1 million from the Subsequent Injuries Moneys Account. If the Legislature adopts this proposal, the Subsequent Injuries Moneys Account would end the year with an estimated reserve of $1.5 million.

Staff recommendation. It is not clear why the Subsequent Injuries Moneys Account needs a reserve of $1.5 million. Staff recommend reducing the General Fund appropriation to this program by an additional $1 million and increasing the appropriation from the injuries account by a similar amount.

8955-8966 DEPARTMENT OF VETERANS AFFAIRS and VETERANS' HOMES OF CALIFORNIA

Purpose and Description. The Department of Veterans Affairs (DVA) provides services to qualified veterans and eligible members of the National Guard.

CONSENT ITEMS

The May Revision proposes increasing reimbursements at the Yountville home to account for increased USDVA reimbursements by $1,318,000 and reducing the home's General Fund appropriation by an offset amount. The increased funding is associated with a cost of living adjustment for per diem reimbursements authorized by the federal government. (The subcommittee already approved a General Fund reduction of $1 million, and an increase in USDVA by a similar amount, in anticipation of the USDVA rate increase.)

- ***Caseload Reductions and USDVA Reimbursement Increases.*** The May Revision reflects a net change in the appropriations for Chula Vista and Barstow homes of $56,000.

- ***Insurance***. The May Revision proposes increasing the insurance payments at Barstow for $25,000.

- ***Capital Outlay***. The May Revision proposes several changes and adjustments to the department's capital outlay program, including adjusting the lease revenue payments at Barstow.

Staff recommend the subcommittee: (a) Reverse the subcommittee's prior action on the USDVA reimbursements, and (b) Adopt all the May Revision proposals (except the HIPPA proposal).

INFORMATION ONLY – MAY REVISION

The May Revision includes the following:

Health Insurance Portability and Accountability Act (HIPPA). The May Revision proposes an appropriation to the department for $134,000 for assessment and development of an implementation plan for HIPPA.

The subcommittee will take an action in the health portion of the hearing to deal with this Finance Letter.

Senate Budget & Fiscal Review

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray N. Haynes
Senator Deborah Ortiz

May 18, 2002
4:00 P.M.

ROOM 4203

AGENDA II

(to be heard after DIR and DVA *but before* Social Services)

(Diane Van Maren, Consultant)

Item	***Description***
4120	**Emergency Medical Services Authority**
0530	**CA Health and Human Services Agency & Office of HIPAA** **(Including Budget Control Section 17)**
4280	**Managed Risk Medical Insurance Board (MRMIB)** **(Access for Infants & Mothers (AIM) Program will be heard with Proposition 99 funds**
4260	**Department of Health Services—Public Health and Medi-Cal**
4440	**Department of Mental Health**
4300	**Department of Developmental Services**

PLEASE NOTE:

- **ALL previous actions taken by the Subcommittee remain, unless the Subcommittee otherwise modifies the proposal at the May Revision.**
- **The CONSENT CALENDARS for each department may include the denial of proposals, as well as acceptance of proposals. This will be noted under the staff recommendation section.**

I.   4120   Emergency Medical Services Authority (EMSA) *(On Consent)*

ITEMS RECOMMENDED FOR CONSENT ***(1 and 2)***

1.   General Fund Reductions for the EMSA

Governor's May Revision: The May Revision proposes to **reduce the EMSA by a total of $874,000 (General Fund)** due to the continued weakness in the stock market and the economy.

Specifically this **consists of a reduction of (1)** $400,000 for the California Poison Control System, **(2)** $153,000 in EMSA state support, and **(3)** $321,000 from local assistance. These General Fund decreases represent **a 10 percent funding reduction** for these programs.

Subcommittee Staff Recommendation: It is recommended **to adopt this reduction due to the fiscal crisis.**

2.   Hospital Bioterrorism Preparedness Program

Background—Overall Summary: The Emergency Supplemental Appropriations for Recovery & Response to Terrorist Attacks on the US Act (Public Law 107-117 of 2002), among many other things, will **provide California with about $100 million** overall in increased federal support to address both local and state concerns regarding the threat of bioterrorism.

Specifically, this level of funding includes the following:

- $60.8 million from the federal Centers for Disease Control (CDC) to the DHS;
- $24.6 million from the CDC to Los Angeles County (including Long Beach City and Pasadena City). These funds are to be directly provided to the county upon approval by the federal government of the county's application.
- **$10 million from the federal Health Resources and Services Administration** (HRSA) to the DHS;
- $3.7 million from HRSA to Los Angeles County (directly); and
- $2.2 million from the federal Department of Health and Human Services provided directly from DHHS to certain metropolitan areas.

Background—HRSA Hospital Funds: **To obtain the federal HRSA funds, California submitted a comprehensive application (with the Governor's endorsement) on April 15, 2002**. **The federal HRSA funds are to be expended to develop and implement regional plans to improve the capacity of hospitals,** their emergency departments, outpatient centers, emergency medical service systems and other collaborating healthcare entities for responding to situations requiring mass immunization, treatment, isolation and quarantine in the event of infectious disease outbreaks or bioterrorism.

Though the DHS will be receiving these funds directly from HRSA, they intend to have the Emergency Medical Services Authority (EMSA) utilize the funds for further developing and implementing emergency medical systems (as is the EMSA's responsibility).

According to the EMSA, there are **three "critical benchmarks"** that are contained in the state's HRSA grant application. **These include: (1)** staffing and medical direction for the program; **(2)** creation of a Hospital Bioterrorism Preparedness Planning Committee, (3) coordination among the three grant programs (i.e., CDC, HRSA and federal DHHS) to standardize protocols and minimize redundancy.

<u>Section 28 Letter—Approved by Subcommittee on April 22nd:</u> **The Administration requested to use $375,000 of the $10 million in federal HRSA funds in the current-year to (1)** administer the grant, **(2)** serve as staff to the Hospital Bioterrorism Planning Committee, **(3)** produce progress reports and a final report as required by the contract provisions, and **(4)** develop, conduct and analyze the statewide hospital bioterrorism needs assessment. **Specifically, the proposed current expenditures are as follows: (1) $99,000 for four state positions** and operating expenses, **(2) $250,000** for a contract to conduct a statewide hospital bioterrorism needs assessment, and **(3) $26,000** to contract with a medical director.

<u>Governor's May Revision—Conforms to Grant Application:</u> The May Revision proposes to **<u>(1)</u>** utilize **$597,000** (federal grant funds) for state support, including continuation of the four positions established in the current year (expire as of 2003) and consultant contracts, and **<u>(2)</u>** **allocated $8.5 million (federal grant funds) in local assistance to develop and implement bioterrorism response planning in California.** The program will run for two years.

The $8.5 million in local assistance funds will be distributed based on the findings of the need's assessment to local and regional community agencies and hospitals to develop coordinated local plans for handing bioterrorism events.

According to the EMSA, the HRSA is making $125 million available in federal fiscal year 2002 to fifty-nine state, territorial and selected municipal offices of public health to upgrade the preparedness of the nation's hospitals and collaborating entities to respond to bioterrorism.

<u>Subcommittee Staff Recommendation:</u> It is recommended **to adopt the proposal.**

II. 0530 CA Health and Human Services Agency & Office of HIPAA

ITEM FOR CONSENT

1. General Fund Reduction

Background and Governor's January Budget: Due to the fiscal situation, the Agency was directed to reduce their General Fund budget by 15 percent, or $180,000. **To this end, the budget proposes elimination of two positions—Assistant Secretary and Staff Services Manager I—and $180,000. The Subcommittee adopted this action in the April 22 hearing.**

Governor's May Revision: Due to the continued weakness in the stock market and the economy, the May Revision proposes an additional reduction of $185,000 (General Fund).

Subcommittee Staff Recommendation: It is recommended to concur with this proposal.

ITEM FOR DISCUSSION

1. Health Insurance Portability & Accountability Act (HIPPA)—ALL ITEMS

Background--HIPAA: In essence, all health-related organizations/providers/clearinghouses that electronically maintains or transmits health information pertaining to an individual are **required to comply with the HIPAA standards within two years of their adoption.**

Among these standards are:

- **Security and privacy standards** for health information.
- **Code sets and classification system** for the data elements of the transactions identified, including **all clinical diagnostic services**, procedures and treatments.
- **Electronic transactions and data elements for health claims** and equivalent encounter information, claims attachments, health care payment and remittance advice, health plan eligibility, enrollment and disenrollment, referral certification and authorization, and coordination of benefits.
- **Unique identifiers for individuals, employers, health plans, and health care providers** for use in the health care system.

Note about "Local Codes": California uses about **6,000 local codes. The following is a list of some key ones:** alcohol and drug abuse treatment, case management, day treatment, community service program, crisis intervention, dialysis, durable medical equipment, EPSDT services, home health, FQHC and Rural Health Center clinic services, hospital services, lab services, nursing services, vaccines and immunizations, Waiver programs , Family PACT, mental health services, and nursing home services **Specific medical and payment policy will need to be extensively reviewed to determine the impact of consolidating and standardizing these local codes. As**

noted by the DHS, there are extensive issues here regarding medical and payment policy implications, rate of payment and special programs scope-of-service definitions.

President Bush: It should be noted that President Bush signed recent legislation which provides for a one-year extension ***(to October 16, 2003)*** of the HIPAA compliance deadline for Transactions and Codes sets.

Background—CHHS Agency--Office of HIPAA Implementation (OHI): SB 456, Statutes of 2001, created a statutory framework for implementation of HIPAA, including the establishment of OHI within the Health and Human Services Agency**. OHI will serve as the lead entity for that state's activities, including policy formulation, direction, oversight, and coordination.**

OHI has identified five phases that comprise HIPAA compliance. These phases include (1) project initiation, (2) initial assessment, (3) project plan, (4) detailed assessment, and (5) remediation. Each phase consists of several projects.

Governor's May Revision (See Hand Out—DOF Chart): The May Revision proposes total funding of about **$85.2 million ($24.5 million General Fund, and $60.7 million federal funds).** This reflects **an overall reduction of $7.1 million ($194,000 General Fund and $7.3 million federal funds). This includes the departments within the Health and Human Services Agency, Corrections, Youth Authority, DPA, CalPERS, and the DVA.**

Legislative Analyst's Office Recommendation (See Hand Out—LAO Chart): The LAO recommends **the following with respect to overall HIPAA implementation:**

- **Reject** the HIPAA proposals **for the Departments of Aging, Alcohol and Drug Programs, CalPERS, Corrections, Developmental Services, Health and Human Services Agency, Personnel Administration, Social Services, and Veterans Affairs;**
- **Adopt the Department of Health Services proposal** to reclassify 7 limited-term positions and establish 8 permanent positions;
- Authorize **(1)** four two-year limited-term positions in DSS, **(2)** five two-year limited-term positions in CYA, **(3)** six two-year year limited-term positions in CDC, **(4)** five two-year limited-term positions in DADP, **(5)** three permanent positions in CalPERS, and **(6)** one two-year limited-term position in the DPA.
- **Establish Budget Item 9909**, **and schedule the following amounts:**

Department	General Fund	Special Fund	Total
Aging	130.0	70.0	200.0
CalPERS		223.0	223.0
CDC	654.0		654.0
CYA	497.1		497.1
CHHS	895.0		
DADP	960.6	960.6	1,921.2
DDS	354.0	354.0	708.0
DPA		225.0	225.0
DSS	204.9	294.9	499.8
DVA	134.0		134.0
Total	3,829.6	2,127.5	5,062.1

- **Adopt Budget Bill Language** (as contained in the LAO Hand Out)

Subcommittee Request and Questions: The Subcommittee has requested the LAO and Administration to respond to the following questions.

  - **1.** LAO (Ms Brannen), Please present the recommendation, including the proposed adjustment level, positions, Item 9909 and Budget Bill Language.
  - **2.** Administration, Please respond to the issues raised.

III. 4280 Managed Risk Medical Insurance Board (MRMIB)

ITEMS FOR CONSENT

1. Trailer Bill Adjustments to the Healthy Families Program

Governor's May Revision: The Managed Risk Medical Insurance Board (MRMIB) has requested three pieces of technical language regarding the Healthy Families Program. **These are as follows:**

- ***Healthy Families to Medi-Cal Bridge:*** Insurance Code section 12693.981, added by the 2001 trailer bill (AB 430), provides for a two month bridge for subscribers who lose Healthy Families eligibility because they become Medi-Cal eligible. However subdivision 12693.981(e) provides that "[t]his section shall be implemented only if the State Child Healthy Insurance Program waiver described in Section 12693.755 is approved, and at the time the waiver is implemented." (Emphasis added.) The last phrase makes implementation of the bridge contingent on implementation of the waiver; **therefore, trailer bill language is needed to permit the state to implement the bridge independent of the waiver.**
- ***Electronic Funds Transfer Discount:*** Another program improvement included in the parental expansion waiver was provision **of a 25 percent discount for families paying their premiums by electronic funds transfer.** In the absence of parental expansion, the Healthy Families Program does not have authority to offer the discount, since the statute specifies the dollar amount of the premiums that families must pay and spells out what discounts are available, for example, discounts for families who choose the "Community Provider Plan or who pay for three months at a time. (Insurance Code section 12693.43.) **Since the state now seeks to implement this feature independent of the parental expansion, authorizing statutory language is needed.**
- ***Sponsorship Flexibility:*** The Healthy Families statute currently allows for payment of premiums by "family contribution sponsors." Under current law, if a sponsor pays the family's premium for twelve full months, the family does not have to make an initial premium payment as a condition of enrollment in Healthy Families and is not responsible for premiums during the first year. However, the statute currently defines "family contribution

sponsor" as "a person or entity that pays the family contribution on behalf of an applicant for the period of 12 months from the month eligibility is established . . . ." (Emphasis added.) This language limits sponsorship to the first 12 months of a subscriber's participation in Healthy Families.

As part of the parental expansion waiver, the state proposed to make sponsorship provisions more flexible, permitting a sponsor to pay family contributions for any 12 months. When it was anticipated that this change would occur in conjunction with the parental expansion waiver, an amendment to the statute was not needed because the authority was found in the "blanket" language of Insurance Code section 12693.755(b)(2). **Because the state now seeks to implement the sponsorship changes independent of the parental expansion waiver, trailer bill language is necessary to authorize sponsorship at times other than the first 12 months of eligibility.**

Subcommittee Staff Recommendation: It is recommended **to adopt this language in concept and to work with the Administration and constituency groups through the trailer bill process to make any small/minor modification.**

ITEMS FOR DISCUSSION

1. Healthy Families Program—Baseline Children's Program and Elimination of Parent Coverage for BY *(ISSUES "A" through "C")*

ISSUE "A"—Current Year Adjustment for Children's Program

Revised Current Year Adjustment: The May Revision adjustment for the current year reflects **no net change in the year-end total caseload of 558,888 children** (as of June 30, 2002). **However,** based on actual data through February 2002, the May Revision reflects a caseload shift between the projected number of legal immigrant children (decrease of 3,065) and the number of federally eligible children (increase of 3,065). **These caseload adjustments will result in a decrease of $2.4 million (increase of $462,000 General Fund and $1.181 million Tobacco Settlement Fund) in the current year. S**

Subcommittee Staff Recommendation: **The Subcommittee staff has raised no issues with this proposal and recommends approval.**

ISSUE "B"—Budget Year Adjustment—Children's Program

Governor's May Revision for 2002-03: The May Revision proposes total expenditures of **$670.7 million ($20.3 million General Fund, $229.3 million Tobacco Settlement Funds,** $409.7 million federal funds, and $11.5 million in Reimbursements, primarily from the DHS) for the program. **This reflects a net increase of $21.4 million** (increase of $20.3 million General Fund, increase of $15.6 million federal funds, increase of $2.4 million in Reimbursements from the DHS, and a decrease of $17.3 million Tobacco Settlement Funds) **compared to the proposed January budget.**

The primary adjustment for the program pertain to (1) a caseload shift, and (2) a cost adjustment for health, dental and vision plans.

Caseload Adjustments: **The May Revision assumes that 623,712 children will be enrolled as of June 30, 2003. This reflects a decrease of 20,260 children compared to the proposed January budget, as noted in the chart below.**

2002-03 Caseload (Children & % of Poverty	Revised Estimated Total (As of June 30, 2003)	May Revision Compared with January
Up To 200%	600,305	9,473
201-250%	121,343	1,768
Legal Immigrants	23,001	-9,473
CHDP Shift (***CHDP restored & Gateway begins 4/1/03)**	406	-20,260*
TOTALS	**623,712**	**-20,260**

The proposed caseload shifts are really technical adjustments. The Governor's January budget had assumed that 20,666 children would be shifted from the CHDP Program (which the Administration had proposed to eliminate). For the May Revision, the Administration has proposed a "CHDP Gateway" and is restoring the CHDP Program (to be discussed under the DHS item**). As such, the MRMIB is assuming that 406 new enrollees will come in through the CHDP Gateway to the HFP.** Under this proposal, children "per-enrolled" in the CHDP Program will be immediately eligible for up to two months, for a CHDP health assessment and for comprehensive medical care provided through the HFP.

In addition, the other caseload shift (i.e., between the "up to 20 percent" category and the legal immigrant category) reflects updated data based on the current year information.

Cost Adjustment for Health, Dental And Vision Plans: The May Revision reflects an increase of **4.6 percent in the average monthly rate for health, dental, and vision insurance coverage based on re-negotiated contracts approved by the MRMIB Board (in their March 6, 2002 hearing).** As such, an average cost of $88.72 for health, dental and vision plan payments per child per month (eligible children aged 1 to 19 years) is assumed. (The actual monthly rate paid to each plan is based on MRMIB negotiating with the participating plans through a model contract process.)

The May Revision contains a total of $27.9 million ($10.7 million General Fund and $19 million federal funds) for this rate adjustment, effective as of July 1, 2002.

Other Adjustments: **The May Revision also assumes the following key adjustments:**

- ***HFP to Medi-Cal Bridge--Delay:*** The May Revision **postpones implementation** of the bridge from March 2002 to **July 1, 2002**. Under this bridge, **children are provided with two months of continued eligibility in the HFP when they are transitioning to Medi-Cal coverage.** This **"bridge"** will take effect when the HFP determines at annual eligibility review that the family's income qualifies the child for no-cost Medi-Cal coverage. **(This is part of the state's HFP Waiver.)**
- ***Single Point of Entry (SPE) Modifications for CHDP "Gateway":*** The May Revision reflects an increase of **$552,000** ($275,000 General Fund) for **(1)** single point of entry applications forwarded to County Welfare Offices (i.e., $124,000), and **(2)** one-time system modifications ($425,000).

Subcommittee Request and Questions: The Subcommittee has requested for the MRMIB to respond to the following questions:

- **1.** Please provide **a brief summary** of the propose **May Revision changes**, focusing on the key adjustments—rate increase, CHDP "Gateway" changes, and the delay in the bridge.

Subcommittee Staff Recommendation: Subcommittee staff recommends for the Subcommittee **to adopt the May Revision**, as outline above.

ISSUE "C"—No Parental Enrollment per the Waiver

Background: The federal government approved the state's Healthy Families Program (HFP) Waiver **on January 25, 2002**. The approved Waiver would have extended HFP eligibility to uninsured parents, including legal immigrants, of children eligible for (1) the HFP with family incomes up to 200 percent of the federal poverty level, and (2) the Medi-Cal for Children Program (this includes several eligibility categories) up to 200 percent of the poverty level.

In a January 29, 2002 letter, Susan Kennedy directed the Managed Risk Medical Insurance Board (MRMIB) to take the necessary administrative steps to implement the program such that when funds become available to enroll parents they can be enrolled quickly. **As such, certain pre-enrollment functions were undertaken in anticipation of budget year enrollment for parents.**

Parental Waiver—Deferred until July 1, 2003 & Relation to 1931 (b) Issue: **Due to fiscal constraints, the Administration has proposed to defer implementation of parental enrollment until July 1, 2003. As such, *no funds* have been appropriated for local assistance.**

It should be noted that based on information obtained by Subcommittee staff, an increase of **about $92.5 million (General Fund)** would be needed assuming a July 1, 2002 implementation date. **Total expenditures would be about $253 million ($92.5 million General Fund and $160.5 million federal funds).**

It should also be noted that the federal CMS Terms and Conditions for the Parent Waiver requires the state to continue our *existing 1931 (b) Program* in order to receive federal funds for the Parent Waiver.

Parental Waiver—May Revision Proposal for Handbooks and System Changes: **Even though the May Revision defers implementation of the Waiver until July 1, 2003, the Administration is proposing to expend $1.5 million ($589,000 Tobacco Settlement Funds) for HFP hand books and pre-enrollment materials.**

The MRMIB states that this one-time expense is needed prior to the time that parents are included in the HFP because they need to do a special mailing to the parents of enrolled children. Subcommittee staff concurs with this statement; **however, the mailings (including the pre-enrollment" packet) do not need to be done until about 6 weeks before the opening coverage date. Therefore, the mailing would not need to be done until May 2003.**

As such, **Subcommittee staff recommends to delete these funds from the budget since it is premature at this point in time to assume that these mailings would be done given the current fiscal situation.**

Subcommittee Request and Questions: The Subcommittee has requested the MRMIB to respond to the following question:

- **1.** Why is $1.5 million ($589,000 Tobacco Settlement Funds) proposed for handbooks and pre-enrollment packets when the Administration has deferred implementation until July 1, 2003?

Subcommittee Staff Recommendation: It is recommended **to delete the $1.5 million ($589,000 Tobacco Settlement Funds) funds and expend them for other uses, such as to backfill for the Rural Demonstration Projects.**

Budget Issue: Does the Subcommittee want to adopt or modify the staff recommendation?

2. Rural Demonstration Projects

Background--Overall: The Rural Health Demonstration Projects, **enacted into law in 1997**, **are vital projects and have been used to develop and enhance existing health care delivery networks for special populations and to address geographic access barriers. For the past three fiscal years, the annual appropriation has been $6 million** ($ 2 million General Fund) with funding equally split between the two areas—special populations, and geographic access.

Funding for the **special populations projects** is made available to projects located in rural and urban communities that have high concentrations of migrant and seasonal farm workers, and workers in the fishing and forestry industry and American Indians.

Funding for **geographic access projects** is made available to projects located in Rural Medical Services Study Areas (area with a population density of less than 250 persons per square mile and with less than 50,000 people within the area).

Specifically, the funds have been used to extend community clinic hours, expand telemedicine applications, provide bilingual specialty health care services, provide mobile medical services and dental services, provide health education and nutrition counseling, and rate enhancements to increase HFP provider networks in remote areas, including San Bernardino and Riverside counties.

For the current year, 28 projects were funded under the special populations strategy and 29 projects were funded under the geographic access strategy. These projects were suppose to be funded on a two-year basis (i.e., through June 30, 2003).

The Rural Demonstration Projects have been highly successful and have received nationwide accolades for their effectiveness and innovation.

Governor's Proposed Budget: The budget proposed to eliminate the projects.

Prior Subcommittee Hearing: In the March 11 hearing, the Subcommittee **placed $2 million (General Fund) on the priority to fund list to restore the funding for the projects.**

Governor's May Revision: The May Revision **proposes to provide $271,000** ($94,000 Tobacco Settlement Funds) **to continue a small component of the Rural Health Demonstration Project**s. Specifically, it proposes to continue an existing project that provides migrant farm workers with health, dental and vision coverage (special combination that is portable statewide). MRMIB offers this portable plan combination using rate enhancements that are provided through the Rural Health Demonstration Projects.

Subcommittee Staff Comment: Subcommittee staff **recommends to adopt this proposal and to consider redirecting additional state funds**—either General Fund or Tobacco Settlement Funds—**towards the overall effort to restore the Rural Health Demonstration Projects—both the special population and geographic access areas, if feasible.**

Budget Issue: Does the Subcommittee want to **(1)** adopt the May Revision proposal, and **(2)** provide additional funds for the Rural Health Demonstration Projects?

IV. 4260 Department of Health Services—Public Health and Medi-Cal

ITEMS FOR CONSENT (Items 1 to)

1. Trailer Bill Language—Continue the Medicare Discount Drug Program

Trailer Bill Language Proposal and Subcommittee Staff Recommendation: The Administration is proposing to eliminate the sunset date for the Medicare Discount Drug Program created by SB 393 (Speier), Statutes of 1999. Generally, this statute requires pharmacies in the Medi-Cal Program to use the Medi-Cal reimbursement rate as the prescription price for a Medicare beneficiary.

Subcommittee Staff Recommendation: It is recommended for the **Subcommittee to adopt this language.**

2. Trailer Bill Language—Continue Coverage to Medi-Cal Children Who Receive Adoption Assistance

Background and Trailer Bill Language Proposal: The Administration is proposing to eliminate the sunset date for these children to continue to obtain health care services.

Subcommittee Staff Recommendation: It is recommended **to adopt this language**.

3. Rescind Special Fund Adjustments—Trailer Bill Language

Background: There are **two special funds**—Lupus Foundation of American, California Chapters Fund and the California Lung Disease and Asthma Research Fund—which are used to provide small amounts of funding for education and research related to Lupus, and for research related to certain types of lung diseases, including asthma and TB.

Prior Subcommittee Action: In the May 6th hearing, the Subcommittee adopted technical changes in order to facilitate the distribution of the funds for direct allocation to the eligible parties—namely the Lupus Foundation of America and the American Lung Association of California. Specifically, the language utilizes the State Controller to allocation the funds in lieu of the DHS.

Subcommittee Staff Recommendation: Since the May 6th hearing, it has come to the attention of staff that there may be a policy bill to make other changes to this statute. **As such, it is recommended to rescind the language and allow for the policy committees to review any legislation that may be forthcoming.**

4. Rescind Action on Southern California Laboratory Study

Background and Governor's May Revision: A Finance letter proposed **to spend $150,000 (General Fund) for a study of the Southern California Laboratory that would have** identified (1) the DHS' current laboratory occupancy including existing program, workload, staff, and equipment, (2) future staff, workload, equipment and space requirements, including all assumptions for increased growth, (3) determine whether the existing laboratory can meet current and future workload needs, and (4) identify alternatives for meeting current and future laboratory needs.

The May Revision proposes to rescind this funding request.

Subcommittee Staff Recommendation: Staff **concurs with the May Revision and recommends deletion of the $150,000 (General Fund).**

5. Delete Richmond Laboratory Campus Information Technology Support

Background and Governor's January Budget: The Governor's January budget proposed an increase of **$933,000 (General Fund)** for a variety of information technology products—equipment, fiber testing, maintenance contract—as well as information technology support items—project management, staff training, data center services—for the Richmond Laboratory.

Subcommittee Recommendation: Due to the continued weakness in the stock market and economy, Subcommittee staff **recommends to delete the $933,000 General Fund.**

6. Licensing and Certification—Per Bed Fee Adjustments

Background and Governor's May Revision: The Health and Safety Code sets forth the authority and methodology to assess fees on health care facilities. The DHS Licensing and Certification Program collects fees from other categories of providers pursuant to various other statutes or regulations. Some of these fees are flat rates set in law and others are adjusted annually in the Budget Act.

The largest source of fees comes from long-term care facilities and hospitals.

Based on a series of adjustments, as outlined in the *annual* DHS produced "Health Facility License Fee Report, the fees are being adjusted. These adjustments need to be captured in Budget Bill Language that is updated twice (in the January budget and in the May Revision). According to the DHS and the DOF, these adjustments have been thoroughly discussed with the industry.

The May Revision proposes to make the following changes:

Licensing Per-Bed Fees		
	2001-02 Budget Act	**2002-03 Proposed**
Hospitals[1]	$94.95	$120.56
Long-Term Care Facilities[2]	$283.27	$199.55
[1] Includes general acute care, acute psychiatric, special, general		
acute care rehabilitation, and chemical dependency recovery		
hospitals.		
[2] Includes skilled nursing facilities, intermediate care facilities,		
and intermediate care facilities for the developmentally disabled.		

Subcommittee Staff Recommendation: It is recommended **to adopt the proposed L&C per bed adjustment as noted above.**

7. Adjustment to Los Angeles—Statewide Automated Welfare System and LEADER

Governor's May Revision: The May Revision proposes to redirect $10 million ($5 million General Fund) in the budget year for application modifications **to incorporate Medi-Cal Section 1931 (b) and other program changes into the SAWS LEADER System.** The savings proposed to be redirected are due to the discontinuance of the Los Angels County legacy automation system that was replaced by the SAWS Leader system. This proposal requires Budget Bill Language for implementation and is as follows:

> "Of the amount appropriated in this item, $10,044,000 for the Statewide Automated Welfare System Los Angeles Eligibility, Automated Determination, Evaluation and Reporting Consortium shall not be encumbered until the DOF reviews and approves a special project report or equivalent document which specifies the application modifications to be completed and includes the vendor's estimate of the funding needed to complete the modifications. At the time that it approves the funds availability, the DOF shall provide written notification to the chairperson of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee."

Subcommittee Staff Recommendation: It is recommended to **adopt** this proposal.

8. Alignment of Tobacco Settlement Funds --Technical

Governor's May Revision: The May Revision proposes to realign General Fund and Tobacco Settlement funds. Specifically, it proposes to reduce Item 4260-101-0001 (Medi-Cal local assistance—General Fund) by $81.8 million and increase Item 4260-101-0320 (Medi-Cal local assistance—Tobacco Settlement Fund) by the same amount.

Subcommittee Staff Recommendation: It is recommended **to concur with this fund shift.**

9. Trailer Bill Legislation—Memorandum of Understanding Between Departments

Governor's May Revision: The May Revision is requesting adoption of **uncodified trailer bill** language as noted below (self explanatory really):

> The Department of Health Services may reimburse other California State Departments for their allowable Medi-Cal costs via a Memorandum of Understanding between the department and the California State Department receiving the reimbursement. The Memorandum of Understanding shall take the place of a contract or interagency agreement between the departments and the Department of Heath Services shall not be required to have either a contract or interagency agreement with the other State Department in order to pay that Department for Medi-Cal allowable costs. The Memorandum of Understandings shall provide the conditions for payment including all performance and financial standards that the Departments shall meet. The Memorandum of Understanding may be modified with mutual agreement of the Departments. Reimbursable amounts shall only be made in accordance with appropriations provided the Department of Health Services and shall meet the other State and federal requirements for payments.

Subcommittee Staff Recommendation: It is recommended **to adopt the uncodified trailer bill** language.

10. Postage Rate Increase and Funding Quandary

Governor's May Revision: The May Revision requests **an increase of $238,000** ($39,000 General Fund and various special funds) to increase the state operations line item for postage due to the US Postal Service raising the rate 3 cents as of June 30, 2002.

Subcommittee Comment and Recommendation: It should be noted that two of the special funds referenced for funding—the Health Statistics Fund and the Genetic Disease Testing Fund—do not have any anticipated fund balance for the budget year. In fact, the DOF swept $4.2 million from the Health Statistics Fund to backfill for General Fund, and the Genetic Disease Testing Fund has at least an $8 million deficiency. This deficiency issue was discussed at length in the May 6th Subcommittee hearing. Therefore, how could these funds be used? It's a quandary.

It is recommended **to deny the postage rate proposal.**

11. Local Mandate

Governor's May Revision: Due to the decline in available General Fund resources, the May Revision proposes to reduce **by a total of $7.7 million** the appropriation for mandated programs within this Item. These are as follows:

- Sudden Infant Death (SIDS) (Chapter 268/91) $341,000
- SIDS notices $36,000
- Pacific Beach safety (CH 916/92) $74,000
- SIDS autopsies (CH 955/89) $1.969 million
- AIDS Search Warrants (CH 1088/88) $946,000
- Medi-Cal beneficiary death notices $104,000
- Inmates AIDS Testing (CH 1597/88) $1.307 million
- Perinatal services for alcohol/drug (CH 1603/90) $2.829 million
- SIDS Training for Firefighters (1111/89) $118,000

Subcommittee Staff Recommendation: It is recommended to **adopt this proposal.**

12. Childhood Lead Poisoning Tracking and Control (RASSCLE)

Background: The DHS blood lead test result tracking system (RASSCLE) serves both the Childhood Lead Poisoning Prevention Program and the Occupational Lead Poisoning Prevention Program.

Governor's May Revision: The May Revision requests **(1)** an increase of $503,000 (Childhood Lead Poisoning Prevention Fund), and **(2) a reappropriation of $662,000 (Childhood Lead Poisoning Prevention Fund) to complete new information technology requirements. Of the total amount $1.166 million (Childhood Lead Poisoning Prevention Fund) is to be used for an external contract.**

According to the DHS, the project has experienced delays due to control agency requirements and changes in hardware and software requirements.

Legislative Analyst's Office Recommendation: The LAO recommends approval of the May Revision and adoption of the **following Budget Bill Language** (Item 4260-001-0080):

> "It is the intent of the Legislature that the department prepare a Special Project Report and receive approval of that report from the Department of Finance prior to continued development of the RASSCLE II Project."

Subcommittee Staff Recommendation: It is recommended **to concur with the LAO.**

13. Domestic Violence Shelters

Governor's May Revision: The DHS has identified **$900,000 (Domestic Violence Training Funds)** to be used to continue funding in the budget year for ten domestic violence shelters that received current-year funding through the "Nine West Legal Settlement". This will enable all of these shelters to receive their same level of funding in the budget year.

Subcommittee Staff Recommendation: This is a very creative proposal by the DHS and is recommended for **approval.**

14. Reduce Ryan White CARE Act—Minority AIDS and Emerging Communities—Less Federal Funds (Technical Adjustment)

Governor's January Budget: The January budget proposed **an increase of $795,000 in federal funds to the Office of AIDS.** Of this amount, $663,000 was for the Minority AIDS Initiative for Outreach and $132,000 was for the Emerging Communities focus (Fairfield-Vallejo-Napa metropolitan statistical area).

Governor's May Revision: Due to a reduction in the federal Ryan White CARE Act funds, the May Revision proposes to **(1)** reduce by $20,000 the amount for the Minority AIDS Initiative and **(2)** eliminate the $132,000 for the Emerging Communities focus.

Subcommittee Staff Recommendation: It is recommended **to adopt the proposal.**

15. Adult Influenza Vaccine Purchase

Governor's May Revision: The May Revision proposes **an increase of $2.6 million (General Fund)** to procure the annual adult influenza vaccine **as required by Health and Safety Code Section 104900.**

Subcommittee Staff Recommendation: It is recommended **to adopt this proposal.**

16. Federal Project—Rape Prevention

Governor's May Revision: The May Revision proposes an increase of almost **$5 million (federal funds—from Center for Disease Control) to support the Rape Prevention and Education Program. These funds are to be allocated to California's 84 Rape Crisis Centers.**

The Administration notes that the Office of Criminal Justice Planning (OCJP) used to be allocate these funds but since the federal government has made some funding changes, the DHS must operate the project.

Subcommittee Staff Recommendation: It is recommended **to adopt this proposal.**

17. California Children Services (CCS) Program—Caseload and Related Adjustments

Background: The California Children's Services (CCS) Program provides diagnostic and treatment services, medical case management, and physical and occupational therapy health care services to children under 21 years of age with CCS-eligible conditions (e.g., chronic medical conditions, severe genetic diseases, infectious diseases producing major sequelae, and traumatic injuries) from families unable to afford catastrophic health care costs.

Governor's May Revision: The May Revision proposes to provide total funding of $148.1 million ($71.6 million General Fund, $4.7 million federal Title V funds, and $250,000 in fees) for an increase of $11.5 million ($4.4 million General Fund). This adjustment is to reflect caseload changes and related adjustments.

Subcommittee Staff Recommendation: It is recommended **to adopt the proposal.**

18. Child Health Disability Prevention (CHDP) Program—Restore Baseline Program

Background: The Governor's January budget proposed **to eliminate the CHDP Program. As part of this proposal, the Governor requested that** Director Bonta' convene stakeholder groups to re-craft the program. Through these efforts, a revised proposal was developed—**the CHDP "Gateway" proposal. (The CHDP "Gateway" proposal is discussed under the Public Health area, below.)**

As part of the overall packaged developed, it was decided to restore the existing CHDP Program.

Governor's May Revision: The May Revision **proposes to (1)** restore the CHDP "baseline" program, and **(2)** reflect a decrease in caseload and related item adjustments.

Specifically, the **May Revision proposes a net increase of $103.5 million** ($92.6 million General Fund/Tobacco Settlement Fund and $10.9 million other various funds) **to restore the baseline program and reflect caseload decreases** (due to some children shifting to Medi-Cal and Healthy Families). **This funding level includes the restoration of 6 positions at $436,000 ($207,000 General Fund).**

Subcommittee Staff Recommendation: It is recommended **to adopt the proposal to restore the** baseline program.

19. Rescinding Increase for the Expanded Access to Primary Care (EAPC)

Background and Governor's May Revision: As part of the Administration's January Budget proposal to restructure the Child Health and Disability Prevention (CHDP) Program, **an increase of $17.5 million (General Fund) was proposed for the EAPC Clinics** to provide some health care services for children to be eliminated from the CHDP Program. **However, since the CHDP is *not* now going to be eliminated, the Governor's May Revision is rescinding the proposed augmentation amount. In addition, the Administration cites the continued weakness in the sock market and economy.**

Subcommittee Staff Recommendation: It is recommended **to adopt this proposal.**

20. Revert Quality Awards Program Funding

Governor's May Revision: The May Revision **proposes to revert $1 million (General Fund)** as the result of receiving additional federal funding for the Quality Awards Program. This adjustment will be amended into the Budget Bill Language pertaining to this item.

Subcommittee Staff Recommendation: It is recommended **to adopt this proposal.**

21. Alignment of Tobacco Tax Revenue –Technical Adjustment for Breast Cancer Early Detection Program

Governor's May Revision: The May Revision proposes to realign General Fund and the Breast Cancer Control Account (i.e., tobacco tax revenue from B. Friedman legislation of 1994) due to a projected decline in tobacco tax revenue. Specifically, it proposes to reduce Item 4260-001-009 (Breast Cancer Control Account) by $600,000 and increase Item 4260-001-0001 (General Fund) by the same amount.

Subcommittee Staff Recommendation: Due to the critical nature of the program, it is recommended **to adopt this proposal.**

22. Nuclear Planning Assessment Adjustment--Technical

Governor's May Revision: The May Revision proposes **to increase by $13,000 (Nuclear Planning Assessment Special Account) and reduce by the same amount General Fund support** to account for a Price Index calculation increase, as required by the Radiation Protection Act

Subcommittee Staff Recommendation: It is recommended **to adopt this proposal.**

23. Maternal and Child Health Fund Shift

Governor's May Revision: The May Revision proposes to shift (one-time only) $4 million federal Title V Maternal and Child Health block grant funds to backfill for General Fund support in the Childrens Medical Services Branch. These were unexpended funds from prior fiscal years.

Subcommittee Recommendation: It is recommended to adopt the proposal.

ITEMS FOR DISCUSSION—

A. Medi-Cal Program

1. Medi-Cal Baseline Estimate Package

Background on Governor's May Revision: The Medi-Cal Program local assistance expenditures for 2002-03 **are estimated to be $22.5 billion ($9.2 billion General Fund), or a net decrease of almost $1.1 billion ($746.4 million General Fund).** In addition to these expenditures, a total of $3.307 billion ($64 million General Fund) is provided to fund payments for Disproportionate Share Hospitals, voluntary governmental transfers for supplemental hospital funding and capital debt projects for hospitals.

Of the proposed **$2.5 billion** amount, **(1)** $20.8 billion is for Medical Care Services, **(2)** $1.354 billion ($400 million in state funds) is for County Administration, and **(3)** about $332.3 million is for the Fiscal Intermediary.

Subcommittee Staff Recommendation for Baseline Adjustments: The Governor's May Revision **contains the following key baseline adjustments in which the Subcommittee staff has raised no issues.**

A. Accelerated Enrollment—Waiver: Under the HFP Waiver, applicants who apply for Medi-Cal and/or the HFP through the single point of entry will receive accelerated enrollment based on the income screen done at the single point of entry.

Further, when the Administrative Vendor (i.e., Single Point of Entry processing agent) identifies a potential "split-family" (i.e., some family members eligible for Medi-Cal while others are eligible for the HFP), the family members being referred to Medi-Cal will be provided with immediate temporary coverage under the Medi-Cal fee-for-service system pending County Department of Social Services final determination of eligibility. A beneficiary identification card would be mailed to the family by the Administrative Vendor, and the beneficiary would be followed/identified using the Medi-Cal Eligibility Data System (MEDS).

The May Revision assumes an implementation date of July 1, 2002, which reflects a four month delay. Expenditures of $10.8 million ($5.4 million General Fund) to reflect two months of services provided to persons who would not have been otherwise eligible.

B. Emergency Services and Supplemental Payment Funds for Hospitals ("SB 1255"): A total of almost $1.378 billion (special funds) is available to reimburse select hospitals having contracts with the California Medical Assistance Commission (CMAC) to provide enhanced inpatient services. The CMAC has advised that they will be expediting this process.

C. Medical Education Funds for Teaching Hospitals: A total of $72.4 million (federal funds), is available for certain teaching hospitals for services relating to inpatient clinical teach and medical education activities that are provided to Medi-Cal recipients. (The Subcommittee approved a two-year extension to the statute, in lieu of the Administration's one-year extension, in its April 1 hearing. This action remains.)

D. Santa Barbara Health Authority County Organized Health: The May Revision provides an increase of $8.9 million ($4.5 million General Fund) to provide for an actuarially determined rate adjustment for this managed care health plan.

E. Hospital Outpatient Services Settlement Agreement: The settlement agreement rate increase of 3.33 percent effective as of July 1, 2002 remains (for the next three years thereafter, and in addition to the baseline 30 percent rate adjustment effective July 1, 2002). The state's portion of the lump sum payment-- $175 million—will be paid out very shortly.

F. Supplemental Wage Rate Adjustment for Long-Term Care: The May Revision provides a total of $42 million ($21 million General Fund), as adopted via trailer bill legislation associated with the Budget Act of 2001, to provide increased funding for providers which have a collective bargaining agreement or contract to increase salaries, wages, or benefits for certain staff.

G. Long-Term Care Rate Adjustment: An increase of $18.2 million ($9.1 million General Fund) is provided in the May Revision to reflect updated data received through the standard cost reports. It should be noted that the rates for some long-term care facility have been frozen (in lieu of a decrease), while others are receiving a slight increase. This overall adjustment will be update in January, 2003 to reflect adjusted data, as is the long standing historical practice for this item.

H. CalWORKS—Restriction Codes: Presently, CalWORKS recipients who refuse to cooperate with child support and medical support enforcement have their grants reduced by 25 percent and are officially denied or discontinued from the Medi-Cal Program. Effective in June 2002, restriction codes will be instituted in MEDS. A reduction of $8.9 million ($4.5 million General Fund) is therefore assumed to reflect Medi-Cal savings obtained when CalWORKS recipients (who also receive Medi-Cal) do not meet their requirements and are denied or discontinued from Medi-Cal. This conforms to existing statute.

I. Child Health Disability Prevention (CHDP) Program Gateway—Pre-enrollment and Medi-Cal Eligibles (to be discussed more thoroughly in the Public Health item, below): An increase of $4.4 million ($2.1 million General Fund) is proposed in the Medi-Cal item to (1) provide for pre-enrollment (up to two months of comprehensive coverage, and (2) provide full-scope services for a portion of children to receive services under the Medi-Cal Program.

Specifically, $4.3 million ($2 million General Fund) is provided to fund 9,357 children via the pre-enrollment health care service period, **and** $150,000 ($75,000 General Fund) is for services provided to 1,530 children expected to become eligible for Medi-Cal through the gateway process.

J. Medicare HMO Premiums: The May Revision continues to provide $35.9 million ($17.9 million General Fund) to fund the Medicare HMO premium for low-income elderly individuals who are dually eligible (Medicare and Medi-Cal). The DHS states that they expect to "cost avoid" about $8.1 million (total funds) in the 2002 calendar year in pharmacy costs alone.

Budget Issue: Does the Subcommittee **want to adopt the base estimate, including technical adjustments proposed by the DOF? This action would align the baseline budget to reflect caseload and all other related adjustments. Other issues, as discussed below, will be discussed individually.**

2. LAO Recommendation—Medi-Cal Caseload Adjustment

LAO Comment and Recommendation: The LAO has reviewed caseload information from February 2002 through June 2002 and believes that it is not growing as rapidly as the DHS projects. Specifically, they contend there should be some "flattening" from the initial caseload growth from elimination of the Quarterly Status Report and implementation of continuous eligibility in January 2001.

Their analysis indicates that the Medi-Cal caseload in the current year is overestimated by 37,000 and that this continues through to the budget year. **As such they are recommending to delete $46.6 million ($23.3 million General Fund) in both the current-year *and* budget year.**

Subcommittee Staff Comment: Due to certain technical aspects regarding the Medi-Cal Program, and the closing out of the current fiscal year, it is recommended to implement the LAO recommendation for the proposed budget year ***and*** **not to reflect any current year adjustment.**

As such, it is recommended to delete $46.6 million ($23.3 million General Fund) for 2002-03 based on the LAO's caseload analysis.

Subcommittee Request and Questions: The Subcommittee has requested the LAO and Administration to respond to the following questions.

- **1.** LAO, Please briefly describe your recommendation.
- **2.** Administration, Please briefly provide your perspective.

Budget Issue: Does the Subcommittee want to modify the Administration's assumption regarding caseload adjustments?

3. Proposed Rescission of Section 1931 (b) Expansion

Background—1931 (b) Category of Medi-Cal Eligible: The **1996** federal welfare reform law eliminated the "categorical" link between Medicaid (Medi-Cal) and welfare.

As such, a new eligibility category **was created known as "Section 1931 (b)"** (in reference to the federal law section). **The concept behind this federal policy was to maintain health coverage for families that leave welfare for work, and to make it available for working poor families.** These policies stem from a desire to protect and improve the health of poor families—especially children—and to eliminate the incentive to be on welfare in order to receive health care coverage.

Section 1931 (b) required states to grant automatic (categorical) eligibility to anyone who would have met the income, resource and deprivation rules (such as children with an absent, decreased, incapacitated, or unemployed parent) of the AFDC Program as it existed on July 16, 1996 (date selected by Congress).

Among other things, the law also granted states flexibility to adopt more progressive income or resource standards, including elimination of the so- called *"100-Hour Rule* which effectively enabled Section 1931 (b) families as well as *two-parent families.*

"100-Hour Rule": Under the old AFDC program (and therefore Medicaid) two-parent families were ***ineligible*** if the principle wage earner in the families worked more than 100 hours in a month (23 hours per week).

In order to encourage work, California obtained a federal waiver of this limit for families in the AFDC Program (after they initially qualified for aid). **The state dropped this 100-hour rule for families returning to work, or experiencing an increase in their hours of work, who are *recipients* of Medi-Cal benefits through the Section 1931 (b) program (This was done through an AFDC Title IV Waiver from before) . However, the state has *retained the rule for new 1931 (b) applicants (i.e., people applying for Medi-Cal) and the Medically Needy Program.***

Federal regulations (adopted in August 1998) allowed states to eliminate the 100-hour rule limitation for *all two parent families.* As noted by the federal government at that time, this would allow states to eliminate policies they believed to be inequitable and a disincentive to family unity.

Background—Budget Act of 1999: In the **Budget Act of 1999** and subsequent trailer bill legislation, funds were appropriated which **(1)** increased the 1931 (b) income limit to 100% of the federal poverty level, ***and*** **(2)** revised the deprivation based on unemployment to include families with earned income below 100 percent of poverty.

Inclusion in the Medi-Cal Program meant that the entire family could receive services from the same health care organization in a comprehensive manner. Further, it likely encouraged parents to enroll their children in Medi-Cal as well.

Governor's May Revision: The May Revision **proposes to (1)** roll-back the increase in the 1931 (b) income limit of 100 percent of the federal poverty level to the lower Medi-Cal Maintenance Need income level, ***and*** **(2)** restores the 100-hour employment deprivation rule for qualification to the Section 1931 (b) Program.

Effectively this means that very low-income, working family members will be joining the ranks of the growing uninsured in California.

The May Revision assumes savings of $184.2 million ($92.1 million General Fund) by eliminating 146, 190 (average monthly eligibles) individuals from the program.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **summarize the proposal and explain whom is affected (i.e., disenrolled from Medi-Cal).**
- **2. What would the 1931 (b) Medi-Cal "applicant" poverty threshold be under the proposed May Revision?**

Budget Issue: Does the Subcommittee **want to reject the proposal?**

4. Governor's Proposed Reinstatement of Quarterly Status Reporting (Parents)

Background—Budget Act of 2000: In the Budget Act of 2000 and corresponding trailer bill language, the **Quarterly Status Reporting process was eliminated, effective as of January 1, 2001**. **The Governor, who proposed this change in his May Revision that year, as well as the Legislature, believed that elimination of the reporting process was important for several reasons.**

First, these Medi-Cal recipients are low-income wage earners—working people who have left CalWORKS and need medical coverage. **Their circumstance is not likely going to change significantly and if it does, the recipient is required to report a change within 10 days *anyway.*** Second, the action was an attempt to simplify Medi-Cal and make it operate more like a regular health insurance plan (i.e., employer-based model). Third, it was intended to reduce, over time, Medi-Cal Administration costs in order to make the program more efficient and effective.

Prior to this change, Medi-Cal recipients who did *not* receive cash aid (such as CalWORKS) **were required to complete a detailed form** about income, family members and other personal information every three months (quarterly), even if there were no changes in the families circumstance**. Further, Medi-Cal coverage for the recipients was terminated if the quarterly form was not returned. Subsequently, many families lost their Medi-Cal coverage simply because they do not return the burdensome quarterly report.**

Governor's May Revision: The May Revision proposes **to reinstate the Quarterly Status Report as of October 2002** in order to save General Fund resources. As such, it is assumed that $310.8 million ($155.4 million General Fund) is "saved" by eliminating 246, 667 (average monthly) existing Medi-Cal eligibles.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly summarize the proposal, including a description of the individuals who may lose their eligibility if no Quarterly Status Report is provided.**
- **2. Will Medi-Cal redeterminations** be done if new information is provided on the Quarterly Status Report? Please explain.
- **3.** Please clarify whether **"SB 87" requirements apply** to the Quarterly Status Report.
- **4.** What will the DHS do to continue Medi-Cal under SB 87 if a Quarterly Status Report is not returned or is incomplete?

Budget Issue: Does the Subcommittee **want to reject the proposal?**

5. Proposed Reduction of 20 Percent to Medi-Cal County Administration

Background: Counties **are responsible for conducting Medi-Cal eligibility processing and enrollment functions.** The **state provides funding** (General Fund and federal funds) for this purpose **based on four general components: (1)** recent caseload data, **(2)** estimated policy changes that affect eligibility processing or related functions, **(3)** staff training and development, and **(4)** cost-of-doing business adjustments.

Through the budget process, the state generally provides counties with cost-of-doing business adjustments. These adjustments are intended to account for such factors as (1) increases in the cost of goods and services (such as office supplies and janitorial services), **(2)** expenses related to information technology upgrades or replacements, **(3)** adjustments to salaries, and **(4)** increases in facility operation costs.

Current-Year & Governor's January Budget: For both the current-year and budget year, the cost-of-doing business adjustments were eliminated. **Cumulatively, this effectively under-funds the program by $225 million (total funds). Only *twice* during the recession years of the early 1990's did the state not provide an adjustment for the cost-of-doing business and this deletion was reflected in the final Budget Act.**

Governor's May Revision: The May Revision **proposes a 20 percent reduction, or an *additional*** $175.9 million ($87.9 million General Fund) **reduction.**

Subcommittee Request and Questions: The Subcommittee has requested the DHS and County Welfare Directors Association to respond to questions as follows.

- **1.** DHS, Please explain the proposed 20 percent reduction.
- **2.** DHS, **Specifically what are the counties not suppose to do** in order to meet the reduction level? **What Medi-Cal eligibility functions are being eliminated or simplified?**
- **3. CWDA, Please explain the affect this proposal would have on Medi-Cal eligibility processing, enrollment, disenrollment and related matters.**
- **4. CWDA, What level of lay-offs and related personal actions are anticipated with a reduction such as this?**

Budget Issue: Does the Subcommittee **want to reject or modify the proposal?**

6. Express Lane Eligibility—Deferral of AB 59 (Cedillo) and SB 493 (Sher)

Background: Two laws were enacted—AB 59 and SB 493—during the Legislative Session of 2001 to simplify the Medi-Cal and Healthy Families Program eligibility process. Enactment was to occur as of July 1, 2002.

Governor's January Budget and Prior Subcommittee Action: The Governor's January Budget proposed to provide a total of $51.6 million ($25.8 million General Fund), for benefits, program changes and county administrative processing.

In a prior hearing, the Subcommittee adopted the budget proposal and clean-up language developed in tandem with the Administration, to facilitate implementation as of July 1, 2002. However, this was prior to the full recognition of the severe fiscal situation.

Governor's May Revision—Deferral: Due to the decline in the stock market and fiscal shortfall, the Administration proposes **to defer implementation until July 2005, and subsequently delete the $51.6 million ($25.8 million General Fund).**

Subcommittee Staff Recommendation: It is recommended to **(1)** delete the $51.6 million ($25.8 million General Fund), and **(2)** adopt technical language changes as contained in the May Revision, **except to change the deferral date to July 1, 2003, in lieu of the 2005 date**.

Budget Issue: Does the Subcommittee **want to adopt or modify the proposal?**

7. Medi-Cal Optional Benefits—Proposed Elimination

Background—"Optional" Benefits:

The list of Medical Supplies that would be eliminated would include items such as diabetic supplies, IV supplies, wound care supplies, asthma supplies incontinence supplies, contraceptive supplies, and ostomy/colostomy/Ileostomy supplies.

Legislature's Historical Rejection of Proposal: Elimination of selected Medi-Cal Optional Benefits has been proposed on five prior occasions—1990, 1992, 1993,1994 and 1995. **Even during these difficult fiscal times, the proposal was denied by the Legislature.**

Governor's May Revision: The May Revision proposes **to eliminate eight Optional Benefits, as noted in the chart below. The proposal requires trailer bill legislation and assumes a July 1, 2002 effective date.**

Benefit To Be Eliminated	Total Proposed Reduction	General Fund "Savings"
Chiropractic	$334,000	$167,000
Dental	***$420,340,000***	***$210,170,000***
Podiatry	$8,559,000	$4,280,000
Independent Rehab Centers	$31,000	$16,000
Acupuncture	$4,873,000	$2,437,000
Occupational Therapy	$26,000	$13,000
Psychology	4172,000	$86,000
Medical Supplies	$91,643,000	$45,822,000
TOTALS	**$526,000,000**	**$263,000,000**

Exempt from the proposal are children under 21 years of age, residents of long-term care facilities, and individuals with developmental disabilities.

Pregnancy Related Dental Services: In the Budget Act of 2001, preventive periodontal services and periodontal treatment for pregnant women was added to the scope of Medi-Cal benefits because it saves Medi-Cal funds by decreasing neonatal intensive care services. The Administration proposed this last year because it has been well documented that periodontal disease affects the embryo, often causing pre-term low birth weight babies. **These services could not be provided if Adult Dental services are eliminated.**

Subcommittee Staff Recommendation: **It should be noted that the Administration's savings estimate does *not* take into consideration any cost shifts to other covered Medi-Cal Program services.** For example, denial of some medical supplies or Adult Dental benefits may result in increased emergency room visits for pain and other medical services. **In addition, there may be increased costs due to the delay in recipients receiving treatment and ultimately requiring more acute care services.**

Elimination of the Adult Dental Benefit represents **80 percent** of the total savings amount. As has been noted in previous years when this was proposed for elimination, in order to maintain some modicum of access for children's dental services, adult services need to be maintained to have a viable network of providers.

In lieu of eliminating these benefits, Subcommittee staff recommends to implement selective cost containment measures as proposed by the Administration to slow the growth in the overall Medi-Cal Program. These issues are discussed below.

<u>Budget Issue:</u> Does the Subcommittee **want to deny, modify or adopt the Administration's proposal to eliminate selected Medi-Cal Optional Benefits?**

<u>8. Dental Service Reduction</u>

<u>Background:</u> Denti-Cal is primarily a fee-for-service dental program that provides dental services to children (mandated by federal law) and adults (at a state's option). Specifically, Denti-Cal provides outpatient and inpatient dental services that are "reasonable and necessary" for the prevention, diagnosis and treatment of dental disease, injury or defect.

<u>Budget Act of 2000:</u> In an effort to improve the Denti-Cal Program, the Budget Act of 2000 provided increased funding to allow for up to two office visits and two dental cleanings per year, as done in modern dentistry.

Prior to this action, only one office visit was reimbursed for the dentist (i.e., ***only*** **the initial examination** conducted by the Dentist **the first time the (same) Dentist say the patient**) and one dental cleaning was allowed. Additional office visits and dental cleanings would be allowed when deemed to be "medically necessary" **and** with prior authorization.

<u>Governor's May Revision:</u> The May Revision proposes to rescind the Budget Act of 2000 action and return to the one office visit (just the initial visit between the same patient and dentist) and one dental cleaning per year, unless approved via prior authorization. **This proposal requires trailer bill language.**

The May Revision assumes savings of $7.9 million ($3.9 million General Fund) from this proposal. Of this proposed savings amount, $5.1 million is for reduced office visits (oral dental exams by the dentist) and $2.8 million is for reduced dental cleanings.

It should be noted that the savings level only reflects savings attributable to the children's program since the Administration proposes to eliminate adult dental services as a Medi-Cal Optional benefit.

<u>Subcommittee Staff Recommendation:</u> Due to the fiscal situation, it is recommended to adopt the Administration's proposed trailer bill language to provide restored Adult Dental services, **then the savings level attributable to providing only one office visit and one dental cleaning is $15.9 million ($7.9 million General Fund).** Therefore, if the Subcommittee wants to restore this proposed cut, it will require that level of funding.

<u>Budget Issue:</u> Does the Subcommittee want to adopt or modify the proposal?

9. Rollback of Provider Rate Reduction (from Budget Act of 2000)

Background: Prior to 1997, rates in the Medi-Cal Program had not been increased since 1986. Since this time, through the leadership of the Senate, several targeted increases have been provided, including the following:

- Increased the rates paid for emergency room physicians (1997).
- Increased the rates paid for primary and preventive services provided by physicians to children and adults.
- Updated the relative value scale for certain procedures provided to children by physicians (1998).
- Increased the rates paid for Early Periodic Screening Diagnostic and Treatment (1998).
- Increased the rates paid for procedures conducted under the CCS Program (1999).
- Increased the rates paid for ambulance services (1998 and 1999).
- Adopted several nursing home rate adjustments (1997, 1998, 1999, 2000, 2001)
- Augmented the rates paid for tubal ligations (1999).
- Restored the 9.5 percent rate adjustment for anesthesia, surgery and radiology (1999).

In the Budget Act of 2000, most services provided under Medi-Cal received rate adjustments. These adjustments were allocated across the CPT codes based on discussions between the DHS and various provider organizations and representatives.

Governor's January Budget and May Revision: The Governor's January budget proposed **a** reduction of $155.1 million ($77.5 million General Fund), or a roll-back of about half of the rate increase provided in the Budget Act of 2000.

Due to the fiscal crisis, the **Administration is proposing to rescind the entire rate increase that was provided two years ago. Enactment of this proposal would save $236.2 million ($118.1 million General Fund)**

Prior Subcommittee Action: In the April 1 hearing, the Subcommittee **(1)** adopted the partial rate roll-back as proposed by the Administration, **(2)** placed a June 30, 2004 sunset date on the rollback, and **(3)** modified the Administration's proposed trailer bill to minimize the impact of these rate reductions on specialized health care services to women, in addition to long-term-care and children.

In a related matter, the **Subcommittee rejected the Administration's proposal to increase and expand copayments. Under their proposal the Administration would increase certain copayment amounts and reduce provider rates by the amount of the copayments.** In addition, it would require providers to bill recipients and collect the money in order to make up the difference.

The Subcommittee therefore rejected the proposed savings (or really provider rate reduction) of savings of $61.2 million ($30.6 million General Fund). This Subcommittee action remains.

Subcommittee Staff Recommendation on Roll-Back of Rates: In order to maintain other services within the Medi-Cal Program, staff recommends to **(1)** adopt the Administration's May Revision proposal to rescind the rate adjustment provided in the Budget Act of 2000, **(2)** maintain the **previously approved sunset date language (June 30, 2004), and (3)** modify the previously adopted trailer bill regarding minimizing the impact of the rate reductions on certain populations **to conform with the Administration**.

Subcommittee Request and Questions: The Subcommittee has requested for the DHS to respond to the following questions.

- **1.** Please briefly describe the proposal, including the Administration's two pieces (adding new Section 14105.18 and uncodified piece).

Budget Issue: Does the Subcommittee want to adopt or modify the proposal?

10. Disproportionate Share Hospital Program—"State Administrative Fee"

Background--DSH: **SB 855**, Statutes of 1991, established the Medi-Cal Disproportionate Share Hospital **(DSH)** Payment Program to maximize federal funds and provide special payments to eligible hospitals which serve a disproportionate share of Medi-Cal and uninsured patients.

Funds obtained from public hospitals are transferred to the state (i.e., "Intergovernmental Transfer Funds) and used to obtain a federal match. **These funds are then allocated to eligible hospitals, including private hospitals who are restricted by federal law to providing any transfer funds, for expenditure ($1.8 billion total funds for 2002-03).** These funds are intended to compensate hospitals for the vital services they offer as "safety net" providers.

Current-Year—State "Administrative Fee": Prior to obtaining the federal match**, the state acquires over $29.7 million from the Intergovernmental Transfer Fund for expenditure in the Medi-Cal Program. The $29.7 million transferred to the state is used to off-set General Fund dollars.** From the hospitals perspective, the effect of the "state fee" is to reduce the financial benefit of the DSH Program to eligible hospitals.

This "state fee" process began at the direction of Governor Wilson during the early years of the state's fiscal crisis and was intended to be a short-term solution for addressing the General Fund deficiency problem. **At its height in 1995, a total of $239.7 million was transferred to the state to provide a General Fund backfill.**

Since this time, the Legislature has worked to reduce the "state fee" and return the funds to the hospitals. The Budget Acts of 1996, 1997, 1998, 1999 and 2000 have all reduced the fee by a total of about $209 million over the five year period.

Governor's Budget Proposal and May Revision: The **January budget** proposed to increase by $55.2 million (from the existing $29.8 million **to a total of $85 million**) the amount transferred to the Medi-Cal Program. At this time, the overall fiscal shortfall was believed to be about $12.5 billion.

For the May Revision, **the Administration proposes to increase the fee by *another* $31 million for a total of $116 million.** They contend that this level is needed due to the continued weakness in the stock market and economy.

Prior Subcommittee Action: In the April 1 hearing, the Subcommittee adopted the January proposal of $85 million ***and*** adopted trailer bill language to sunset the entire fee reduction as of June 30, 2004.

Subcommittee Staff Recommendation: In order to maintain other services within the Medi-Cal Program, it is recommended to **(1)** adopt the $116 million (additional $31 million) "state fee" level, **(2)** maintain the prior Subcommittee trailer bill language to sunset the entire fee as of June 30, 2004, and **(3)** adopt uncodified trailer bill language as follows:

> "In light of the health care funding changes, notwithstanding any other provision of law, an adjustment of disproportionate share hospital (DSH) payments to classifications of hospitals is necessary to ensure the distribution of DSH payments among eligible public and private hospitals consistent with the distribution in the 2001-02 state fiscal year."

Budget Issues: Does the **Subcommittee want to approve or modify the proposal?**

11. Medi-Cal Drug Program—Language Issues Only

Background On Medi-Cal Drug Program: Nationwide pharmaceutical costs are **the fastest growing component of all health care.** Generally, the growth is mainly due to technological advances in and cost of the development of new pharmaceutical products. Numerous states have recently enacted changes to their Medicaid Programs (Medi-Cal in California) in order to control costs.

California has historically had one of the least expensive Medicaid pharmaceutical programs in the nation. **The Medi-Cal fee-for-service Drug Program controls costs through two major components—(1) a Medi-Cal List of Contract Drugs (or formulary), and (2) contracts with almost 100 pharmaceutical manufacturers for supplemental rebates. Drugs listed on the formulary are available without prior authorization. In turn, the manufacturers agree to provide certain rebates mandated by both the federal and state government.**

The state supplemental drug rebates are negotiated by the DHS with manufacturers to provide additional drug rebates above the federal rebate levels. **For the May Revision, it is estimated that the baseline state supplemental rebates will save $280.2 million ($140.1 million General Fund). With respect to the federal rebates, the budget assumes savings of $757.8 million ($377.7 million General Fund). No policy changes are reflected in these two baseline rebate programs.**

Governor's January Budget: The January budget proposed **a reduction of about $200.8 million ($100.4 million General fund) by enacting the following adjustments to selected areas of the Medi-Cal pharmacy program:**

Area of Adjustment from Governor's January Budget	Total Savings	GF Savings
AIDS and Cancer Drugs—supplemental rebate	$14.1 million	$7 million
Aged Rebate Disputes	$13.5 million	$6.8 million
Generic Drug Contracting	$53.4 million	$26.7 million
Atypical Antipsychotics—conduct a therapeutic category review	$29.5 million	$14.8 million
Enteral Nutrition contracts	$18.1 million	$9.1 million
Enteral Nutrition rate reductions	$21.3 million	$10.6 million
Medical Supply contracting	$17.9 million	$9 million
Nonsteroidal—conduct a therapeutic category review	$16.9 million	$8.4 million
Duration of therapy audits	$10 million	$5 million
Frequency of billing audits	$6 million	$3 million
TOTALS	**$200.7 million**	**$100.4 million**

Prior Subcommittee Action—Adopted Savings Level & Left "Open" Certain Trailer Bill: In its April 1 hearing, **the Subcommittee adopted the $200.7 million (total funds) savings level as contained in the Administration's proposal (above), and left *"open"* three trailer bill issues.**

Each of these "open" trailer issues (three of them) are discussed below.

- ***1. AIDS and Cancer Rebate Language:*** **The Administration proposed trailer bill language to (1) require a 10 percent state supplemental rebate level from these manufacturers, (2)** give the DHS authority to **suspend all drug products of any manufacturer that fails to contract for the rebates**, and **(3)** provide certain Medi-Cal recipient protections in the event that a drug is suspended from the List of Contract Drugs.

  Constituency Concerns: Some manufacturers have expressed concern regarding the wording in the proposed trailer bill language as it pertains to the "10 percent" state supplemental rebate amount. **In lieu of a percentage designation, they would prefer alternative language which (1) does not make reference to a particular percentage level, (2)** re-crafts the ability of the DHS to delete the manufacturers other drug products from the formulary, and **(3)** establishes a two-year sunset on the state supplemental rebate requirement.

  Subcommittee Staff Recommendation: Based on discussions with some constituency groups and the DHS, Subcommittee staff recommends modified trailer bill placeholder language to do the following (add Section 14105.436 to W &I Code):

  - Effective July 1, 2002, all pharmaceutical manufacturers shall provide the DHS with a state rebate in addition to rebates pursuant to other provisions of state and federal law for any drug products that have been added to the Medi-Cal List of Contract drugs pursuant to Section 14105.43 or 14133.2 and reimbursed through Medi-Cal (concurs with the DHS).
  - Provide for beneficiary continuing care (concurs with the DHS).
  - Provide for a three-year sunset (until June 30, 2005).
  - In lieu of the DHS' proposed "hammer" language, provide that rebate contracts need to be in place by no later than February 1, 2003 or the DHS can take other utilization control actions. (This is intended to be less onerous that the "hammer" but needs to be discussed to further define the mechanism.)

- **2. Continuation of the overall Medi-Cal Drug Program:** The overall Medi-Cal Drug Program is slated to sunset as of **January 1, 2003**. **The Administration is proposing to eliminate the sunset date in order to continue the program indefinitely.** Historically, the sunset date has been extended in two-year increments through budget trailer legislation since 1992. These two-year extension periods have occurred at the request of constituency groups who have desired the opportunity to revisit the program if problems arose. The Administration contends that the Medi-Cal Drug Program is an integral component to the overall Medi-Cal Program and should be permanently established.

Subcommittee Staff Recommendation: It is recommended to concur with the Administration and eliminate the sunset date.

- **3. Drugs with a "therapeutic gain"(Section 14105.30 (c)): The Administration is proposing to delete existing statute** (i.e., Section 14105.39 (c)) which generally provides that any new drug designated as having an important therapeutic gain and approved by the FDA shall immediately be included on the list of contract drugs for a period of three years if certain conditions are met.

  They contend that this language is out-of-date. In 1992, the federal FDA discontinued the practice of labeling drugs as having an "important therapeutic gain" and instead, began using the designations of "P" (for priority) or "S" (for standard). **However, state law has never been updated to reflect these federal changes.**

  As such, the DHS states that retaining this obsolete language has caused controversy among a few manufacturers regarding the automatic inclusion of new drugs on the Medi-Cal formulary. Therefore, the Administration believes the language needs to be deleted or it will have a detrimental affect on the budget. **Specifically the Administration is concerned that if the provision is maintained litigation may ensue which could result in a loss of state supplemental drug rebate revenues or could require the DHS to promulgate regulations to identify which new drugs have an "important therapeutic gain".**

  Subcommittee Staff Recommendation: It is recommended **to conform with the Administration and delete this provision.**

Budget Issue: Does the Subcommittee **want to adopt or modify the language for these three items?**

12. Medi-Cal Drug Program and Related Items—May Revision Adjustments (ISSUES "A" to "H")

Governor's May Revision—Overall Additional Adjustments: In addition to the January proposals, the May Revision proposes to enact a variety of further reductions in this area **that equate to an additional savings of $141.7 million ($70.8 million General Fund). These are as follows:**

Area of Additional Adjustment May Revision	Total Savings	GF Savings
Drug Manufacturing Items:		
• Create List of Preferred Prior Authorized Drugs	$10 m	$5 m
• Create List of Drugs Exempt from Co-pay when drug rebate are available	$20 m	$10 m
• Protect State Drug Rebates—trailer bill language	$14 m	$7 m
• ***Subtotal***	***$44 million***	***$22 million***
Pharmacy Items:		
• Reduce reimbursement from AWP-5% to AWP-10% for brand drugs ***and*** AWP-40% for generic drugs	$24 m	$12 m
• New methodology for establishing Maximum Allowable Ingredient Costs on Generic Drugs	$6 m	$3 m
• Change payment method for over-the-counter medications from drug ingredient cost plus 50% to drug ingredient cost plus a professional fee	$42 m	$21 m
• ***Subtotal***	***$72 million***	***$36 million***
Medical Supply Items:		
• Change methodology for establishing the Maximum Allowable Product Cost for Medical Supplies	$6 m	$3 m
• Remove Medical Supplies from regulations and create a List of Contract Medical Supplies	$4 m	$2 m
• Reduce incontinence supplies reimbursement—creams and washes	$2 m	$1 m
• Reduce incontinence supplies reimbursement—all other products	$12 m	$6 m
• ***Subtotal***	***$24 million***	***$12 million***
SUBTOTAL OF ALL SAVINGS	**$140 m**	**$70 m**
DHS Staff & System Changes:		
• DHS—two staff	($156,000)	($39,00)
• Expenditure for changes to claims processing and other Medi-Cal system changes.	($3.0 m)	$(1.5 m)

Some savings figure would be higher because the Administration's savings figure is just applicable to childrens services since they are proposing to eliminate certain adult "optional" benefits.

ISSUE "A"—Create A List of Preferred "Prior Authorized" Drugs

Background: Currently, the Medi-Cal List of Contract Drugs **(Contract List)** contains only products that **do *not require* prior authorization** when prescribed and dispensed within the limits of any usage or quantity restrictions.

Governor's May Revision: The May Revision **proposes to create within the existing Contract List a "Sub List" of *"Preferred But Prior Authorization Required"*** drugs. **This Sub List would contain those drugs for which the DHS had a rebate contract. Being listed on this Sub List would mean that the DHS would authorize only that drug, unless the prescribing physician justified the need to authorize a drug not on this Sub List.**

The Administration states that this proposal would save $10 million ($5 million General Fund). It would require trailer bill language to implement—this has not yet been provided.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly explain how the proposal would work**—from **both** a drug manufacturer's perspective of getting and maintaining a drug on this Sub List, **and** from the Medi-Cal recipient's perspective.
- **2.** How **does this proposal interact with other proposals** made in the January budget and May Revision?
- **3. How would the state ensure access to certain specialized drugs**, such as those for mental illness, AIDS, Cancer or other disease states that may require brand name drugs?
- **4.** Please **describe the key assumptions behind the savings level.**
- **5. When will the trailer bill language be provided?**

Budget Issue: Does the Subcommittee **want to adopt or modify the proposal to create a Sub List for certain drugs as proposed?**

<u>ISSUE "B"—Create List of Drugs Exempt from Co-Pay When Rebates Are Available</u>

<u>Background:</u> Currently, the Medi-Cal List of Contract Drugs **(Contract List)** contains only products that **do *not require* prior authorization** when prescribed and dispensed within the limits of any usage or quantity restrictions.

<u>Governor's May Revision:</u> The May Revision proposes **to obtain savings of $20 million ($10 million General Fund)** by creating **within the existing Contract List a "Sub List" of "Drugs Exempt from Co-Payments".**

Under this proposal, **if a drug manufacturer negotiates a state supplemental rebate sufficient to make that drug the lowest cost drug within its therapeutic class, that drug will be exempt from the co-payment deduction requirement**. (The Administration has proposed an increase in copayments whereby provider rates would automatically be reduced whether the Medi-Cal recipient pays the copayment or not. The Subcommittee has rejected this proposal.)

The May Revision assumes savings of $20 million ($10 million General Fund) from this approach.

<u>Background on Existing Statute—Section 14105.33 (a):</u> This existing section of law states:

> The department may enter into contracts with manufacturers of single-source and multiple-source drugs, on a bid or non-bid basis, for drugs from each major therapeutic category, and shall maintain a list of those drugs for which contracts have been executed.

<u>Subcommittee Staff Recommendation:</u> It is recommended to reject the Administration's proposal since the Subcommittee denied the copayment proposal. In lieu of this Sub Contract approach, **it is recommended to <u>(1)</u>** delete $20 million ($10 million General Fund) from the local assistance budget, and **<u>(2)</u>** adopt uncodified trailer bill language which states that:

> It is the intent of the Legislature that, in implementation of Section 14105.33 of the Welfare and Institutions Code during the 2002-03 fiscal year, the Director of the Department of Health Services shall direct the department to negotiate as aggressively as necessary to achieve savings levels related to pharmaceutical contacting identified in the Budget Act.

<u>Budget Issue:</u> Does the Subcommittee want to adopt or modify the proposal?

ISSUE "C"—Protect State Drug Rebate Collections

Background: Federal Medicaid (Medi-Cal) drug rebate law requires drug manufacturers to pay states rebates **based on a percentage of their Average Manufacturers Price (AMP) or the difference between their "Best Price" and their AMP. Payments are made to the states each quarter based on the manufacturers calculation of AMP for each drug product they sell.** Federal law allows manufacturers to recalculate the AMPs on a retroactive basis that affects payments made to states for past quarters. **This has resulted in states, including California, having to pay back or give manufactures a credit towards future rebate payments.**

The DHS contends that since Medi-Cal also collects state supplemental rebates (i.e., rebates based on contractual agreements that are in addition to the federally mandated rebates), and since these supplemental rebates are often based on the manufacturer's AMP, California is significantly affected by retroactive changes in the manufacturers AMP. **As such, this has resulted in the loss of millions of dollars in rebates (both federal and state) that had already been paid to the state.**

Governor's May Revision: **The Administration is proposing the enactment of trailer bill legislation to prevent the loss of state drug rebates** if manufacturers recalculate downward their average manufacturers price (AMP) or their "Best Price" as defined in federal law which would result in the state having to refund negotiated rebates received in prior years.

The May Revision assumes savings of $14 million ($7 million General Fund) for this proposal.

ISSUE "D"—Reduce Pharmacy Reimbursement from AWP-5% to AWP-10% for Brand Drugs & AWP-40% for Generic Drugs

Background: The **Medi-Cal reimbursement to pharmacists is comprised of two parts**—drug ingredient cost, and a professional fee often noted as the dispensing fee.

The **Average Wholesale Price (AWP) is the drug manufacturer's suggested price that pharmacies pay** to purchase drugs from the wholesaler (for example McKesson Company)

Currently, Medi-Cal reimburses pharmacies at AWP minus 5 percent (AWP-5%). According to the Senate Office of Research, only one other state reimburses at this higher level—Alaska. **About 22 states reimburse pharmacies between AWP minus 11 percent to minus 15 percent for brand name drugs and substantially lower than that for generic drugs.**

Direct Price ("Dirty Dozen"): The Direct Price reimbursement component **was established by Medi-Cal in 1977 for 11 specific manufacturers** to more closely reflect the purchasing practice of pharmacies at the time. **Direct Price is the price pharmacies pay when purchasing drugs**

direct from these manufacturer and is a price that is lower than purchasing the same drugs from wholesalers (AWP). The Direct Price is significantly lower than the AWP minus 5 percent rate of reimbursement. The overall effect the Direct Price is to help lower the overall average drug ingredient cost reimbursement closer to AWP minus 14 percent.

Except for Medi-Cal, there are no known pharmaceutical benefit programs that reimburse on the basis of Direct Price because pharmacies have essentially abandoned ordering direct from manufacturers. Pharmacies now obtain their drugs from wholesalers on a daily basis.

Governor's May Revision: The **May Revision proposes to (1)** reduce the existing pharmacy reimbursement rate of AWP minus 5 percent to AWP minus 10 percent for brand name/innovator drugs, ***and*** **(2)** reduce the pharmacy reimbursement rate for generics to AWP minus 40 percent. **The May Revision assumes savings of $24 million ($12 million General Fund) for these reductions. Trailer bill language is required for implementation.**

The DHS notes that they will coordinate these proposed reductions with the Generic Drug Contracting proposal as contained in the January budget and as adopted by the Subcommittee. Further, the DHS states that it will also coordinate this proposal with the Maximum Allowable Ingredient Cost proposal as contained in the May Revision (to be discussed below).

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly explain the May Revision proposal—both pieces.**
- **2.** Please **describe the key assumptions behind the savings level.**

Budget Issue: Does the **Subcommittee want to adopt or modify the proposal?**

ISSUE "E"—New Method for Establishing Maximum Allowable Ingredient Costs on Generic Drugs (Pertains to Pharmacy)

Background: The **Medi-Cal reimbursement to pharmacists is comprised of two parts**—drug ingredient cost, and a professional fee often noted as the dispensing fee.

The **Average Wholesale Price (AWP) is the drug manufacturer's suggested price that pharmacies pay** to purchase drugs from the wholesaler (for example McKesson Company).

The **Maximum Allowable Ingredient Cost (MAIC)** is the maximum drug ingredient cost amount that **pharmacies are reimbursed for various generic drugs.** The federal government authorizes states to use MAIC programs to address the wide variation in the price of generic drugs. For example, there could be 5 different manufacturers of the same generic drug and the price might vary considerably between manufacturers.

In the Medi-Cal Program, based on existing state statute, **MAIC is based on the Average Wholesale Price (AWP) minus five percent of a reference generic drug that is generically equivalent to the innovator brand.** The reference drug must be manufactured by a company with production capability to meet the statewide needs of the Medi-Cal Program for that particular drug.

For example, Acetaminophen with Codeine #3 is generically equivalent to the brand name Tylenol with Codeine #3. Medi-Cal has determined that the product made by Purepac Pharmaceutical is the reference drug based on its AWP-5 percent price (i.e., 34 cents per tablet) and production availability. This sets Medi-Cal's maximum ingredient cost reimbursement for all drugs generically equivalent to Purepac's product (including brand name Tylenol with Codeine) at 34 cents.

Wholesale Selling Price: The Wholesale Selling Price (WSP) represents the actual price at which the wholesaler sells drug product to pharmacies. According to the DHS, **the Average** Wholesale Price (AWP) is an artificial price and is typically 40 to 70 percent higher than the WSP for generic drugs.

Governor's May Revision: The May Revision proposes to change the existing methodology for establishing MAIC from AWP-5 percent to a **new methodology that is based on the Wholesale Selling Price (WSP). The MAIC would be based on the average of the WSP of a drug(s) generically equivalent to the innovator brand available in California from major wholesale drug distributors. Trailer bill language is needed for implementation.**

The May Revision states that savings of $6 million ($3 million General Fund) can be achieved through this change.

The DHS notes that they will coordinate this proposed reductions with the Generic Drug Contracting proposal as contained in the January budget and as adopted by the Subcommittee. Further, the DHS states that it will also coordinate this proposal with the proposal to adjust the pharmacy reimbursement rate for generics to AWP minus 40 percent as contained in the May Revision (as discussed above).

Subcommittee Staff Recommendation: It is recommended to adopt the May Revision, including the trailer bill language.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly explain how the proposal would work.**
- **2.** Please **describe the key assumptions behind the savings level.**

<u>ISSUE "F"—Change Methodology for Establishing the Maximum Allowable Product Cost for Medical Supplies & Remove Them from Regulations</u>

<u>Background:</u> Currently the California Code of Regulations (Regulations) **requires that a public hearing be undertaken for the establishment of Maximum Allowable Product Cost (MAPC) for medical supplies. The Regulations also require that MACP be based on the Average Wholesale Price (AWP) of medical supply products.**

As with drug products, the AWP for medical supplies is the manufacturer's suggested price that pharmacies and medical supply dealers pay to purchase medical supplies from the wholesaler or manufacturer. As such, the DHS states that the AWP is an artificial price. **The DHS states that the AWP for medical supplies is typically 20 percent higher than the Wholesale Selling Price.**

The Wholesale Selling Price (WSP) represents the actual price at which the wholesaler sells medical supply product to pharmacies.

<u>Governor's May Revision—Change Rates:</u> **First,** the May Revision proposes **to change the methodology for establishing MACP for Medical Supplies from AWP to a methodology that is based on the WSP. This would include removing the current requirement to conduct a public hearing to establish MAPCs. Trailer bill language is required for implementation.**

The May Revision proposes to save $6 million ($3 million General Fund) from this proposal. However, the Administration's savings level also assumes that Medical Supplies (for adults) are eliminated.

Therefore, if the Subcommittee maintains Medi-Cal Optional Benefits and adopts this proposal, the savings figure would be $9 million ($4.5 million General Fund).

<u>Governor's May Revision—Establish List of Contract Medical Supplies:</u> **Second**, the May Revision proposes to remove medical supplies from the California Code of Regulations in order to implement utilization controls (if they were left in regulation, the DHS would have a lengthy regulation amendment process) and to establish a List of Contract Medical Supplies. **Placement on the List would be based on contract negotiations. This proposed action would save $4 million ($2 million General Fund) and requires trailer bill legislation to implement.**

<u>Subcommittee Staff Recommendation:</u> It is recommended to **<u>(1)</u>** adopt the higher level of savings (to reflect maintaining Optional Benefits) of **$9 million ($4.5 million General Fund),** ***and*** **<u>(2)</u> adopt the $4 million ($2 million General Fund) amount for the contracting, and (3) conform with the proposed trailer bill language.**

<u>Subcommittee Request and Questions:</u> The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly explain how each proposal would work—rate reduction and contracting.**

<u>Budget Issue:</u> Does the Subcommittee want to adopt or modify the proposal?

ISSUE "G"—Change Payment Method for Over-The-Counter Drugs

Background: The Medi-Cal Program covers several **"over-the-counter"** (i.e., non-legend) drugs such as insulin, cough and cold preparations, calcium supplements, pre-natal vitamins, and nicotine patches for smoking cessation. **Medi-Cal requires recipients to obtain a prescription from their physician for these products. Pharmacy reimbursement for "over-the-counter" drugs is based on ingredient cost plus a 50 percent mark-up.**

Originally, the mark-up method of payment was less costly than paying for a professional (dispensing) fee. As "over-the-counter" drug ingredient costs have risen, the 50 percent mark-up has become more costly. The business costs (physical plan, employee costs, etc.) associated with dispensing an "over-the-counter" drug are the same as those associated with dispensing legend (i.e., requires a prescription per federal law) drugs. The current professional fee is $4.05 per prescription.

Governor's May Revision: The May Revision **process savings of $42 million ($21 million General Fund) by changing the reimbursement of "over-the-counter" (non-legend) drugs from drug ingredient cost plus 50 percent mark-up to drug ingredient cost plus a professional fee. This requires trailer bill legislation to implement.**

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please provide a brief description of the proposal.

Subcommittee Staff Recommendation: It is recommended to adopt the May Revision.

Budget Issue: Does the Subcommittee want to adopt or modify the proposal?

ISSUE "H"—Proposed Reduction to Incontinence Supplies Reimbursement

Background: Incontinence supplies are a Medi-Cal Optional Benefit. According to the DHS, the use of incontinence supplies is restricted to chronic pathological conditions causally related to the patient's incontinence. The monthly reimbursement per Medi-Cal recipient is limited to $165 per month *without* prior authorization. Currently, creams and washes used in incontinence care are excluded from this $165 per month amount. Any additional supplies above this dollar amount require prior authorization.

Reimbursement for incontinence supplies, including creams and washes, is limited to the lesser of the provider's usual and customary rate or Medi-Cal's rate on file plus a 40 percent markup. (It should be noted that Sales Tax, when applicable, is added to the above rate or mark-up and should be included in the amounts billed to the program.)

It should be noted that the Medi-Cal reimbursement **for all other medical supplies is the lesser of the provider's usual and customary rate or Medi-Cal's rate on file plus 25 percent mark-up.**

Governor's May Revision: The May Revision is proposing two changes. **First, the Administration is proposing to include creams and washes in the $165 per month amount on incontinence supplies. This action would save $2 million ($1 million General Fund) and requires trailer bill legislation.**

Second, the Administration proposes to reduce the reimbursement rate for incontinence supplies to be the same rate that applies to all other medical supply products (i.e., the lesser of provider's usual and customary rate or Medi-Cal rate on file plus 25 percent mark-up). **This action would save $12 million ($6 million General Fund).**

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please **briefly explain how the proposal would work.**
- **2.** Please **describe the key assumptions behind the savings level.**

Subcommittee Staff Recommendation: It is recommended to adopt the May Revision, including the proposed trailer bill language.

Budget Issue: Does the Subcommittee **want to adopt the Administration's proposal to (1) include creams and washes in the $165 per month amount, and (2) conform the reimbursement rate used for incontinence supplies to the same method as used for all other medical supplies?**

13. Drug Reimbursement (Dispensing Fee)—Rescind

Background: AB 2377, the omnibus health trailer bill to the Budget Act of 1994, reduced the Medi-Cal reimbursement to pharmacies by 50 cents per prescription. **It remained at this level for the next 6 years** until the enactment of SB 651 (Burton), Statutes of 2000.

This legislation, among other things, increased the reimbursement by 25 cents per prescription as of January 1, 2000 and by another 15 cents as of July 1, 2002. Essentially, the 50 cent reduction became a 25 cent reduction on January 1, 2000 and will become a 10 cent reduction on July 1, 2002.

SB 651 (Burton) also provided that pharmacists shall not be subject to any exemption from wage orders of the Industrial Welfare Commission established for professional employees. The May Revision proposes **no changes to this language** as contained in the Labor Code.

Governor's May Revision: The Administration is proposing to add subdivision (c) to Section 14105.337 of W & I Code which would effectively repeal the dispensing fee adjustments (the 25 cents and pending 15 cents). **Specifically the proposed amendment states:**

> 14105.337 (a) Effective January 1, 2000, the department shall increase reimbursements to pharmacists by twenty-five cents ($0.25) per prescription for all drug prescription claims reimbursed through the Medi-Cal Program.
>
> (b) Effective July 1, 2002, the department shall increase reimbursement to pharmacists by an additional fifteen cents ($0.15) per prescription for all drug prescription claims reimbursed through the Medi-Cal Program.
>
> <u>(c) Subdivision (a) and (b) shall become inoperative with respect to pharmacy services rendered on and after the date that this subdivision is enacted.</u>

The May Revision assumes savings of $14.8 million ($7.4 million General Fund) by rolling-back reimbursement adjustments effective as of July 1, 2002.

Subcommittee Staff Recommendation: Due to the severe fiscal situation, it is recommended to adopt the Governor's May Revision, and to add a two-year sunset date to the dispensing fee roll-back (i.e., as of July 1, 2005 the full 40 cents is returned absent any other action).

14. Durable Medical Equipment *and* Clinical Laboratory Contracting

Background—DME and Laboratory Services: The Medi-Cal Program covers a broad range of Durable Medical Equipment (DME), **such as wheel chairs, walkers, canes and crutches, bathroom equipment, oxygen therapy equipment, patient monitoring devices, infusion equipment, breast pumps, inhalation therapy equipment, nerve and muscle stimulators, and devices to stimulate bone and wound healing**.

Some of these items are available only for purchase, some only for rental, and some for rental or purchase. **These items vary in price from a few dollars to several thousand dollars each.** Some items must be manually priced because they are custom-designed and fabricated or very specialized items without established prices. **DME that costs over $100 requires prior authorization.**

The Medi-Cal Program covers laboratory services, including clinical laboratory tests.

Existing Authority to Contract (Section 14105.3 (b)): SB 35, omnibus health trailer bill to the Budget Act of 1993, authorized the DHS to enter into exclusive or non-exclusive contracts on a bid or negotiated basis with laboratories for clinical laboratory services for the purpose of obtaining favorable prices and to assure adequate quality of the product or service. It provided the same authority for DME.

Though the authority was provided to the DHS, and I'm sure we assumed Medi-Cal savings in the budget, the DHS never implemented the process for the lack of state staff that they contend was needed for implementation.

Governor's May Revision: The May Revision proposes to **(1)** provide five state staff to implement the proposal for expenditures of $487,000 ($177,000 General Fund), and **(2)** achieve **savings of $6.6 million ($3.3 million General Fund), assuming an implementation date of April 1, 2003.**

The DHS states that staff are needed to establish standards for DME items and clinical laboratory tests subject to contracting, initiate bids as necessary, write regulations if needed, develop DME and clinical laboratory distribution and access networks and monitor contract compliance.

Subcommittee Staff Recommendation: It is recommended for the Subcommittee to adopt the May Revision proposal **with a modification to the implementation date, and subsequently savings level**. Specifically, assume an expedited implementation date of **January 1, 2003** (in lieu of April 1) and **an *additional savings* amount of $6.6 million ($3.3 million General Fund). This would provide for total local assistance savings of $13.2 million ($6.6 million General Fund).**

Budget Issue: Does the Subcommittee want to adopt or modify the proposal?

15. Medical Case Management Program—Request for Staff & Local Assistance Savings

Background: Established in 1992, the Medical Case Management **Program provides intensive disease management assistance (mainly in-home) to selected high-utilization and cost Medi-Cal enrollees who have chronic or catastrophic illness. Savings are achieved since this management reduces the need for acute patient hospitalizations.** Since its establishment, this program has managed over 21,000 cases and has netted close to $180 million in Medi-Cal savings through the reduction in and/or avoidance of repeated hospitalizations.

Currently, the Medical Case Management Program has 60 positions and generates about $28 million (total funds) in savings annually.

Governor's May Revision: The May Revision proposes **to expand the program by (1) providing 91 positions in state operations, and (2) funding 43 positions in the Fiscal Intermediary contract.**

According to the DHS, these positions will generate up to an *additional* $9 million ($4.5 million General Fund) in cost savings for the budget year, and up to $36 million ($18 million General Fund) cost savings in 2003-04. It should be noted that the budget year savings assumes **an April 1, 2003 implementation date.**

The requested state positions include: 77 Nurse Evaluator IIs, 12 Nurse Evaluator IIIs, and 2 Associate Analyst positions. An increase of $4.4 million ($1.5 million General Fund) is proposed for this purpose.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following question.

- **1.** Please **briefly** describe the proposal.

Subcommittee Staff Recommendation: It is recommended to **(1)** adopt Budget Bill Language which enables the DHS to conduct an expedited hiring process, **(2)** assume a January 1, 2003 implementation date, ***and*** **(3)** assume **a savings level of $18 million ($9 million General Fund). The revised savings level reflects the expedited implementation which should be feasible as long as individuals are hired.**

Budget Issue: Does the Subcommittee want to adopt or modify the proposal?

16. Proposed Expansion for Medi-Cal Anti-Fraud Efforts

Background: The DHS has a total of **225 staff involved** in its fraud and abuse prevention efforts. **Staff is located in the following divisions:**

• Medi-Cal Policy	9 positions
• Payment Systems	59 positions
• Audits & Investigations	58 positions
• Medi-Cal Managed Care	20 positions
• Medi-Cal Fraud Bureau	26 positions
• Primary Care & Family Health	3 positions
• Laboratory Field Services	10 positions
• Office of Legal Services	27 positions
• Office of Public Affairs	1 position
• Information Technology	3 positions
• Administration	9 positions

Fraud prevention is measured in two ways—savings and cost avoidance. ***Savings*** are the result of an anti-fraud effort when providers already enrolled in the program are found to be engaging in fraud or abuse and their activities are stopped. ***Cost avoidance*** results when new providers are prevented from enrolling when fraud is suspected.

Governor's May Revision: The May Revision proposes **to provide almost $3 million ($1 million General Fund and $2 million federal funds) to hire an *additional* 40 positions to perform a variety of additional anti-fraud activities including the following:**

- **Re-enrollment activities (35 positions)** such as reviewing applications, conducting background checks of providers, conducting inspections and related items targeted on certain categories of providers who would be seeking to continue to participate as a provider in the Medi-Cal Program.
- **Beneficiary Identity Theft Project (4 staff)**, this entails the re-issuing of Beneficiary Identification Cards (IBC) to mitigate beneficiary card sharing and identify theft, and related items
- **Personnel Management Branch (1 staff)** to assist with hiring and recruitment and retention activities.

The May Revision reflects savings of about $60 million ($30 million General Fund) in 2002-03 for these anti-fraud activities.

Legislative Analyst Office Recommendation: The LAO recommends approval of the positions but suggests **that 15 of the 40 positions be two-year limited-term.** These positions include: Staff Services Manager I, six Analysts, two Office Technicians, three Nurse Evaluators, two Health Program Auditors, and one Laboratory examiner. They are recommending these as limited-term because the LAO believes that over time the need to re-enroll providers will eventually diminish.

Subcommittee Staff Recommendation: It is recommended to **adopt the LAO recommendation.**

17. Medi-Cal & Healthy Families Program Outreach --Reductions

Governor's January Proposed Budget and Prior Subcommittee Action: A total of **$32.7 million ($11.1 million General Fund),** including almost $3.8 million in foundation funds coupled with matching federal funds, was proposed for expenditure in the January budget. **The Subcommittee adopted the Governor's January budget proposal.**

This reflected a reduction of $10.3 million when compared with the revised current year, and a reduction of $20.7 million ($4.1 million General Fund) when compared to the Budget Act of 2001.

Governor's May Revision: The May Revision **proposes a reduction of $18.6 million ($7.2 million General Fund) as shown below:**

	Healthy Families & Medi-Cal Outreach	
	January 2002-03	**May Revise 2002-03**
Payments to CBOs		
CBO Contracts	$ 6,000,000	0
School Based Outreach	6,000,000	0
Administration of Contracts	164,000	0
Application Assistant Fees	7,000,000	6,138,000
$25 For Parents of Enrolled Children	500,000	0
Payment Processing - Fees	1,015,000	1,000,000
Total	20,679,000	7,138,000
Outreach Support		
Collateral Material & Distribution	600,000	0
Training/Presentations	182,000	182,000
Assistant and Health e-app training	2,500,000	0
Applicant Assistant 800 Line	400,000	400,000
CBO Support Staff/Reporting	925,000	650,000
Advertising Toll-Free 888 Line	1,565,000	1,296,000
Total	6,172,000	2,528,000
Education		
Advertising	0	0
Advertising - Parent Coverage	0	0
Public Relations	520,000	0
Administration/Research/Travel	1,120,000	650,000
Total	1,640,000	650,000
Focus on Immigrant Communities		
Advertising	0	0
Public Relations	470,000	0
Budget Total	**$ 28,961,000**	**$ 10,316,000**
General Fund	**11,146,000**	**3,946,000**
Federal Funds	17,815,000	6,370,000

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please briefly **describe the proposal and specifically why certain priorities were selected to be funded and others were not.**

Subcommittee Staff Comment: Due to fiscal constraints, **a General Fund increase for outreach is *not* recommended.**

Budget Issue: Does the Subcommittee **want to adopt the May Revision or shift funds between line items (refer to above chart)?**

18. Adult Day Health Care (ADHC) Alternative Shift—New Pilot Project:

Background and Governor's May Revision: The DHS is proposing to implement **a *new* pilot project** to test the efficacy of alternative scheduling under the Adult Day Health Care (ADHC) benefit at ten existing ADHCs that meet specified criteria. Alternative scheduling would permit more flexible scheduling of recipients receiving ADHC benefits at licensed and certified ADHC centers. **The May Revision provides an increase of $4.8 million ($2.4 million General Fund) for this purpose.**

Subcommittee Staff Recommendation: Due to the fiscal situation, it is recommended not to fund a new pilot project. Funds are needed for baseline programs. **Therefore, it is recommended to delete this proposal and save $2.4 million General Fund.**

Budget Issue: Does the Subcommittee **want to deny or adopt the proposal?**

19. Proposed Pilot for the DHS' Office of the Ombudsman—No Additional Funding

Background: The Office of the Ombudsman is responsible for assisting Medi-Cal managed care members in resolving problems they may be experiencing in accessing or receiving health care services through their health plan. Ombudsman staff respond to member telephone calls and work with the member's health cares service plan if necessary. If the member's issues can not be resolved to the member's satisfaction they are informed of their rights, including their right to a State Fair Hearing.

Ombudsman staff will also receive telephone inquiries from Medi-Cal eligible beneficiaries who receive health care through the fee-for-service system. These individuals are assisted to the extent possible and/or referred to the appropriate organization such as their local county social welfare department.

Ombudsman staff is also responsible for preparing and providing documentation to the Department of Social Services when a State Fair Hearing is filed by a Medi-Cal managed care plan member.

Constituency Request: Consumer health care assistance centers have proposed for the DHS to pilot test the concept of contracting with an entity that would perform the functions of the DHS' Ombudsman or to provide support services to the Office, including training. The DHS has expressed interest in possibly proceeding with a pilot project.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** From a policy perspective, would it be beneficial to test pilot utilizing an independent entity for certain Ombudsman services?

Budget Issue: Does the Subcommittee want to adopt placeholder trailer bill language to enable the DHS to contract for certain Ombudsman-related services (permissive, not a mandate)? (No additional funding would be provided for this purpose.)

LAST Item for the Medi-Cal Program

B. Public Health Programs

1. Proposition 99 Funded Programs—Revenues Continue Decline *(See Hand Outs)*

Overall Background—General : Proposition 99, the Tobacco Tax and Health Protection Act of 1988, established a surtax of 25 cents per package on cigarettes and other tobacco products, and provided a major new funding source for health education, indigent health care services, and resources programs.

Under the provisions of Proposition 99, **revenues are allocated across six accounts based on specified percentages. These are**: **(1)** Health Education Account—20 percent, **(2)** Hospital Services Account—35 percent, **(3)** Physician Services Account—10 percent, **(4)** Research Account—5 percent, **(5)** Unallocated Account—25 percent, and **(6)** Public Resources Account—5 percent (discussed in Subcommittee No. 2).

Governor's May Revision--Key Program Changes (See Hand Out): Proposition 99 revenues are **projected to decrease by $6 million in the current year and $21 million in the budget year.** In addition to these revenue declines, prior year adjustments have been reconciled, resulting **in resource decreases of $30.1 million in the Health Education Account and $1.4 million in the Unallocated Account.**

To address these shortfalls, **the May Revision proposes the following major adjustments in the budget year:**

- Reduction to the Media Campaign of $24.1 million.
- Reduction to the California Healthcare for Indigent Persons Program of $4.2 million.
- Reduction of $4.8 million to the CMSP.
- Reduction of $6.8 million to the Access for Infants and Mothers (AIM) Program, due to caseload adjustments and related factors.
- Reduction of $3.5 million for the Breast Cancer Early Detection Program.

Subcommittee Request and Questions: The Subcommittee has requested the Administration to respond to the following questions.

- **1.** DHS, **Please briefly describe the proposed *key* reductions** for your programs as referenced above. What **occurred in the reconciliation** from past year for such a swing to have occurred?
- **2.** Will the DHS be developing **a new Media Campaign due to the shortfall?**
- **3. MRMIB, Please briefly describe the adjustments for the AIM Program.**

Subcommittee Staff Recommendation: Given the fiscal situation, **it is recommended to adopt the May Revision proposal.**

2. Birth Defects Monitoring Program—Proposed Funding Shifts to Restore

Background: In California, **one out of every 33 babies is born with a birth defect.** Birth defects are the leading cause of infant mortality. Birth defects can strike any family regardless of income, race or level of education. **They can occur even if there is no family history of birth defects, when the mother has good prenatal care or if the mother does not imbibe in alcohol or drugs.**

Research is vital to stopping birth defects before they occur and state surveillance programs have been a key component in the effort. The economic cost of birth defects is estimated to be over $1 billion annually.

The California Birth Defects Monitoring Program (CBDMP) was established in 1982. It is **jointly operated with the March of Dimes** and is a national and international leader in birth defects epidemiology. **The CBDMP is designated as one of eight national Centers of Excellence for Birth Defects Research and Prevention and is part of a nationwide effort to discover the causes of birth defects.**

The following lists recent highlights:

- Finding the first evidence associating urban air pollution with heart defects (2001);
- Identifying that women who take folic acid before becoming pregnant reduce the chance of having a baby born with spinal defects by up to 70 percent;
- Showing a link between obesity and increased spinal defects;
- Linking home pesticide use to several common birth defects (1999);
- Discovering stressful life events may increase the risk for birth defects (2000);
- Demonstrating gene-environment interaction showing babies with a particular gene are eight times more likely to have oral clefts if their mothers smoke (1998);
- Ruling out high voltage power lines as increases birth defects.

For the past 20 years, the CBDMP's contributions to the discovery of new risk factors and protective factors guide future clinical care and public health strategies for the prevention of birth defects.

Current Year Funding: Existing funding for **the DHS program is about $4.4 million ($4.1 million General Fund and $250,000 federal Maternal & Child Health block grant funds).** In addition, the **March of Dimes has successfully obtained** two federal grants which have a combined total of $2 million. Of this federal amount, $900,000 is set to expire in one year. Clearly, the CBDMP has leveraged the baseline state funding to obtain additional grant funds.

Governor's Proposed Budget: The budget proposes **a reduction of almost $1.6 million (General Fund) from the program. This proposal represents a 45 percent reduction of state funding.**

Prior Subcommittee Action: The Subcommittee placed $1.6 million on the Priority to Fund List and **the Chair directed staff to identify funding sources.**

Subcommittee Staff Recommendation: Due to the fiscal situation, General Fund support was not feasible. As such, it is recommended **to do a series of adjustments to programs funded with federal Maternal and Child Health (MCH) Title V block grant funds**. Federal MCH Title V block grant funds are flexible and are used for a wide variety of projects, including $250,000 for the Birth Defects Monitoring Program. **The following adjustments are proposed:**

- Eliminate $151,000 for the annual MCH Conference;
- Shift the entire $210,000 for the Automated Vital Statistics System (AVSS) Birthnet (links up birth and death records) from MCH Title V funding to the Health Statistics Fund. (The DHS agrees that this is a more appropriate funding source and that it should be fee supported.);
- Redirect the entire $151,000 cost for the Common Application Transaction System (CATS) implementation which provides computer support for a wide variety of programs—WIC, Family PACT, CCS and others—to the departments overall overhead for reimbursement back to the Health and Welfare Data Center. (This is how other projects such as this operate.)
- Reduce by $250,000 the Fetal Infant Mortality Review Program, leaving $500,000 to remain. This program was funded at $500,000 for many years and was still quite successful.
- Shift the entire $200,000 for the Perinatal Profiles to the California Health Data and Planning Fund (in OSHPD) since it is a data project that analyzes hospital birth data. (The California Health Data and Planning Fund has a substantial reserve.)
- **Redirect the entire $962,000 in the above identified federal MCH Title V block grant funds and backfill a portion of the General Fund reduction to the Birth Defects Monitoring Program.**

Budget Issue: Does the Subcommittee want to adopt any portion of the recommendation?

3. Child Health Disability Prevention (CHDP) "*Gateway*"

Outline of Governor's Revised Proposal: At the direction of the Governor, the DHS convened a series of constituency work group meetings to solicit options and comment on restructuring the CHDP Program to maximize enrollment in Medi-Cal and Healthy Families (more comprehensive care). Through this process, ideas were garnered for crafting a "CHDP Gateway". As such, the Governor reformulated his original January budget proposal to eliminate the CHDP Program and instead, **agreed to a Gateway concept. This concept was discussed at length in the Subcommittees April 29 hearing.**

The *key* components of the proposal are as follows:

- The CHDP Program is to continue (not be eliminated) and will operate as it currently exists.
- **The CHDP "Gateway", to be implemented effective April 1, 2003,** will build upon existing technology used under the Family PACT Program, and Breast and Cervical Cancer Treatment Program. **In essence, this technology allows providers to complete application forms using an internet-based process or a "point of service" device (swipe card for those without internet access) to transmit an application for program eligibility.**
- The CHDP application, with some relatively minor changes, will serve as the enrollment process for CHDP, and as a ***"pre-enrollment application"*** for Medi-Cal and the Healthy Families Program (HFP) (if the parent elects to have the application forwarded for this purpose).
- The Fiscal Intermediary (EDS) would process the pre-enrollment application and cross-checks this application against the Medi-Cal data file (known as MEDS).
- MEDS identifies the child as having had pre-enrollment within the CHDP periodicity. **At this juncture, the child can then either: (1)** proceed to enrollment into full-scope Medi-Cal, **(2)** proceed to enrollment into HFP, or **(3)** be CHDP-only.
- **If a child is CHDP-only, they can receive CHDP services only if the child is accessing services according to the periodicity schedule (See Hand Out). If the CHDP-only child has already received their periodicity visit, and comes again seeking medical assistance, the provider will not be able to obtain payment under the CHDP for the services provided. This is because, the Administration wants to "gateway" the child, when feasible, into comprehensive care (i.e., Medi-Cal or HFP).**
- If MEDS identifies the child as currently receiving full-scope Medi-Cal or HFP, then the family would be told to take the child to the Medi-Cal or HFP provider, as applicable. No CHDP service would be reimbursable.
- It should be noted that children completing pre-enrollment applications for Medi-Cal or the HFP **would still then need to complete full program applications for these programs. The pre-enrollment period would provide for up to a *maximum* of 60 days (two months) worth of program services in order to provide access during the time that the Medi-Cal/HFP application is being processed and finalized. Supplemental applications for Medi-Cal and HFP are to be sent to families.**

American Academy of Pediatrics Periodicity Schedule (See Hand Out): When implemented in 1974, the CHDP Program conformed to the recommendations of the American Academy of Pediatrics (AAP) for preventive health care.

Since this time, the AAP has frequently updated their standards of care, as the provision of medical care has evolved. However, the CHDP Program has not updated its health assessment schedule to meet the AAP standards in *over ten years*. Yet, children enrolled in Medi-Cal Managed Care do receive the recommended AAP health assessments because it is required in the DHS contracts with the health care plans.

The revised periodicity schedule would provide up to five additional screens for ages 0 to 12, and up to six additional screens for ages 13 to 20 years.

Governor's May Revision (See Hand Outs): The May Revision **contains a series of adjustments** to account for the CHDP Gateway, including system changes, as well as caseload adjustments in the Medi-Cal Program (discussed under that item), the HFP (discussed under that item), as well as the CHDP. **Specifically, these totals are as follows:**

- $6 million (total funds) for the Medi-Cal Program
- $888,000 (total funds) for Healthy Families within the DHS
- $101,000 (total funds) for Healthy Families within the MRMIB

The net increase for the CHDP Gateway compared to the current CHDP program is $3.9 million ($50,500 General Fund).

Subcommittee Request and Questions: The Subcommittee has requested the Administration and LAO to respond to the following.

- **1. DHS**, Please **briefly describe the key components** of the Gateway, including the information technology aspects and requested new positions.
- **2. LAO**, Please briefly describe your concerns with the Gateway from the information technology standpoint.

Subcommittee Staff Recommendation: It is recommended to **(1)** adopt the Administration's May Revision for the Gateway (implementation as of April 1, 2003), and **(2)** provide an increase of $2 million (General Fund) and corresponding federal funds (Title XIX and XXI) to provide for updated periodicity screening for the CHDP Gateway, affective as of April 1, 2003.

Budget Issue: Does the Subcommittee want to adopt or modify the proposal?

4. Cancer Research Program

Background—AB 1554: Chapters 755 and 756, Statutes of 1997 (AB 1554, Ortiz and SB 273, Burton), created the Cancer Research Act of 1997. **The annual Budget Act has provided $25 million for this program since 1998.** Over the years, the Cancer Research Program has proven to be invaluable. Highlights from existing program research include:

- Approval of a new form of delivery of radiation therapy for treatment of cancer;
- Investigation of the role that infectious agents play in the development of certain forms of cancer;
- Evaluation of the quality of care for patients diagnosed with cancer; and
- Increasing knowledge of the financial costs associated with cancer and its control.

Governor's January Budget and Prior Subcommittee Action: In his January budget the Governor proposed elimination of the entire $25 million (General Fund).

In its May 6th hearing, the Subcommittee **(1)** adopted trailer bill language to provide for multiple–year contracting for the grants as requested by the Administration, **(2)** capped the indirect costs for the program (grants) at 25 percent, and **(3)** placed $16 million (General Fund) on the priority to fund list.

Governor's May Revision: The May Revision proposes to provide $12.5 million (General Fund) for the Cancer Research Program.

Budget Issue: Does the Subcommittee want to **(1)** retain its action on the prior two-components of trailer bill language, and **(2)** conform with the May Revision **to provide $12 .5 million (General Fund) for the program?**

5. Public Health Preparedness & Response *(See Hand Out)*

Background—Overall Summary: The Emergency Supplemental Appropriations for Recovery & Response to Terrorist Attacks on the US Act (Public Law 107-117 of 2002), among many other things, will **provide California with about $100 million** in increased federal support to address both local and state concerns regarding the threat of bioterrorism.

The **$60.8 million in federal CDC funds** are to be expended to upgrade California's state and local public health jurisdictions' **preparedness for, and response to, bioterrorism in 7 areas** as designated by the federal government. **These seven areas and the federal government's suggested proportions of funding to be allocated to each.**

Section 28 Process and Prior Subcommittee Action: With respect to the $60.8 million in federal CDC funds, twenty percent or $12 million was made available in the current year. These funds were discussed at length by the Subcommittee in its April 29th hearing. Specifically, these funds were to be allocated as follows:

- Subvened **$7.5 million to the local health jurisdictions** (excluding LA, Long Beach city and Pasadena City) to support their efforts**.** These funds are to be allocated as a **separate contract using a formula that includes a $100,000 per entity base amount plus an allocation provided on a per capita basis (using the 2000 census population data).** As contained in the state's application, all local assistance allocations will be tied to quantifiable accountability measures and progress reports.
- **Used $1.5 million for various state activities** to fund planning activities, critical disease surveillance and laboratory equipment needs.
- **Used $3 million to backfill** for a portion of the $5 million in General Fund support that was provided by the Legislature and Governor to counties in the fall of 2001 to assist with their expenses in the wake of September 11th.

Governor's May Revision (See Hand Out): **The May Revision proposes to expend $48.8 million in federal block grant funds from the CDC.** The DHS states that of this amount, **$41.7 million is to be expended in the budget year**, with the remaining amount of $7.1 million to be expended in budget year plus one (2003-04).

The $41.7 million in funds are proposed to be expended across the focus areas as follows:

(1) Planning and Readiness Assessment (25% of funds)	**$10.4 million**
(2) Surveillance and Epidemiology Capacity (25 %)	**$10.4 million**
(3) Biologic Laboratory Capacity (16%)	**$6.7 million**
(4) Chemical Laboratory Capacity (none)	**none**
(5) Communications and Information Technology (15%)	**$6.4 million**
(6) Health Risk Communications and Information Dissemination (6%)	**$2.6 million**
(7) Education and Training (12%)	**$5.2 million**

The DHS is proposing to utilize 71 limited-term positions

Subcommittee Request and Question: The Subcommittee has requested the DHS to respond to the following question.

- **1.** Using the Hand Out, very briefly describe the key components of the May Revision piece.

Subcommittee Staff Recommendation: It is **recommended to (1)** adopt the May Revision, **(2)** adopt SB 616 (Chesbro) regarding laboratories as placeholder trailer bill, and **(3)** adopt SB 1298 (Ortiz) regarding public health subvention as placeholder trailer bill.

6. The AIDS Drug Assistance Program (ADAP)

Background--ADAP: The AIDS Drug Assistance Program (ADAP), established in 1987, is a subsidy program for low and moderate income persons with HIV/AIDS who have no health insurance coverage for prescription drugs and are **not eligible** for the Medi-Cal Program. **There are about 25,500 clients enrolled in ADAP.**

Under the program eligible individuals receive drug therapies through participating local pharmacies under subcontract with the statewide contractor. The state provides reimbursement for drug therapies listed on the ADAP formulary (**about 146 drugs currently**). The formulary includes anti-retrovirals, hypolipidemics, anti-depressants, vaccines, analgesics, and oral generic antibiotics.

ADAP is cost-beneficial to the state. Without ADAP assistance to obtain HIV/AIDS drugs, **infected individuals would be forced to (1)** postpone treatment until disabled and Medi-Cal eligible or **(2)** spend down their assets to qualify for Medi-Cal. About 50 percent of Medi-Cal costs are borne by the state, as compared to only 30 percent of ADAP costs.

Background—HIV Viral Load Testing and Resistance Testing: This testing provides physicians with an objective tool to measure the efficacy of a particular course of treatment. It ensures that ADAP drugs are prescribed to maximize the benefits of drug therapy treatment, resulting in cost savings to the state. Funding for viral load testing was first provided in 1997.

Manufacturers Drug Rebate: Currently, drug manufacturers of brand name drugs pay 15.1 percent of Average Manufacturer Price (AMP), ***or*** AMP minus best price (another federally established price), whichever is greater, for each unit of drug purchased under ADAP.

Governor's May Revision: The May Revision proposes **an increase of $1.3 million** (a ***decrease*** **of $10.9 million General Fund, increase of $6 million in federal Ryan White CARE Act II funds and $6.2 million in drug rebates) to address** caseload in the Diagnostic Assay portion of the Program. It should also be noted that drug rebates are up. **Total ADAP funding is proposed to be $190.5 million (total funds).**

Subcommittee Request and Question: The Subcommittee has requested the DHS to respond to the following question.

- **1.** Please provide a brief summary of the adjustments, including both the federal funding and drug rebates.

Subcommittee Recommendation: It is recommended to approve as proposed.

7. Rescind the Youth Anti-Tobacco Program

Background—Concern with Youth Smoking: Mitigating tobacco use by youth continues to be a high priority because the uptake of tobacco is almost exclusively an act of adolescence. According health care experts, youth uptake progresses over several years from the youth being a committed non-smoker to being susceptible, to puffing on cigarettes, to serious experimentation until the youth becomes an established smoker.

Governor's Proposed Budget: The Governor's January budget had proposed expenditures of $35 million for an **increase of $15.1 million (Tobacco Settlement Fund) for youth smoking prevention programs. Total expenditures by strategy were proposed as follows:**

- **$4.2 million is for enforcing tobacco control laws;**
- **$8 million is slated for interventions targeted at 18-24 year olds;**
- **$900,000 is for advancing youth advocacy coalitions;**
- **$7 million is for projects for special populations;**
- **$3.5 million is for evaluation and surveillance;**
- **$3 million is for direct cessation services; and**
- **$8.5 million is for technical assistance consultants.**

Governor's May Revision: Due to the fiscal situation, **the May Revision proposes to rescind the entire $35 million for the Anti-Youth Tobacco Program.**

Subcommittee Staff Recommendation: It is recommended to concur the May Revision due to fiscal constraints.

8. Genetically Handicapped Persons Program (GHPP)—Internal Data Review

Background: The GHPP **provides diagnostic evaluations, treatment services, and medical case management services for adults with certain genetic diseases**, including cystic fibrosis, hemophilia, sickle cell disease, Huntington's disease, and certain neurological metabolic diseases.

Background—Hemophilia and Its Treatment: Generally, patients with hemophilia refers to a group of bleeding disorders, most commonly "factor 8" and "factor 9" deficiencies but also include von Willebrands Disease and other "factors". Patients with these disorders are classified based on their level of procoagulant that is deficient. Disease management through comprehensive hemophilia treatment centers is often recommended.

Individuals with these disorders require treatment **with factor concentrates for bleeding episodes. These factor concentrates are medications that are either made through purification of plasma proteins or through a process of genetic engineering. These products are clinically complex and cannot be considered interchangeable. Prescriptions are usually written as brand name prescriptions after discussion of the particular product between patient and caregiver.**

Governor's May Revision: **The May Revision proposes expenditures of $41.9 million ($41.7 million General Fund, and $150,000 enrollment fees)** to provide treatment assistance to **about 1,830 average annual participants (886 are GHPP only and 944 are Medi-Cal eligible)**.

The May Revision reflects an increase of $6 million (General Fund) over the January Budget. The adjustments are consistent with existing policies, and reflects modest adjustments for caseload and utilization.

Increasing Program Costs and Internal Data Review: The GHPP Program has been growing exponentially. Actual expenditures in 1996-97 were only $12 million (General Fund) compared with the Governor's May Revision at an estimated amount of $41.9 million**. This represents an increase of $29.9 million or almost a 250 percent increase in costs within 5 to 6 years.**

Based on inquiries made by the Subcommittee in the April 29th hearing, **the DHS has begun an internal audit review to better discern (1) how rebates are applied and collected within the program, (2) how reimbursement rates are calculated, and (3) other program protocols and efficiencies**

Subcommittee Recommendation: Based on the continued increases in the GHPP and the current DHS review of the program, it is recommended **to reduce the GHPP by $2 million (General Fund) as a "placeholder" for Conference Committee pending further review and analysis by the DHS and others. It should be noted that this action is not intended to reduce or limit blood factor product.**

Subcommittee Request and Question: The Subcommittee has requested the DHS to respond to the following questions.

- **1.** Please provide an update on how cost data, including reimbursement invoices are being tracked and analyzed for expenditure and rebate. **Are more thorough program efficiencies needed?**

- When may additional program information be available to better discern what efficiency measures could be taken?

Budget Issue: Does the **Subcommittee want to (1)** adopt the May Revision adjustments, and **(2)** adopt the Subcommittee staff recommendation to reduce by $2 million as a "placeholder" pending further analysis of the program?

LAST Item for Public Health Issues

V. 4440 Department of Mental Health

ITEMS FOR CONSENT

1. Request for Postage Rates--Deny

Governor's May Revision: The May Revision is requesting **an increase of $19,000 ($16,000 General Fund and $3,000 in Reimbursements) due to increased postage.** Of this requested amount, $13,000 is for the State Hospitals and $6,000 is for headquarters support. The DMH states that the requested dollar amount reflects the anticipated impact of a likely 8.8 percent increase in postage rates to be implemented in the budget year and is needed due to recent budget cutbacks.

Subcommittee Staff Recommendation: Due to the drastic fiscal situation, Subcommittee staff recommends for the **Subcommittee to deny this proposal.**

2. Additional Federal Funds for the Projects for Assistance in Transition from Homeless (PATH)

Background: Since 1985, the DMH has been awarded federal funds through the Projects for Assistance in Transition from Homeless (PATH) to assist individuals with severe mental illness who are homeless. These funds are allocated to counties who choose to participate (now 47). Each county expends funds based on an annual service plan and budget. Allowable services include **(1)** habilitation and rehabilitation, **(2)** alcohol and other drug treatment, **(3)** housing services, **(4)** supportive services in residential settings, primary service referrals, **(5)** outreach, and **(6)** service coordination.

This program is presently funded at $4.9 million (federal PATH grant funds). Of this amount, (1) $1.3 million is earmarked for supportive housing demonstration projects for homeless persons with mental illness, (2) $3.5 million is allocated to 47 counties that elect to participate in PATH, and (3) $72,000 is used by the DMH for administrative expenses.

Governor's May Revision: The May Revision **reflects an increase of $510,000 (federal PATH funds) due to an increase in the federal grant. The DMH is proposing to use (1) $37,000 of this amount for department support to maximize the two percent allowed for administrative costs, (2) $99,000 will be allocated to counties that had incurred a reduction in funds in 1997, and (3) $374,000 will be allocated on a statewide basis.**

Subcommittee Staff Recommendation: Subcommittee staff **recommends to adopt the May Revision proposal.**

3. Salinas Valley Psychiatric Program Activation Delay

Background: The California Department of Corrections (CDC) is required to provide adequate medical and mental health care to all inmates who need it. **Through an interagency agreement, the CDC has contracted with the DMH to operate a 64-bed inpatient program at Salinas Valley.** This facility will enable the state to meet certain legal requirements as contained in the Gates and Coleman litigation against the CDC.

The CDC has notified the DMH that construction of the Salinas Valley facility—specifically the intermediate care mental health treatment program-- has been delayed by four months.

Governor's May Revision: The May Revision **proposes to reduce the DMH budget by $1.450 million (reimbursements from the CDC) to reflect the delay.**

Subcommittee Staff Recommendation: No issues have been raised with this proposal. As such, Subcommittee staff recommends for the Subcommittee to **adopt** the proposal.

4. Salinas Valley Psychiatric Program Pay Differential

Background: The California Department of Corrections (CDC) is required to provide adequate medical and mental health care to all inmates who need it. **Through an interagency agreement, the CDC has contracted with the DMH to operate a 64-bed inpatient program at Salinas Valley.** This facility will enable the state to meet certain legal requirements as contained in the Gates and Coleman litigation against the CDC.

Governor's May Revision: The May Revision **proposes to increase the DMH budget by $554,000 (reimbursements from the CDC) for recruitment and retention pay differentials** for various level-of-care professionals, nursing classifications, and for pharmacy positions at the facility. **Both the CDC and DMH maintain that without this recruitment and retention pay differential, they will not have sufficient staff to open or become licensed.** Specifically, a joint strategy was developed between the two departments and the Department of Personnel Administration for this funding request.

The funding request is based on providing a pay differential for a total of 76 positions, most of whom are Medical Technical Assistants (42 employees), Registered Nurses (11 employees), and Senior Medical Technical Assistants.

Subcommittee Staff Recommendation: Subcommittee staff concurs with the need for the pay differential. As such, it is recommended for the **Subcommittee to adopt the proposal.**

5. Healthy Families Program—Adjustment for Caseload

Background: The Healthy Families Program provides health care coverage and dental and vision services to children between the ages of birth to 19 years with family incomes at or below 250 percent of poverty (with income deductions) who are not eligible for no-cost Medi-Cal. Monthly premiums, based on family income and size, must be paid to continue enrollment in the program. **California receives an annual federal allotment of federal Title XXI funds (Social Security Act) for the program for which the state must provide a 34 percent General Fund match, except for supplement mental health services in which County realignment funds are used as the match. With respect to legal immigrant children, the state provides 100% General Fund financing.**

The enabling Healthy Families Program statute linked the insurance plan benefits with a **supplemental program** to refer children who have been diagnosed as being seriously emotionally disturbed (SED). The **supplemental services** provided to Healthy Families children who are SED can be billed by County Mental Health Departments to the state for a federal Title XXI match. **Counties pay the non-federal share from their County Realignment funds** (Mental Health Subaccount) to the extent resources are available.

Under this arrangement, the Healthy Families Program health plans are required to sign Memoranda of Understanding (MOU) with each applicable county. These MOUs outline the procedures for referral. It should be noted that the health plans are compelled, as part of the required Healthy Families benefit package and capitation rate, to provide certain specified mental health treatment benefits prior to referral to the counties.

Governor's May Revision: The **May Revision proposes to reduce by $239,000 ($181,000 from Reimbursements and $58,000 in General Fund support) to reflect adjustments to the HFP based on paid claims data and a reduction in the estimated percentage of legal immigrants requiring supplemental mental health services.**

Subcommittee Staff Recommendation: Subcommittee staff recommends for **the Subcommittee to adopt the proposal.**

6. Reduce Non-Level-of-Care Staff at State Hospitals—Due to Slowed Growth

Background: The DMH states that due to the slowdown in state hospital population growth associated with forensic patients, the modular buildings purchased to accommodate for swing space at Patton and Atascadero state hospitals will not be needed until 2003-04.

Governor's May Revision: The May Revision proposes **to reduce by 39.5 positions and about $3.1 million (General Fund), including operating expenses, to reflect the reduced need for staff due to the slowing in the growth rate of the forensic population in the state hospitals.**

Subcommittee Staff Recommendation: Subcommittee staff **recommends for the Subcommittee to adopt the proposal.**

7. Adjustment for San Mateo Pilot Project--Pharmacy & Laboratory Services

Background: The San Mateo County Mental Health Department has been operating as the mental health plan under a federal Waiver agreement and state statute as a "field test" since 1995. The field test is intended to test managed care concepts which may be used as the state progresses toward consolidation of specialty mental health services and eventually, a capitated or other full-risk model. As the model has matured and evolved, additional components have been added and adjusted.

As part of the contract negotiation with the DMH, trend factors for pharmacy and laboratory costs have been updated to more accurately reflect actual cost-based data. As such, the laboratory costs and pharmacy costs were adjusted in the current year.

For the budget year, the DMH is proposing to drop the risk corridor and settle on a fixed allocation for pharmacy and laboratory services. San Mateo is in agreement and is now ready to assume full risk of these services, if the allocation of General Fund for these services is increased to match cost data since January 1999.

DMH has determined that the pharmacy and laboratory benefit under the San Mateo field test is cost-neutral based on projections of the likely cost of the services if the benefit is eliminated from the field test.

Governors May Revision: The May Revision **proposes to reduce by $1.3 million (General Fund) to reflect adjustments for the services.** Of this amount, $914,000 is a base adjustment and $408,000 is to reflect a reduction in pharmacy growth. These adjustments are based on updated data (as of April 2002).

Subcommittee Staff Recommendation: Subcommittee staff has raised no issues with this proposal and recommends that the **Subcommittee adopt the proposal.**

8. Reappropriation for Patton State Hospital Alarms and Sexually Violent Predator Facility--Construction

Background and Governor's May Revision: Funds were provided in the Budget Act of 2001 to (1) install alarm systems in certain buildings at Patton State Hospital, and (2) complete construction of a Sexually Violent Predator (SVP) facility at Coalinga.

The May Revision is requesting **a reappropriation of $70,000 (General Fund) for the security alarm project at Patton State Hospital and $331.5 million (Construction Bond funds) for the SVP facility.** According to the DMH, the Patton reappropriation is necessitated by delays encountered while negotiating architectural and engineering services during the preliminary plan phase.

Though the SVP facility construction is still on schedule, it is being bid out in four separate phases to accommodate bidding by small businesses. The major portion of construction has yet to proceed to bid and therefore requires reappropriation.

Subcommittee Staff Recommendation: Subcommittee staff recommends for the Subcommittee **to adopt the May Revision.**

9. Trailer Bill Language—Supportive Housing

Governor's May Revision: The May Revision proposed to amend Section 53300 (c) of the Welfare and Institutions Code by extending the timeframe for expenditure of the local grant awards appropriated in the Budget Act of 2001 from June 30, 2004 to June 30, 2005.

This technical amendment will enable local projects to effectively complete their projects for which they had received awards.

Subcommittee Staff Recommendation: It is recommended **to adopt the language.**

10. Proposed Reappropriation of Funds for a New Homeless Initiative

Governor's May Revision: The May Revision proposes **to reappropriate $300,000** in unspent General Fund moneys for the Governor's new homeless initiative.

Subcommittee Staff Recommendation: Due to the continued weakness in the stock market and the slowing of the economy, **Subcommittee staff recommends to deny** the request to reappropriate $300,000 (General Fund) for a new initiative. Key mental health programs—particularly to children-- are being proposed for reduction and elimination, as such, new initiatives should be deferred.

11. Local Mandate –AB 3632 Special Education Pupils & Other Items

Governor's May Revision: The May Revision proposes to reduce the local mandates claim for this item **by a total of $64.8 million**. This total consists of the following:

• Coroner's Costs (CH 498/77)	$111,000
• Mentally Disordered Offender	$198,000
• Not Guilty by Reason of Insanity	$313,000
• Sexually Violent Predator	$4.3 million
• **Mental Health Services to Handicapped Students (CH 1747/84)**	**$47.9 million**
• **Seriously Emotionally Disturbed Pupils (CH 654/96)**	**$12 million**

Subcommittee Staff Recommendation: Due to numerous and very complex pending issues—at the Commission on State Mandates, within the current budget deliberations, and pending policy legislation—surrounding the provisions of "AB 3632" special education pupils it is recommended **to reject a total of $59.928 million** of this proposed amount, pending further clarification of direction from the Legislature, the Administration and other involved parties. **The remaining $4.906 million can be reduced.**

12. Technical Adjustments to Trailer Bill Language

May Revision: The May Revision is proposing technical adjustments to trailer bill language which will reflect adjustments to be made to the Early Mental Health Program due to small funding adjustments that were proposed by the Administration and adopted by both houses.

Subcommittee Staff Recommendation: It is recommended to adopt the technical changes.

13. Technical Reversions

Governor's May Revision: The May Revision proposes to revert a total of $3.1 million (General Fund) from unexpended funds appropriated in the Budget Act of 2001. This consists of $625,000 in unspent funds for Dual Diagnosis, $750,000 for the IMD Pilot Project and $867,000 for local integrated services.

Subcommittee Staff Recommendation: It is recommended **to adopt the proposal**.

14. Lease Revenue Payments

Governor's May Revision: The May Revision is requesting an increase **of $16,000 (General Fund)** to reflect higher lease revenue insurance costs.

Subcommittee Staff Recommendation: It is recommended **to reject the proposal**.

15. Sexually Violent Predator Evaluations

Governor's May Revision: The May Revision proposes **an increase of $411,000 (General Fund)** for additional evaluations and for increased contract costs (evaluations performed by private contractors).

Subcommittee Staff Recommendation: Due to the fiscal situation, **it is recommended to deny** this increase. The cost of these evaluations continue to rise and cost increases have always been provided. As such, it is urged for the DMH to conduct more rigorous contract negotiations.

16. Rescind the Adjustment for Worker's Compensation Costs for State Hospitals

Governor's May Revision: The May Revision **rescinds the January budget.** The January budget had **provided an increase of $2.1 million ($1.6 million General Fund)** for the new Master Agreement. This agreement requires each state agency to deposit an amount equal to one-eighth of the benefits provided during the preceding twelve months. This amount is to be adjusted annually and will be rolled over at the beginning of each new rating period. All state agencies covered by the Master Agreement are required to pay their fair share of service costs associated with workers' compensation administrative services provided by the State Compensation Insurance Fund (SCIF).

Subcommittee Staff Recommendation: It is recommended **to adopt this proposal.**

ITEMS FOR DISCUSSION

1. Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program

Background: **Most children receive Medi-Cal services through the EPSDT Program**. Specifically, EPSDT is a federally mandated program that requires states to provide Medicaid (Medi-Cal) **recipients under age 21 *any* health or mental health service that is medically necessary** to correct or ameliorate a defect, physical or mental illness, or a condition identified by an assessment, **including services not otherwise included in a state's Medicaid (Medi-Cal) Plan.**

The state uses the term **"EPSDT supplemental services**" to refer to EPSDT services which are required by federal law **but are not otherwise covered under the state Medi-Cal Plan for adults**. **Examples of services include family therapy, crisis intervention, medication monitoring, and behavioral management modeling.**

Though the DHS is the "single state agency" responsible for the Medi-Cal Program**, mental health services, including those provided under the EPSDT, have been delegated to be the responsibility of the Department of Mental Health (DMH)**.

Further, at the local level, **counties are responsible for providing, arranging and managing Medi-Cal mental health services under the supervision of the DMH and DHS.**

EPSDT Implementation and Funding: Due to litigation, the DHS was required to expand certain EPSDT services, including outpatient mental health services. As such, the DHS and DMH **crafted an interagency agreement in 1995 to implement expanded services.**

Generally, this agreement requires the DHS to provide General Fund support as a match for EPSDT services administered by the counties which is above an annually adjusted baseline amount (essentially a county "maintenance-of-effort" requirement). The baseline amount is established for each county based on a formula. **For 2002-2003, the baseline is $129 million which means that the state will provide funding (via Medi-Cal) for costs above this amount.**

The General Fund dollars and accompanying federal matching funds are budgeted in the DHS and are transferred to the DMH as reimbursements. **The DMH distributes EPSDT funds to the county Mental Health Plans (MHPs) responsible for the provision of specialty mental health in each county. Final payment is based on cost settled actual allowable costs, or rates.**

<u>Reasons Why Costs Continue to Increase:</u> It is the ultimate goal of the state to eventually transfer the risk for EPSDT services to the counties, which now operate as Mental Health Plans (MHPs) under Medi-Cal Mental Health Managed Care. The transfer of risk, however, is dependent on determining a reasonable estimate of the appropriate level of reimbursement for that risk.

As noted by the DMH, the continuing expansion of EPSDT services in response to significant state policy changes has made such an estimate impossible. A variety of factors have contributed to the continued expansion, including legislative mandates, recent Medi-Cal Program expansions, legal decisions, recent Medi-Cal reimbursement adjustments for Psychologist and Psychiatrist services, and the fact that several counties were delayed in initially expanding their EPSDT services in the first place.

<u>Prevalence Rate for California:</u> Based on a number of studies which estimate the prevalence of children exhibiting various levels of functional impairment, **it is estimated that 20 percent of children suffer from diagnosable mental disorder, and up to 13 percent of these children are estimated to be seriously emotionally disturbed. Given these estimates it is likely that between 500,000 to 1.3 million children and adolescents in California have a severe emotional disturbance. As a comparison, the statewide average EPSDT penetration rate is about 5.3 percent (as of 2000-01).**

It should be noted that the **Little Hoover Commission's report** (October 2001) on the existing inadequacies in the children's mental health system considered the potential savings if children's mental health utilization increased by 10 percent—the estimated prevalence rate. In one year, they estimated that California would save 44 million in juvenile justice, $27 million in CYA costs, $78 million in residential treatment and $1.4 million at Metropolitan State Hospital. **A total of $110 million in savings!**

<u>Governor's May Revision:</u> In an effort to reduce General Fund support, the May Revision proposes **to decrease EPSDT funding by a net of $60 million (increase of $5 million to the counties, and a reduction of $35 million General Fund and $30 million federal funds) as follows:**

- A 10 percent county-share-of-cost **($5.4 million** to County Realignment funds/County General Fund), based on the estimated new growth of the program; and
- An assumed decrease in the growth percentage of the program.

The DMH assumes that EPSDT expenditures will decrease due to the 10 percent funding shift to the counties. No other assistance or analysis by the DMH is proposed—just make the counties do it.

The May Revision also incorporates Therapeutic Behavioral Services (TBI) into the EPSDT calculation. As such, the May Revision requests a technical reduction of $33.3 million ($16.172 million). This is purely a technical adjustment and Subcommittee staff has raised no issue.

Subcommittee Request and Questions: The Subcommittee has requested the DMH to respond to the following questions:

- **1.** Please provide a brief summary of the proposal, including the assumed utilization reduction.
- **2.** Does the Administration believe that requiring a county-share-of-cost is creating a new mandate? If not, why not?

Subcommittee Staff Recommendation: It is **recommended to (1)** adopt the total funding level as assumed in the May Revision **adjusting for deleting the county-share-of-cost and dividing this amount between state General Fund and federal funds (the normal split),** and **(2)** adopt placeholder trailer bill language as follows:

> The State Department of Mental Health shall, in consultation with a statewide organization representing county mental health services, strengthen and assure statewide application of managed care principles, building on existing county systems, to manage the Early Periodic Screening Diagnosis and Treatment Program benefit while assuring access to eligible Medi-Cal recipients.

2. Additional Federal Substance Abuse and Mental Health Services Administration (SAMHSA) Block Grant

Background: The state **currently receives $54.6 million** (federal SAMHSA grant funds). **The majority of the funds--$45 million—were allocated to 55 counties in accordance to existing statute (i.e., the old Cigarette and Tobacco Products Surtax Fund formula) for support of more than 150 programs statewide**. The DMH has established guidelines and procedures for use of the block grant funds that define the counties' responsibilities to provide comprehensive community mental health services to individuals who are either adults with serious mental illness or children with serious emotional disturbance.

The DMH *also* allocates a percentage of the block grant funds to counties on a competitive basis. In the current year, about $7.7 million (federal SAMHSA grant funds) were allocated as follows:

- $4 million for ongoing awards to support seven county Children's System of Care Programs;
- $647,000 for five three-year supportive housing demonstration projects;
- $2 million for four older adult system of care demonstration projects; and

- $1.1 million for seven youth development and crime prevention projects.

A small of amount of the funds are used to support the California Mental Health Planning Council as required by federal law.

In addition, the **DMH uses about five percent of the funds for administration of the funds**, as allowed by federal law.

Governor's May Revision: The state **is to receive an increase of $2.572 million** (federal SAMHSA grant funds), for a total of $57.2 million, for the state budget year. **As such, the May Revision proposes to expend the additional funds as follows:**

- **$2 million** for the Integrated Services to the Homeless Program;
- **$200,000** to contract out for efforts for increasing the availability of registered nurses and other mental health professionals in California as part of an overall workforce initiative addressing the statewide shortage in health care specialties. For example, funds will be used for human services academies—modeled after the LA county mental health association--, a nurse practitioner workgroup, ethnic focus groups to learn more about what attracts different groups into the mental health workforce, a direct consumer/member task force to develop strategies for increasing the number of consumers/family members available to provide mental health services, and related projects.
- **$372,000** would be used for administering these funds in accordance with federal guidelines. Specifically these funds would be used to **(1)** contract out to analyze data and prepare federally required reporting information, and **(2)** provide funding for meeting the DMH's interagency agreement with the Health and Human Services Data Center.

Subcommittee Staff Recommendation: Due to the decline in the stock market and decline in revenues, it is recommended to **(1)** redirect the $2 million (SAMHSA grant funds) to help backfill for the Children's System of Care Program (as discussed below), and **(2)** conform with the expenditures of the remaining $572,000 as proposed.

Budget Issue: Does the Subcommittee **want to adopt or modify the proposal?**

3. Children's System of Care Program(CSOC) —Proposed Reduction

Background: Existing law authorizes counties to develop a comprehensive, coordinated children's mental health service system as provided under the Children's Mental Health Services Act.

The purpose of the program is to develop an integrated system of care for children who are severely emotionally and behaviorally disturbed, and their families. **The basic elements of the program include interagency coordination and collaboration, child/family-centered services, culturally competent services, and case management services.** Families of the children are full participants in all aspects of the planning and delivery of services.

The target population includes individuals 18 years of age and under who have a diagnosed mental disorder in which the disorder results in substantial impairment in two or more areas (such as self care, school performance, family relationships and ability to function in the community).

Under the program, accountability of services is required through measurable performance outcome goals. An evaluation of the program generally concluded that the program has been **very successful and cost-beneficial, including savings in service expenditures for group homes, special education, and juvenile justice.**

Recent Funding History: **The Legislature has been very supportive of the program in the past**. Legislative budget augmentations to facilitate statewide expansion have included **(1)** $1.9 million in 1995, **(2)** $7.1 million in 1996, **(3)** $6 million in 1997, **(4)** $20 million in 1998 which was reduced by Governor Wilson to a total of $4 million, **(5)** $13.4 million in 1999 which was reduced by Governor Davis to a total of $2 million, and **(6)** a veto of $2.1 million (General Fund) by Governor Davis in 2001.

Current Year Funding: The 2001-02 budget (current year) for the Children's System of Care (CSOC) Program is about **$43.6 million ($39.6 million General Fund and $4 million federal SAMHSA grant funds). Of this amount $42.7 million ($38.7 million General Fund and $4 million federal SAMHSA) is for county-related services.** The remaining amount is primarily for an evaluation ($470,000), and technical assistance center ($350,000).

Based on DMH funding guidelines for the program, all participating counties are currently funded at the recommended level. Four counties are unfunded—Fresno, Tulare, Colusa, and Alpine.

Governor's January Proposed Budget--Reduction: The January budget proposed **a reduction of almost $4.2 million** (General Fund) for the Children's System of Care Program. This **reduction proposed (1) $3.8 million in funding for counties**, and **(2)** about $370,000 for an independent evaluation of the CSOC Program.

Prior Subcommittee Action: In the March 11th hearing, **the Subcommittee (1)** restored $3.8 million (General Fund) for the Children's System of Care Program, **(2)** eliminated the $3.5 million remaining in the Supportive Housing Program as a partial offset, and **(3)** adopted the proposed elimination of the $370,000 for an independent evaluation.

Governor's May Revision: The May Revision **proposes to eliminate the program entirely** (other than local county SAMSHA funds that can be use for this purpose) **for "savings" of $39.6 million (General Fund).**

Subcommittee Staff Recommendation: The value of the Children's System of Care Program cannot be overstated. It has undergone several evaluations which always note its efficacy and cost saving effectiveness. As such, it is recommended to **(1)** redirect the $2 million (SAMSHA) in increased federal funds from the Integrated Services to the Homeless Program, as referenced in 2 item , above, and **(2)** increase by $30 million (General Fund) to backfill for the program.

4. Adult Systems of Care Model for Individuals with Mental Illness At Risk of Homelessness

Background—Adult Systems of Care Model: In 1988, the Wright, McCorquodale, Bronzan Act (AB 3777) established reforms regarding services to **adults with serious mental illness.** It set forth a **"systems of care"** service delivery model whose core elements include consumer and family focused services, a personal service plan, coordinated services delivery system, intensive case management assistance, and the delivery of services that are measurable and accountable.

Three pilot projects were established through this legislation--one in Ventura County, one in **Los Angeles County, and one in Stanislaus County**. As noted by an independent evaluator and by reviews conducted by the DMH, these projects have proven to be highly successful. Though this integrated services approach was cost-effective and commendable, funding was never provided to expand to other counties.

AB 34 Projects—General Description: Generally, AB 34 (Steinberg), Statutes of 1999, and subsequent legislation (AB 2034, Statutes of 2000) directs the adults system of care model **to focus on people who are frequently homeless and/or incarcerated and who have little or no access to existing service programs.** The intended clients of this model are adults who have needs in many areas such as food, shelter, employment and rehabilitative services, as well as treatment. Their needs can rarely be met by human service agencies that operate in isolation or in non-collaborative environments.

Many adults who need these services don't have access or don't meet eligibility requirements for traditional mental health programs. For that reason, outreach to identify clients for these services is vital. Once identified, these adults are given access to a comprehensive service structure, created with new funds that are integrated with existing services and specifically oriented to the needs of these adults.

Governor's May Revision: The May Revision proposes to **(1)** eliminate the Adult Systems of Care Pilots for savings of over $4.5 million (General Fund), and **(2)** reduce by $10 million (General Fund) the Integrated Services for Homeless Adults Program.

Subcommittee Request and Questions: The Subcommittee **has requested for the DMH to respond to the following questions.**

- **1.** Please briefly describe the proposal.
- **2.** Please describe the Village, isn't it a model project?

Budget Issue: Does the Subcommittee **want to propose any modifications?**

5. Medi-Cal Specialty Mental Health Managed Care—Various Adjustments

Overall Background—Overview of Mental Health Managed Care: Implementation of Medi-Cal Mental Health Managed Care has included the consolidation of Medi-Cal psychiatric inpatient hospital services ("Phase I"), which occurred in January 1995 and the consolidation of Medi-Cal specialty mental health services ("Phase II"), which occurred from November 1997 through June 1998. **These two phases of implementation consolidated the two existing Medi-Cal mental health programs (Short-Doyle and Fee-For-Service) into one service delivery system. This consolidation required a Medicaid Waiver ("freedom of choice") and as such, the approval of the federal Health Care Financing Administration (HCFA).**
Under this delivery system, psychiatric inpatient hospital services and outpatient specialty mental health services, such as clinic outpatient providers, psychiatrists, psychologists, and some nursing services**, became the responsibility of a single entity, the Mental Health Plan (MHP) in each county. Medi-Cal recipients *must* obtain services through the MHP.**

Under this model, **MHPs generally are at risk for the state matching funds for services provided to Medi-Cal recipients and claim federal matching funds on a cost or negotiated rate basis. An annual state General Fund allocation is provided to the MHP's for this purpose.**

The DMH is responsible for monitoring and oversight activities of the MHPs to ensure quality of care and to comply with federal and state requirements.

Background—Standard Funding Adjustments: Mental Health Plans (MHPs) receive an annual state General Fund allocation from the DMH which is then used to draw down the federal Medicaid (Medi-Cal) matching funds. This allocation is adjusted each fiscal year to reflect adjustments as required by Chapter 633, Statutes of 1994 (AB 757, Polanco). **These adjustments typically include, changes in the number of eligibles served, factors pertaining to changes to the consumer price index for medical services, and other relevant factors**.

Governor's May Revision and Subcommittee Staff Recommendation: The Governor's May Revision contained the need for a few technical due to interactions with the Medi-Cal Program. As such, it is recommended to (using January as a base) **(1)** reduce by $5.563 million (General Fund) to reflect the Administration's proposal to not fund the medical CPI, **(2)** reduce by $5.097 million (General Fund) to account for the Administration's rollback of the Medi-Cal rate increases from the Budget Act of 2000, and **(3)** reduce by $2.373 million to reflect a change in caseload. As such, the revised total is $205.9 million.

Subcommittee Recommendation: Due to the current fiscal environment, it is recommended to approve this proposal.

6. State Hospital Population Adjustments

Governor's May Revision: The DMH estimates **a population of 4,614 patients** for 2002-03 (as of June 30, 2003) **at the four State Hospitals -- Napa, Metropolitan, Patton, and Atascadero**. **This reflects an overall *decrease of 73 patients.***

As such, a reduction of 171.8 positions and **a savings of $12.3 million ($14 million General Fund** savings and an increase of $2.5 million Realignment Reimbursements) is reflected for a net reduction of 87 judicially committed/Penal Code patients from the Governor's January budget (4,687 patients to 4,600 patients.)

Subcommittee Staff Recommendation: No issues have been raised. It is therefore recommended **to adopt the adjustments.**

7. Preadmission Screening for Non-Medi-Cal Nursing Facility Residents

Background: In 1989-90, California implemented the provisions of the federal Nursing Home Reform Act. **As such, DHS (as the single state Medicaid agency) filed a State Plan Amendment in 1993 to limit Preadmission Screening and Resident Review (PSS) evaluations to *Medi-Cal eligible*** recipients in Skilled Nursing Facilities and Intermediate Care Facilities. **DHS communicated to the federal government that it did not intend to screen private patients. The federal government never approved the State Plan Amendment.**

In November 2001, the federal CMS officially denied California's 1993 State Plan Amendment.

Finance Letter: the DMH is requesting an increase of **almost $3.2 million** ($789,000 General Fund and almost $2.4 million in Reimbursements from the DHS of which about 50 percent, or about $1.2 million is General Fund to the DHS) **to fund 7.5 positions, as well as expenses associated with a contract and operating expenses to provide Preadmission Screening and Resident Review for Mental Illness (PASRR/MI) for non-Medi-Cal nursing facility residents.**

Of the requested amount $933,000 is one-time only ($233,000 General Fund and $700,000 in Reimbursements from the DHS—or about $350,000 in DHS General Fund) **and would be used to conduct evaluations for *existing residents*** in nursing facilities and Institutes for Mental Disease.

The DMH states that this funding would enable California to comply with current federal regulations governing the PASRR Program.

Subcommittee Staff Recommendation: Subcommittee staff is recommending **to approve only the $933,000 in one-time *only* funds** and to **reject the $2.2 million in on-going costs.** Due to the current fiscal situation, on-going expenditures

VI. 4300 Department of Developmental Services

A. ITEMS FOR CONSENT

1. Conforming Action Regarding Study

Prior Subcommittee Action: In a prior hearing, the Subcommittee adopted Budget Bill Language to require the Department of Rehabilitation and the Department of Developmental Services to review the Supported Employment Programs, Work Activity Programs and other work activity programs as deemed appropriate by the two departments. The specific language is noted below:

> "The Department of Developmental Services and the Department of Rehabilitation shall review the operation of Supported Employment Programs, Work Activity Programs, and other work activity programs in each department as deemed appropriate by the departments. They shall together examine the rates paid to providers of such activities, the eligibility for participation in each program, and consumer outcome measures.. The two departments shall provide this information to budget and policy committees of the Legislature by February 1, 2003. The departments may include a recommendation for streamlining and consolidating these programs, if the findings warrant such a proposal."

Subcommittee Staff Recommendation: The above language was adopted under the Department of Rehabilitation item and **needs to be adopted under the DDS item as a conforming action. As such, Subcommittee staff recommends adoption of the above language.**

2. State Compensation Insurance Fund Master Agreement—Rescind Action

Prior Subcommittee Action: The Governor's January budget requested an increase of $419,000 General Fund ($4,000 for Headquarters and $415,000 for the Developmental Centers) in accordance with the new three-year Master Agreement negotiated by the Department of Personnel Administration for the administration and payment of workers' compensation benefits. All state agencies covered by the Master Agreement are required to pay their fair share of service costs associated with workers' compensation administrative services provided by the State Compensation Insurance Fund (SCIF).

Subcommittee Staff Recommendation: It is recommended **to delete these funds from the Governor's January Budget due to the current fiscal constraints.**

3. Rescind Capital Outlay Project for Lanterman Developmental Center

Background and Governor's May Revision: A total of $3.780 million (General Fund) was proposed in the January budget to complete certain capital outlay projects at Lanterman Developmental Center pertaining to security upgrades.

The May Revision has proposed to rescind these funds.

Subcommittee Staff Recommendation: Staff **concurs with the May Revision to delete $3.780 million (General Fund) for this project.**

4. Local Mandate--Deferral

Governor's May Revision: The May Revision proposes to reduce the local mandates in this Item by **a total of $492,000**. These are as follows:

- Judicial Proceedings (CH 644/80) $88,000
- Attorney Fees (CH 694/75) $192,000
- Representation (CH 1253/80) $108,000
- Conservatorships (CH 1304/80) $104,000

Subcommittee Staff Recommendation: It is recommended **to concur with this proposal.**

5. Revert Unexpended Funds from Past Years

Governor's May Revision: The May Revision proposes **to revert a total of $35 million in unexpended General Fund support from past years from the local assistance item.**

Subcommittee Staff Recommendation: It is recommended to **concur.**

6. Suspend Regional Center Performance Incentives

Governor's May Revision: The May Revision proposes to delete reappropriation authority in order to suspend the Regional Center performance incentives, **resulting in $4 million in General Fund savings.**

Subcommittee Staff Recommendation: It is recommended to **concur.**

7. Adopt Reappropriation Language for Los Angeles Forensic Project

Governor's May Revision: The May Revision proposes to adopt reappropriation language in order to continue the valuable Los Angeles forensic project.

Subcommittee Staff Recommendation: It is recommended to **concur.**

8. Budget Bill Language for Emergency Regulation Authority—Federal Funds

Governor's May Revision: The May Revision proposes Budget Bill Language as follows:

> "The Department may promulgate regulations specifically for implementing proposals to increase federal funding to the state. Such regulations shall be deemed an emergency necessary for the immediate preservation of the public peace, health, and safety or general welfare for purposes of subdivision (b) of Section 11346.1 of the Government Code."

Subcommittee Staff Recommendation: It is recommended to **concur.**

B. ITEMS FOR DISCUSSION—Developmental Centers

1. State Developmental Center Adjustments

Background Overall: State Developmental Centers (DCs) are fully licensed and federally certified as Medicaid providers via the California Department of Health Services. They provide direct services which include the care and supervision of all residents on a 24-hour basis, supplemented with appropriate medical and dental care, health maintenance activities, assistance with activities of daily living and training. Education programs at the DCs are also the responsibility of the DDS.

The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma**. Porterville is unique in that it provides forensic services in a secure setting.**

In addition the department leases **Sierra Vista**, a 54-bed facility located in Yuba City, and **Canyon Springs**, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

Governor's May Revision—Summary: The May Revision proposes expenditures of **$629 million ($343.7 million General Fund) to serve 3,667 residents who reside in the state developmental centers system. This reflects a caseload *increase* of 31 residents and an increase of $4.3 million** (decrease of $2.7 million in General Fund and an increase of $6.9 million in Reimbursements, primarily federal funds) **as compared to Governor's January**

proposed budget. The DDS states that the estimated caseload is based on DC admissions, mortality, and placements into the community.

Developmental Center	January Estimated 2002-03 Population	May Revision Estimated 2002-03 Population	Difference
Agnews	440	454	14
Canyon Springs	59	50	-9
Fairview	794	781	-13
Lanterman	622	640	18
Porterville	830	851	21
Sierra Vista	57	53	-4
Sonoma	834	838	4
TOTALS	**3,636**	**3,667**	**31**

May Revision Key Adjustments: The key adjustments are as follows:

- ***A. Level of Care (LOC) Staffing Adjustments for DC Population:*** The May Revision is proposing **an increase of $4.2 million ($2.6 million General Fund) to fund 69 new positions to provide LOC staffing for the residents. The LOC staff includes 47 nursing-related staff and 22 other professional staff.**

  Each year, **the budget is adjusted to reflect direct care and non-level-of-care staffing requirements in order to meet resident needs and licensing requirements**. These staffing adjustments **are based on the projected number of individuals living at the DCs and their individual program needs based on the Client Developmental Evaluation Report (CDER) process.**

- ***B. Delay in Certification—Canyon Springs:*** The **May Revision assumes an increase of $748,000 (General Fund) due to the lack of certification at the Canyon Springs facility.** The January budget had assumed that this facility would obtain certification by February 1, 2002. In the April 8th Subcommittee hearing, the DDS had anticipated that the DHS would conduct a certification review in July 2002.

- ***C. Adjusted Billing Rates for Sierra Vista and Canyon Springs:*** The May Revision reflects **savings of $5.1 million (General Fund) due to revised billing rates and the corresponding increase in federal funds.** Specifically, the DDS can now bill up to $536 per client per day for Sierra Vista and up to $590 per client per day for Canyon Springs. These rates were just recently agreed to by the DHS, the state's sole Medicaid agency.

- ***D. Porterville Developmental Center—No Certification for Special Treatment Program:*** The May Revision **continues to provide $15.9 million in General Fund** support to backfill for the loss in federal funds due to the lack of certification for the STP unit. This unit has stringent security measures that, at this time, do not meet the criteria for Medicaid (Medi-Cal) federal certification.

Subcommittee Request and Question: The Subcommittee has requested the DDS to respond to the following question.

- **1. Please briefly explain the increase in population, including the decision to place additional consumers at Agnews DC.**
- **2.** Please provide **an update on the lack of certification at Canyon Springs and at Porterville.**

C. ITEMS FOR DISCUSSION—Community Based Programs

1. Regional Center Estimate Package Adjustments—Issues "A" Through "I"

Background: The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

Governor's May Revision--Summary: The **May Revision proposes total expenditures of $2.2 billion ($1.6 billion General Fund) which reflects a *net decrease of almost $13.2 million (decrease of $90.3 million General Fund, increase of $71 million federal Title XX Social Services Block Grant funds, increase of $7.4 million in federal Medicaid Waiver* and other adjustments), or 1 percent, from the Governor's January budget.**

Of the $13.2 million reduction, (1) $7.4 million is in Purchase Of Services (POS), **(2)** $3 million is in Regional Center Operations, and **(3)** $2.8 million is an adjustment for habilitation services obtained through the Department of Rehabilitation.

Of the total appropriation, about $1.812 billion is for the Purchase Of Services (POS), including the Early Start Program and habilitation services, and $389.1 million (total funds) is for Regional Center Operations.

The POS portion of the Regional Center budget accounts for about 82 percent of total expenditures. The May Revision proposes to *reduce POS expenditures by $7.4 million* (total funds) as compared to the January proposed budget. Total expenditures for each POS category is as follows:

- Residential Placement $542.5 million
- Day Programs $540 million
- Other services $585 million

(respite, support services, health care & others)

- Transportation $160.9 million

Subtotal	$1.829 billion
POS Savings	*- $52 million (3 percent)*
May Revision TOTAL	**$1.777 billion**

With respect to **caseload**, the May Revision assumes **that 172,505 consumers will receive community based services which assumes *no change* from the January budget proposal.**

The May Revision proposes to *reduce* Regional Center Operations *by almost $3 million* (total funds) as compared to the January proposed budget.

Comparison of May Revision to Budget Act of 2001: **It should be noted that the May Revision for 2002-03 reflects an overall increase of $147.7 million (total funds) from the Budget Act of 2001.**

Governor's May Revision—Key Adjustments: **The *key adjustments* as contained in the May Revision are as follows:**

- ***A. Baseline Adjustments for Population and Service Utilization:*** The May Revision assumes **no additional expenditures for increased utilization.** Further, since the estimated caseload remains the same as proposed in the January budget (i.e., 172,505 consumers), **no adjustments were needed for caseload.** As such, the Governor's January budget proposal to increase by $27.9 million (total funds) over the current year (2001-02) to reflect updated population, utilization of services and expenditure data, remains as is for the May Revision.

  In addition, the extension for intake (from 60 to 120 days), and the suspension of non-Community Placement Plan start-up, as discussed below, will have a dampening effect on the utilization of services.

- ***B. Fund Shift—Title XX Social Services Block Grant Funds:*** The May Revision proposes **to use $71 million in federal Title XX Social Services Block Grant funds in lieu of General Fund support for the Regional Centers.** No state match is required. These funds can be used for a wide array of services, and in fact, the DDS currently obtains $111 million annually from this source. This proposed increase in block grant funds would bring the total to $182 million (federal Title XX Social Services Block Grant Fund).

- ***C. Home and Community-Based Waiver—South Central LA Regional Center:*** The DHS and DDS have been in communication with the federal CMS regarding the deferment of payment (i.e., federal funds) for Waiver services furnished by South Central Los Angeles Regional Center (SCLARC). **The federal CMS will now consider lifting the deferral** once it receives copies of specified fiscal audit and compliance materials which the state will be providing shortly (documents from DDS via the DHS to the federal government). **The DDS**

will be requesting that the state be allowed to claim federal reimbursement for SCLARC Waiver consumers effective July 1, 2002.

The May Revision assumes that an additional 1,296 consumers will be added to the Waiver by the inclusion of SCLARC. **An increase of about $11.3 million in federal funds with a corresponding decrease in General Fund (fund shift) is reflected for this purpose.**

It should be noted that the federal CMS has historically provided retroactive payment back to the initial date of the action. Therefore, even if the federal CMS does not make a determination regarding deferment until Fall, the likelihood of them providing retroactive funding back to July 1 is excellent.

- ***D. Community Placement Plan:*** The May Revision is proposing to provide the same funding level of **$50.2 million, for an increase of $20.5 million over the current year, as contained in the January budget.**

  However, proposed expenditures have been realigned between Operations and Purchase of Services (POS) to reflect updated Regional Center plans. Specifically, Regional Center Operations are being increased by almost $1.5 million and POS is being reduced by $1.5 million (i.e., net of zero). Of the $50.2 million total , $43 million is for POS expenditures, and $7.2 million is for Regional Center Operations.

- ***E. Suspension of Start Up (One Year Only):*** The Administration is proposing to **suspend for one year (2002-03 budget year only) the expenditure of Purchase of Services (POS) funds for start-up of any new programs *unless* (1)** the expenditure is necessary to protect consumer health or safety ***and*** the DDS has granted prior authorization for the expenditure, ***or* (2)** expenditures for start-up of new programs were made pursuant to a contract entered into **prior to** July 1, 2002. This action is intended to **save $6 million. This proposal does *not affect* start-up expenditures attributable to CPP.**

- ***F. Extend Intake & Assessment from 60 Days to 120 Days (One Year Only):*** The Administration is proposing to extend the timeframe for the Regional Centers to conduct intake and assessment of consumers **from 60 days to 120 days for the budget year *only*. This proposal assumes a savings of $4.5 million (General Fund) in the Regional Center Operations budget. This proposed adjustment will require trailer bill language.**

  During the fiscal crisis of 1992, the timeframe for intake and assessment was moved from 60 days to 120 days (as is being proposed in this May Revision). Pursuant to a revision to Section 4643 of the Welfare and Institutions Code, the timeframe was reverted back to 60 days from 120 days as of July 1, 2000 when funding was made available for this purpose. Therefore, the May Revision is now proposing a one-year enactment of this past policy in order to save General Fund moneys.

- ***G. Technical Adjustment for SSI/SSP Community Care Facility Pass-Through:*** The May Revision incorporates the Administration's decision to increase only the SSI portion of the SSI/SSP payments. Previously, the DDS January budget was in error because it had reflected an adjustment for SSP as well, though the DSS budget package had not included this increase.

The state provides payment to Community Care Facilities (CCFs) through the Regional Centers. Generally, the reimbursement consists of the SSI/SSP amount and a state supplement which pays the remaining amount. Since the Budget Act of 1998, cost-of-living-adjustments for SSI/SSP have been "passed-through" to the provider as a rate adjustment.

- ***H. Additional Funding for Autism:*** The May Revision **continues** an increase in Purchase of Services of $17.2 million over the current year to recognize increased expenditures attributable to the caseload growth of individuals diagnosed with Autism and the corresponding utilization of intensive services.
- ***I. Early Start Program—Minor Fund Shift:*** The Early Start Program (services for children aged birth to 3 years) is budgeted at $49.4 million ($2.8 million General Fund) in the May Revision which reflects **no net dollar change**. **However, $1.3 million in federal funds from the prior year have been identified and are proposed to be used in lieu of General Fund support in the budget year.**

Subcommittee Request and Questions: The Subcommittee has requested the DDS to respond to the following questions:

- **1.** Please provide **a brief summary of the May Revision proposal using the above listed items as an outline.**
- **2.**

Subcommittee Staff Recommendation: Subcommittee staff recommends to adopt the May Revision, as outlined above,

Budget Issue: Does the Subcommittee want to adopt or modify the above discussed sections of the Regional Center May Revision estimate package?

2. Proposed Trailer Bill Language for Community Placement Plan *(See Hand Outs-2)* And Regional Resource Development Projects

Background: Existing statute requires the DDS to ensure that individuals with developmental disabilities live in the least restrictive setting which is appropriate to their needs.

The **Community Placement Plan (CPP) is designed to assist Regional Centers in providing necessary services and supports for individuals to, when appropriate, move from state Developmental Centers (DC) to community-based services. It will also provide the resources necessary to stabilize the selected community living arrangements of individuals** who have been referred to the Regional Resource Development Project (RRDP) for alternatives to admission to a DC (i.e., deflection).

Revised CPP Process: **Beginning in the budget year, the DDS proposes to change the way it estimates funding for the CPP.** In the past, the DDS provided funding based on estimated placements as projected by the Regional Centers. As such, there was minimal accountability under this old method.

Under the *revised* CPP process, the Regional Centers must provide the DDS with detailed plans regarding:

- The individual consumers, needed resources, services and supports who will be moved from the DCs;
- The individuals referred to RRDP due to unstable community living arrangements and what their needed resources are; and
- The individuals who will be assessed for community placement.

These plans will be updated *twice* annually to ensure continuity of services and appropriate funding levels. The DDS states that they will be working closely with the RCs, individuals and their families, each RRDP and the DCs to coordinate the involvement and support to implement the plans that will result in individuals living in community settings.

Prior Subcommittee Action: In the April 8th hearing, the Subcommittee adopted placeholder language to codify the CPP and RRDP processes. Since this time, Subcommittee staff has drafted language for the Subcommittee to review and adopt.

Budget Issue: Does the Subcommittee **want to modify or adopt the language?**

3. <u>Administration's Proposal for Statewide Purchase of Services Standards</u> <u>*(See Hand Out for Alternative Language)*</u>

Background: The Regional Centers are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. **Regional Centers also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.**

The Governor's budget proposes to expend $1.784 billion for Regional Center's to purchase services for consumers.

As recognized in the Lanterman Act, differences (to certain degrees) may occur across communities (Regional Center catchment areas) to reflect the individual needs of the consumers, the diversity of the regions which are being served, the availability and types of services overall, access to "generic" services (i.e., services provided by other public agencies which are similar in charter to those provided through a Regional Center), and many other factors.

The DDS, in consultation with the Association of Regional Center Agencies, annually allocates POS funds through a contract process in which each RC receives a base allocation and then subsequent allocations as determined by the DDS. **The allocation of POS funds is primarily based on the previous year's contract level plus growth which may not be fully reflective of consumers needs in some areas.**

Comments from the Legislative Analyst's Office: In her Analysis, the LAO notes that the absence of statewide standards has created wide variances across Regional Centers in the delivery of services. **As identified in a Bureau of State Audits Report, Regional Center consumers with similar needs have been provided significantly different levels of financial, clinical, and social supports through the program.**

This report compelled the Legislature to request the DDS to conduct a more comprehensive analysis—Purchase of Services Study #1—which likewise found some significant disparities among the Regional Centers in both the extent and frequency of the services provided.

The LAO contends that without statewide standards on the availability of services, General Fund support has grown according to demand, not according to any predetermined policy or strategy to allocate dollars for services deemed to have the highest priority or the greatest effectiveness.

<u>Governor's Proposed Budget):</u> The **budget is proposing (1) a reduction of $52 million (General Fund), or about 3 percent of the POS budget, (2) trailer bill language to provide the DDS with the authority to promulgate emergency regulations to craft statewide standards for POS, and (3) trailer bill language that amends existing statute to eliminate the review of Regional Center POS policies by the DDS.**

Overview of Administration's Trailer Bill Language—Statewide Standards for POS: The Administration proposes to **add Section 4631.5** to the Welfare and Institutions Code to develop and implement statewide standards for POS. **It should be noted that this language contains a sunset date of July 1, 2005. Generally this language:**

- Provides the DDS with **emergency regulation authority** to promulgate regulations (within 90 days of passage of the Budget Act) governing POS.
- Articulates a series of principles with respect to individual POS determinations.
- Provides a framework that would address the following:
- Standards which are **consistent throughout the state;**
- **Parameters for the type, amount, duration, and intensity of specified services and supports;**
- The use of all possible alternative sources of funding before using Regional Center funds (i.e., use generic services);
- **An exception process;**
- Establish procedures for consistent application of the standards;
- Mechanisms to maximize the capture of federal funds; and
- **Not alter a consumer's eligibility for services or adversely affect consumers' health and safety.**
- Sunsets as of July 1, 2005 and is repealed as of January 1, 2006.

Proposed Amendments to Existing DDS Oversight of Regional Center POS Policies: As part of the budget proposal, **the Administration is also proposing to amend Section 4434 of W&I Code to eliminate the requirement for the DDS to review and approve all new and revised Regional Center POS *policies*.**

In lieu of existing statute which requires collection and review of these materials, the newly proposed language is (1) permissive (uses the term "may" versus "shall"), and **(2)** makes reference to "operating policies and procedures", **not** service guidelines and other policies utilized by the Regional Centers when determining the service needs of the consumer as existing law requires. This permissive language is vague and does not convey the same level of oversight responsibility as existing law provides.

Constituency Concerns: Constituency groups are concerned with the proposal for several reasons. First, the Association of Regional Center Agencies contends that the reduction is an "unallocated reduction" and that the proposal would result in a reduction of services to consumers. Second, Protection and Advocacy Incorporated believes that the proposal would fundamentally change the Lanterman Act and that it would deprive consumers of their entitlement to services.

In addition, concerns have also been expressed about the use of emergency regulations, with no sunset date on the urgency, **as well as deletion of the oversight responsibility of the**

DDS to review the Regional Center's POS policies, even if statewide standards are developed.

<u>Prior Subcommittee Action:</u> In the April 8th hearing, the Subcommittee heard extensive testimony from constituency groups expressing concerns with the adjustment. As such, the Subcommittee held "open" this issue pending receipt of the May Revision.

<u>Subcommittee Staff Recommendation:</u> Due to the gravity of the fiscal situation, Subcommittee staff would recommend to:

- **(1)** Adopt the Governor's proposal **to reduce by $52 million;**
- **(2)** Adopt placeholder trailer bill language (See Hand Out) in lieu of the DDS' proposed language; and
- **(3)** Reject the trailer bill language which would eliminate the requirement for the DDS to review and approve all new and revised Regional Center POS policies.

THIS IS THE LAST PAGE OF THIS AGENDA—On to AGENDA III

Senate Budget & Fiscal Review

Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

May 18, 2002
4 p.m.
Room 4203

AGENDA – Part III

4130 Health and Human Services Data Center

5180 Department of Social Services Automation Projects

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

Interim Statewide Automated Welfare System

Issue: The ISAWS consortium is the oldest of the four consortia in the Statewide Automated Welfare System (SAWS). The current contract ends December, 2003. The system is old, and uses proprietary software that is expensive to change. The county consortium members in November voted to end this program, and to plan for county members to move to one of the other consortia. The subcommittee voted to adopt trailer bill language requiring DSS and the Data Center to work with consortium members to determine the steps necessary to ensure that ISAWS migrate expeditiously to one of the remaining SAWS consortia.

The May Revision proposes to reduce the ISAWS maintenance and operations expenditure authority in the Data Center by $1.4 million. The May Revision also proposes to add budget bill language for the ISAWS item to permit automation system funding to be used for the activities of planning for migration of consortium activities, subject to Department of Finance approval and written notification to the Legislature.

The LAO recommends that the proposed Budget Bill language be amended to eliminate the reference to the Feasibility Study Report, substituting "appropriate update to the implementation planning document." This will clarify that the counties and Data Center do not begin a whole new planning effort. Finally, the LAO adds budget bill language stating legislative intent that ISAWS migration costs be included in the appropriate update.

Staff recommendation: Adopt the May Revision changes, with accompanying Budget Bill language as amended by the LAO.

Data Center positions

Issue: The May Revision proposes to reestablish 5 positions that will be abolished July 1, 2002. Specifically, these positions will manage vendor service agreements for the Child Welfare Services/Case Management System; manage the Case Management, Information and Payrolling System reprocurement; provide security and office support for SAWS, and develop personnel exams for the Data Center when its seven-year organizational design demonstration project ends July 2002.

The LAO notes that there are existing vacancies in the Data Center in the units responsible for CWS/CMS and SAWS oversight. They recommend reducing this proposal by the 2 positions for CWS/CMS and SAWS oversight; approving the addition of 3 positions for IHSS/CMIPS and Administrative Services, and reduce the Data Center's expenditure authority by $120,000.

Staff Recommendation: Adopt the May Revision proposal as amended by the LAO.

LEADER

Issue: The Los Angeles Eligibility Automated Determination, Evaluation and Reporting system (LEADER) is one of the four SAWS consortia. The subcommittee reviewed information in March that errors in the computer system during transition created difficulties for aid recipients during the transition to implementation, and that these problems have delayed the adoption of enhancements to the system to reflect state and local legal and regulatory changes, especially for Medi-Cal.

The May Revision proposes an increase of $1.2 million ($400,000 General Fund) for the LEADER to expand the languages used for client notification letters. The item includes budget bill language requiring Department of Finance approval of any agreement to complete the modifications, including the estimate of funding needed, and requiring notification of the Legislature. **The May Revision also redirects $10.0 million ($5.0 million General Fund) in DHS to application modifications to incorporate program changes**. Budget bill language is included in the DHS budget to assure that these funds are not encumbered until DOF has approved a plan for the application modifications, including an estimate of funding needed, and requiring notification of the Legislature. The net budget request is an increase of $1.4 million. This amount is offset by $4.5 million in current year savings resulting from unexpended funds for application modification.

The LAO recommends that the plan for application modifications proposed in the May Revision be amended to include the Welfare Data Tracking Implementation Project system.

Staff recommendation: Recommend that the subcommittee adopt the increase of $1.2 million ($400,000 General Fund) and accompanying budget bill language, amended to meet the suggestion of the LAO.

Welfare Client Data System

Issue: The Welfare Client Data System is one of the four SAWS consortia. The subcommittee adopted the budget for this program, including a reduction against planned expenditures (an increase over current year, however).

The May Revision proposes budget bill language to make one-quarter of the appropriated funds for this project available only after Department of Finance approval of a special project report and notification to the Legislature.

Staff recommendation: Adopt the budget bill language.

<u>**Consortium IV**</u>

Issue: Consortium IV is one of the four SAWS consortia, and the most recent, still under development. The subcommittee on May 9 eliminated $9 million ($2 million General Fund) from the total budget of $75.5 million ($16.3 million General Fund). The subcommittee adopted placeholder Budget Bill Language to require specific reductions, and to identify risks and risk mitigation necessary to implement the proposed reduction.

The May Revision proposes to eliminate a total of $20.0 million ($5.0 million General Fund) from Consortium IV. Budget bill language is proposed to make approximately one-quarter of the remaining funds available only after Department of Finance approval of a special project report and notification to the Legislature.

Staff recommendation: Adopt the additional cut of $11.0 million ($3.0 million General Fund), to meet the May Revision target; do not adopt the May Revision Budget Bill language but instead adopt the LAO budget bill language that includes risk and risk mitigation in the review.

<u>**Case Management Information and Payrolling System (CMIPS) Legal Counsel**</u>

Issue: DSS and the Data Center are in the midst of re-procuring the CMIPS project, which provides a payrolling system for the IHSS program. The current system is more than 20 years old, vulnerable, and not adequate to the new IHSS requirements for an employer of record**. DSS proposes to add $150,000 ($100,000 General Fund) for legal consultant services to aid in contract negotiations associated with the CMIPS re-procurement**. The legal consultant will prepare draft solicitation documents, prepare answers to contract inquiries, research pas procurement projects, review legal issues for staff counsel regarding contracts, assist with contract reviews, and provide other reports to assist the process.

Staff recommendation: Adopt the augmentation.

4140 Office of Statewide Health Planning and Development

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

May Revision Reduction to Song-Brown Family Physician Training Program

Issue: The Song-Brown Family Physician Training Program provides funding to institutions for training slots for family physicians, nurse practitioners and physician assistants**. The January budget eliminated $37,000 from the operating expenses and equipment for the Song Brown and Health Professions Career Opportunity Program. In addition, the January budget eliminated $804,000 from Song-Brown, by eliminating special program grants**. These grants are one-time grants to training institutions for curriculum development, expansion of training sites, special outreach for students, and similar items.

The May Revision proposes to further reduce the Song-Brown program by $500,000 General Fund. The Song-Brown program includes two components, in addition to the special program grants already eliminated for the budget year: capitation funding for primary care physician three-year residency training slots ($2.5 million General Fund); and base funding, for nurse practitioner and physician assistant programs ($2.3 million all funds). The reduction is proposed to be levied against the Capitation fund, reducing the amount to $2 million, and will result in the loss of nine primary care physician training slots.

Staff recommendation: Adopt the reduction of $500,000 from Song-Brown.

4170 Department of Aging

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

Federal Older Americans Act Funding

Issue: The Federal budget for the current year included increased Older Americans Act funds in the amount of $8.6 million. **The Administration provided a Spring Finance letter to allocate this amount in the budget year. The allocation includes $445,000 for state operations, and $8.1 million in local assistance**.

The Finance letter appropriates the local assistance among the various federal categorical programs, including Supportive Services, Congregate Nutrition, Home Delivered Nutrition, Ombudsman, and Family Caregiver Support, according to the chart as follows.

The request does not provide additional state matching funds for these new funds. There is sufficient overmatch in Nutrition programs to provide for the necessary increases in Supportive Services and Nutrition Programs. The Department expects that local Area Agencies on Aging will provide the match for the Family Caregiver Support programs.

OLDER AMERICANS ACT
FFY 2002 APPROPRIATION COMPARISON TO FFY 2001

				Increase	
Programs	**2001**	**2002**	**$ Increase**	**S/O**	**L/A**
Title III:					
Supportive Services (IIIB)	$30,283	$34,764	$4,481	$224	$4,257
Congregate Nutrition (III-C1)	34,747	35,207	460	23	437
Home Del'd Nutrition (III-C1)	14,519	17,298	2,779	139	2,640
Preventive Health (IIID)	2,093	2,071	-22	-1	-21
Family Caregiver (IIIE)	11,360	11,890	530	60	470
Subtotal	$93,002	$101,230	$8,228	$445	$7,783
Title VII:					
Ombudsman (VIIA)	932	1,220	288	0	288
Elder Abuse (VIIB)	471	513	42	0	42
Subtotal	$1,403	$1,733	$330	$0	$330
Total Title III/VII Available	$94,405	$102,963	$8,558	$445	$8,113

The subcommittee has expressed considerable concern about reductions in various home- and community-based services that maintain individuals at home or in the least restrictive environment. The subcommittee has acted to require a Health and Human Services Agency Olmstead Plan that will presumably begin to move the state forward toward developing a framework that can guide reductions or additions of resources in this area. Absent that framework, the subcommittee may want to indicate its intent that long term care activities receive first consideration when local Area Agencies on Aging distribute this money.

Staff recommendation: Adopt the Spring Finance Letter allocating $8.6 million in new federal Older Americans Act funds. Adopt placeholder budget bill language that states legislative intent that Area Agencies on Aging consider targeting new federal Older Americans Act funds in the category of Supportive Services to maintain case management and other in-home services that serve the most impaired aging clients with a support system that allows individuals to remain at home with the supports they need to live safely.

Health Insurance Counseling and Advocacy Program (HICAP) Transfer
Issue: The Governor's Budget included a transfer of $1.7 million to the General Fund from the HICAP Fund. Subsequently, the Administration determined that the proposed transfer would have a negative impact on the HICAP in 2002-03 and thereafter. The May Revision proposes to delete the fund transfer.

Staff recommendation: Adopt the May Revision deletion of the HICAP fund transfer.

HIPAA
Issue: The January budget included an augmentation of $232,000 ($148,000 General Fund) for HIPAA activities. The funds are intended to fund the assessment of the impact of HIPAA on the Department

Staff recommendation: The subcommittee will consider this item separately with all other HIPAA items. **Recommend that the CDA budget conform to the actions the Committee takes on HIPAA elsewhere. Eliminate all funding in the CDA budget for this purpose. Allow CDA to access $200,000 ($130,000 General Fund) from the HIPAA Budget Item**.

4200 Department of Alcohol and Drug Programs

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

HIPAA Implementation
Issue: The January budget included a new item to schedule funds for compliance activities related to the federal Health Insurance Portability and Accountability Act (HIPAA). The funds were originally scheduled in current year in a Control Section combined with other departments; the funds were removed in the January one-time reduction. The January budget scheduled the Department's share of $6 million (half General Fund) in the Department. The funds are intended for contractor assessment, process development, privacy and security assessment, and risk management activities. An FSR has been approved for the work. The May Revision reduces this amount by $1.5 million ($750,000 General Fund).

Staff recommendation: The subcommittee will consider this item separately with all other HIPAA items. **Recommend that the DADP budget conform to the actions the Committee takes on HIPAA elsewhere: Authorize 5 two-year limited term positions, and eliminate all funding in the DADP budget for this purpose. Allow DADP to access $1.9 million ($960,600 General Fund) from the HIPAA Budget Item**.

Federal Block Grant Funds

The federal government provides $235.2 million in Substance Abuse Prevention and Treatment federal block grant funds in the current year. The Department has submitted a spring finance letter augmenting the federal block grant appropriation by $15.3 million in ongoing funds, for a new total of $250.6 million. The spring letter augments the budget by a total of $20.2 million, including $15.3 million from the ongoing increase; $1.9 million remaining from the current year award; and $3 million from last year's block grant award increase inadvertently removed from the Department's base in constructing the budget.

The allocation of these funds is proposed to be:

- $2.4 million for the federally required prevention set-aside for last year's increase;
- $0.6 million for the required HIV set-aside for last year's increase;
- $1.9 million from last year's award for ongoing automation expenditures;
- $15.1 million for county services, including $3.1 million for the prevention set-aside and $0.8 million for the required HIV set-aside;
- $150,000 million for maintenance of the California Outcomes Measurement System
- $120,000 for contracts with the American Indian Training Institute and the Disability Technical Assistance contract

The Assembly acted to designate the expenditure of the $15.1 million for county services, to cover some of the General Fund reductions made elsewhere in this budget.

Staff recommendation: Adopt the Spring Finance letter, including budget bill language that specifies that the $2.1 million in automation projects included in the list above not be spent without the approval of the required planning entities such as TIRU.

May Revision to Drug Medi-Cal

Issue: The May Revision updates costs and caseload for the Drug Medi-Cal program, as follows:

- **Reduce Drug Medi-Cal in the current year by $5.9 million ($2.9 General Fund)**, due to lower utilization, especially in Outpatient Drug Free counseling services.
- **Increase Perinatal Drug Medi-Cal in the current year by $76,000 ($38,000 General Fund),** the result of a modest caseload decline and increased costs.
- **Increase Drug Medi-Cal in the budget year by $2.9 million ($1.4 million General Fund)**; the caseload continues to decline, but costs are expected to increase.
- **Increase Perinatal Drug Medi-Cal in the budget year by $775,000 ($385,000 General Fund)**, due to increases in caseload and cost.

- **Eliminate Reappropriation language in the Budget Bill**. The Drug Medi-Cal program now uses the Medi-Cal estimate methodology, and reappropriation is no longer required.
- **Add Reversion language for 2000 and 2001 Drug Medi-Cal funds, as of June 30, 2002.**

Staff recommendation: Adopt the May Revision cost and caseload increases.

Drug Medi-Cal Trailer Bill Proposal
Issue: The January budget proposed changes in the rate setting methodology for Drug Medi-Cal. One purpose is to permit the Department to set Drug Medi-Cal rates based on data that is 'reasonably reliable and complete cost report data'. The Department believes that current law requires that rates be set only when the data is complete from every county. The language also requires that rate setting be consistent with HIPAA requirements beginning no later than July 1, 2007.

Staff recommendation: Adopt the January Trailer Bill Language streamlining the rate setting for Drug Medi-Cal.

State Incentive Grant Funding: Assembly Conformity
Issue: Community Substance Abuse Prevention Coalitions have existed in California for more than a decade. These coalitions provide a vehicle to bring all elements of the communities impacted by substance abuse together. Relevant members of the community are convened to develop and implement strategic plans to reduce problems associated with alcohol and other drug use and misuse. The purpose is to provide measurable reductions in alcohol and other drug problems in communities.

The Assembly has adopted Trailer Bill language to direct the department to apply for federal funding to support community coalitions, and allows special consideration for community coalitions in the event a grant is secured. The language is as follows:

> The California Department of Alcohol and Drug Programs shall apply for Federal State Incentive Grant funding offered by the Substance Abuse and Mental Health Services Administration, Center for Substance Abuse Prevention. Provided that State Incentive Grant funding is secured and permits subrecipients to include "community coalitions," the Department shall give special consideration to awarding funds to subreceipients which are organized as community coalitions, provided that they meet eligibility requirements. A subrecipient coalition may be part of county or city government, a school district county office of education, or a nonprofit organization.

Staff recommendation: Conform to the Assembly and adopt the Trailer Bill language.

ITEMS FOR DISCUSSION:

Drug Courts

The Drug Court Partnership program, established as a four-year demonstration project, is scheduled to expire at the end of the budget year. 34 counties operate drug courts under this program. The January budget eliminated $4 million associated with the sunset (funds that would have gone out to half the grantees late in the budget year) and an additional $4 million associated with expediting the end of the program by not funding the other half the grantees for their last year.

The subcommittee reviewed evaluation data on the Drug Court Partnership program when it heard this issue in May. The evaluation found that the Drug Court Partnership reduced jail and prison days by three times the cost of the program. The evaluation measured avoided jail and prison costs only, not other criminal justice and health related cost savings. The data was for 26 counties only. The data from this evaluation found that drug courts serving mostly felons demonstrated substantially higher state prison savings than other courts. Three counties specifically (Fresno, Orange and Riverside) operated with 90% of their participants being felons; these three counties saved almost half of all prison day savings in the DADP study.

Subcommittee #4 has review the potential impact on prison expenditures of eliminating the Drug Court Partnership program. They have reduced the Corrections budget by $6.5 million, based on the assumption that this subcommittee will adopt their recommendation, to reformulate the Drug Court Partnership to focus exclusively on felons and to operate at the level of $8 million statewide. In addition, the LAO has suggested changes to the state's asset forfeiture law to generate $10 million at least (see below).

Staff recommendation: **The subcommittee should restore the Drug Court Partnership Program at the level of $8 million for the budget year, and enact placeholder Trailer Bill Language to reformulate the program to focus exclusively on felons, and capture continued evaluative information to assure that the Corrections savings are sustained**.

Asset Forfeiture Changes

The Legislative Analyst's Office (LAO) has proposed a new revenue source to fund alcohol and drug programs to help resolve the federal Maintenance of Effort (MOE) problem for federal block grant funding without creating an additional burden on the state General Fund. The LAO indicates that the Legislature has the option of directing a portion to the state General Fund of the proceeds received from the seizure of assets of illegal narcotics traffickers. This additional General Fund revenue could then be used to offset the cost of restoring alcohol or drug treatment programs. The policy rationale for such changes would be to shift more resources from law enforcement activities to crime prevention by investing in treatment programs, an action that studies indicate can be cost-effective in reducing involvement in criminal activities by persons who would otherwise remain addicted to drugs.

State law currently requires that 24 percent of the more than $21 million in asset forfeiture proceeds now being received each year be deposited in the state General Fund, but all of the $30 million per year in federal asset forfeiture proceeds goes directly to the California agencies involved in these criminal cases. The Legislature could modify state law, as Oregon, Utah, and other states have done, to require that local agencies which receive these funds redirect 15 percent of their federal asset forfeiture proceeds to the state General Fund. In its adoption of a budget trailer bill, the Legislature could further modify state law to modify the allocations provided to local law enforcement agencies and prosecutors to redirect an additional share of the asset forfeiture proceeds obtained under state authority to the state General Fund. These two actions in combination could generate an additional $10 million in state resources that could be used to restore state funding reductions in drug or alcohol treatment programs and help to address the state's MOE problem.

In order to do this, the subcommittee could adopt placeholder trailer bill language that amends Health and Safety Code Section 11489, the current state law which governs the distribution of asset forfeiture proceeds, to:

- Increase the proportion of the state asset forfeiture proceeds that is to be deposited in the state General Fund. The share of resources going to the state General Fund would increase from the present 24 percent to 47 percent.
- Make proportional and equivalent decreases in the proportion of state asset forfeiture funds provided to law enforcement and prosecutorial agencies. The overall share of this funding going to prosecutorial agencies would change from 10 percent to 7 percent, while the overall share going to law enforcement agencies would change from the present 65 percent to 45 percent. The bill would specify that law enforcement agencies, who are currently required to spend 15 percent of their share on anti-drug or anti-gang programs, could set aside part of their funds to these purposes but would no longer be required to do so.
- Establish a new requirement that local law enforcement agencies deposit 15 percent of their asset forfeiture proceeds received under the authority of federal law into the state General Fund, to the extent allowable under federal rules without jeopardizing the state share of federal asset funds. The deposits must be made once every three months and are due 30 days after the end of each quarter. State agencies receiving federal asset forfeiture proceeds would be exempt from this deposit requirement.
- State legislative intent that the additional state General Fund resources be used to prevent crime by preserving local assistance for drug or alcohol treatment programs.

Staff recommendation: Adopt placeholder Trailer Bill Language to modify asset forfeiture distributions to generate additional revenues for the General Fund.

Unallocated Reductions to Community Treatment Programs

Issue: The state reduced non-Drug Medi-Cal programs at the county level by $7.7 million for adult treatment programs and $5.7 million for treatment programs for adolescents, in the current year budget. The January budget proposes an additional unallocated reduction to county programs of $7.5 million. The reductions over the past two years are summarized below:

Program Year	2002-03 Proposed	2000-01 Budget Act
Regular Non-Drug Medi-Cal	$23.843 million	$56.828 million
Perinatal Non-Drug Medi-Cal	$23.457 million	$26.135 million

At our May hearing, the Department indicated that the administration has decided to exclude the Proposition 36 appropriation from the calculation undertake by the federal government to determine whether the state meets Maintenance of Effort requirements. This has the result of maintaining the state's flexibility in the future: if the Proposition funding is not continued, the state will not suffer huge consequences in its federal Substance Abuse Prevention and Treatment block grant allocation. However, if the Proposition funds are not counted, the state will have a potential MOE problem in the budget year of $14 million, due to the reductions taken in the current year and proposed for the budget year. The reduction in block grant funds would occur in the following year.

If the subcommittee restores Drug Court funding as proposed above, an additional $6 million would be required in order to avoid a federal reduction in budget year plus one.

Staff recommendation: Reduce the January reduction to non-Drug Medi-Cal community treatment programs by $6 million, accomplishing a reduction of $1.5 million. If the Asset Forfeiture proposal taken by Subcommittee #4 is taken, the combined reduction in prison bed days and asset forfeiture funds will more than compensate for these increases will provide the funds for the Drug Court restoration and this action.

4700 Department of Community Services and Development

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

Energy Programs

Issue: The May Revision proposes a one-time spending increase to the federal Low Income Home Energy Assistance Program of $21.45 million, to reflect increased federal funds made available, carryover of unexpended fund from previous years, and a LIHEAP leveraging grant, distributed to recognize California's success at identifying non-federal sources of energy programs. The May Revision also proposes to augment current year spending authority by $35.7 from increased federal funds made available for the same reasons.

The May Revision proposes to augment the budget for federal Department of Energy Weatherization funds by $1.85 million, to reflect increased federal funds.

Staff recommendation: Adopt the May Revision augmentation to LIHEAP and DOE-Weatherization.

Naturalization Services

Issue: The Naturalization Program provides services to legal permanent resident to assist in obtaining citizenship. The program was $7 million General Fund in 2000-01. The budget was reduced by $.5 million in the current year budget, then further reduced by $1.6 million in the January reductions, for a current year budget of $4.9 million. The January budget proposed to reduce the program to $2 million.

The subcommittee budgeted nearly $1 million in Workforce Investment Act Rapid Response funds to provide one-time services to airport workers losing their jobs because of new federal requirements for citizenship. Senate Budget Subcommittee #1 is considering a proposal to designate $5 million of English Literacy-Civics funds from the Department of Education for an interagency agreement with the Department of Community Services to provide naturalization services.

Staff recommendation: Adopt the January budget, and continue working to provide other funding for these necessary programs.

ITEMS FOR DISCUSSION:
Community Services Block Grant

Issue: Federal Community Services Block Grant (CSBG) funds are provided to community action agencies, rural community agencies, migrant and seasonal farm worker programs, and Native American Indian programs. The funding is intended to provide the administrative and organizational center for community agencies that provide energy programs, Head Start, Food and Nutrition services, Adult Education, Foster Grandparent and other Aging Services, Community Development Block Grant funds, and a variety of other services to meet the needs of low income households.

California statute distributes the funds among the agencies types, including 76.1% to community action agencies and rural community services and the balance to other special populations and state discretionary funds. The funding for community action agencies is provided through a statutory formula that provides a minimum of $160,000, with the balance of the funding distributed according to the low income population in the service area.

The subcommittee heard extensive testimony about the allocation of these funds in April. Those agencies that receive minimum funding have received that amount since 1981, despite increases in the California block grant. At variety of factors led to an allocation discussion. (1) The federal government increased CSBG funds by $4.5 million in ongoing funds, with a special proviso that all entities currently in good standing in the CSBG program receive an increase in funding proportionate to the increase provided for the Grant. (2) Some minimum funded agencies indicated a willingness to sue the state over the inadequacy of the minimum funding levels. (3) Legal counsel to the state and the Legislature indicated that the state could not adjust the minimum funding level, even to distribute the new federal funds, without a change in statute. (4) In a summer, 2002, hearing on the CSBG state plan, the Legislature directed the state association of community action agencies to develop an alternative allocation proposal.

The state association brought a proposal to the subcommittee at our April hearing. The proposal has been endorsed by a significant majority of the community action agencies involved, but not all. Elements of that proposal include: (1) Minimum funded agencies should receive a percentage of the CSBG funds, rather than a fixed amount, so that their share rises and falls with other CAAs; (2) Any change should be phased in over a three-year period; (3) Any increase in funding levels should take place with new funds, so that currently funded agencies do not lose amounts they currently receive; (4) If new funds are not available, the increase should be partially funded with state discretionary funds.

The May Revision proposes Trailer Bill to make a one-year distribution of the new funds proportionately to all eligible CSBG recipient agencies. The May Revision also proposes to augment the CSBG budget by $6.55 million, including the $4.5 million in ongoing funds, and $2.05 million carryover from the current year to the budget year. Finally, the May Revision states that it is the intention of the

Department to assess the impact of the Census data on allocations before proposing changes.

Staff recommendation:
- **Request that the Department report in the hearing on why there is $2 million carryover, and how these funds are proposed to be used.**
- **Adopt the distribution of $4.5 million in new funds as proposed in the May Revision.**
- **Adopt the May Revision Trailer Bill Proposal.**
- **Adopt additional Trailer Bill language that makes a permanent change to the CSBG allocation formula: minimum agencies should receive a percentage of CSBG funds, rather than a fixed amount; any change should be phased in using new funds (no time limit); require the affected agencies and the Department to report in three years on the status of funding levels and the impact of the 2000 census on distributions; legislative intent included that the allocation for CSBG is not intended to provide a template for any other program.**

5100 Employment Development Department

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

Labor and Workforce Development Agency
Issue: The budget proposes to transfer $1.4 million ($32,000 General Fund) and 14 positions to the new Labor and Workforce Development Agency.

Staff recommendation: Adopt the May Revision proposal.

Reed Act Allocation
Issue: The subcommittee acted on May 9 to schedule some of the Reed Act funds for various projects to strengthen the Unemployment Insurance program, and to make it more efficient. Included in this list was $26 million for Job Services expenditures currently funded by EDD's Contingent Fund.

The May Revision proposes to schedule a total of $34.4 million from the Reed Act. This will allow the state to use Reed Act funds where appropriate for the administration of the Employment and Employment Related Services and Tax Collection and Benefit Payment Programs.

Staff recommendation: Reverse the subcommittee action relating only to the $26 million allocation for Job Service expenditures, and substitute adoption of the May Revision allocation of $34.4 million for eligible purposes.

<u>Elimination of Job Agent Program</u>
Issue: The subcommittee adopted a proposed January reduction of funds for the Job Agent program ($2.7 million General Fund and 36.2 positions), at its April 4 hearing**. The proposal included Trailer Bill Language to accomplish the reduction.** The subcommittee did not explicitly adopt the Trailer Bill.

Staff recommendation: Adopt the proposed Trailer Bill Language.

<u>May Revision Caseload Changes</u>
Issue: The May Revision includes adjustments to the current year ($2.266 billion) and budget year ($1.164 billion) for the administration of Unemployment Insurance, and the payment of benefits.

- $14.0 million in current year personal services authority to pay for overtime associated with the extraordinary workload associated with the economic slowdown, the federal extension of benefits, and the state increase in benefit payments. No increases for this purpose are estimated for the budget year; no increase in personnel years are proposed.
- $2.252 billion in current year expenditure authority for benefit payments (the state increase in benefits, the federal extension of benefits are factors here).
- $1.164 billion in increased benefit payments in the budget year.

Issue: The May Revision includes current year ($170.3 million) and budget year ($295.3 million) caseload changes for the Disability Insurance program.

- 2.0 million in current year personal services authority to pay for overtime associated with processing initial and continued claims. No increases in budget year are proposed, and no personnel year increases. Why the increase?
- $168.3 million in current year and $195.3 million in the budget year for cost increases in Disability Insurance, including increases in the average weekly benefit and the average number of weeks per claim.
- $174,000 in increased cost for postage rates.

Issue: The May revision proposes to increase the cost of benefits in the School Employees Fund by $8.1 million in the current year, and $7.3 million in the budget year, reflecting caseload increases and increased UI benefit costs related to state actions to increase benefits.

Staff recommendation: Adopt May Revision cost and caseload changes, with the exception of the increase for postage rates which should be denied.

ITEMS FOR DISCUSSION:

<u>Faith-Based Initiative</u>
Issue: The budget provided $5 million General Fund in 1000-01, and $4 million in 200102, to provide a competitive grant program for faith based and community based organizations in the delivery of employment services. EDD has used a portion of the

Governor's Discretionary Workforce Investment Act (WIA) funds to provide an additional grant to first year grantees. **The January budget proposed an additional $4 million to provide an additional round of competitive grants.**

Staff Recommendation: Eliminate the funding from the budget. If the funding is retained there is technical Budget Bill Language from the LAO that will restore a requirement for competitive bidding for the funds, a provision that was inadvertently dropped from last year's budget language.

Reed Act: Alternate Base Period Budgeting

Issue: The Subcommittee acted on May 9 to designate $167 million in Reed Act funds for various projects to strengthen the Unemployment Insurance program, and to make it more efficient. Included in this list was **setting aside $20 million for the administrative costs associated with creating an alternate base period, which would expand UI program coverage to utilize recent wages for the purpose of establishing benefit eligibility**.

Previous legislative proposals to establish an Alternate Base period have stalled because of the administrative costs to create the capacity to identify an alternate base period. Current law establishes the first four of the last five completed calendar quarters of work. The alternate base proposal would allow EDD to count the last four completed quarters before the first day of the individual's benefit year, if the base period in existing law does not establish benefit eligibility. The impact of establishing an alternate base is to make it more likely that new entrants to the labor force can qualify for UI during periods of unemployment. There are small increased costs to the UI Trust Fund ($33 million). When this issue was last proposed in legislation, there were significant savings to the welfare system ($8.5 million/year in 2001) related to the change.

The Assembly acted to adopt the Alternate Base Period in Trailer Bill, as well as to fund the administrative costs associated with establishing an alternate base.

Staff Recommendation: Adopt placeholder Trailer Bill Language to establish an Alternate Base Period in law.

Reed Act: Alternative Trigger for UI Extended Benefits

Issue: : The Subcommittee acted on May 9 to designate $167 million in Reed Act funds for various projects to strengthen the Unemployment Insurance program, and to make it more efficient. Included in this action was **$65,000 for the one-time administrative cost of reprogramming the UI database system to implement an alternative trigger mechanism for UI extended benefits.**

The alternative trigger mechanism would provide a means of extending UI benefits for 13 to 20 weeks longer during high periods of unemployment. The current law provides extended benefits according to a ratio of individuals receiving UI to the total number of

individuals covered for UI. Extended benefits are triggered when the ratio is 6% or equals or exceeds 120% of the same rate for the preceding two calendar years and equals or exceeds 5%.. This formula does not include individuals who have exhausted benefits, are exempt from coverage, or are new entrants to the labor market. The proposed change in law would trigger extended benefits sooner during periods of high unemployment.
The proposal is to take a federal option of using the total unemployment rate, instead of the ratio developed using only insured individuals. The trigger would be pulled when the total unemployment rate is 6.5% and 110% of the average for the corresponding three-month periods in either or both of the two previous years.

Staff recommendation: Adopt placeholder Trailer Bill Language to implement the alternative trigger mechanism.

Reed Act: Unemployment Insurance Review Process
Issue: The subcommittee adopted a schedule of expenditure authority for Reed Act expenditures at its May 9 hearing. Included in that schedule was a decision to adopt Trailer Bill language requiring EDD to convene a labor, management, academic, community and public sector represented committee to review the Unemployment Insurance financing system. Changes to the trigger based tax system may be needed to correct counter-cyclical changes in taxing rates.

Staff recommendation: Adopt placeholder Trailer Bill Language to implement the UI review process.

Workforce Investment Act Funding
Issue: The May Revision proposes to reduce current year state support for the Workforce Investment Act by $38,000 and current year local assistance by $6.1 million. These changes reflect reductions in the federal distribution of funds to California, based on comparative poverty and employment statistics.
The May revision proposes to reduce budget year state support by $23.1 million ($9.4 million of this is from the 15% discretionary, and $13.7 million from state level Rapid Response) and local assistance by $39.2 million ($4.8 million for Adults, $1.4 million for youth, and $32.9 million for Dislocated Workers). These changes reflect reductions in the federal distribution of funds to California. They do not reflect the threatened federal rescission

Reductions in WIA of course drive reductions in the 15% discretionary category. The Administration has provided charts showing adjustments to the proposed spending categories provided to the subcommittee earlier in the budget process. The proposal adjusts to the reduction by reflecting more accurately the spending for the nursing workforce initiative at $18 million in the budget year, and by assuming a carryover in the WIA funds. Spending categories will need to be adjusted further if the carryover does not materialize.
Staff recommendation: Adopt the May Revision reflecting reduced federal WIA allocation to California.

5120 California Workforce Investment Board

ITEMS FOR DISCUSSION:

California Workforce Investment Board Funding

Issue: The subcommittee reviewed the activities of the California Workforce Investment Board (CWIB) at its April 4 hearing, and removed $1.3 million in funds from the Board's $5.7 million budget. All CWIB funds are federal WIA funds and reimbursements. **The subcommittee expressed three principal concerns: the failure to propose changes to outdated workforce development statute; the lack of public clarity about roles and functions between the CWIB and EDD; and the failure to develop standards or certification protocols for local One-Stops**. The staff of the CWIB has provided procedural information about CWIB activities at both the staff and board levels. All three of the subcommittee's issues will require adoption by the Administration, in addition to staff proposals.

The May Revision proposes to decrease funding for the CWIB by $138,000. The funds are to be used to augment the EDD budget to 'address critical workforce needs.'

The Revision further proposes to shift $50,000 to support activities being shifted to the new Labor and Workforce Development Agency.

Staff recommendation:

- **Modify the previous reduction to basic CWIB funding to $1.25 million, to reflect the transfer to the new Agency;**
- **Adopt the May Revision proposal to shift $50,000 to support the new Labor and Workforce Development Agency;**
- **Add Budget Bill language requiring that the Administration provide a Section notification to the Legislature prior to providing any additional discretionary WIA funds to the CWIB, and require that the notification include information about concrete progress in proposed statutory change to implement WIA; role definition in the new Agency for the Board and EDD with respect to WIA implementation; and concrete progress in the development of certification protocols for local One-Stops**.

5160 Department of Rehabilitation

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

One-Stop Career Centers
Issue: The subcommittee heard testimony in February, 2002, at its WIA Oversight hearing, on the substantial amount of WIA funding that is being used to provide core services in One-Stop centers around the state. Local Workforce Investment Boards expressed concern that One Stop partners have not always been able to bring resources to the One Stops to support the basic infrastructure. **The subcommittee adopted Budget Bill language in the EDD budget on May 9 requiring the Department to develop a format for reporting state expenditures in One Stops, and to report EDD expenditures by February 1, 2003**. The subcommittee announced its intention to adopt similar Budget Bill Language for the Department of Rehabilitation and the Department of Social Services.

Staff Recommendation: Adopt the Budget Bill Language.

WAP-SEP Program Placement
The debate about how to reduce costs in the WAP and SEP program revealed again the difference in corporate culture, entitlement status, program guidelines and rates between similar programs operated by the Department of Developmental Services and the Department of Rehabilitation to clients of habilitation services. Although the issue of where to manage WAP and SEP programs has been addressed before, the disparities in program guidelines continues to exist, and reductions may affect that disparity as well.

The subcommittee could adopt Budget Bill language in both the Department of Developmental Services and the Department of Rehabilitation to bring an analysis of rates, eligibility and consumer outcomes to the budget committees next spring, along with a recommendation for streamlining and consolidating these programs, if the findings warrant such a proposal.

Staff recommendation: Adopt the proposed Budget Bill language.

May Revision Caseload Adjustment
Issue: The May Revision projects a caseload increase in the basic Vocational Rehabilitation program of 1.7%, requiring additional funds of $560,000 ($124,000 General Fund).

Staff recommendation: Adopt the caseload increase augmentation

<u>**Postage Rate Increase**</u>
Issue: The May Revision proposes an increase of $62,000 ($13,000 General Fund) for the postal rate increase.

Staff recommendation: Reject the postal rate increase.

<u>**Reversion Item**</u>

Issue: DR anticipates a current year savings of $700,000 General Fund in the basic Vocational Rehabilitation plan. The May Revision proposes to adopt reversion language to permit capturing the savings for the General Fund.

Staff recommendation: Adopt the reversion item.

ITEMS FOR DISCUSSION:

<u>**WAP Rate Setting**</u>
Issue: Work Activity Program provides services to clients with developmental disabilities, in the Habilitation Services part of the Department of Rehabilitation. Services are usually provided in a sheltered workshop and include both paid work and work related services. Services are paid on a per consumer day, and the rate varies from provider to provider based on their WAP historical costs. Statute requires the rate to be established every two years, based on the service provider's cost of providing services. In other words, rates would be set for the 2002-03 fiscal year, based on expenses incurred in the 2000-01 fiscal year.

The January budget proposed to suspend the new rates that would otherwise be set in 2002-03. The January estimate was that this would avoid $4.9 million in new costs ($3.8 million General Fund). The January budget action would require Trailer Bill to accomplish.

When the subcommittee heard this issue in March, it requested that the LAO examine whether the proposed rate freeze would constitute a risk to the General Fund, due to the entitlement nature of services to individuals with developmental disabilities. The LAO found that to the extent WAP providers stop accepting new clients or close their programs altogether as a result of the proposed rate freeze, suspension of the rate adjustment could result in greater demand for Regional Center day programs and services for clients who would otherwise be served through the Work Activity Program. While this may result in cost pressures within the Regional Center system, it is unlikely to result in a short-term risk to the General Fund.

The May Revision does not propose to change the January budget action. The January action was justified at least in part by significant increases in WAP costs. **The May Revision also reduces expenditures in the Habilitation Services program by $9.2 million ($8.1 million General Fund), to reflect adjustment in the estimate of the**

number of days clients attend WAP programs, and a decline in the number of job coach hours provided. These are changes to the Department estimating results that were suggested by stakeholders in the course of examining the potential for further reductions.

Stakeholders to this process request that the suspension of the rate adjustment be limited to one year.

Staff recommendations: Adopt the January budget proposal to suspend the rate-setting process for WAP, including Trailer Bill Language to accomplish the suspension. Adopt the reduction to WAP costs proposed in the May Revision.

WAP-SEP Program Changes

Issue: Supported Employment Programs (SEP) are also provided to clients with developmental disabilities (and to other Vocational Rehabilitation clients in the main Vocational Rehabilitation program). SEP services are usually provided at the work site of a community or private employer. They can be provided in groups of three or more individuals with a full time job coach, or through individual job coaching for an individual in a work setting.

The January budget anticipated increases of $10.9 million ($10.5 million) General Fund for the WAP and SEP programs serving clients with developmental disabilities (the Habilitation program with the Department). These increases were offset by a general reduction of $7.3 million ($5.9 million General Fund) to reflect various cost containment measures in the WAP and SEP programs. The budget did not detail how these reductions were to be accomplished; a work group has been convened to develop proposals.

The January budget provided Trailer Bill language to generally accomplish the reduction, clarifying existing law that permits rates for WAP and SEP to be reduced to remain within the General Fund appropriated, pending notification of the Legislature in advance. The proposed statute eliminates a waiver of increases due to unanticipated increases in caseload or the average client workday when estimating whether cause exists to reduce rates.

The May Revision proposes to restore $4.5 million of the general reduction ($3.7 million General Fund). It further proposes to accomplish the remaining reduction ($2.8 million, of which $2.2 million is General Fund) by:

- Increasing the minimum group size for SEP services from three to four. This would require the development of job sites that can accommodate four individuals, and may reduce the wages of participants of SEP group services. ($1 million)
- Eliminating the payment of job coaching hours of lunch supervision of SEP consumers in groups.($1.8 million).

The proposal is accompanied with Trailer Bill language to accomplish these specific reductions.

In addition, the Department indicates that the stakeholder process produced additional strategies to pursue over the long term: reviewing the rate-setting for WAP, developing procedures to assure a consumer's continuing ability to benefit from Habilitation services, and maximizing the income available from the DDS Home and Community Based Services Waiver. Stakeholders have requested that the exclusion of payment for lunchtime supervision include a provision whereby the Department can waive the requirement for health and safety considerations. **The entire current rate setting procedure for supported employment becomes inoperative on September 1, 2003 and sunsets January 1, 2004.**

Staff recommendation: Adopt the January budget reduction as amended by the May Revision. Adopt the specific Trailer Bill language proposed in the May Revision, amended to provide the Department with authority to waive the lunchtime supervision bar for health and safety reasons, and amended to provide that the current rate setting scheme will not sunset unless the final report called for in statute assessing the impact of the rate setting is provided to the Department of Finance and the Legislature on or before February 1, 2003, the date currently in statute. Reject the general Trailer Bill authority to reduce Habilitation services proposed in January.

5175 Department of Child Support Services

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

State Administrative Hearings

Issue: Current law requires that the State conduct a hearing within 30 days of receiving a complaint. The May Revision estimates increased caseload for such hearings, which are conducted by the Department of Social Services. The following adjustments are proposed:

- **Review by DCSS of DSS decisions: $137,000 increase ($47,000 General Fund) and 2.1 staff positions;**
- **Funds for DSS contract for hearings: $413,000 increase ($140,000 General Fund)**
- **Budget bill language to permit DCSS and DOF to augment the amount available for hearings, if necessary to remain with statutory timeframes.**

Staff recommendation: Approve the augmentation; amend the budget bill language to require legislative notification concurrent with approval by the Department of Finance.

<u>**California Insurance Intercept Project Collections**</u>
Issue: The Department proposes to enter into a contract to increase child support collections by intercepting personal injury awards to repay past due child support obligations. The Department proposes to enter into a partnership with Maximum and the State of Rhode Island, who are the only third party personal injury intercept program available, according to the Department.

The proposed cost of the contract would be $1.1 million ($383,000 General Fund). The budget assumes enhanced collections of a total of $20.2 million, including both assistance cases and non-assistance cases, resulting in General Fund revenues of $3.4 million. The proposal also includes budget language that requires DOIT and DOF approval of a Feasibility Study Report before any expenditure of contract funds is allowed.

Staff recommendation: Approve the augmentation and the budget bill language, modified to eliminate the specific reference DOIT and DOF approval and instead require appropriate control agency review. Add Supplemental Report language requiring the Department to report in budget hearings on the amount of enhanced collections in the budget year.

<u>**California Child Support Automated System (CCSAS)**</u>
Issue: The Department and the Franchise Tax Board, which operates as the Department's agent in the development and implementation of the CCSAS, are in the process of evaluating the bid for the project. As a result, the full level of funding that will be required in the budget year is unknown. The budget provides 8 months of costs; the balance of the funds needed will not be known until the contract is negotiated, early in 2003.

The May Revision proposes budget bill language to authorize the Administration to augment the funds available for expenditure for CCSAS, not sooner than 30 days after notification of the Legislature and consistent with an approved Feasibility Study Report.

Staff recommendation: Adopt the proposed budget bill language.

<u>**Caseload Adjustments**</u>
Issue: The May Revision includes various caseload adjustments:
- Reduction in current year administrative allocations to counties, related to slower implementation. This results in savings of $82.1 million ($25.2 million General Fund). The budget proposes to add a reversion item to collect the General Fund savings.
- Budget bill language for an increase in loan authority from $110.0 million to $136 million, reflecting increased child support collections. The loan is used to pay state and local child support costs for the federal share of their administrative costs prior to the receipt of federal funds. It is repaid when federal funds are received.

Staff recommendation: Adopt the caseload adjustments, including budget bill language for the loan.

<u>Postage Increase</u>
Issue: The May Revision proposes an increase in General Fund costs of $335,000 to reflect an increase in postage costs.

Staff recommendation: Deny the proposed increase.

<u>Transition Automation Changes</u>

Issue: The May Revision proposes to redirect $1.7 million ($568,000 General Fund) from electronic data processing conversion and enhancements to maintenance and operations to establish six contract positions to act as consortia project leader supervising the legacy data systems that will operate until the CCSAS system is implemented.

The LAO suggests that hiring consultant to establish a state presence in the operation of these consortia is not an effective solution. The LAO suggests that Trailer Bill language establishing state oversight over the consortia, and developing the capacity at the Department to provide that oversight, would be a more effective strategy.

Staff recommendation: Adopt the proposed May Revision redirection.

<u>Child Support Recovery Fund</u>
Issue: Federal recovery collections are deposited in the Child Support Recovery Fund and serve as an offset to the federal Child Support grant. The May Revision proposes Budget Bill language to authorize Finance to adjust the expenditure authority in the fund, to offset increases or decreases in collections. The proposed language specifically exempts such a change from notification procedures to the Legislature.

Staff recommendation: Adopt the proposed budget bill language, amended to eliminate the 'notwithstanding' clause.

ITEMS FOR DISCUSSION:

<u>Alternative Federal Penalty</u>
Issue: The January budget assumed that federal legislation would be enacted to relieve the state entirely of a federal penalty of $181.3 million, assessed because of the state's delay in implementing a statewide automated child support system.

The May Revision assumes that the state will still be required to pay a penalty of $89.7 million (assuming federal relief of $91.6 million). The federal penalty is a county responsibility under current law. However, the budget has for the past three years paid the penalty, in an effort to encourage the transition by counties to the new child support system.

The May Revision proposes that counties will pay half the estimated penalty, directly to the General Fund (an assessment of $44.9 million to counties). The budget proposes to budget the entire penalty in the Department's budget, as the county payments will go to the General Fund.

The budget proposes budget bill language assessing counties $44.9 million, allocated based on the county's share of total administrative costs for all counties. Finally, the budget proposes Trailer Bill to provide that when the Budget Act does not provide sufficient funds to pay any federal penalty, the department shall calculate the county's share of the penalty. This will have the effect of shifting the entire increase of the penalty above $89.7 million to counties; and, by specifying a minimum county payment of $44.9 million, assuring that any savings associated with a negotiation of the penalty below $89.7 million go to the state. Counties currently have no county general fund share of this program; all costs are paid with state and federal payments. Further, state law requires that counties use those state and federal payments for the costs of administering the program. Therefore, the penalty payment will be paid directly from the county general fund.

Staff recommendation: Adopt the proposed May Revision change to the estimate of the penalty; reject the proposed trailer bill, and adopt instead placeholder trailer bill that will distribute 50% of the cost of any penalties in 2002-03 to counties, with the remainder to be assumed by the state.

Foster and Kinship Care Education Program

Issue: The Chancellor's Office of the California Community Colleges has operated a training program for foster parents; all foster parents are now required to obtain education/training at the pre-service and ongoing service levels, and the program has been expanded to include kinship care providers. 67 community colleges provide the Foster and Kinship Care Education Program. The program is funded with child support collections, Proposition 98 and federal Title IVE funds.

The January budget proposed to reduce current year funds by $1 million from the Foster Children and Parent Training Fund in the Department of Child Support. This in turn would reduce federal reimbursements.

The May Revision sustains the $1 million reduction. The May Revision further proposes to cap the collections transfer for this purpose in future years at $1,972,000, the amount proposed for this year.

Staff recommendation: Restore the $1 million to the Foster Children and Parent Training Fund, and deny the May Revision capping the distributions from the fund. Subcommittee #1 is considering the comparable adjustment to the budget for this program in the Community Colleges.

5180 Department of Social Services

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

TANF Reauthorization Policy Changes: Assembly Conformity

Issue: California's CalWORKs program has undertaken very few changes since enactment in 1997. The federal funding level, and associated Maintenance of Effort funding requirement, have assured that funds were available to support the CalWORKs program, and to provide additional funding for programs that would otherwise require General Fund support. However, for the past two years, the budget has faced serious difficulties providing funds for grants, employment services and child care within the CalWORKs budget, as well as continue to support the non-core CalWORKs program elements. By this year, funding for performance incentives was zero for the second year in a row, employment services were significantly underfunded. The January budget, and the subcommittee's budget, were brought into balance only by moving non-core programs outside of the base.

In addition, the federal government will reauthorize federal TANF this year. Preliminary proposals include significant changes in work requirements, as well as the definition of work activities that will qualify. California's CalWORKs program will require potentially major changes in order to remain within budget constraints and meet new federal requirements.

The Assembly approved placeholder Trailer Bill Language to put together a working group in the fall to provide the Legislature with a proposal to make the necessary changes to CalWORKs next year.

Staff recommendation: **Adopt placeholder Trailer Bill Language to require the Department of Social Services to convene a working group on CalWORKs changes necessary to meet new federal requirements.**

Performance Incentive Trailer Bill Proposal

Issue: Federal law has now been interpreted to require that counties be paid CalWORKs performance incentives, when they are expected to be used, not when they are earned. The department has negotiated the use of an offset process to recoup the unspent incentives, together with the actual interest that counties have earned on awarded, but unspent, performance incentives. In the future, funds that are not anticipated to be spent will remain in the federal treasury until they are anticipated to be spent.

The January budget proposes to recapture the approximately $600 million in unspent performance incentives in 2002-03, to reappropriate $431 million to the counties as performance incentive funds, and to redirect the remaining $169 to other CalWORKs purposes. This increases the amount the state owes counties for earned but unspent performance incentives. The subcommittee acted to increase the amount of performance incentives borrowed and redirected, by adopting the county proposal to provide one-time augmentations to employment services.

The January budget includes Trailer Bill Language that prohibits the expenditure of unspent performance incentives from the last three budgets, including the current year, after June 30, 2002. The language also eliminates the $20 million in performance incentive payments from the current year budget.

Staff recommendation: Adopt the proposed Trailer Bill language prohibiting expenditures of performance incentive funds appropriated in prior years after June 30, 2002 (thereby limiting expenditure to performance incentive funds appropriated in the budget year), and eliminating the $20 million current year payment on earned but unpaid incentives to counties.

<u>CalWORKs Child Care</u>
Issue: The subcommittee acted in May to replace funding that was removed from Stages 1 and 2 of CalWORKs child care because of the Governor's proposed reforms, and to reject those reforms. The May Revision assumes no savings associated with the reform. The May Revision makes small changes related to caseload (from persons reaching time limits, from decreased Stage 1 child care). The subcommittee acted to achieve savings by eliminating the practice of making extensive retroactive payments to participants. The May Revision adopts the same proposal. The May Revision fully funds Stage 3, although the actions to accomplish this are taken in subcommittee #1.

Staff recommendation: Adopt the May Revision for CalWORKs child care, including trailer bill to eliminate retroactive payments and

<u>CalWORKs Proposal to Reinstate Senior Parent Deeming</u>
Issue: Under current law, a minor parent on CalWORKs is generally required to live with her parent(s) ('senior parents') in order to receive cash assistance. Exceptions are made where the senior parent's home is unsafe for the minor and her child. The senior parent can apply for and receive aid on behalf of the grandchild, even if the senior parent's income would otherwise make the family ineligible for assistance. In such a case, the child is deemed a 'child-only' case. The law was passed to encourage teen parents to live with their own parents.

The May Revision proposes to reinstate the practice of assessing the income of the senior parent for purposes of determining eligibility and setting grant levels. The proposal would generate $12.3 TANF/MOE savings within the CalWORKs program. The proposal requires trailer bill language to implement.

Staff recommendation: Adopt the May Revision proposal to reinstate senior parent deeming.

<u>One-Stop Participation Reporting</u>

Issue: The subcommittee heard testimony in February, 2002, at its WIA Oversight hearing, on the substantial amount of WIA funding that is being used to provide core services in One-Stop centers around the state. Local Workforce Investment Boards expressed concern that One Stop partners have not always been able to bring resources to the One Stops to support the basic infrastructure. **The subcommittee adopted Budget Bill language in the EDD budget on May 9 requiring the Department to develop a format for reporting state expenditures in One Stops, and to report EDD expenditures by February 1, 2003**. The subcommittee announced its intention to adopt similar Budget Bill Language for the Department of Rehabilitation and the Department of Social Services.

DSS, unlike EDD and DR, does not participate directly in One-Stop Centers. Indeed, local welfare departments are not mandated partners in One-Stop Centers. However, many welfare departments do outstation CalWORKs workers in One-Stops, or partner in other ways with the operation of One Stop Centers. The subcommittee should adapt the Budget Bill Language to permit a one-time survey of welfare departments to determine the extent of participation in One-Stops.

Staff recommendation: Adopt the Budget Bill Language

<u>School-Age Child Care Center Licensing</u>

Issue: The January budget, modified by a Spring Finance Letter, proposed to streamline the licensing of school-age child care facilities, by changing the required visits to once every three years rather than once a year, eliminating case management activities, and implementing Serious Incident Reporting procedures. The budget is proposed to be reduced by $542,000 General Fund and 9.5 positions eliminated; Trailer Bill Language is proposed to change licensing statutes and accomplish the reductions.

Prior Subcommittee Action: The Subcommittee discussed this issue 4/11, and asked the Department to review the provisions of its proposal with stakeholders. Committee staff discussed the proposal with some stakeholders: no formal opposition was received, although child care advocates are uncomfortable with reducing licensing resources. The Subcommittee pulled the item from the agenda on 5/9, pending review of the proposal by policy committee staff, in light of a special hearing on child care licensing reviews.

Staff Recommendation: Adopt the January budget proposal, as modified by a Spring Finance Letter, to reduce the Community Care Licensing budget by $542,000 and eliminate 9.5 positions; adopt the Trailer Bill Language required to streamline licensing requirements.

Perinatal Services

Issue: In the Department of Alcohol and Drug Programs budget, the subcommittee adopted a reduction in funds for local perinatal treatment programs. The subcommittee implemented the reduction proportionately between residential and non-residential programs.

Among the residential programs, many provide services directly in the context of a dependency court. In other cases, the dependency court has been involved in the past or could be again. Most of these programs also permit the parent to enroll in the residential program with their children, and believe that keeping the family together is a significant element of program success. This admission practice also avoids foster care placement, in cases where a dependency action is the alternative to drug treatment for the parent.

This raises the question of whether foster care alternative funding could be used as a part of the package of funding for perinatal treatment services. **The subcommittee could require DSS to explore with the Department of Alcohol and Drug Programs how to establish a funding stream for the board-and-care costs for children who are in residence with their parent in a drug treatment program, who are placed there with the participation of a dependency court that finds that out-of-home placement is the alternative to parental drug treatment.**

Staff recommendation: Adopt Supplemental Report Language that requires DSS and DADP to report by March 1, 2003, on whether state or federal foster care funding could be adapted to serve the board and care needs of children who are in residence with their parent in a drug treatment program, who are placed there with the participation of a dependency court that finds that out-of-home placement is the alternative to parental drug treatment. The report should include a survey of funding sources, including information about the impact on out-of-home care costs for children., if available.

Foster Care Audits

Issue: The subcommittee adopted an operations reduction in the Department of Social Services on April 11, that included a reduction in the annual audit requirement for foster care programs, abolishing two positions. The reduction requires Trailer Bill language to implement.

Staff recommendation: **Adopt the Trailer Bill to reduce annual audit requirements.**

Foster Family Agencies

Foster Family Agencies (FFAs) are nonprofit agencies that recruit foster parents, certify homes for participation, and provide the homes with training and support services. FFAs are paid $1589 to $1844/month (compared to $425 to $597/month for foster family homes). The amount paid to FFAs includes both the amount paid to the foster family home and a sum for treatment and administration paid to the agency.

The LAO has reviewed FFAs over the past couple of years. The use of FFAs has grown substantially; they now represent one-third of the children placed out of home. The Analyst has also found that children stay longer in FFAs than in non-relative foster homes, and that they are no more likely to have psychological and abuse-related problems, and less likely to have physical and medical options. Family backgrounds of FFA children are more stable and law abiding, and yet children are less likely to reunify with their families or achieve other long term stability.

FFAs and counties argue that FFAs are reimbursed at a sum closer to the true cost of care, unlike either group homes or foster family homes. FFAs have been able to design programs to meet specific needs identified by county placing agencies.

The subcommittee reviewed the options presented by the LAO, and expressed interest in an option that adjusts the FFA payment rate over time to encourage timely exit of children from the FFA.

Staff recommendation: Do not adopt the LAO proposal; adopt placeholder budget bill language that requires the Department to provide a concrete proposal in 2003 budget hearings that addresses the concerns that FFA length of stay is disproportionately longer, and that assures that costly resources are used appropriately.

May Revision Caseload Changes: Children's Services

Issue: The May Revision makes a variety of changes in caseload estimates:

- Kin-GAP: Costs for Kin-GAP decrease $23.1 million due to a decrease in caseload; this is a decrease in estimated caseload: the real growth will still be 27.5% in the budget year. No COLA is provided to these parents.
- Adoption Assistance: Costs increase $12.2 million, due to an increase in caseload, now estimated to grow 14.2%. No COLA is included.
- Foster care payments will increase by $10.8 million, and caseload will decline a small amount compared to the January budget. No COLA is included.
- Supportive Transitional Emancipation Program: Decrease by $27.0 million, to reflect the slow take-up of this program by counties. (Note: the subcommittee already took $4.6 million from the budget year for this program, for the same reason.)
- Transitional Housing for Foster Youth is reduced $3.7 million, due to a decline in participating counties and a slow start-up.

- Adoptions: There is a decrease of $668,000 General Fund and an increase of $508,000 federal funds due to a decrease in the number of private adoption agency reimbursement claims, and the receipt of additional federal adoptions incentives.

Staff recommendation: Adopt the May Revision changes in caseload.

<u>**Child Support State Administrative Hearings**</u>

Issue: The budget proposes to **increase the budget of the State Hearings Division by $413,000 in reimbursements and 2.5 positions to increase administrative hearings on child support complaint**s based on caseload estimates in the Department of Child Support. The proposal includes budget bill language comparable to language in the Department of Child Support, permitting the Department of Finance to increase reimbursements in this area if workload increases.

Staff recommendation: Adopt the increased budget and the budget bill language, amended to require legislative notification.

<u>**Postage Rate Increase**</u>

Issue: The May Revision proposes an increase of $61,000 ($43,000 General Fund) to reflect an increase in postal rates.

Staff recommendation: Reject this increase in the cost of doing business.

<u>**Child Care Analysis**</u>

Issue: Prior to the current year, child care policy issues have been the responsibility of the Department of Education and, for this Governor, the Consumer Services Agency and the Department of Finance. In addition, a contract was let with an outside consulting firm for analysis and statistical review to provide the information necessary for policy and budgetary discussions. These entities proposed a restructuring of public child care that has been withdrawn in the May Revision to the budget.

Because of the level of legislative and stakeholder concern with the proposed restructure, the Governor's office requested that the Department of Social Services convene stakeholder meetings to provide additional information on the issue. The May Revision states that coming to consensus on the restructure was complicated by a lack of available data on which to base decisions; and concerns about basing decision on analysis by outside contractors who are not always able to provide information promptly.

The May Revision proposes to augment the DSS administrative budget by $230,000 General Fund and 3 positions for a unit to provide data collection and analysis for continued pursuit of restructure in subsidized child care. The Budget Change Proposal also indicates that there is budget bill language that will require a new survey of child care data by October 2002, and that CDE, DSS and DOF to develop a new methodology for determining income eligibility levels and family fees by April of 2003.' The language changes are not included in the DSS portion of the budget.

Staff recommendation: Reject this proposal to increase staff at this time. Budget subcommittee #1 has acted to reinstate the Child Development Program Advisory Committee, which is an appropriate body to undertake this work.

May Revision Proposals: Community Care and Special Programs

Issue: The May Revision includes various small, largely technical adjustments:

- Decrease of $23,000 for Foster Care Burial, Repatriated Americans and Assistance Dog Allowance, all cost and caseload adjustments.
- Increase of $560,000 General Fund and $975,000 Reimbursements for Non-Medical Out-of-Home Care program costs in the County Services Block Grant.
- Decrease of $269,000 General Fund and $78,000 Child Health and Safety Fund, and an increase of $74,000 Federal Funds for Community Care Licensing, largely due to caseload changes.
- A decrease of $85,000 ($81,000 General Fund) to community care licensing, to reflect the turn-back of licensing from Siskiyou and Yolo counties. The corresponding increase in state services was included in the Spring Finance Letter and adopted by the subcommittee.

Staff recommendation: Adopt these May Revision proposals.

HIPAA Proposal

Issue: DSS, like several other Departments in the Health and Human Services Agency, has a May Revision to augment the budget by $1.6 million ($665,000 General Fund) to undertake compliance activities for HIPAA. Funds are intended to be used to analyze business process and conduct system security audits; assess external IT interfaces and systems; development of an Office of HIPAA Implementation Project Management, and training in business processes. The May Revision also proposes four positions, three of them two-year limited term.

Staff recommendation: The subcommittee will consider this item separately with all other HIPAA items. **Recommend that the DSS budget conform to the actions the Committee takes on HIPAA elsewhere: Authorize 4 two-year limited term positions, and eliminate all funding in the DSS budget for this purpose. Allow DSS to access $499,800 (204,900 General Fund) from the HIPAA Budget Item**.

<u>May Revision Caseload Adjustments for SSI/SSP and Other Adult Programs</u>
Issue: The May Revision makes various caseload adjustments:
- The SSI/SSP caseload is down somewhat from the January estimate, and average costs are also down somewhat, for a savings of $2.1 million over January.
- Reductions are made in the Cash Assistance Program for Immigrants, based on a lower caseload growth than assumed in January, and the application of the same COLA assumptions as SSI, for a savings of $11.7 million.
- A reduction of $1.7 million federal funds for refugee cash grants due to decreased caseload.

Staff recommendation: Adopt the May Revision caseload and cost adjustment for SSI, CAPI and Refugee Cash Grants.
<u>May Revision Cost and Caseload Adjustments for IHSS</u>
Issue: The May Revision proposes various caseload changes:
- Caseload and average hourly case costs add a total of $34.9 million General Fund ($109.5 million total funds) in the federal program and the residual program.
- Program costs are reduced due to slower granting of wage increases in public authorities, contract and individual provides modes, for a savings of $57.6 million General Fund ($143.7 million total funds).
- Administration costs are reduced by $15.7 million General Fund ($43.1 million total funds) as part of a larger decision to reduce county costs of operating social services programs. This issue is dealt with elsewhere in the agenda.

Staff recommendation: Adopt the May revision case cost and caseload changes. Address the administrative costs elsewhere.

<u>Prospective or Quarterly Budgeting</u>
Issue: California is one of only eight states that requires monthly reporting of income and eligibility changes from CalWORKs and food stamp recipients. Efforts to test quarterly reporting have been stalled by complicated local approval requirements. State and federal officials believe that monthly reporting is part of the problem in California's very high error rate in food stamps. Monthly reports of income and employment require that counties process more than 700,000 pieces of paper each month, even if most of them include no reported changes. An error is recorded not only if the information is wrong or fraudulent, but if the monthly report is not processed timely. The subcommittee considered moving to quarterly reporting at its March 21 hearing, and put the issue over until final food stamp error rates were available (they were higher than expected at 17.4%); and pending further information about food stamp reauthorization at the federal level (the federal act gives states the option to adopt semi-annual reporting).

The May Revision proposes to implement prospective budgeting for CalWORKs, Food Stamps and the California Food Assistance Program effective April 2003. The net impact to CalWORKs is $18.0 million TANF/MOE and county costs ($28.1 million administrative savings; $46.1 million Grant costs); the net impact to Food Stamps administration is $5.2 savings in federal, state and county costs ($1.8 million

General Fund); the net impact to CFAP is $214,000 TANF/MOE and General Fund ($117,000 General Fund) These estimates are higher than previous estimates of the impact of the change. The proposal is expected to reduce the potential for a federal penalty for food stamps error rate of $115.8 million in the budget year, and potential further penalties. Trailer Bill is needed to implement the Prospective Budgeting proposal; the specific proposal is still in the process of review.

Staff recommendation: Adopt the May Revision proposal to implement prospective budgeting in CalWORKs, Food Stamps and CFAP, and adopt placeholder trailer bill to implement the proposal.

Food Stamp Error Rate
Issue: Since our subcommittee heard this issue, the federal government has determined the final error rate for California at 17.4% and levied a penalty of $115.8 million. Current law requires that a penaltties be paid by counties, to the extent that the specific error rate can be ascribed to specific counties. Based on the federal audit information, the May Revision proposes that the penalty be budgeted as 10% state funds ($11.6 million) and 90% county funds ($104.2 million). The Department continues to negotiate with the federal government about how the penalty will be assessed. **The May Revision budgets for the full penalty.**

Staff recommendation: Adopt the budget adjustment associated with the penalty.

California Food Assistance Program
Issue: The January budget assumed that all CFAP recipients would become eligible for Food Stamps in July, 2002, as Congress considered restoration of benefits to legal immigrant when it reauthorized the Food Stamps program. The final federal legislation will restore eligibility for a small number of recipients in October 2002, and approximately 75% of recipients in April 2003. The May Revision augments the CFAP budget by $92.3 million to provide administration and benefits for the periods of time and the individuals not covered by the federal legislation.

Staff recommendation: Adopt the budget augmentation to the CFAP program.

Tyler v. Anderson
Issue: The May Revision proposes to add $1.1 million General Fund and to extend for a year four of the 12 existing limited term position set to expire on June 30, 2002. These positions were created to implement a lawsuit settlement that overturned the Department's policy of denying IHSS payment for certain services in the early 1990's. The settlement required the Department to inform individuals potentially affected by the settlement, receive and process claims, and make a payment to eligible claimants for services they were denied or for which payment was denied.

Staff recommendation: Adopt the May Revision.

ITEMS FOR DISCUSSION:

County Administrative Costs

Issue: The current year budget did not provide a cost of doing business adjustment to many of the county-managed, state programs in the human services arrea. This includes no adjustment for increased costs for Food Stamps administration, IHSS administration, Foster Care administration, and CalWORKs. The January budget generally withheld cost-of-living adjustment for individuals and service providers, and withheld the budgeting of a cost of doing business for the same county-managed programs for the second consecutive year. The May Revision proposes to make further reductions of as much as 20% to county administrative costs in CalWORKs, Foster Care, Food Stamps and IHSS. The budget further proposes to eliminate a cost of doing business provided in January for Child Welfare Services, and to make a further reduction in earlier augmentations.

The chart below was prepared by the County Welfare Directors to array the cuts. The Total Funds impact is an estimate, since DSS did not conduct its usual administrative cost process this year. It includes county estimates of the cost of no cost of doing business adjustments in both current year and budget year. The May Revision numbers are specific reductions from the May Revision.

Impact of Budget Cuts to County-Administered Programs

(Dollars in Millions)

	May Revision Cuts		Total Funds Impact Incl. May Revise
Program	**Total Funds**	**General Fund**	
Medi-Cal	$175.9	$87.9	$400.9
Food Stamps	$101.1	$37.9	$143.1
In-Home Support Services	$43.1	$15.7	$63.1
Foster Care	$21.9	$7.4	$27.5
Adoptions	$15.9	$9.1	$28.4
CalWORKs	$88.3	n/a	$248.0
Special Circumstances	$4.5	$4.5	$5.0
Adult Protective Services	$6.6	$5.0	$6.6
Child Welfare Services	$54.3	$28.0	$54.3
Augmentation	*(28.1)*	*(17.2)*	*(28.1)*
2002-03 CODB	*(26.2)*	*(10.8)*	*(26.2)*
Total Reduction	**$511.6**	**$195.5**	**$976.9**

The Adoptions Program, the Child Welfare Services program, and Adult Protective Services are discussed in greater detail below. The elimination of the Special Circumstances program is an action already taken by the subcommittee (The subcommittee's proposed used the savings from this reduction to augment the Adult Protective Services budget. They are included on this chart, however, to indicate that nearly $1 billion of the proposed solution to the General Fund shortfall is a reduction in the operation of human services program. The May Revision proposes no reduction in requirements, program expectations, or other changes that would allow programs to operate with reductions of up to 30% of current service levels.

Staff recommendation: The subcommittee could consider some options:
- **Should the subcommittee adopt suspension of the cost of doing business for the second year in a row?**
- **Should any programs be exempt from a suspension?**
- **Should the subcommittee adopt reductions below the suspension in programs the counties manage for the state?**

<u>**Adoptions**</u>
Issue: The January budget proposed to substitute $7.3 million in federal adoption incentives for the same amount in General Fund in the adoption budget. **This has the effect of reducing the adoptions budget by $5.5 million in federal matching funds. In addition, the $7.3 million would not be available for currently required expenditures: post-adoption services to assure that adoptions are successful**. This has a $12.8 million impact on current program operations. Trailer Bill is required to change the law directing federal incentives to post-adoption services.

The LAO examined the impact of this reduction on the General Fund, assuming that adoptions would be delayed. The LAO found that as many as 900 adoptions would be delayed, but that the impact on the General Fund in the budget year is negligible, due to the interaction of sharing ratios. There will likely be a loss of federal funds in the following year, assuming that federal adoption incentives will not be earned.

The subcommittee postponed action on this January recommendation. The May Revision proposes to reduce the budget further by $15.9 million ($9.1 million General Fund). The proposal is described as eliminating the cost-of-doing-business increased given to the program since 2000.

Adoptions are the success point of the child welfare system, and the first goal after family reunification. The stability of children and families and the long-term fiscal stability of the child welfare system demand that we not slow or stop adoption activities.

Staff recommendation: The subcommittee could consider some options:
- **Reject the January reduction, the May Revision reduction, and the associated Trailer Bill.**
- **Adopt one or both of the reductions.**
- **Adopt one or both reductions, but suspend their impact pending passage of legislation prioritizing adoption activities within available resources.**

<u>**May Revision Child Welfare Services**</u>

Issue: The January budget provided a cost-of-doing-business increase for Child Welfare Services, which are emergency, in-home care and out-of-home care services for abused and neglected children and their families. This cost is an estimate, based on a uniform percentage increase for local budgets. It is used to cover the costs of utility bills, postage increases, staff salaries, rent increases, and other increases in the entire system of delivering services.

The May Revision reduces the Child Welfare Services budget by $26.2 million ($10.8 million General Fund), eliminating the proposed cost-of-doing business.

In 1998-99, responding to a study designed to determine the adequacy of Child Welfare services staffing to meet professional standards and public policy goals to protect children, reunify families where possible, and provide permanent futures for children, the budget for Child Welfare was augmented by $40.0 million. The funds were intended to be the first of a series of increases to bring the system up to adequacy. In 2000-01, an additional $34.3 million General Funds were added.

The May Revision reduces the CWS budget by $28.1 million, including half the second augmentation ($17.2 million General Fund) and accompanying federal funds.

Staff recommendation: The subcommittee could consider three options:
- **Reject both the withhold of a cost of doing business and the reduction in staffing.**
- **Adopt the reduction in cost of doing business, and rejecting the staffing cut.**
- **Adopt the reduction, pending approval of legislation identifying the reductions in child welfare activities necessary to achieve the savings.**

<u>Adult Protective Services</u>
Issue: The January budget provide a caseload-related increase in expenditures in Adult Protective Services, but reduced the General Fund payments to the program, using an assumption that counties could make more services eligible for federal participation. The May Revision proposes to reduce the budget by $8 million ($5.6 million General Fund), a reduction of 10% to the program. When caseload growth was eliminated from the program last year (approximately a $15 million savings), the Legislature adopted statutory changes permitting the counties to eliminate some activities, but not reducing eligibility. There is no comparable proposed elimination this year.

Staff recommendation: The subcommittee could consider:
- **Restore the reduction proposed in May, for a cost of $5.6 million General Fund.**
- **Adopt the May Revision reduction.**

<u>Cost of Living Adjustment: CalWORKs</u>
Issue: The January budget proposed to provide no COLA for participants in CalWORKs. Current state law requires that California adjust the grant by the amount of the California Necessities Index. COLAs in this program are awarded effective October1.

The May Revision makes no change to January with respect to the COLA.

The cost of meeting current law would be $123.8 million TANF/MOE funds to provide a COLA of 3.74%, effective October 1, 2002. A reduction, delay, or elimination of this COLA would require Trailer Bill Language.

Staff recommendation: The subcommittee could consider three options:
- **Adopt the statutorily-required COLA for $123.8 million TANF/MOE.**
- **Adopt the January budget, which suspend the COLA.**
- **Provide a COLA for one-month only, effective June, 2003, for a cost of $13.8 million TANF/MOE. This would have a minimum effect of $149 million in 2003-04.**

<u>**SSI/SSP COLA**</u>
Issue: The January budget proposed to provide no COLA for the state portion of the SSI/SSP program. Current state law requires that California adjust the total SSI/SSP grant by the California Necessities Index. The federal SSI portion is increased by the Consumers Price Index, and the difference between the total grant and the SSI portion is the State funded SSP payment. COLAs in this program are awarded effective January 1. The budget does provide funding for the July-December portion of the COLA that was awarded January 2002.

The May Revision continues to propose no COLA for SSP <u>and</u> proposes to withhold the pass-through of the federal COLA on the SSI portion of the grant; this is accomplished by reducing the SSP portion of the grant by the amount of the federal increase. This action represents a savings of $53.7 million in General Fund.

The cost of meeting current law would be $181.9 million to provide a COLA of 3.74%, effective January 1, 2003. A reduction, delay, or elimination of this COLA would require Trailer Bill Language. The impact of the January failure to provide a COLA would be a $19 reduction in the grant of an aged or disabled individual; the May Revise removes an additional $9 from the grant amount that current statute would require.

Staff recommendation: The subcommittee could consider three options:
- **Adopt the statutorily-required COLA for $181.9 million General Fund.**
- **Adopt the January budget, which suspends the state portion of the COLA, for a savings of $127.7 million, estimated in January.**
- **Adopt the January and May Revision proposal, which eliminates the pass-through of the federal COLA, for an additional savings of $58.7 million.**
- **Provide a COLA for one-month only, effective June, 2003, for a cost of $54.3 million. This would have a minimum effect of $255 million in 2003-04.**

May Revision CalWORKS Proposals

Issue: The subcommittee acted on May 9 to adopt a variety of CalWORKs structural proposals, designed to maintain the program structure within current revenues. The May Revision is very similar to the subcommittee's actions, although some of the specific numbers are different due to revised caseload numbers.

- The subcommittee adopted the LAO proposal to move federally eligible Emergency Assistance activities outside CalWORKs and use them to claim federal foster care funds. The May Revision adopts the same proposal: this results in a decrease of $65.5 million in CalWORKs/TANF funds, and an increase of $38.4 million in General Fund to the Child Welfare Services Emergency Assistance IV-E funding, to reflect the state share of the case management services that will now be matched with federal Title IV-E funds. This action has a companion action in the Department of Developmental Services, where the CalWORKs/TANF funds are transferred to offset General Fund expenditures. The May Revision has the state picking up the impact of increasing the county share of costs. Budget Bill language is required to pick up the county share of cost.
- **Staff recommendation: Reverse the subcommittee's action on the LAO proposal to shift EA case management costs outside CalWORKs, and adopt the May Revision proposal, including budget bill language to protect the county share.**
- The subcommittee acted to cap expenditures for Kin-GAP and the remaining non-case-management Emergency Assistance activities at current year levels. The May Revision reaches a balanced CalWORKs budget without taking this action.
- **Staff recommendation: Reverse the subcommittee's action to cap some EA expenditures and Kin-GAP at current year levels.**
- Community College funding is augmented by $20 million in the Community College budget. This proposal has budget bill language in the community colleges budget to permit a match of up to $20 million additional funding. No action is required in the DSS budget.
- Adult Education funding is not restored. No action was taken in this subcommittee's budget, and no further action is required. (The education subcommittee may or may not take further action on this item).
- MOE expenditures are claimed for allowable SSP expenditures for disabled children in CalWORKs families and disabled parents with CalWORKs eligible children. This has the effect of reducing the amount of funds required to meet the TANF MOE requirement.
- **Staff recommendation: Adopt the May Revision on allowable SSP expenditures.**
- Caseload growth and average grant size are increased modestly ($23.6 million additional), offset partially by savings associated with a rate increase in Unemployment Insurance Benefits and the 13-week UI extension of $14.9 million. Additional adjustments are made to reflect changes in the savings associated with the implementation of time limits. Additional adjustments are made to reflect a decrease in Cal Learn costs, a reduction in the costs of vehicle resource limit changes, and a decrease in child care costs.

- **Staff recommendation: Adopt caseload changes and associated fund changes proposed in the May Revision, including budget bill languages establishing a CalWORKs reserve, and a CalWORKs child care reserve.**
- The subcommittee adopted budget bill language to use Mental Health and Substance Abuse Services funding to fund a small outcome system for treatment services; and trailer bill language to develop a test of using a portion of mental health treatment funds to claim federal funds. The May Revision had no comparable elements. The May Revision proposed a $10.7 million increase in substance abuse and mental health services to reflect caseload experience. However, given the subcommittee's rejection of the 'county program grant", these additional funds are available for mental health services, but not for other county employment services. The May Revise proposal to transfer $120 million from county incentives to employment services is thus $8 million less than would be required to comply with the prior subcommittee action to adopt the CWDA employment services budgeting proposal.
- **Staff recommendation: Retain the subcommittee action on mental health and substance abuse, but adopt a change in funding so that $8 million additional funds are transferred from county performance incentive funds to employment services funds to adjust for this increase.**
- The May Revision proposes to retain the January proposal to develop a County Program Grant to give counties more flexibility over some CalWORKs expenditures. The subcommittee rejected this proposal.
- **Staff recommendation: Retain the subcommittee action to reject the County Program Grant.**
- The January budget proposed to recapture $169 in unspent county performance incentives to fund employment services in CalWORKs, which increases the debt owed by the state to counties for earned but unpaid county incentives. Counties requested that an additional $120 million in unspent county performance incentives be added to employment services as a one-time augmentation to provide equitable funding to all counties. The subcommittee adopted both provisions. The May Revision also adopts both provisions. The May Revision proposes that the $120 million for county equity be exempted from current law that would add these funds to the debt owed by the state to counties for incentives, and proposes trailer bill language to do so. The net result of these actions is to leave $310.8 in county performance incentives to be spent according to current law.
- **Staff recommendation: Reject the proposed trailer bill language to exempt the $120 million in performance incentives pursuant to the county proposals from repayment provisions in current law. This issue is better dealt with in the context of next year's restructuring of CalWORKs. Adopt the budget bill language establishing the payment of county incentives at $310.8 million.**
- May Revision Budget Bill language proposes to appropriate $310.8 million of unspent county fiscal incentives back to the counties. This amount represents the estimate of unspent funds after the transfers necessary to fund employment services and CalWORKs generally. CWDA is requesting amendments to the Budget Bill Language to appropriate $310.8 million in fiscal incentives, or the actual amount of unspent incentives after the required transfer, whichever is higher.

- **Staff recommendation: Adopt the May Revision Budget Bill Language with the requested modification.**